

WORKING GROUP ON IMPROVEMENT OF BANKING SERVICES IN STATE OF JHARKHAND

Map of Jharkhand



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“Say, the soil of India is my highest heaven; the good of India is my good. Forget not that the lower classes, the ignorant, the poor, the illiterate, the cobbler, the sweeper, are thy flesh and blood, thy brother. The only service to be done is to give them education, to develop the lost individuality”.

Swami Vivekanand

REPORT OF THE WORKING GROUP ON IMPROVEMENT OF BANKING SERVICES IN JHARKHAND

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LETTER OF TRANSMITTAL

Mumbai
January 3, 2008

Dr. Y. V. Reddy
Governor
Reserve Bank of India
Mumbai

Dear Sir,

Working Group on Improvement of Banking Services in State of Jharkhand

We have great pleasure in submitting the 'Report of the Working Group for Improvement in Banking Services in State of Jharkhand'.

Jharkhand, the twenty-eighth State of Indian Union, is adorned with some of the richest deposits of mineral resources not only in India but also in the world, and has excellent potential for augmenting agricultural production and setting up of small and medium enterprises. The report includes, inter-alia, various suggestions aimed at creation of absorption capacities for credit and for enhancing the outreach of banks in the State. We are hopeful that the recommendations made by the Working Group would improve the quality of banking and financial services in Jharkhand and thereby promote the development of the State.

We thank you for entrusting us with this task.

Yours sincerely,

(V. S. Das)
Chairman

**Working Group on Improvement of Banking Services in State of
Jharkhand**

(Mukhtiar Singh) Member	(A. K. Singh) Member	(S. K. Satpathy) Member
(N. N. Sinha) Member	(Jayanth Munigala) Member	(K. C. Shashidhar) Member
(K. Unnikrishnan) Member	(A. K. Pandey) Member	(M. M. P. Srivastava) Member
(A. K. Gupta) Member	(Avinash Singh) Member	(K. K. Vohra) Member Secretary

ACKNOWLEDGEMENTS

The Working Group is grateful to Dr. Y. V. Reddy, Governor, Reserve Bank of India for entrusting them the important task of preparing a road map for improving the outreach of banks and their services, and promoting financial inclusion, with the ultimate objective of economic development of the State of Jharkhand. The Group also wishes to place on record its debt of gratitude to Smt. Usha Thorat, Deputy Governor, Reserve Bank of India for providing them the overall guidance in setting the broad contours of the Group's task and terms of reference.

As this Working Group set out on the challenging task of drawing up an action plan for the improvement of banking services in the State, it appreciated the deep yearning of the State Government of Jharkhand for ushering growth and development in the State.

The Group acknowledges the valuable guidance, positive feedback, inputs and support provided by Shri P. P. Sharma, Chief Secretary, Government of Jharkhand, who was the permanent distinguished invitee for the meetings of the Group. The Group also benefited from the valuable suggestions given by other permanent special invitees, namely Dr. Rabi N. Mishra, Officer-in-Charge, Reserve Bank of India, Ranchi; Sarvashri R. K. Saraf, General Manager, State Bank of India, Patna; T. K. Mukhopadhyay, Chairman, Vananchal Gramin Bank; and N. C. Mohanty, Zonal Manager, Bank of India, Ranchi.

The Group had constituted three sub-groups to address all the areas, under the terms of reference, in a comprehensive manner. The Group acknowledges the useful suggestions and material provided by these sub-groups, and would also like to express its sincere thanks to all other persons, who were attached to these sub-groups, especially to Shri A. K. Sarkar, Principal Secretary, Department of Agriculture, Smt. Rajbala Verma, Secretary, Animal Husbandry and Shri Dharendra Kumar, Special Secretary, Industries, Government of Jharkhand; Shri C. P. Mohan, Deputy General Manager, NABARD, Ranchi; and Dr. Shivendra Kumar, Principal Scientist, HARP. It would also like to place on record the inputs provided by Smt. Sheila Kisku Rapaj,

Secretary, Cooperation Department; Shri D. K. Srivastava, Special Secretary, Department of rural development; Shri Sunil Kumar, Officer on Special Duty, Department of Co-operation and Shri K. K. Sinha, Officer on Special Duty, Department of Institutional Finance, Government of Jharkhand.

The Group also acknowledges the valuable inputs provided by various cross-section of people, namely select NGOs, MFIs, UNDP representatives, Chartered Accountant Associations, corporate sector, progressive farmers, trade union leaders of the banks and academicians, with whom the sub-groups interacted during the course of preliminary discussions and preparation of their reports. The enthusiastic response from bankers and Government agencies has been a source of strength for this Group. The Group would also like to place on record its genuine appreciation of the back office support and data provided by Shri R. N. Singh, Chief Manager, and Shri Sanjay K. Singh, Officer, Allahabad Bank, SLBC Convenor, Ranchi.

The Group acknowledges the efforts of the following officers viz. Sarvashri B. L. Sebastian, Assistant General Manager, A. K. Lal, Assistant General Manager, Arvind Kr. Jha, Research Officer and M. Majidullah, Manager, Reserve Bank of India for preparation of the report. The Group also acknowledges the efforts of Sarvashri Suman Verma, AGM, SBI, Kamalakar Singh and Sushil Kumar, Chief Managers, SBI and D. P. Dash, AGM, NABARD in providing valuable inputs in the preparation of the report. Finally, the Group appreciates the extraordinary work put in by Shri Sudhanshu Prasad, Assistant General Manager, Rural Planning and Credit Department, Reserve Bank of India, Central Office, in putting the report together and giving it the final shape.

LIST OF ABBREVIATIONS

AACS	: As applicable to Cooperative Societies
ACABC	: Agrclinic and Agribusiness centres
ACP	: Annual Credit Plan
ACC	: Artisan Credit Card
APPBO	: Average Population Per Bank Office
ATMA	: Agricultural Technology Management Agency
BLBC	: Block Level Bankers' Committee
BR Act	: Banking Regulation Act
BSt.CB	: Bihar State Cooperative Bank
CBS	: Core Banking Solution
CCS	: Cooperative Credit Structure
CDR	: Credit Deposit Ratio
CGFTSI	: Credit Guarantee Fund Trust for Small Industries
CIF	: Customer Information Form
CRR	: Cash Reserve Ratio
CSC	: Common Service Centres
DAU	: Dedicated Account Units
DCCB	: District Central Cooperative Bank
DFL	: Disease Free Layings
DPSS	: Department of Payment and Settlement System
DIC	: District Industries Centre
DRDA	: District Rural Development Agency
ECS	: Electronic Clearing Service
FSS	: Farmers' Service Society
GCC	: General Purpose Credit Card
GSDP	: Gross State Domestic Product
GSS	: Government Sponsored Scheme
GOB	: Government of Bihar

HFC	: Housing Finance Companies
ICT	: Information and Communication Technology
INFINET	: Indian Financial Network
IRV	: Individual Rural Volunteer
JSt.CB	: Jharkhand State Cooperative Bank
JLG	: Joint Liability Group
JREDA	: Jharkhand Renewable Energy Development Agency
KCC	: Kisan Credit Card
LAMPS	: Large-Sized Adivasi Multi Purpose Society
MAP	: Monitorable Action Plan
MICR	: Magnetic Ink Character Recognition
MMBCS	: Magnetic Media Based Clearing Software
NABARD	: National Bank for Agriculture & Rural Development
NBFC	: Non Banking financial Companies
NEFT	: National Electronic Funds Transfer
NFC	: Near Field Communication
NREGP	: National Rural Employment Guarantee Program
NRDA	: National Rural Roads Development Agency
NSDP	: Net State Domestic Product
OCB	: Overseas Corporate Bodies
PACS	: Primary Agriculture Cooperative Society
PDR	: Public Debt Recovery
PDC	: Penang Development Corporation
PHIRA	: Productive Housing in Rural Areas
PMRY	: Prime Minister's Rozgar Yojana
PPID	: Pilot Project for Integrated Development of Backward Blocks
PPP	: Public Private Partnership
RCS	: Registrar of Cooperative Societies
RIDF	: Rural Infrastructure Development Fund
RRB	: Regional Rural Banks
RTGS	: Real Time Gross Settlement

RUDSETI : Rural Development and Self Employment Training Institute
SAMETI : State Agriculture Management and Extension Training Institute
SBI : State Bank of India
St.CB : State Cooperative Bank
SCC : Swarozgar Credit Card
SEFT : Special Electronic Funds Transfer
SGSY : Swarnajayanti Gram Swarozgar Yojana
SLCC : State Level Coordination Committee
SLR : Statutory Liquidity Ratio
UCB : Urban Cooperative Banks
ULCA : Urban Land Ceiling Act
VCR : Vaidyanathan Committee Recommendations
WDC : Women Development Corporation
WDF : Watershed Development Fund

INTRODUCTION

1. The State of Jharkhand, the twenty-eighth State of Indian Union, was carved out of Bihar on November 15, 2000 by virtue of promulgation of Bihar Reorganization Act, 2000. Jharkhand largely comprises the forest tracts of Chotanagpur plateau and Santhal Pargana and has a distinct cultural tradition. Jharkhand is adorned with some of the richest deposits of iron ores and coal in the world, as also other mineral resources like uranium, mica, bauxite, granite, gold, silver, graphite, magnetite, dolomite, fireclay, quartz, feldspar, copper, etc., and accounts for 40 per cent of the nation's mineral reserves. The State is the sole producer of cooking coal, uranium and pyrite. It ranks first in the production of coal, mica, kyanite and copper in India. The State has excellent potential for setting up of small and medium enterprises. It is also blessed with rich fauna and flora. Agro-climatic zone of the State is mostly landscape plateau, undulating, hilly and sloping with mountains, forests, river basins and valleys.

2. The Governor and senior executives of Reserve Bank of India, being at Ranchi in connection with the meeting of the Central Board of Directors on October 11, 2007, took the opportunity of meeting the Hon'ble Chief Minister of Jharkhand, Shri Madhu Koda and other senior officials of the State Government and various banks on October 11, 2007. The Government officials expressed their deep concern over the low outreach of banks and their services in the State. They also showed their apprehensions about passing of the benefits of National Rural Employment Guarantee Scheme to the beneficiaries in the State. The Government officials also stressed upon the problem of opening of accounts in remote areas where barter system is still prevalent. The issue of poor Credit Deposit Ratio in the State was also discussed. As a sequel to these discussions and appreciating the keenness of the State Government for setting up of an office of Reserve Bank of India at Ranchi for proper monitoring of efforts made by banks in economic development of the State, the Governor announced the constitution of a Working Group under the chairmanship of Shri V. S. Das, Executive Director, RBI to examine the problems/issues relating to banking services and draw up an action plan to

improve the banking services in the State of Jharkhand. He also announced setting up of an office of the RBI in Ranchi, which was consequently inaugurated by the Hon'ble Chief Minister of Jharkhand on November 15, 2007.

3. Accordingly, the Working Group for Jharkhand was constituted vide notification RPCD. CO. LBS. No. 4020 /02.18.04/2007-08 dated October 17, 2007 and membership further expanded vide notification RPCD.CO. LBS. No. 4967 /02.18.04/2007-08 dated November 07, 2007. The members of the Group were:

i.	Shri V. S. Das Executive Director Reserve Bank of India Central Office Mumbai	Chairman
ii.	Shri Mukhtiar Singh, I.A.S. Principal Secretary Finance Department and Development Commissioner Government of Jharkhand	Member
iii.	Dr. A. K. Singh, I.A.S. Principal Secretary Department of Rural Development Government of Jharkhand	Member
iv.	Shri S. K. Satpathy, I.A.S. Secretary Department of Industries Government of Jharkhand	Member
v.	Shri N. N. Sinha, I.A.S. Secretary Department of Cooperation Government of Jharkhand	Member
vi.	Shri Jayanth Munigala, I.A.S Secretary Department of Institutional Finance and Planning Government of Jharkhand	Member
vii.	Shri K. C. Shashidhar Chief General Manager National Bank for Agriculture and Rural Development Ranchi	Member

viii.	Shri K. Unnikrishnan Deputy Chief Executive Indian Banks' Association Mumbai		Member
ix.	Shri A. K. Pandey General Manager Rural Planning and Credit Department Reserve Bank of India Central Office, Mumbai		Member
x.	Shri M. M. P. Srivastava General Manager Allahabad Bank, Zonal Office SLBC Convenor Bank, Ranchi		Member
xi.	Shri A. K. Gupta Deputy General Manager State Bank of India Zonal Office, Ranchi		Member
xii.	Shri Avinash Singh Chairman Jharkhand Gramin Bank Ranchi		Member
xiii.	Shri K. K. Vohra Regional Director for Bihar and Jharkhand Reserve Bank of India Patna		Member Secretary

4. Shri P. P. Sharma, Chief Secretary, Government of Jharkhand was nominated as a permanent distinguished invitee for meetings of the Working Group. Other permanent special invitees to the Group's meetings were as follows:

i.	Dr. Rabi N. Mishra Officer-in-Charge Reserve Bank of India, Ranchi		Permanent Special Invitee
ii.	Shri R. K. Saraf General Manager, Network II State Bank of India Local Head Office, Patna		Permanent Special Invitee
iii.	Shri T. K. Mukhopadhyay Chairman Vananchal Kshetriya Gramin Bank Dumka		Permanent Special Invitee
iv.	Shri N. C. Mohanty Zonal Manager Bank of India, Ranchi		Permanent Special Invitee

5. The terms of reference were set out as under:

- (i) To review the role of banks and financial institutions in supporting the initiatives being taken by the State Government for promoting economic development of the State and making specific recommendations for enhancing their role in this regard;
- (ii) To recommend measures for enhancing greater outreach / penetration of the banking system in the State and identifying constraints, if any, in this regard that need to be addressed;
- (iii) To review the payment and settlement systems in the State and suggest measures towards their improvement;
- (iv) To initiate an action plan for two districts where innovative approaches, such as mobile banking services to be run by banks, IT based Financial Inclusion (including Financial Education), etc. should be introduced on pilot basis;
- (v) To specifically examine and recommend measures to improve the effectiveness of the co-operative banks (rural and urban) and RRBs in the State and to suggest measures (immediate and medium term) for the setting up for a State Co-operative Bank in Jharkhand;
- (vi) To explore appropriate legislation for depositor protection with respect to non-banking and unincorporated institutions; and
- (vii) Any other matter, as may be decided by the Working Group.

6. Methodology adopted in preparation of the Report

(i) The Working Group held six meetings in Ranchi. Three sub-groups were constituted under the Chairmanships of Shri K. C. Shashidhar, CGM, NABARD; Shri M. M. P. Srivastava, General Manager, Allahabad Bank, Ranchi; and Shri A. K. Gupta, Deputy General Manager, State Bank of India, Ranchi to look into the areas relating to cooperatives, agriculture and allied activities; banking matters; and industries, respectively. Reserve Bank of India, Patna conducted a study relating to the Payment and Settlement System and Urban Cooperative Banks. Other members of the sub-groups were as under:

- (a) Sub-Group A: Secretary, Industries Department, Government of Jharkhand; Director, Extension, Government of Jharkhand; Director, HARP; and General Manager, Allahabad Bank.
- (b) Sub-Group B: Principal Secretary, Agriculture Department, Government of Jharkhand; Secretary, Cooperative Department, Government of Jharkhand; Secretary, Animal Husbandry, Government of Jharkhand; Chairman, Jharkhand Gramin Bank; Chairman, Vananchal KGB and Zonal Manager, Bank of India.
- (c) Sub-Group C: Secretary, Science and Technology Department, Government of Jharkhand and General Manager, Allahabad Bank.

Shri Jayanth Munigala, Secretary, Department of Institutional Finance and Planning was nominated as member in all the sub-groups.

(ii) The members of sub-groups met several experts from the field, Lead District Managers, members of Self Help Groups, Micro Finance Institutions, UNDP representatives, Chartered Accountants Association, Trade Union leaders of banks, academicians, etc., so as to seek their views on various issues. The officials of Reserve Bank also carried out field visits in two villages of Hazaribagh district – Kansar and Bargoda. The data on electronic banking was collected by circulating a questionnaire among the 12 major banks operating in the State.

- (iii) During the first meeting held on November 05, 2007, the broad prospects relating to the approach to be adopted by the Group and structuring of the Report were discussed. The second meeting was held on November 12, 2007 where the sub-groups gave first round of presentations on the areas assigned to them. During the third meeting held in the Conference Hall of newly opened sub-office of Reserve Bank at Ranchi on November 19, 2007, the sub-groups made final presentations before the Group. The Working Group discussed the first draft of the report in its fourth meeting held on December 04, 2007 at the same venue. The final draft report was discussed in detail in the fifth meeting held on December 14, 2007. The Report of the Group was finalized by the members of the Group at its last meeting held on January 3, 2008.

7. Structure of the Report

The Report is divided into nine chapters. Chapter 1 gives a broad profile of Jharkhand. Chapter 2 deals with the role of banks and financial institutions in supporting the initiatives taken by the State Government for promoting economic development of the State. Chapter 3 deals with the measures for enhancing outreach/penetration of the banking system in Jharkhand. This chapter also highlights the potentialities, strengths and opportunities that can be leveraged by banks/State Government for generating credit absorption capacities and enhancing the outreach of banks and their services. This chapter also specifies certain innovative approaches to be adopted by banks in certain districts of the State. Chapter 4 gives out the status and prospects of industries in Jharkhand. While Chapter 5 presents an assessment of the rural cooperative credit structure in the State with measures to improve its effectiveness and suggestions for setting up of a State Co-operative Bank, Chapter 6 gives an overview of status of Regional Rural Banks in the State. Chapter 7 deals with the payment and settlement system in the State and Chapter 8 deals with other banking relating matters, such as legislation on depositors' protection, urban co-operative banks, pucca houses, appointment of special certificate officers, amendments in Public Debt Recovery Act, etc. Chapter 9 is the Summary of Recommendations.

CHAPTER – 1

STATE PROFILE

1.1 Geographical Features

1.1.1 The State of Jharkhand, the twenty-eighth State of Indian Union, was carved out of Bihar on November 15, 2000 – the birth anniversary of the legendary Bhagwan Birsa Munda, by virtue of promulgation of Bihar Reorganization Act. It is bound by the State of Bihar on the North, West Bengal on the East, Orissa on the South and Chattisgarh on the West. The State extends between 22 degrees North and 25.5 degrees North latitudes and 83 degrees East and 87.75 degrees East latitudes (approximately). Jharkhand largely comprises of the forest tracts of Chotanagpur plateau and Santhal Pargana and has a distinct cultural tradition. This area, in and around the districts of Chotanagpur and Santhal Parganas, was formerly Southern Bihar, is thickly wooded and hilly. Jharkhand is adorned with some of the richest deposits of iron ores and coal in the world, as also other mineral resources like uranium, mica, bauxite, granite, gold, silver, graphite, magnetite, dolomite, fireclay, quartz, feldspar, copper, etc., and accounts for 40 per cent of the nation's mineral reserves. The State is the sole producer of cooking coal, uranium and pyrite. It ranks first in the production of coal, mica, kyanite and copper in India. It is also blessed with rich fauna and flora. Agro-climatic zone of the State is mostly landscape plateau, undulating, hilly and sloping with mountains, forests, river basins and valleys. The State has 24 districts, which have been grouped into three agro-climatic regions, viz. Central and North Eastern Plateau Zone, Western Plateau Zone and South Eastern Plateau Zone.

1.2 Socio-Economic Features

- 1.2.1** Jharkhand, with an area of 79,714 sq. kms., 24 districts and 32,620 revenue villages, accounts for 2.4 per cent of the total geographical area of the country. With a population of 2.69 crore, the State accounts for 2.6 per cent of the total population of the country. The urban and rural population of the State accounts for 77.7 per cent and 22.3 per cent, respectively of the total population, as per 2001 census. The decadal growth rate of population, as per 2001 census, for the State has been 23.19 per cent. The urban areas of Jharkhand, like most other States, have experienced a much higher population growth than the rural areas.
- 1.2.2** The population density of the State at 338 persons per sq.km is marginally higher than the national average of 324 persons per sq.km. The population density of the State has increased from 274 persons per sq.km as per 1991 census to the present level, thus ranking 16th among all States, which is the highest among the newly constituted States. The sex ratio of Jharkhand at 941 females per thousand males is better than that of India (933 females per thousand males) as a whole.
- 1.2.3** The State has a comparatively lower literacy rate at 53.6 per cent as against the national average of 65.4 per cent, with 67.94 per cent in males (75.85 per cent as national average) and 39.38 per cent in females (54.16 per cent as national average) (2001 census).
- 1.2.4** Jharkhand has one of the highest levels of poverty in India at 40.3 per cent (2004-05) (Uniform Recall Period consumption distribution), as against the all-India average of 27.5 per cent. There is a sharp contrast between rural and urban poverty in the State. The incidence of rural poverty assessed at 49 per cent in 1999-2000 is the highest among all Indian States and the urban poverty assessed at 23 per cent is better than many advanced States. The State has made considerable progress in reducing poverty since the early nineties. The rate of overall poverty reduction was about 2 percentage points a year. (*Source: NSS, 61st Round; World Bank Report on Jharkhand*)

1.3 Real Economy

1.3.1 The Gross State Domestic Product (GSDP) at factor cost by industry of origin (current prices) of Jharkhand increased from Rs. 35,030.04 crore in the year 2001-02 to Rs. 69,751.96 crore in the year 2006-07, showing an average annual growth rate of 14.13 per cent between the years 2001-02 and 2006-07 (Figure 1.1). The gross per capita income of the State has accordingly increased from Rs. 12,845 in 2001-02 to Rs. 23,591 in 2006-07 (Figure 1.1). The Net State Domestic Product (NSDP) at factor cost by industry of origin (current prices) increased from Rs. 29,921.59 crore in the year 2001-02 to Rs. 61,530.90 crore in the year 2006-07, thus showing an average annual growth rate of 14.8 per cent over the years from 2001-02 to 2006-07 (Figure 1.2). The net per capita income of the State has accordingly increased from Rs. 10,972 in 2001-02 to Rs. 20,811 in 2006-07 (Figure 1.2).

Figure 1.1

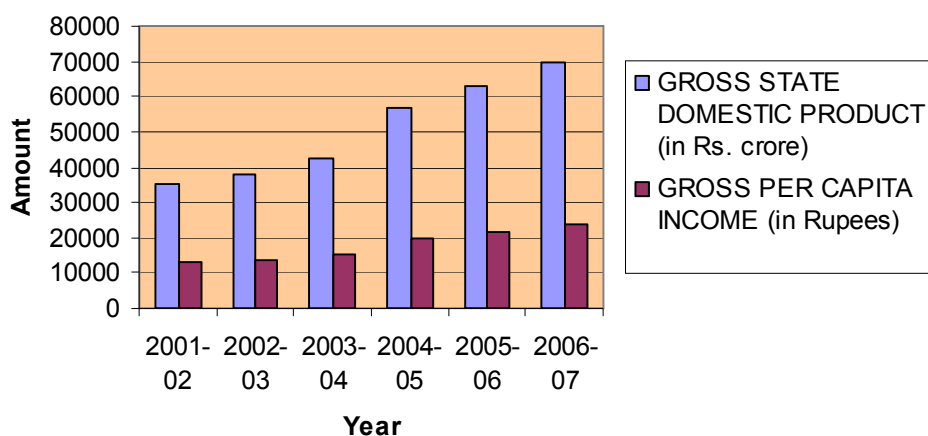
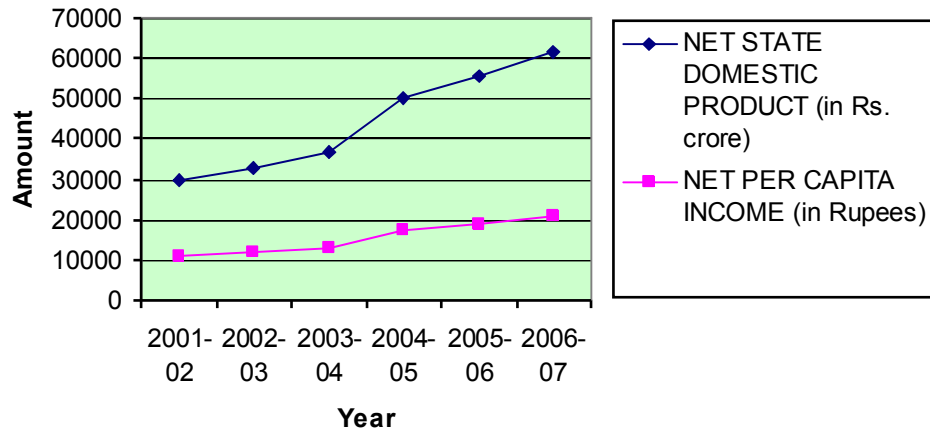
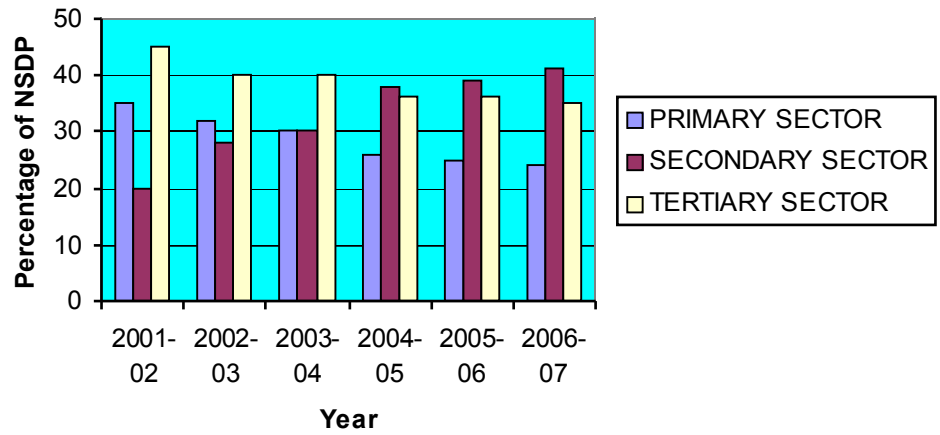


Figure 1.2



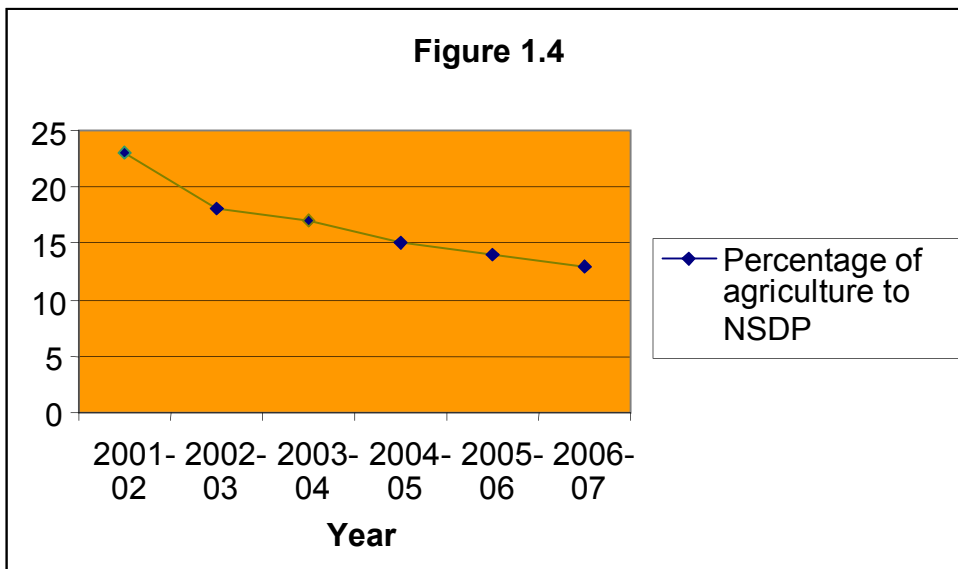
1.3.2 The shares of primary (agriculture, forestry & logging, fishing, and mining & quarrying), secondary (manufacturing, construction, electricity, gas and water supply) and tertiary sectors (transport, storage, communication, trade, hotels & restaurants, banking & insurance, real estate, ownership of dwellings & business services, public administration and other services) in NSDP in the year 2006-07 accounted for 24 per cent, 41 per cent and 35 per cent respectively. The shares of primary sector and tertiary sector as percentages of SGDP have shown a gradual declining trend from 35 per cent and 45 per cent, respectively, in 2001-02 to 24 per cent and 35 per cent, respectively, in 2006-07, whereas the secondary sector has shown an increasing trend from 20 per cent in 2001-02 to 41 per cent in 2006-07 (Figure 1.3). Composition-wise, 'Secondary' sector accounts for the major proportion of NSDP, followed by 'Services' sector and 'Primary' sector in 2006-07. During the years 2001-02, 2002-03 and 2003-04, 'Services' sector accounted for the highest proportion of NSDP, but from the year 2004-05 and onwards, 'Manufacturing' sector as percentage of NSDP overtook the 'Primary' and 'Services' sectors.

Figure 1.3



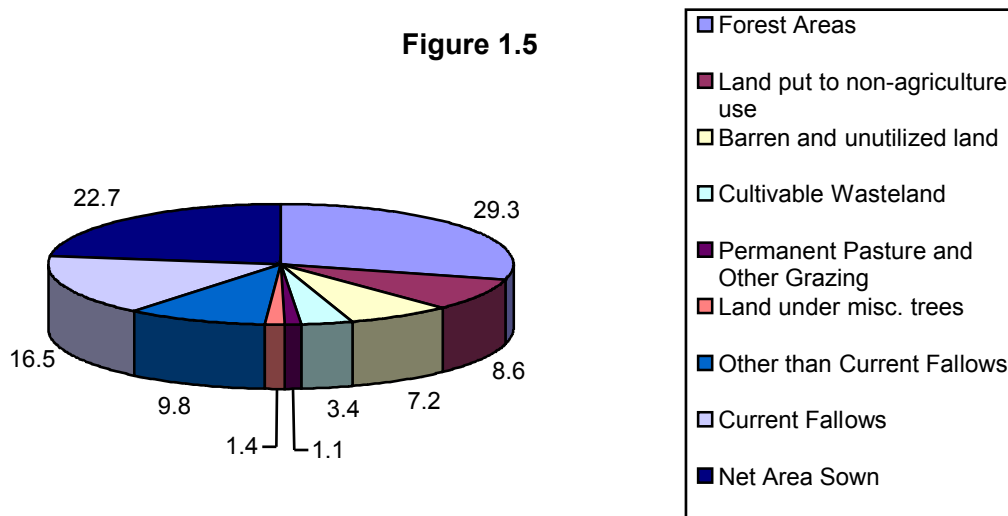
1.3.3 Agriculture and Allied Activities

'Agriculture and Allied Activities' play an important role in the economy of Jharkhand. This sector contributes about 13 per cent to NSDP, and provides livelihood to about 80 per cent of the State's population. The share of agriculture and allied activities in NSDP has shown a gradual declining trend from 23 per cent in 2001-02 to 13 per cent in 2006-07 (Figure 1.4).



1.3.4 Land Utilization Pattern

Out of the total land area of 79.7 lakh hectare of the State, an estimated 38 lakh hectare is classified as cultivable. Of this, 18 lakh hectare is the net sown area, comprising 22.7 per cent of the total area and 47 per cent of the cultivable area. The State has 8.6 per cent, 7.2 per cent, 3.4 per cent and 16.5 per cent of the total geographical area of the State as land put to non-agriculture use, barren & unutilized land, cultivable wasteland and current fallows, respectively (Figure 1.5). The Western Plateau Zone, comprising of eight districts (Ranchi, Khunti, Lohardaga, Gumla, Palamu, Garhwa, Simdega and Latehar) has the maximum net sown area among the other agro-climatic zones of the State. The State has a total of 23.32 lakh hectares of land under forests, comprising 29.26 per cent of the total geographical area, which is much above the national average of about 18 per cent.



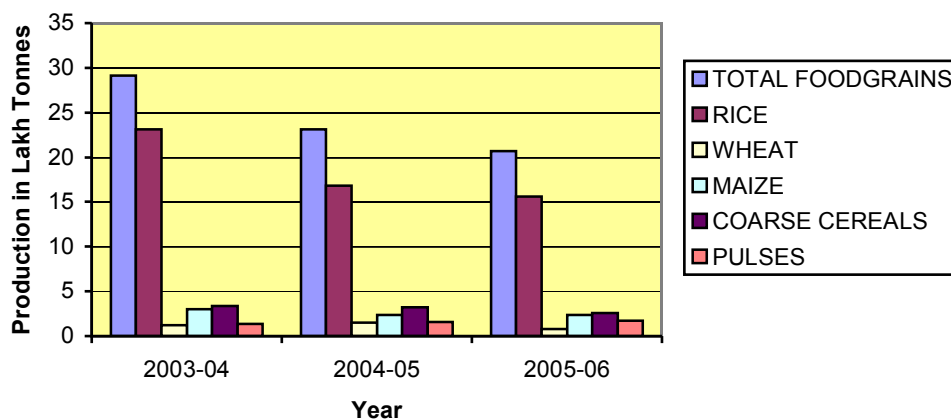
Source: Directorate of Statistics and Evaluation, Development Department, Government of Bihar

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1.3.5 Cropping Pattern

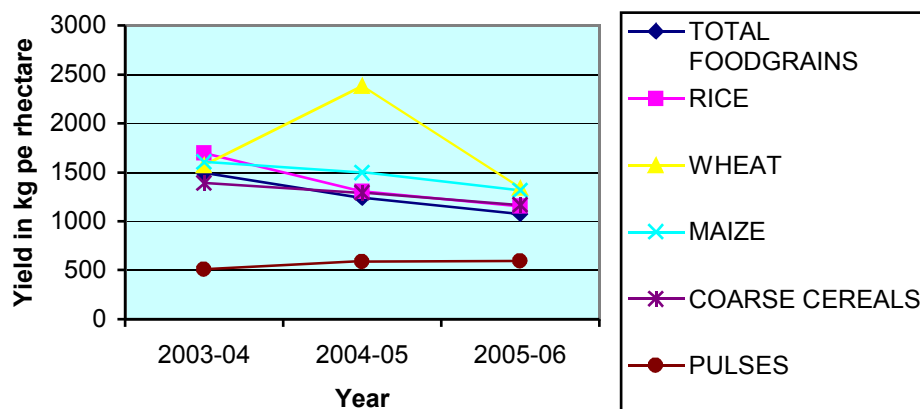
The agriculture economy of the State is characterized by high dependence on monsoon, low productivity, mono-cropping, inadequate irrigation facilities and small and marginal land holdings. The major crops of the State are maize, rice, wheat and chickpea. The State contributes about one per cent of the all-India foodgrain production. Rice, which is the major foodgrain crop of the State, contributed about 1.7 per cent in the all-India rice production during 2005-06. The total foodgrain production in the State declined from 29.1 lakh tonnes during 2003-04 to 20.7 lakh tonnes in 2005-06, mainly due to the decline in the yield levels (Figure 1.6). With respect to fertilizer consumption, the State's performance at 67.6 kg. per hectare is much lower than the all-India level of 104.5 kg. per hectare. As a result, the overall foodgrain yield (kg. per hectare) in the State has declined substantially from 1,490 kg in 2003-04 to 1,073 kg in 2005-06, and is substantially lower than the all-India level of 1,715 kg. The available data shows that the production yield (kg. per hectare) of rice has decreased the maximum over the last three to four years (Figure 1.7).

Figure 1.6



Source: Ministry of Agriculture, Government of India

Figure 1.7



Source: Ministry of Agriculture, Government of India

1.3.6 Out of an estimated 38 lakh hectares of cultivable land in the State, about 95 per cent is used for foodgrain cultivation and the rest 5 per cent is used for growing cash crops. Still, the State's contribution to all-India foodgrain production accounted for only one per cent, as can be seen from Figure 1.6 that the total foodgrain production has shown a steep declining trend. The overall foodgrain yield is also declining over the years, thus indicating that major portion of the cultivable land of the State is not profitable for agricultural productivity. The main reason for backwardness in agriculture in the State could be mono-cropping pattern of cultivation of foodgrains, low consumption of fertilizers, inadequate irrigation facilities, small land holdings, low utilization of high technology in farming, etc. Thus to bring about diversification in agricultural productivity in the State, promotion of efficient use of resources and technology, private sector participation through contract farming and leasing arrangements, evolving new location specific and improved varieties of farm crops deserve future attention. Agricultural research and development must be geared to re-prioritise investment on new technologies so as to supplement the traditional technologies with new advances in biotechnology in order to accelerate the process of diversification.

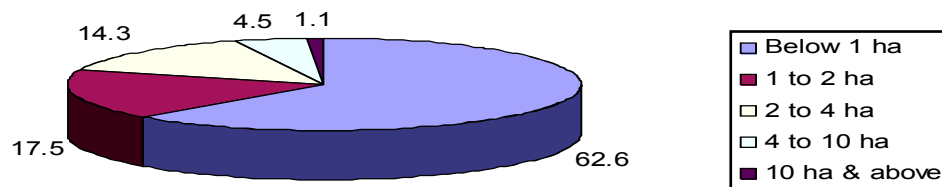
1.3.7 Irrigation

Irrigation stands out as the most critical requirement for the development of agriculture. The State receives a rainfall of 1200-1600 mm per annum but precipitation is rather variable, especially during the winter season. Despite the fact that the State has a good rainfall, the surface water availability to agriculture is not sufficient due to inadequate storage facilities, etc. The net irrigated area of the State is about 1.6 lakh hectares, consisting only 9.3 per cent of the cultivated area, which is substantially lower than the all-India level of 40 per cent. Being largely rainfed, the State has a cropping intensity of 126 per cent. The land surface being uneven is subject to erosion, causing loss of soil and plant nutrients. The State has about 17 lakh hectares of unused land and the resource-less farmers are unable to cultivate it due to lack of irrigation facilities. Massive public investment is required to utilize this land for agricultural cultivation so as to bring a horizontal expansion in the agriculture sector. The State has good possibilities for minor irrigation projects, which need to be taken up/enhanced on a large scale by public-private partnership or public investment.

1.3.8 Land Holding Pattern

The average size of land holding in the State is 1.58 hectares. The share of land holdings of small and marginal farmers (having landholding of up to 2 hectares) to the total holdings in the State is 80.1 per cent and that of large farmers (having land holding of more than 10 hectares) is only 1.1 per cent. The medium farmers, with land holdings of 2 to 10 hectares, have the share of 18.8 per cent to the total land holdings. The land holding pattern of various categories of farmers is shown in Figure 1.8.

Figure 1.8



Source: Jharkhand : A Statistical Profile 2005, Government of Jharkhand

1.3.9 Horticulture and Floriculture Plantation

The agro-climatic conditions of the State are conducive for commercial cultivation of large varieties of fruits, vegetables, flowers and medicinal and aromatic plants. However, the productivity is low due to non-availability of quality planting material and irrigation. The total area covered by various plantation and horticulture crops in the State is about 1.82 lakh hectares, with an estimated total production of 19.55 lakh tonnes. Presently, the major fruit crops grown in the State are mango, guava, jack fruit, citrus, litchi, banana, papaya, etc. Major thrust needs to be given for bringing additional area under plantation and horticulture as also enhancing the productivity level. Adoption of dry land horticulture technology can also lead to development in the sector. Since majority of the fruit crops have longer gestation period, the expansion programme would also attract more private investment in the sector. High production of fruit crops, besides enhancing nutritional and livelihood standards, would sustain a large number of agro processing industries, which hold immense potential for non-farm employment, thus attracting more investment. In the long run, agricultural production has to be a demand-driven and value added in order to capture the new market opportunities.

1.3.10 Large tracts of hilly and undulated terrain in the State are more suited to development of floriculture instead of traditional agriculture. The climate of the State is favourable for cut flower cultivation, including rose, gladioli, tuberose, carnation, gerbera, lilies, etc., apart from the regular flower crops like marigold, chrysanthemum, etc. The State Government has already signed a Memorandum of Understanding with Florence Flora, Bangalore under public private partnership (PPP) model and set up a Plant Research Centre and is in the process of setting up three more such centres to promote floriculture in the State. A modern state-of-the-art floriculture unit has been set up at Ranchi to produce flowers such as rose, carnation and gerbera under greenhouse conditions. With the launch of National Horticulture Mission and continuous efforts by the State Government to promote investment in the sector, banks need to play a catalytic role by promoting investments in the sector.

1.3.11 The major plantation crops cultivated in the State are cashew nut and coconut. The Coconut Development Board, Government of India has classified Jharkhand as neo-coconut region. The Board has identified the State as high potential State for coconut cultivation as the average productivity of coconut palm is 36 nuts per palm, which is above the national average of 34 nuts. Cashew nuts popularly known as a gold mine of wastelands is very ideal for cultivation in wastelands and hence there is good potential for cashew cultivation especially in East and West Singhbhum districts. Tea plantation in a small measure has been taken up in Ranchi district, which has a favourable climate for growing tea.

1.3.12 The forest area, which comprises 29.3 per cent of total geographical land of the State, abounds in medicinal plant species spread over Chotanagpur, Hazaribagh, Palamau, Singhbhum, Betla and Netarhat. There is a good potential for commercial cultivation and processing of medicinal and aromatic plants in the State. There is need of greater focus in this area, as cultivation of such plants would also lead to setting up of more processing industries and ultimately call for more investment in the State.

1.3.13 Pisciculture & Sericulture

The State has potential for development of inland fisheries. The State has plenty of water resources in the form of tanks, ponds, lakes, dams and reservoirs, constituting 1.32 lakh hectares especially in the rural areas. Various steps have been taken up by the State Government in the form of providing subsidy, etc. to farmers. During the tenth five year plan, the fish production has increased from 14,000 metric tonnes per year to 55,000 metric tonnes per year. However, the average fish production in the State is only 400 to 900 kg against the national average of 2,400 kg per hectare. Against the huge water resources potential available, exploitation is very low. Development of new ponds for composite fish culture, setting up of carp hatcheries, promotion of integrated fish farming along with animal husbandry activities, provision of training and technology to farmers, needs to be taken into consideration for promoting pisciculture. Moreover, Jharkhand is the leading tussar silk producer in the country and accounts for nearly 60 per cent of the total production in India. There are 65,000 traditional rearers in the State. The Silk Worms are reared on Arjun & Asan trees. Tussar Food plants are available over an area of 9 lakh hectares. The Singhbhum and Santhalpargana regions are the main silk producing centres in the State. The State is promoting this activity through 28 pilot project centers situated in different areas. Each rearer can rear on an average 200 eggs or Disease Free Layings (DFLs) so the annual demand of commercial seed or egg is of 130 lakh. There are three types of seeds or eggs – Nucleus, Basic seed and Basic seed multiplied to commercial seed. Till 2006-07, nucleus & Basic seeds were produced by Central Silk Board. Initially, the State was only multiplying the basic seeds, but now, in view of its large requirement (20 lakh), the State has set up nucleus seed rearing units and producing basic seeds, which will improve supply of commercial seeds. In the year 2007-08, the production of basic seeds is expected to the tune of 10 lakh and that of commercial seeds 60 lakh. Thus, there is vast projection of sericulture in the State. The Jharkhand Khadi and Village Industry Board has set up a training centre in Saraikela-Kharsawan district, which would train around 70 artisans in weaving,

spinning and fashion designing of silk products. The State Government has also planned to produce 500 metric tonnes of tussar silk by 2010.

1.3.14 Organic Farming

Organic farming practices are not only eco-friendly and bring sustainability to agriculture, but also prove to be profitable. Organic farming is in a nascent stage in the State. It has been mainly promoted by NGOs/individuals on a very small scale in a few pockets of the State. The State Government has signed a MoU with NAFED, International Panacea Ltd. and Panacea Organic Foods Private Ltd., New Delhi for harnessing the agriculture by application of organic farming principles and practices. NAFED is involved in activities related to supply of seeds, planting material, procurement, storage, grading, processing, packing, etc., whereas the other two agencies are for manufacturing and marketing of organic farm products.

1.4 Industry

1.4.1 Jharkhand has 40 per cent of the nation's mineral reserves. The State is the sole producer of cooking coal, uranium and pyrite. It ranks first in the production of coal, mica, kyanite and copper in India. The geological exploration and exploitation of gold, silver, base metals, decorative stones, precious stones, etc. are the potential areas of the future. Jharkhand is also endowed with other resources such as surface and ground water, land with immense bio-diversity, moderate climate, skilled manpower, and adequate availability of power, which are the basic essentials for the growth and development of industries. Jharkhand has a well-established industrial base comprising reputed business houses like Tatas. The State has the country's two biggest steel plants at Bokaro in the public sector and Tata Iron and Steel Company (TISCO) in Jamshedpur in the private sector. Other important industries are Tata Engineering and Locomotive Company, Sriram Bearing, Usha Martin, Indian Tube Company, etc.

1.4.2 The State Government has implemented its “Industrial Policy 2001” for attracting investment including foreign investment in identified thrust areas with a focus upon the Balanced Regional Development as also for creation of essential infrastructure including that for power generation. The Industrial Policy 2001 aims at making Jharkhand one of the most preferred destination for investment, both from within and outside the country and to ensure accelerated implementation of infrastructure related projects, increasing employment opportunities, improving productivity, ensuring homogeneous and balanced development of all geographical regions of the State with emphasis on development of small, tiny and cottage industries. The broad policy objectives are elaborated below:

- Optimal utilization of agro-climatic, mineral and human resources of the State;
- To promote economic activities to ensure maximum capital investment in the State with the objectives of increasing employment opportunities, improving standard of living of people at large, especially the deprived and the down-trodden sections of the society and to ensure all round development of the State;
- Identification of thrust areas and thrust zones to prioritize the sectors and categorization of backward regions with respect to industrialization;
- To develop the state of art technology and infrastructure so as to ensure planned and accelerated industrial development;
- To ensure Balanced Regional Development so as to prevent socio-economic distortions due to backwardness of any region;
- To encourage and involve private sector participation in the process of planned and rapid industrialization of the State;
- To promote export of such items, in which the State holds advantage vis-à-vis other States;
- Revival of viable sick units;

- Simplification of procedures and to ensure administrative and legal reforms so as to provide hassle free sensitive administration and time bound effective disposal of matters in a transparent manner;
- To take steps to protect and promote rural handicrafts so as to conserve and enrich cultural heritage, traditions and customs of the region;
- To provide better development opportunities to scheduled castes, scheduled tribes, handicapped, weaker sections and women and to ensure their participation in the development process;
- To promote research and development, technological upgradation and qualitative improvement and utilization of state of art technology to improve product, production and productivity.

Following are the salient features of the State Government's policy on industrial promotion:

- The Government would identify new industrial areas to ensure that each district has at least two industrial areas, which would facilitate balanced growth of the entire State;
- The Government would actively encourage both Indian and Foreign private investment/participation in infrastructure projects. The Government would also participate in joint ventures. In suitable cases, the Government shall actively consider providing land at concessional rate or free of cost. The Government shall encourage private sector participation on build-operate-transfer (BOT) concept for building and maintenance of roads and bridges;
- The Government shall encourage private sector participation in generation and distribution of power. No permission from State Electricity Board shall be required to set up a captive power generation plant of any capacity to meet the existing as well future demand for power of industrial units;
- The Government shall constitute a "Land Bank" at district level to facilitate the land acquisition process by entrepreneurs;
- The Government would encourage establishment of private industrial estate (100 acres and more) by acquiring and making available such land at the

acquisition cost; and providing infrastructure facilities such as water, electricity and road. Such private industrial estate shall be allowed to install a captive power plant to generate and distribute power directly within such industrial estate;

- The Government would promote 3-tier growth centres, namely at mega, mini and micro levels. It would encourage financing institutions and private sector to establish and maintain industrial growth centres. Land/sheds in growth centres, industrial areas, etc. would be allotted to entrepreneurs on lease of 30 years on annual rent with facility of renewal and revision after every 10 years;
- The Government intends to set up an SEZ along Jamshedpur – Ranchi National highway corridor on both sides. The SEZ would also have an IT park, bio-tech park, hotels, recreation facilities, housing, etc.;
- Foreign investment and technological collaboration by overseas corporate bodies (OCBs) and NRIs would be encouraged in selected sectors, such as infrastructure, power, mineral development, telecommunication, frontier technologies and in the field of non-conventional energy sources, environmental protection, food processing, bio-technologies, tissue culture, pharmaceuticals and value added industries on mutually advantageous basis. Overriding priority shall be given to such proposals;
- The lead banks in their respective districts would prepare “industrial credit plans” to accelerate the flow of credit to the industrial sector with emphasis on small scale industries (SSI), tiny and cottage industries, for which separate targets would be fixed; and
- Special incentives like exemption from environmental clearance and zoning regulations for purposes of location and facility of self-certification for purposes of compliance of the various Acts like Water and Air Pollution Act, Factories Act, Employment Exchange (Notification of vacancies) Act, Payment of Wages Act, Minimum Wages Act, Contract Labour (Regulation and Abolition) Act, Workmen Compensation Act, Shops and Establishments Act, etc. have been announced for industry.

1.4.3 The number of factories in Jharkhand increased by 10.3 per cent during the period 1998-99 to 2004-05 as against a lower increase for all-India at 3.5 per cent (Annual Survey of Industries 2004-05). Fixed as well as invested capital, during the same period, has increased by 5.0 per cent and 4.9 per cent, respectively as against a rise of 31.2 per cent and 41.4 per cent, respectively, at the all-India level. The number of workers declined in the industrial sector of Jharkhand by 23.8 per cent as compared to an increase of 3.7 per cent at all-India level. Net value added in the State increased by 110.1 per cent during the period as against an all-India increase of 78.7 per cent.

1.4.4 Industrial Sickness

The incidence of industrial (non-SSI) sickness in Jharkhand remains low, with the State accounting for only 0.8 per cent of non-SSI sick units at national level in 2002-03. However, the number of non-SSI sick/weak units in Jharkhand has increased from 21 in 2001-02 to 27 in 2002-03. As regards sick SSI units in Jharkhand, the number of such units has declined from 2105 in 2001-02 to 2023 in 2005-06. At national level, in 2005-06, the State accounted for 1.6 per cent of total sick SSI units. However, the credit outstanding in respect of these units has increased from Rs. 36.7 crore in 2001-02 to Rs. 46.7 crore in 2005-06, marking an average increase of 17.6 per cent during 2002-2006. (*Source: Annual Survey of Industries*)

The Sub-Committee of the Empowered Committee to study the reasons for sickness in SSI sector in Jharkhand felt that while the reasons for sickness of SSI units were mainly sector/industry-specific in nature, certain general reasons, given below, were identified by the sub-committee as contributing to the sickness in the SSI sector.

- (i) Delay in sanctioning of loan;
- (ii) Poor organizational and financial skill of the entrepreneurs;
- (iii) Proper market survey for the demand of the product is not undertaken before commencement of commercial production, resulting in poor sales and cash loss, ultimately leading to sickness;
- (iv) Non-functioning of 'single window system', as a result of which potential entrepreneurs are not in a position to know which product, would be most suitable for them, keeping their financial and technical capability in view;
- (v) Lack of effective post-disbursement supervision by the banks;
- (vi) Changes in the linkage policy of the Coal India Ltd., under which PSU Coal Companies used to allot quota for soft coke (used as raw material in those units) and /or hard coke (used as fuel) to various SSI units (Actual Users) of the State on a priority basis. With the introduction of e-auction for the soft coke/hard coke, no new linkage is permitted and the SSI units are forced to purchase coke from the successful bidders at the e-auction, at a much higher price; and
- (vii) Units located in the Bokaro Industrial Cluster turned sick due to lack of marketing outlets for their products.

1.4.5 Power position in Jharkhand

Power deficit in the State has increased in the last five years, with the gap rising from 11 million units (0.8 per cent) in 2002-03 to 215 million units (4.9 per cent) in 2006-07 (Ministry of Statistics and Programme Implementation, Government of India). However, the power deficit situation in the State is better as compared with that of 9.9 per cent at all-India level.

1.5 Rural Industrialization

Promotion of rural industries is among the priorities of the Government. This sector provides employment opportunities to vast sections of the society which mainly comprise of the weaker sections, minorities and women. This sector, in addition, has immense export potential, which needs to be exploited to earn valuable foreign exchange for the country. To give thrust to this sector, the Government aims to popularize handloom and handicraft sector. Handloom is labour intensive cottage industry sector providing employment to around 1.5 lakh weavers throughout the State. Various incentives to the handloom weavers are being provided under Deendayal Hastkargha Protsahan Yojana, which aims at taking care of wide gamut of activities, such as basic inputs like looms and accessories, product development, infrastructure support, institutional support, training to weavers, supply of equipment and marketing support, both at micro and macro levels in an integrated and coordinated manner for an overall development of the sector and benefit to handloom weavers. Handicrafts of Jharkhand reflect the cultural heritage, customs and traditions of the State. The State manufactures handicrafts in cane and bamboo works, woodcarving, stoneware, brassware, lac based handicraft items, paper mache, terracotta, etc. The State Government may set up a model suitable 'Handicraft Village' in each of the districts of the State for promoting the traditional arts and crafts of the villages by adopting the "One Tambon One Product" model of Thailand. The project could be encouraged by formation of SHGs, in particular women SHGs. This will even encourage setting up of Micro, Small and Medium enterprises in the villages. The State Government may also assist the villagers in marketing their products domestically as well as internationally.

1.6 Tourism

Tourism has been given the status of an industry in Jharkhand. There are various tourist attractions in the State, such as Dassam waterfall, Hundru waterfall, Jonha waterfall, Hirni waterfall, Ranchi Hill, Gonda Hill & Rock Garden, Tagore hill, Jagannathpur temple, Sun temple, Baidyanath Dham, etc. The Government intends to give boost to tourism sector by attracting higher investment in the areas with tourist potential and to generate employment opportunities through combined efforts of governmental agencies and the private sector. Priority may be accorded to develop eco-tourism, religious tourism, heritage tourism, adventure tourism, amusement parks, resorts and way side amenities.

CHAPTER – 2

ROLE OF BANKS AND FINANCIAL INSTITUTIONS IN SUPPORTING THE INITIATIVES TAKEN BY THE STATE GOVERNMENT FOR PROMOTING ECONOMIC DEVELOPMENT OF THE STATE

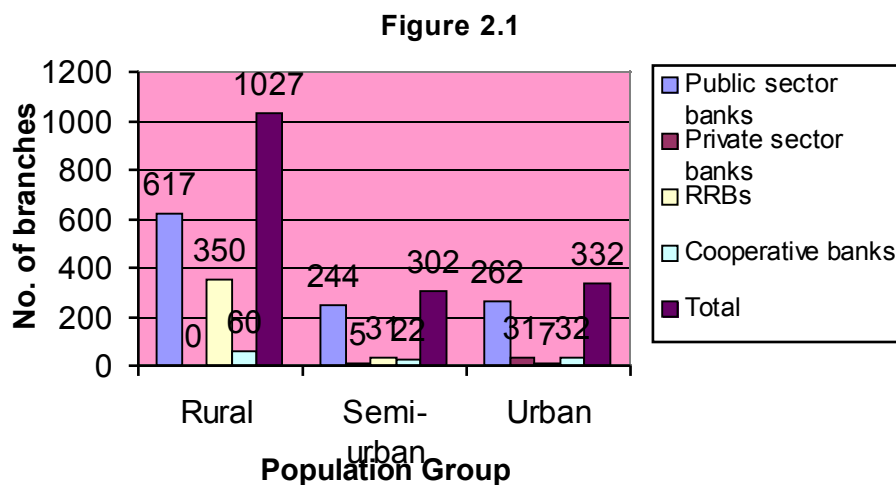
2.1 Banks and financial institutions play a vital role as financial intermediaries by accepting deposits from the public and providing credit facilities to the needy sector of the economy for its development. The State is facilitated by flow of credit through a multi-agency banking mechanism comprising cooperatives, commercial banks and Regional Rural Banks (RRBs). With a view to arriving at accelerated economic development of the regions/States, credit-planning process was introduced under the Lead Bank Scheme in 1969, which aimed at coordinating the activities of banks and other development agencies through various fora in order to achieve the overall objective of enhancing the flow of bank finance to priority sector and also to promote banks' role in overall development of the rural sector. NABARD prepares Potential Credit Linked Plan for the area after taking into account the local resources and potential available, on the basis of which the Annual Credit Plan for the State is prepared.

2.2 Banking network in the State

2.2.1 The State of Jharkhand comprises 24 districts. Allahabad Bank is the convenor of the State Level Bankers' Committee (SLBC). The Lead Bank responsibility of 24 districts has been allotted amongst the following public sector banks.

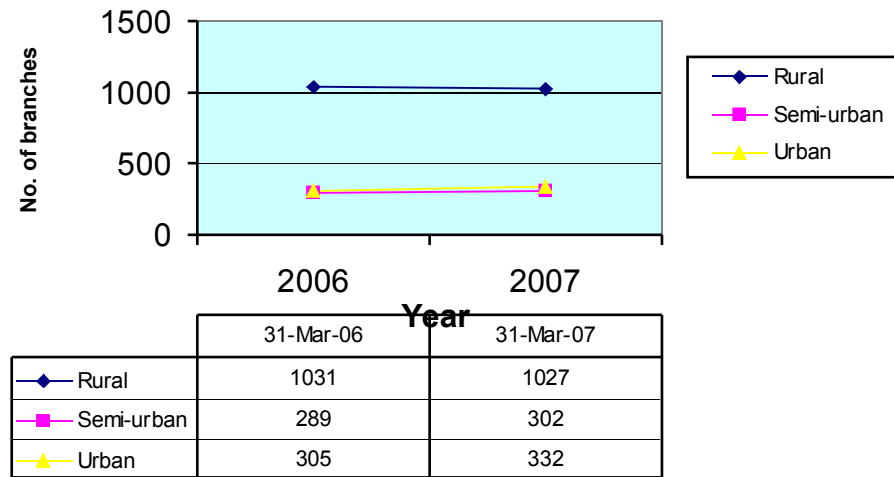
S. No.	Name of the bank	No. of districts allotted
1.	Allahabad Bank	02
2.	State Bank of India	07
3.	Bank of India	15
	TOTAL	24

2.2.2 The State had a network of 1661 bank branches, covered by 22 public sector banks with 1,123 branches, 8 private sector banks with 36 branches, two Regional Rural Banks with 388 branches, eight District Central Co-operative Banks (DCCBs) with 112 branches, and two primary urban co-operative banks with two branches, as on March 31, 2007. The population group-wise distribution of these branches indicates that the rural branches accounted for 62 per cent of the total number of branches in the State, as against the all-India average of 34 per cent. The share of semi-urban branches in the State was 18.2 per cent as compared to 24.1 per cent at the all-India level. The population group-wise distribution of branches of all banks in the State as on March 31, 2007 is given in Figure 2.1.



2.2.3 The available data shows that the number of branches in the rural areas has decreased slightly during the last two years, whereas the number of branches in semi-urban and urban areas has increased slightly during the same period (Figure 2.2).

Figure 2.2



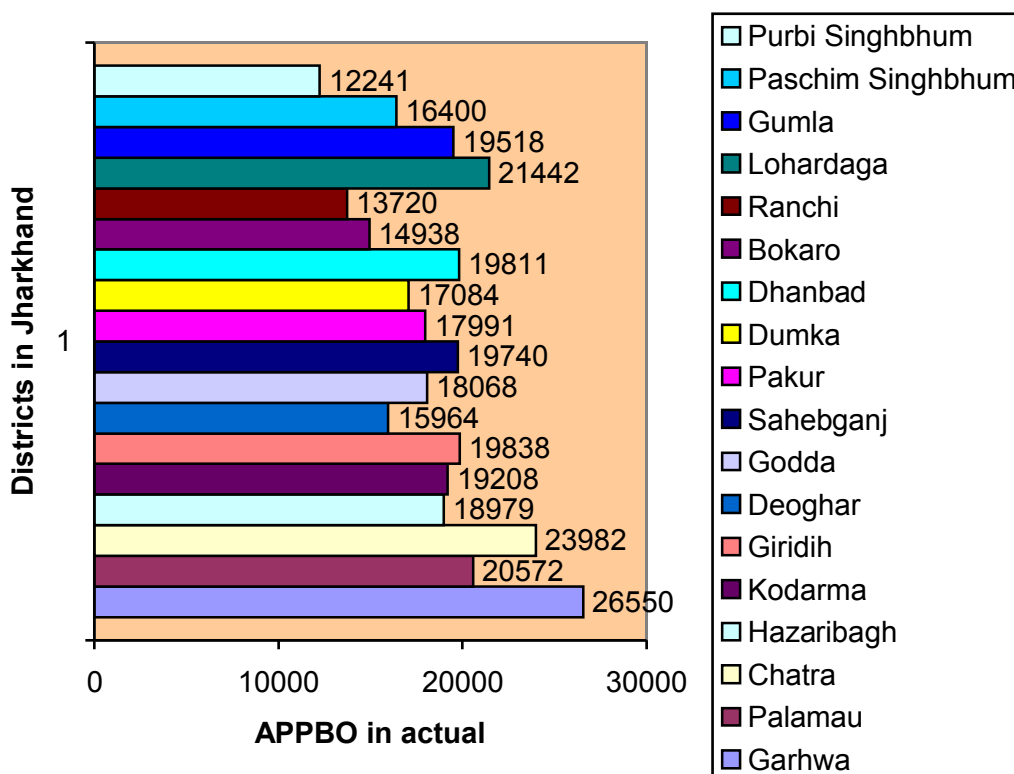
2.2.4 There were six RRBs in the State as on March 31, 2006, prior to initiation of State level sponsor bank-wise amalgamation process by Government of India in September 2005. Consequent upon amalgamation process, the number of RRBs has reduced from six to two as on March 31, 2007. The four RRBs, namely Ranchi Kshetriya Gramin Bank, Singhbhum Kshetriya Gramin Bank, Hazaribagh Kshetriya Gramin Bank and Giridih Kshetriya Gramin Bank, were amalgamated in June 2006 to form Jharkhand Gramin Bank sponsored by Bank of India with head office at Ranchi, and two RRBs, namely Palamau Kshetriya Gramin Bank and Santhal Paraganas Gramin Bank, were amalgamated in June 2006 to form Vananchal Gramin Bank sponsored by State Bank of India with head office at Dumka.

2.2.5 The State had a three-tier rural cooperative credit structure, comprising the Bihar State Co-operative Bank, eight District Central Cooperative banks and 857 Primary Agricultural Credit Societies (PACS), 474 Large Sized Adivasi Multi Purpose Societies (LAMPS) and one Farmer Service Societies (FSS) as on March 31, 2007. Consequent upon carving of the State of Jharkhand from Bihar, the Bihar State Co-operative Bank was not bifurcated to form a separate State Co-operative Bank of Jharkhand. With a view to providing leadership to the short-term rural cooperative credit structure; controlling and providing guidance and support in the matter of operations, administration, investment, monitoring and training support;

assisting in appraisal and monitoring of large projects; and refinance assistance to lower tiers, there is an urgent need for formation of State Co-operative Bank in the State. One of the Terms of Reference of the Group was to specifically examine and recommend measures to improve the effectiveness of the co-operative banks (rural and urban) in the State and to suggest measures (immediate and medium term) for the setting up of a State Co-operative Bank in Jharkhand. The detailed suggestions/recommendations are given in Chapter 5.

2.2.6 The Average Population Per Bank Office (APPBO) of the State was 17,418 as on March 31, 2007 and 17,340 as on September 30, 2007, as compared to all-India average of 16,000. The APPBO of the districts of Jharkhand ranges from 12,241 in Purbi Singhbhum district to 26,550 in Garhwa district as on September 30, 2007. The APPBO of all districts in Jharkhand is given in Figure 2.3.

Figure 2.3



Note: Jamtara, Latehar, Seraikela-Kharswan and Simdega districts were carved out of Dumka, Palamau, Paschim Singhbhum and Gumla districts respectively, after 2001, as such population for these districts are not available in 2001 census.

2.2.7 The above data shows that out of 18 districts, twelve are having APPBO of more than the State's average (17,340) and 14 districts are having APPBO of more than the all-India average (16,000). This greatly indicates that there are various under-banked areas in the State. This necessarily entails increasing banks' outreach in the State, if the objective of financial inclusion is to be achieved.

2.2.8 The Group observed that out of 212 blocks in the State, there were three blocks (all in Chatra district), namely Lawalong, Kunda and Gidhaur, which were unbanked, i.e. there were no bank branches in these blocks to take care of the banking needs of the people. As such, the Group recommends strongly that the Lead Bank in Chatra district may open at least one branch each in all the three unbanked blocks within a period of six months.

2.3 Credit Deposit Ratio (CDR)

2.3.1 The comparative figures of deposits, advances and corresponding CDR of all banks, including Regional Rural Banks and cooperative banks in the State as on March 31 of the last six years are given below.

(Amount in Rs. crore)

Year	Rural			Semi-urban			Urban			Total		
	Dep.	Adv.	CDR	Dep.	Adv.	CDR	Dep.	Adv.	CDR	Dep.	Adv.	CDR
March 2002	4996	1185	23.7	5791	955	16.5	8262	3085	37.3	19048	5225	27.43
March 2003	5384	1294	24.0	6526	1138	17.4	8934	3225	36.1	20843	5655	27.13
March 2004	5511	1324	24.0	7144	1583	22.1	9929	3197	32.2	22583	6103	27.02
March 2005	6572	1781	27.1	8509	2176	25.6	11822	4676	39.6	26904	8633	32.09
March 2006	7447	2322	31.2	10083	2818	27.9	14487	7470	51.6	32018	12610	39.38
March 2007	8565	2924	34.1	11517	3335	29.0	17606	9128	51.9	37688	15387	40.83
June 2007	8485	3052	36.0	10457	3032	29.0	17515	10225	58.4	36457	16309	44.73

Source: SLBC, Jharkhand Agenda Papers

2.3.2 The CDR of banks stagnated at around 27 per cent in the years 2002, 2003 and 2004, but thereafter it has shown an average growth rate of around 4.5 per cent per annum and reached the level of 40.83 per cent in 2007 and 44.73 per cent in the first quarter of 2007-08. The CDR of banks in the rural and semi-urban areas has shown an increasing trend over the years from 23.7 per cent and 16.5 per cent, respectively, in 2002 to 34.1 per cent and 29.0 per cent, respectively, in 2007 and further to 36.0 per cent and 29.00 per cent, respectively, in the first quarter of 2007-08. However, the CDR in the urban areas had decreased in the years 2003 and 2004, but increased significantly thereafter and reached to 51.9 per cent in 2007 and 58.4 in the first quarter of 2007-08. The data shows that the CDR of banks in the rural and urban areas has shown a sharp increase from the year 2004-05 onwards, whereas the increase in semi-urban areas has been very marginal.

2.3.3 The district-wise comparative position of CDR as on March 31, 2007 is given below:

Name of districts	CDR
Bokaro	42.75
Chatra	15.85
Deoghar	35.90
Dhanbad	27.99
Dumka	35.30
East Singhbhum	60.81
Garhwa	24.91
Giridih	38.73
Godda	39.13
Gumla	23.09
Hazaribagh	29.64
Jamtara	28.95
Koderma	25.01
Latehar	19.82
Lohardaga	28.32
Pakur	33.09
Palamau	21.25
Ranchi	48.89
Sahebganj	34.50
Saraikela	57.37
Simdega	20.54
West Singhbhum	49.31
TOTAL	40.83

Source: SLBC, Jharkhand

Note: Khunti and Ramgarh districts were formed recently.

Out of 22 districts (now 24 districts) in the State, 17 districts were having CDR of less than 40 per cent. Special Sub-Committees of District Level Consultative Committee (DLCC) have been constituted in all the districts having CDR of less than 40, in order to monitor the CDR and to draw up Monitorable Action Plans (MAPs) to increase the CDR.

2.3.4 The Group observed that due to various factors associated with poor investment climate, inadequate banking spread, poor infrastructure, etc., credit off take in the State has been disappointing as reflected in the low Credit Deposit Ratio for the State vis-à-vis the national average. A number of expert groups, over a period of time have tried to diagnose the factors responsible for the low Credit Deposit Ratio in various States and also to find means for improving the same. Recently, the Government of India had appointed an Expert Group (Chairman: Shri Y. S. P. Thorat, Managing Director, NABARD) to enquire into the problem of Credit Deposit Ratio in North-East, Bihar, Uttar Pradesh, Himachal Pradesh, Chattishgarh and Jharkhand. The Expert Group addressed issues related to the regional imbalances in banking sector's commitment of resources and they had opined in favour of factoring in investments and RIDF along with credit while assessing Credit Deposit Ratio across the States. The Government of India with certain modifications accepted the aforesaid recommendation. Accordingly, Reserve Bank had advised all scheduled commercial banks on November 9, 2005, that the CD Ratio of banks should be monitored at different levels on the basis of the following parameters:

Institution / Level	Indicator
Individual banks at Head Office	Cu + RIDF
State Level (SLBC)	Cu + RIDF
District Level	Cs

Note: *Cu = Credit as per place of Utilization*
Cs = Credit as per place of Sanction
RIDF = Total Resource support provided to States under RIDF

2.3.5 The data on bank-group wise outstanding deposits, advances and corresponding CDR as on March 31 for the last six years (2002 to 2007) are given below.

(Amount in Rs. crore)

As on March 31 of year	Public sector banks			Private sector banks			RRBs			Co-operative banks		
	Dep	Adv	CDR	Dep	Adv	CDR	Dep	Adv	CDR	Dev	Adv	CDR
2002	17129	4517	26.4	423	227	53.6	1124	298	26.5	373	183	49.0
2003	18665	4906	26.3	543	273	50.3	1288	343	26.6	348	134	38.5
2004	20905	5694	27.2	246*	25*	9.9*	1432	384	26.8	N.A.	N.A.	N.A.
2005	24260	7350	30.3	1034	776	75.1	1610	506	31.5	N.A.	N.A.	N.A.
2006	28077	9829	35.0	1626	1856	114.1	1895	616	32.5	420	310	20.2
2007	32888	12362	37.6	2097	1839	87.7	1986	603	30.4	717	144	20.1

Note: * - Provisional, N.A. – Not available

Source: SLBC, Jharkhand

The above data indicates that the CDR of public sector banks, RRBs and co-operative banks in the State is not up to the desired level. The Group was of the view that the CD ratio depended on several factors such as the demand for credit as also the absorption capacity of various activities in the State's economy. Absorption capacity in turn depended on infrastructure such as roads, power supply, etc. The role of Government in providing infrastructure was crucial for increasing the absorption capacity. The Group, therefore, suggests that the State Government should strive for improving the various infrastructures in the State so as to increase the State's absorption capacity.

2.4 Performance of banks in key parameters

2.4.1 The performance of all banks, including RRBs and co-operative banks, in key parameters in the State is given below:

(Amount in Rs. crore)

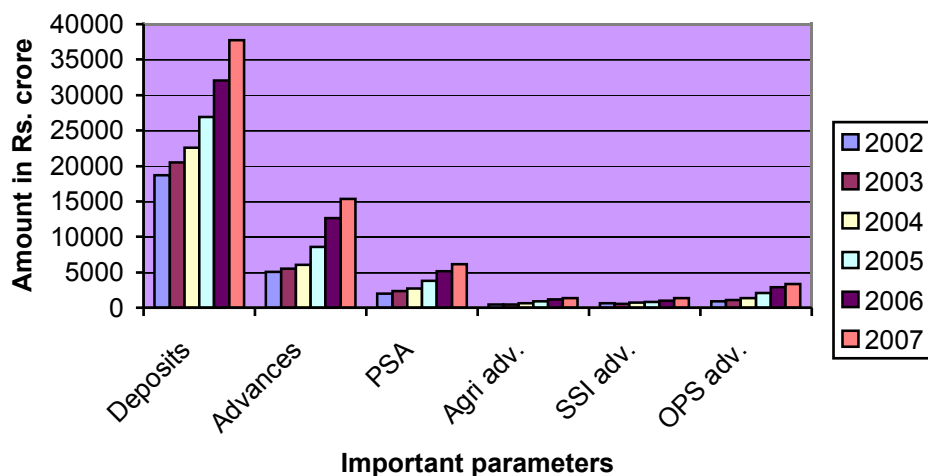
S. No.	Parameters	As on March 31 of year					
		2002	2003	2004	2005	2006	2007
1.	Deposits	18,675	20,495 (9.7%)	22,583 (10.2%)	26,904 (19.1%)	32,018 (19.0%)	37,688 (17.7%)
2.	Advances	5,042	5,521 (9.5%)	6,103 (10.5%)	8,633 (41.5%)	12,610 (46.1%)	15,387 (22.0%)
3.	Priority Sector Advances	2,008	2,353 (17.2%)	2,732 (16.1%)	3,847 (40.8%)	5,147 (33.8%)	6,172 (19.9%)
4.	Agricultural advances	438	482 (10.1%)	654 (35.7%)	894 (36.6%)	1221 (36.5%)	1420 (16.3%)
5.	SSI advances	650	591 (-9.2%)	702 (18.9%)	873 (24.3%)	989 (13.3%)	1350 (36.5%)
6.	Other Priority Sector	920	1,096 (19.1%)	1,375 (25.5%)	2,056 (49.5%)	2,937 (42.9%)	3,361 (14.4%)
7.	Credit to Weaker Sections	760	846 (11.3%)	1,122 (32.6%)	1,504 (34.1%)	1,838 (22.2%)	1,835 (-0.2%)
8.	Minority Communities	165	224 (35.6%)	233 (3.8%)	374 (60.8%)	731 (95.3%)	556 (-23.9%)
9.	SC/ST	N.A.	658	517 (21.5%)	836 (61.7%)	1,282 (53.6%)	1,060 (-17.3%)
10.	Women	478	N.A.	337	530 (56.9%)	656 (24.0%)	608 (-7.4%)
10.	Export credit	40	29 (-26.1%)	382 (1200%)	125 (-67.3%)	181 (45.0%)	225 (24.4%)
11.	DRI advances	1.3	14.6 (1023%)	8.1 (-44.5%)	8.4 (3.7%)	8.7 (3.6%)	10.0 (14.9%)

N.A. – Not available.

Figures in parentheses indicate year-on-year growth rate compared to previous year.

2.4.2 The data reveals that the performance of banks in all the key areas, except a few, has shown an increasing trend from March 2002 to March 2006, but has shown a decreasing trend in the year 2007 in all the key areas, except SSI sector and DRI advances. The outstanding deposits of all banks taken together have grown at an average annual growth rate of 15.14 per cent over the last five years, i.e. from March 2002 to March 2007. On the other hand, the overall outstanding advances in the State have grown at an average annual growth rate of 26 per cent over the same period. As regards the banks' lending to priority sector in the State, the average annual growth rate has been maximum in the Other Priority Sector areas (30.3%), followed by agriculture sector (27.0%) and SSI sector (16.8%). The overall priority sector advances have grown at an average annual growth rate of 25.6 per cent over the same period. The trend in the important parameters is shown in Figure 2.4.

Figure 2.4



2.4.3 The outstanding priority sector advances of all banks in the State, as percentage to total advances in the State, had shown an upward trend from end March 2002 (39.8%) to end-March 2004 (44.8%) and then shown a declining trend till end-March 2007 (40.1%). While the outstanding agricultural advances and SSI advances, as percentage of total advances in the State, had also shown an upward trend from end-March 2002 (8.7% for agriculture and 12.9% for SSI) to end-March 2004 (10.7% for agriculture and 11.5% for SSI) and a declining trend till end-March 2007 (9.2% for agriculture and 8.8% for SSI), the outstanding advances to 'Other Priority Sector' areas, as percentage to total advances in the State, had shown an upward trend from end-March 2002 (18.2%) to end-March 2005 (23.8%) and thereafter a declining trend till end-March 2007 (21.8%).

2.4.4 The Group was of the opinion that banks need to be geared up in the area of lending to weaker sections category, SC/ST, women and minority communities, where they have shown a negative growth rate in the year 2007 as compared to the previous year. In fact, the banks need to be cautioned on the entire key parameters, as the average annual growth rate has come down drastically in the year 2007.

2.5 Performance of banks (including RRBs and co-operative banks) under Annual Credit Plan (ACP)

The targets (TGT) and achievements (ACH) of banks during the last five years are given below.

(Amount in Rs. crore)

S. No.	Sector	2002-03			2003-04			2004-05			2005-06			2006-07		
		TGT	ACH	%	TGT	ACH	%	TGT	ACH	%	TGT	ACH	%	TGT	ACH	%
1.	Agri	342	218	64	367	233	64	440	437	99	594	554	93	891	714	80
2.	SSI	286	206	72	295	322	109	345	307	89	447	366	82	673	405	60
3.	OPS	550	366	66	589	662	112	689	799	116	927	981	106	1392	1091	78
4	TPS	1178	790	67	1251	1217	97	1474	1543	105	1967	1901	97	2955	2210	75
5.	NPS	1122	1458	130	1765	1895	107	2457	2304	94	3069	2634	86	4600	3200	70
6.	TOTAL	2300	2248	98	3016	3112	103	3931	3847	98	5036	4535	90	7555	5410	72

Source: SLBC, Jharkhand

It is observed that the banks have not been achieving the targets set under agriculture, SSI and Other Priority Sector for almost all the years, i.e. 2002-2003 to 2006-07, except in one or two years. As regards achievement of target under Non-

priority sector, the banks have exceeded the target in the years 2002-03 and 2003-04, but thereafter they have not achieved. As agriculture provides livelihood to about 80 per cent of the State's population and there is a declining share of agriculture and allied activities in NSDP, the Group suggests that the Annual Credit Plans may be prepared taking into account the potential available and the targets for various sectors may be set accordingly. All banks need to achieve the target set under the ACP in all sectors.

2.6 Recovery position under priority sector advances

The demand-versus-recovery position of priority sector advances of all banks in the State for five years are given below. The data shows that percentage of recovery in all sectors of priority sector advances in the State is below satisfactory. The recovery position in agricultural advances has been the lowest among all the priority sector advances. This shows slackness on the part of banks in the State.

(Amount in Rs. crore)

During the year	Agriculture			SSI			OPS			Total		
	Dem	Rec	%	Dem	Rec	%	Dem	Rec	%	Dem	Rec	%
2001-02	266.6	53.8	20.1	144.8	52.7	36.4	283.6	114.6	40.4	747.0	235.3	31.5
2003-04	263.2	167.8	63.8	153.7	84.3	54.9	478.2	292.1	61.1	895.0	544.3	60.8
2004-05	281.4	156.4	55.6	228.0	109.2	47.9	557.8	331.6	59.5	1066.9	597.2	56.0
2005-06	367.8	203.1	55.2	268.9	139.0	51.7	1058.2	728.5	68.9	1694.9	1070.6	63.2
2006-07	450.0	236.7	52.6	263.6	149.8	56.8	700.0	458.5	65.5	1413.7	845.0	59.8

Source: SLBC, Jharkhand

2.7 Flow of credit to agriculture sector

2.7.1 Indian agriculture, being a predominant sector in terms of dependent population, forms a critical edifice of the strategy for overall development of the economy. Notwithstanding the decline in its share in the overall GDP (from over 24 per cent in 2000-01 to around 19 per cent in 2006-07), agriculture continues to be the main source of livelihood for about two-thirds of country's population. It generates employment to large portion of country's workforce and also a source of raw materials to a large number of industries, as also contributes to country's exports. The same holds good for the State of Jharkhand also. The agriculture sector in the State contributes about 13 per cent to NSDP, and provides livelihood to about 80

per cent of the State's population. The share of agriculture and allied activities in NSDP has shown a gradual declining trend from 23 per cent in 2001-02 to 13 per cent in 2006-07.

- 2.7.2** The outstanding advances to agriculture sector by all banks in the State have increased substantially from Rs. 438 crore as on March 31, 2002 to Rs. 1,420 crore as on March 31, 2007, thus showing an average year-on-year growth rate of 16.3 per cent. The outstanding agricultural advances have shown an increasing annual growth rate from 2001-2002 to 2005-06, which declined in the year 2006-07 drastically. Further, the outstanding agricultural advances, as percentage of total advances in the State, had shown an upward trend from end-March 2001 (8.7%) to end-March 2004 (10.7%) and a declining trend till end-March 2007 (9.2%).
- 2.7.3** The Group strongly feels that the banks need to step up their lending to agriculture sector in view of the importance given to it in terms of its employing to a huge workforce. Though, the agriculture lending target of 18 per cent of Adjusted Net Bank Credit (ANBC) or Credit Equivalent amount of Off-Balance Sheet Exposures, whichever is higher, has been stipulated for domestic commercial banks on an all-India basis, the Group recommends that all banks in the State may raise their lending to agriculture sector so as to reach at least 18 per cent of ANBC in the State. The banks should also provide investment credits to farmers so as to enhance the credit absorption capacity.
- 2.7.4 Credit camps during crop seasons:** There is always high demand for loans during crop seasons. This creates tremendous work pressure in the rural branches during this period. At the same time, the farmers find it extremely inconvenient to visit the branch, which may be located at quite a distance from the village. In order to take banking facilities at the doorstep of the farmers, the Group recommends that the banks in a particular region may organize credit camps in association with the State Government during crop seasons so that the services related to application, processing, sanction, documentation and disbursement may be offered to the farmers through a 'single window' system.

2.7.5 Kisan Credit Cards (KCC)

The Kisan Credit Card (KCC) Scheme was introduced in the year 1998-99 to enable the farmers to purchase agricultural inputs and draw cash for their production needs. NABARD has since revised the Model KCC Scheme to provide adequate and timely finance for meeting the comprehensive credit requirements of farmers under single window, with flexible and simplified procedure, adopting whole farm approach. The scheme now covers term credit as also working capital for agriculture and allied activities and a reasonable component for consumption needs.

2.7.6 The State has 8,59,200 farmers, of which 7,90,220 are with landholdings and 68,980 are oral lessees/tenant farmers. During 2006-07, all banks, including RRBs and cooperative banks have issued 1.10 lakh KCCs amounting to Rs. 65.6 crore. Cumulatively, the number of KCCs issued by these banks in the State stood at 6.34 lakh amounting to Rs. 352.5 crore. It is observed from the table below that the private sector banks have not been issuing KCCs in the State. The data also indicates that RRBs in the State have been issuing less number of KCCs as against the target during all the years from 2001-02 till 2006-07, except in the year 2004-05.

(Amount in Rs. crore; No. of KCCs in '000s)

Banks	2002-03			2003-04			2004-05			2005-06			2006-07		
	Tar	Sanc		Tar	Sanc		Tar	Sanc		Tar	Sanc		Tar	Sanc	
		No.	Amt		No.	Amt		No.	Amt.		No.	Amt		No.	Amt
PSBs	72.0	26.9	15.4	47.1	80.4	10.6	108.1	112.3	2.3	122.4	73.1	2.0	122.4	67.4	1.9
Pvt. Bnk															
RRBs	29.6	7.5	11.0	17.7	16.9	18.6	42.4	71.9	74.7	80.7	40.4	57.9	80.7	41.4	55.2
Coop Bnk	0.4	0	0	45.9	0	0	66.5	0	0	66.5	0	0	66.5	1.2	8.5
TOT	132.4	36.4	27.0	110.8	97.3	19.7	217.0	184.2	77.0	269.6	113.5	59.9	269.6	110	65.6

Source: SLBC, Jharkhand

2.7.7 The Group, therefore, suggests that all banks, including private sector banks and RRBs, may fix a self-set target to cover all the farmers of the State through issuance of KCCs within a period of one year. The SLBC Convenor bank may ensure that the self-set targets by the banks are fixed in such a manner so as to cover all eligible farmers by March 2009.

2.7.8 It is learnt that KCCs are being issued to eligible farmers only for crop loans, while term loans for agriculture and allied activities have not been covered under the scheme so far, though the revised scheme provides for a single window platform for comprehensive loan requirements as also to avoid inconvenience to the farmers. It is also learnt that the limit is being fixed without taking into consideration the scale of finance, actual land holding, repaying capacity of borrowers, etc. The Group, therefore, recommends that the Controlling Offices may advise all the branches to strictly follow Reserve Bank/NABARD guidelines.

2.7.9 The Group was of the view that KCCs may be issued to the tenant farmers/oral lessees/landless farmers/share croppers on the basis of certificates provided by local administration/Panchayati Raj institutions regarding the cultivation of crops by them.

2.7.10 Stamp Duty: While some States such as, Uttar Pradesh and Bihar have liberalized stamp duty requirements for farmers and raised the minimum amount of loan for paying stamp duty to Rs. 5 lakh; stamp duty imposed by some State governments on agreements for agricultural loans pose a big problem for average farmers. It not only adds to the cost of loans but also leads to delays on account of non-availability of stamp paper in remote places. At times, the farmers have to go to the far away district headquarters more than once to procure stamp papers. The Group was of the view that the State Government may consider exemption of stamp duty, the collection of which was very insignificant at present, to encourage the farmers to avail higher loan for agriculture sector.

2.7.11 Land Records: Another major area that affects the bankers and the farmers alike is the lack of proper and retrievable land records system in many parts of the country. Though many State Governments have initiated the process of computerization of land records, a stable database is yet to emerge. In many places, either the computerization process is incomplete or the charge on land holdings is not properly recorded. The available database is not being updated at regular intervals. This leads to delays in sanctioning loans and also increases the

transaction cost to the farmers. The Group suggests that the State Government should take steps to update and computerize the land records.

2.7.12 Recovery in agricultural advances

The percentage of recovery to demand of agricultural advances by banks in the State has been ranging around 55 per cent during the years 2003-04 to 2006-07. While the position should have improved over the years, it has actually come down at 52.6 per cent during the year 2006-07 from 63.8 per cent during the year 2003-04. The Group, therefore, suggests that all banks in the State should make all out efforts, with the help of State Government's District Administration, and conduct frequent recovery drives, so as to maximize recovery.

2.7.13 Mismatch between credit flow and land holding pattern

Inadequacy of farm credit continues to be one of the major bottlenecks hindering the growth of agriculture in the State. The State has a large number of farmers with small and fragmented land holdings. The average size of land holding in the State is 1.58 hectare. The share of land holdings of small and marginal farmers to the total holdings is 80.1 per cent and that of large farmers (having land holding of more than 10 hectares) and medium farmers (having land holdings of 2 to 10 hectares) are only 1.1 per cent and 18.8 per cent, respectively, to the total land holdings. Thus, there is little scope, in terms of viability, for banks to provide investment credit to farmers. The Group was of the view that in order to bring about diversification in agricultural productivity in the State, promotion of efficient use of resources and technology, private sector participation through contract farming and leasing arrangements, evolving new location specific and improved varieties of farm crops deserve future attention. Agricultural research and development must be geared for re-prioritisation of investment on new technologies so as to supplement the traditional technologies with new advances in bio-technology so as to accelerate the process of diversification. State Government in close coordination with banks need to work on above issues.

2.7.14 Irrigation

The Group felt that one of the main reasons for backwardness in agriculture in the State is poor irrigation facilities. A visit to the Kansar and Bargoda blocks of Hazaribagh district and interaction with several farmers suggest that the farmers are averse to canalizing their savings into high quality of inputs for farming as they depend heavily on monsoons for irrigation. Surprisingly, some of the farmers with large landholding were content with accepting small quantum of loan in the range of Rs. 21,000. Last year they used some of the high yielding variety of seeds for crop cultivation and due to good rains, they received good harvests. The farmers suggested that creation of check dams in their areas to harness water from River Lapasiya, which is a live stream can ensure water for farming. This will benefit the farmers in both the blocks, i.e., Kansar and Bargoda. However, creation of check dams in the nearby river can ensure water supply to more than 100-150 villages in two blocks.

2.7.15 The Group took note of the above and accordingly recommends that the SLBC convenor bank in consultation with NABARD and the State Government may survey different blocks in the State, where the irrigation facilities can be created in the short term (say over a period of 9-12 months) in medium term (say 1-3 years) and long term (more than 3 years).

2.7.16 The Group was informed that though, the State Government has been sanctioned loans amounting to Rs. 340 crore under Rural Infrastructure Development Fund (RIDF) by NABARD for 2 major, 4 medium and 93 minor irrigation projects, an amount of Rs. 187.83 crore has only been disbursed as on March 31, 2007. This indicates that the State Government has started various irrigation projects, but they are not nearing completion. The Group, therefore, suggests that the State Government may take up as a priority the task of creating irrigation infrastructure like check dams in various areas with the help of NREGP beneficiaries, and may also constitute a time frame for completion of the irrigation projects, as also improve the disbursement level under RIDF.

2.7.17 Agriculture Extension Services

The farmers in Jharkhand need latest information not only on cropping practices, but also on support services, markets, innovative schemes, etc. The agricultural extension system is the conduit pipe between the research institutions and the farmers for conveying to the farmers improved agricultural technology, which can increase their yields and incomes within the framework of their environment and assets. Inadequate extension support is a major bottleneck in all the sectors relating to agriculture. Strengthening extension system can bring improvement in productivity, as there is lack of awareness about proper farming technique. The main ingredients of reform in extension services should be (i) active involvement of farmers through user groups/associations; (ii) increasing the use of media and information technology including cyber kiosks to disseminate knowledge of new agricultural practices; and (iii) information on output and input prices and inducting agricultural graduates and NGOs to offer extension advice. For enhancing extension system, the Group suggests that the Government agencies should join hands with private and community driven organizations.

2.7.18 The State Government has initiated a massive programme for establishment of "Common Service Centres" (CSC) using ICT. These are designed in participatory mode and local self Governments or village committees will be involved in the running of the CSCs. These could be effectively used for collection of data as also for dissemination of information / providing technical inputs particularly relating to agriculture. Suggestions to improve the situation are given below.

(i) Various Government agencies, in consultation and support with Research Institutes, banks and NABARD, may devise a **common development programme** for agricultural extension for Jharkhand;

- (ii) The State Agriculture Management and Extension Training Institute (**SAMETI**), presently serving as Nodal Agency for organisation and coordination of Agricultural Extension activities in the State, may join hands with the Agricultural Technology Management Agency (**ATMA**), presently working in 12 districts of Jharkhand. All the twenty four districts of Jharkhand may be covered under the scheme of ATMA;
- (iii) The extension system can be very effective in Jharkhand by using the services of **Individual Rural Volunteers**. NABARD may provide training relating to extension system to the ex-servicemen, retired school teachers, retired government employees, educated youth, members of Farmer clubs, etc., who can serve as Individual Rural Volunteers.
- (iv) Modern farm practices and standardised technology available in Agriculture research centres needs to be converted to bankable schemes so that the result of Research and Development can be brought to field. Agriculture research centres need to have regular interface with the banks, financial institutions, NABARD, Corporate sectors and NGOs.
- (v) To make agriculture extension system more effective, the financial institutions need to be involved through the representation of District Development Managers of NABARD and Lead District Managers in the Management body of ATMA at district level.
- (vi) For capacity building of NGOs, sensitisation programmes and exposure programmes for field officers of banks may be organised by SAMETI on region specific advanced technology in agriculture and allied activities.
- (vii) The Farmers' Clubs and SHGs could work as an effective link in the extension process.
- (viii) The extension system needs to cater to the requirements of the tenant farmers, share-croppers, farmers with small area of land, women farmers, who form the larger chunk of the farming community.

(ix) The Agriclincs and Agribusiness centres (ACABC) by agriculture graduates could strengthen/supplement the extension services. In terms of the revised guidelines on lending to priority sector issued on April 30, 2007, even non-agricultural graduates could set up the agriclincs and agri-business centres. Under the centrally sponsored scheme for setting up of ACABC by Agriculture (and allied) graduates, 231 Agriculture graduates have been trained for setting up agriclincs and agribusiness centres and so far 15 units have been set up in the State. As the farmers in the State are not used to paying for the technical advice / services received, some Government support would be required to improve their viability. The Government could consider using ACABCs for providing extension support i.e. they could be paid for providing support to the farmers.

2.7.19 Agricultural Marketing

(i) An efficient agricultural marketing is essential for the development of the agriculture sector as it provides outlets and incentives for increased production. The marketing system contributes greatly to the commercialization of subsistence farmers. Task Force on Agricultural Marketing Reforms set up by the Government of India had suggested promotion of new and competitive Agricultural Market in private and cooperative sectors to encourage direct marketing and contract farming programmes, facilitate industries and large trading companies to undertake procurement of agricultural commodities directly from the farmer's fields and to establish effective linkages between the farm production and retail chains.

(ii) If agricultural markets are to be developed in private and cooperative sectors and to be provided a level competitive environment vis-à-vis regulated markets, the existing framework of State APMC Acts will have to undergo a change. The State has to facilitate varying models of ownership of markets to accelerate investment in the area and enable private investment in owning, establishing and operating markets. Working of existing Government regulated markets also needs to be professionalized by promoting public private partnership in their management. Appropriate legal framework is also required to promote direct marketing and contract farming arrangements as alternative marketing mechanism.

(iii) The Government of India had formulated a model law on agricultural marketing in consultation with the States. The model legislation titled the State Agricultural Produce Marketing (Development and Regulation) Act, 2003, provides for establishment of Private Markets/ yards, Direct Purchase Centres, Consumer/Farmers Markets for direct sale and promotion of Public Private Partnership in the management and development of agricultural markets in the country. It also provides for separate constitution for Special Markets for commodities like Onions, Fruits, Vegetables, Flowers, etc. It provides for promotion of contract farming and prohibition of commission agency in any transaction of agricultural commodities with the producers. It redefines the role of present Agricultural Produce Market Committee to promote alternative marketing system, contract farming, direct marketing and farmers/consumers markets. It also redefines the role of State Agricultural Marketing Boards to promote standardization, grading, quality certification, market led extension and training of farmers and market functionaries in marketing related areas. Provision has also been made in the Act for constitution of State Agricultural Produce Marketing Standards Bureau for promotion of Grading, Standardization and Quality Certification of Agricultural Produce. This would facilitate pledge financing, E-trading, direct purchasing, export, forward/future trading and introduction of negotiable warehousing receipt system in respect of agricultural commodities.

(iv) The Group is of the view that the State Government may consider enacting a separate APMC Act on the lines of the model Act suggested by Government of India.

2.7.20 Advanced Technology in Agriculture

Producing certified seed is a good way to add value to crops and profits to the farm operation. In Jharkhand, there is need for development of private sector seed companies. There is good market for this business but few organised companies are in operation. The Group suggests that banks may consider giving a boost to this sector which will go a long way in providing quality seeds to the farmers, which will lead to higher productivity.

2.7.21 A vital facility required in Jharkhand is the availability of reliable seed certification agencies. A dependable Seed Certification Authority is perhaps the most important indicator of a mature seed industry. Given the demand for more and more seed certification agencies, banks must finance Seed Testing Laboratories in the private sector.

2.8 Allied Activities to agriculture

2.8.1 Dairy Development

Dairy is emerging as an important avenue for income generation and employment opportunity in rural areas of the State. Agro-climatic condition in some of the districts in the State is suitable to support cross bred animals. Dairy Farming holds the potential for subsidiary income to the vast majority of the rural population in the State, as the number of small and marginal farmers or landless labourers practicing subsistence agriculture is very high. However, rural milk trade practices are not established and milk marketing network is not much developed and milk is produced mostly for household consumption and local marketing. There is tremendous scope for cooperative development and milk route development through institutional arrangements with milk processing plants. Following suggestions are suggested to boost the sector:

- a.** The State Government could promote milk cooperative societies and milk unions on the AMUL pattern in all potential districts. It may be ensured that adequate backward-forward linkage infrastructures are strategically provided depending on potential. The State Government may also consider setting up of State level milk cooperative federation.
- b.** The State Government may start milk collection using refrigerated tankers from as many villages as possible. Small size refrigeration tanker jeeps can also be used in case of smaller volume of collection.
- c.** Though the State enjoys favourable agro-climatic conditions, the cross bred cattle formed only 4 per cent of the total cattle population as per Livestock Census 2003. The State Government may consider a major livestock upgradation programme, if

necessary in consultation with National Dairy Development Board, Government of India, National Dairy Research Institute, BAIF Development Research Foundation, Indo-Norwegian Collaboration, Indo-Swiss Collaboration etc. to upscale the availability of cross bred high yielding animals.

- d. The State Government may consider giving incentives to the local NGOs, Dairy Societies, PACS/LAMPS, Agricultural Universities, KVKs, etc. to periodically hold organised cattle markets so that there is a supply of good quality cattle for purchase.
- e. The Gokul Gram Yojana in the State may be monitored closely and steps to integrate the selected centres with various other development initiatives like rural roads, milk collection network, drinking water projects, etc. may be undertaken.
- f. More number of Dairy Farmers' Training Centres may be started in various districts of the State to impart efficient management practices.

2.8.2 Pisciculture

The average fish production in the State is only 400 to 900 kg against the national average of 2400 kg per hectare. Against the huge water resources potential available, exploitation is very low. Development of new ponds for composite fish culture, setting up of carp hatcheries, promotion of integrated fish farming along with animal husbandry activities, providing training and technology to farmers need to be taken into consideration for promoting pisciculture. This calls for initiatives from State Government for providing infrastructure and from banks for active participation in providing loans and additional related services.

2.8.3 Sericulture

Jharkhand is the leading tussar silk producer in the country and accounts for nearly 60 per cent of the total production in India. Considering this as quick income generating capacity, there is a good scope for expansion/strengthening of sericulture activity so as to provide additional livelihood income for the rural poor in the State. The State Government has encouraged the tribal people in the rural areas to take up this activity by providing grants, interest-free loans, training/capacity building measures, providing inputs, forward-backward linkages,

etc. In view of the huge potential of sericulture in the State, the Group was of the opinion that there is an urgent need to take over the lead role in promoting this activity by banks. The banks may extend loans to the people dealing in this activity through issuing Kisan Credit Cards, etc. The Group suggests that banks may take steps in forming the tribal people engaged in this activity into SHGs and link them with credit.

In addition to cocoon production, the State has set up fifty centers for Reeling and Spinning, which are being run by women groups. Similarly weavers groups have been organized for silk weaving. The banks may consider granting loans to such units as well as to the women groups formed. Looking into the capacity of the State to produce tussar silk, the Group suggests that, under the NREG Scheme, the State Government may initiate plantation of host trees (Ber, Kusum and Palash) extensively for sericulture and lac cultivation. This step would provide employment to rural beneficiaries under NREG Scheme as also benefit the people engaged in sericulture activity and lac cultivation.

2.8.4 Lac cultivation

Jharkhand is the leading producer of lac in the country with a share of more than 57% of the 20000 MT of country's production. Due to increased international demand for natural lac, cultivation of lac has become remunerative. To strengthen lac production, the requirements are to increase the cultivation of number of trees per unit area of land, its productive capacity, and to organise marketing of lac and ensure stability in prices.

There is ample scope for promotion of intensive cultivation of lac by raising short gestation host plants like *Flemingia Semialata* with combination of Galwang and Ber. The lac development scheme of Forest Department aims to ensure the availability of lac host plants to the lac producers in the State. The potentials of the activity can be harnessed by promoting Lac Cooperatives, producers companies, SHGs, etc. Banks may also popularise bankable schemes including setting up processing units. Entrepreneurs can also be encouraged to exploit the potential.

2.8.5 Horticulture and Floriculture

The agro-climatic conditions of the State are conducive for commercial cultivation of large varieties of fruits, vegetables, flowers and medicinal and aromatic plants. However, the productivity is low due to non-availability of quality planting material and irrigation. The measures to develop the sector are discussed below:

- i. The Vegetable Federation (Veg Fed) promoted by Government of Jharkhand offers a good opportunity to promote modern agricultural practices in vegetable cultivation among the farmers and to provide them with undertaking opportunities. The activities of the Vegfed may be upscaled to provide forward-backward linkages. The federation may work in close coordination with NABARD and banks to enhance flow of credit to the sectors. SHGs, JLGs, Farmers' Clubs, etc. may be promoted under the aegis of the Federation to bring about access of small and marginal farmers to banks and markets.
- ii. Corporate sector may be encouraged to have direct link with farmers through banks, PACS/LAMPS/Veg Fed, etc. to smoothen the supply chain and improve Farm Gate prices.
- iii. The State Government may take steps to popularise the advantages under the National Horticulture Mission and district level Task Forces may be constituted to review the progress.
- iv. A special drive to ground the Agriculture Export Zone and to identify entrepreneurs may be launched under the initiative of the Government of Jharkhand.

2.8.6 The Group has observed that the State has immense potential for increasing the agricultural productivity as also the various activities allied to agriculture, as detailed above. It, therefore, suggests that each bank in the State may have core competence at least in any one of the activities relating to agriculture. This will ensure automatic upheaval of agriculture and allied activities productivity.

2.8.7 Jharkhand has the capacity to generate bio-fuels in massive quantities. Curcas (*Jatropha curcas*) is a plant introduced from Africa, which already grows wild in India. The plant produces large quantities of seeds, which contain up to 35 per cent oil that is a substitute for No.2 diesel and kerosene and can be blended in diesel motor fuels up to 15 per cent. The cost of production is competitive with other fuel oils. According to an estimate, cultivation of 1 million hectares of this crop could generate 0.75 million tons of fuel annually, while generating year-round employment for around 0.5 million people.

2.9 Credit flow to Small Scale Industries

2.9.1 Small Scale Industries (SSIs) constitute an important and crucial segment of the industrial sector. SSIs assume high priority on account of the vital role they play by value addition, employment generation, equitable distribution of national income, regional dispersal of industries, mobilisation of capital and entrepreneurial skills and contribution to export earnings. The State Government has implemented its “Industrial Policy 2001” for attracting investment including foreign investment in identified thrust areas with a focus upon the Balanced Regional Development as also for creation of essential infrastructure including that for power generation. The Industrial Policy 2001 aims at making Jharkhand one of the most preferred destinations for investment, both from within and outside the country and to ensure accelerated implementation of infrastructure related projects, increasing employment opportunities, improving productivity, ensuring homogeneous and balanced development of all geographical regions of the State with emphasis on development of small, tiny and cottage industries. Promotion and growth of the SSI sector has been a cardinal feature of the State’s Industrial Policy. The State’s Industrial Policy also specifies that the lead banks in their respective districts would prepare “industrial credit plans” to accelerate the flow of credit to the industrial sector with emphasis on SSI, tiny and cottage industries, for which separate targets would be fixed.

- 2.9.2** The outstanding advances to small scale industries sector by banks, including RRBs and co-operative banks, increased from Rs. 650 crore as on March 31, 2002 to Rs. 1350 crore as on March 31, 2007, showing an average year-on-year growth rate of 16.8 per cent during the last six years. However, outstanding advances to SSI sector as percentage to total bank credit in the State have shown a declining trend from 12.9 per cent as on March 31, 2002 to 8.8 per cent as on March 31, 2007.
- 2.9.3** The State of Jharkhand, being adorned with some of the richest deposits of mineral resources, has immense potential for establishment of small and medium enterprises. The State has also got potential for establishment of service enterprises. Looking to the potential of setting up of industries in the State, the Group was of the view that there is great scope for lending to the small and medium (manufacturing and service) enterprises sector by banks in the State. The Group also observed that though the average year-on-year growth rate in bank credit in the State has been 26 per cent, the year-on-year growth rate in lending to SSI sector has been around 17 per cent only. The Group, therefore, recommends that the banks may increase their lending to small and medium enterprises sector by adopting cluster approach.
- 2.9.4** The Group was of the opinion that the main constraint hampering the growth of small and medium enterprises in the State is lack of infrastructural facilities, including roads, and marketing opportunities. The Group also feels that lack of adequate supply of power is the major constraint for growth of SMEs in the State. The Group, therefore, suggests that the State Government may ensure provision of necessary infrastructure, especially continuous and uninterrupted power supply to the industrial estates, as also marketing avenues. In fact, the Public-Private Partnership model may be adopted for provision of necessary infrastructure in the State.

2.9.5 The Group was informed that the banks are not following the Reserve Bank guidelines on collateral/security norms for lending to SSI sector. As per the extant guidelines, banks should not insist for collateral/security from SSI borrowers for loans up to Rs. 5 lakh. The Group, therefore, suggests that all banks should strictly follow the guidelines stipulated by Reserve Bank of India in respect of collateral security/margins for granting loans to small and medium enterprises. They should also consider granting collateral free loans up to Rs. 25 lakh under the CGFTSI scheme of SIDBI.

2.10 Micro credit

2.10.1 Micro credit is defined as provision of credit and other financial services and products of very small amounts not exceeding Rs. 50,000 per borrower, either directly or indirectly through a SHG/JLG mechanism or to NBFC/MFI for on-lending up to Rs. 50,000 per borrower. Various policy initiatives have been taken by Reserve Bank, NABARD and Government of India to facilitate adequate institutional credit flow, particularly to the underprivileged class. In this backdrop, lending through Self Help Groups (SHGs) provided a viable alternative for expanding banks' outreach. The Self Help Groups (SHGs) help create human capital and social capital and thus have been successful in getting credit facilities from the banking system.

2.10.2 The pilot project for linking of Self-Help Groups (SHGs) with banks was started by NABARD in 1991-92. There are three models for lending to SHGs as under; however, no particular model was prescribed for microfinance and banks were given freedom to formulate their own model[s] or choose any conduit/intermediary for extending micro credit.

- Model I, lending directly to SHGs without intervention/facilitation of any NGO;
- Model II, lending directly to SHGs with facilitation by NGOs and other formal agencies; and
- Model III, lending through NGO as facilitator and financing agency.

2.10.3 The position of linkage of SHGs with banks under the SHG-bank linkage programme in the State for the last four years is given in the table below. The data shows that RRBs in the State have not been performing well as compared to public sector banks in the State.

(Amount in Rs. crore, No. in actual)

As on March 31 of the year	Savings Bank A/Cs opened						Linkage established					
	PSBs		RRBs		Total		PSBs		RRBs		Total	
	No.	Amt	No.	Amt	No.	Amt	No.	Amt	No.	Amt	No.	Amt
2004	6,118	3.6	2,093	2.0	8,211	5.6	3,901	14.4	1,434	4.5	5,335	18.9
2005	12,653	17.6	4,031	1.5	16,684	19.1	6,994	21.8	2,695	8.1	9,689	29.9
2006	8,055	12.7	6,729	2.4	14,784	15.1	6,885	31.2	3,230	11.6	10,115	42.9
2007	11,202	14.8	3,243	3.9	14,445	18.7	10,845	58.8	869	2.9	11,714	61.7

2.10.4 The Group observes that the linkage established by banks in the State has not been phenomenal, though efforts have also been made by the State Government in formation of groups in the tribal areas working in the activities relating to sericulture, handlooms and handicrafts. The Group, therefore, suggests that, SHGs being successful in other States in cutting transaction costs as also reaching the unreached, the State Government, NABARD and NGOs should take the lead in formation of SHGs and then the banks can provide credit linkage to them. The ultimate objective should be to transform the SHGs into self-sufficient micro-enterprises.

2.10.5 Capacity building of facilitators/correspondents: Training unemployed persons to prepare project profiles, product design, product promotion, pricing, marketing, accounting and acquainting them with bank procedures and formalities, etc. could provide them opportunities for gainful self employment and promote micro credit. This would also enlarge the number of potential bank borrowers. Some banks have set up Rural Development and Self Employment Training Institutes (RUDSETI) in certain States for imparting training exclusively to the rural unemployed. The Group was of the opinion that such measures evoke very good response from borrowers and facilitate enlargement of bank clientele. It, therefore, recommends that Allahabad Bank, State Bank of India and Bank of India may consider setting up similar institutes in at least three major cities of Jharkhand within a period of six

months. Allahabad Bank may also set up an Entrepreneurship Development Institute with the help of State Government.

2.11 Performance under Government sponsored poverty alleviation programmes

2.11.1 In order to reduce the incidence of poverty and create more employment opportunities, a number of credit-linked and non-credit linked poverty alleviation programmes/schemes have been launched from time to time by Government of India. The main thrust has been to provide financial assistance to the poor by way of capital subsidy and bank credit so that they can improve their economic conditions. Financial assistance is provided mainly to enable the poor to undertake productive endeavours/self employment projects.

2.11.2 The performance of banks in lending under centrally sponsored poverty alleviation programmes is given below:

(Amount in Rs. crore)

Year	SGSY						PMRY							
	Tgt	Sanc	Disb	Dem	Rec	%	Tgt*	Sanc		Disb		Dem	Rec	%
								No.	Amt	No.	Amt			
2001-02	140	93	80	75	19	25.1	9000	5001	45	2521	18	57	17	29.2
2002-03	129	24	17	-	-	-	9000	6091	54	6091	54	-	-	-
2003-04	93	92	85	93	43	45.8	9000	6196	55	4221	30	75	24	31.6
2004-05	114	101	67	148	59	39.8	9000	6206	56	5610	44	104	43	41.2
2005-06	114	97	89	130	47	36.0	9000	6272	53	5329	44	56	19	33.4
2006-07	114	72	67	271	100	37.1	9000	5853	51	4736	38	101	31	30.7

Source: SLBC, Jharkhand

Note: * - Physical target

2.11.3 Under Swarnajayanti Gram Swarozgar Yojana (SGSY), as against the financial target of Rs. 114 crore, the banks in Jharkhand had sanctioned Rs. 72 crore and disbursed an amount of Rs. 67 crore during the year 2006-07. Under Prime Minister's Rozgar Yojana (PMRY), as against the physical target of 9,000, the banks have sanctioned only 5,853 cases, out of which 4,736 cases have been disbursed assistance of Rs. 38 crore during the year 2006-07. It is also observed from the above data that the targets set under SGSY and PMRY have never been met over the last six years. While, the disbursement level against sanction under SGSY and PMRY schemes has been reasonably satisfactory, the recovery against demand during the years has been very poor.

2.11.4 The Group was of the view that achieving the physical and financial targets by the banks has been the primary focus area and the aspect of loan recovery has not been given adequate importance. The selection of beneficiaries and preparation of appropriate and implementable project reports are the corner stones for the successful implementation of any Government sponsored scheme. Block Level Bankers' Committee (BLBC) has to play a larger role in both these areas. The Group was informed that they were facing difficulties in identifying beneficiaries for loans under PMRY. The Group, therefore, suggests that BLBC should identify key activities for flow of credit under SGSY scheme to ensure quality financing and non-rejection of large number of applications. Since the selection of beneficiaries and preparation of appropriate and implementable project reports are the corner stones for the successful implementation of any GSS, all the agencies responsible for the same, i.e. borrowers, bankers and Government officials, should work in unison for achieving the objectives of these schemes and creating a congenial environment for promoting entrepreneurship. Government agencies such as District Rural Development Agency (DRDA), District Industries Centre (DIC), Women Development Corporation (WDC) and NABARD have to play a pro-active role in capacity building and training of the prospective entrepreneurs.

2.11.5 Banks should organize recovery camps periodically in close co-ordination with the district administration. The Government should extend all necessary co-operation and assistance in the recovery drives. The branch managers should actively follow up the borrowal accounts after disbursement of credit for ensuring successful implementation of the projects and timely recovery.

2.12 Financial Inclusion

2.12.1 The Reserve Bank has been making consistent efforts to innovate credit delivery, improve customer service and reach banking services to all segments of the population. The Reserve Bank's broad approach to financial inclusion aims at 'connecting people' with the banking system for a range of services including savings, credit, money transfer and insurance. Financial inclusion is increasingly seen as a viable business model and opportunity, not just a social cause. In consonance with the above belief, the Reserve Bank has introduced a number of measures for helping banks to attract the financially excluded population to the structured financial system. In addition to the measures such as introduction of 'no-frills' accounts, General Credit Card (GCC) scheme, launching of 100% financial inclusion drives, etc. taken earlier, banks have been advised to set up financial literacy-cum-counselling centres, and extensively use Information and Communication Technology (ICT) solutions for extending their outreach.

2.12.2 Ranchi district has been identified, by the SLBC convenor bank, for achieving 100% financial inclusion. Subsequently, three more districts (Pakur, Sahebganj and Gumla) have been identified for a special drive under financial inclusion to minorities. As on March 31, 2007, the banks have opened 2,26,421 no-frills accounts and also issued 2,755 GCC in the State. It is observed from the bank-wise figures that the performance of private sector banks, barring some new private sector banks, is nil towards opening of 'no-frills' accounts in the State. As regards issuing GCC to customers in the State, except eight public sector banks and one RRB, none have issued any GCC as on March 31, 2007 in the State.

2.12.3 The Terms of Reference for the Group, inter-alia, included recommending measures for enhancing greater outreach / penetration of the banking system in the State and identifying constraints, if any, in this regard that need to be addressed, as also initiating an action plan for two districts where innovative approaches, such as mobile banking services to be run by banks, IT based Financial Inclusion (including Financial Education), etc. should be introduced on pilot basis. These have been discussed in detail in Chapter 3.

2.13 Role of National Bank for Agriculture and Rural Development (NABARD)

2.13.1 In order to provide impetus to agriculture and rural sector, NABARD has taken various promotional initiatives and activities. NABARD has provided refinance support to the tune of Rs. 45.51 crore, Rs. 48.02 crore and Rs. 52.17 crore to the banks in the State during the years 2003-04, 2004-05 and 2005-06 respectively, for various activities like agriculture and allied activities, micro credit, rural housing, etc. Besides extending credit support to banks in the State, NABARD has taken a number of non-credit initiatives. These include identification of potential for development, preparation of bankable area development schemes, strengthening of rural financial institutions, capacity building of entrepreneurs, facilitating State Government for speedy implementation of rural infrastructure projects, providing promotional support for expansion of SHG-bank linkage programme, etc.

2.13.2 Village Development Plan: - NABARD has introduced the Village Development Plan and 36 villages have been identified to bring about holistic development through convergence of all the programmes and projects in the select villages. The government, banks and all other stake holders may participate in the plan implementation so that there is a ripple effect of all round development in adjoining villages.

2.13.3 Development of rural infrastructure under Rural Infrastructure Development

Fund (RIDF): NABARD has been supporting the State Government for improvement of rural infrastructure through financial assistance under RIDF scheme. As on November 30, 2007, 4459 rural infrastructure projects have been sanctioned to the State Government. Out of total sanctioned amount of Rs. 851.94 crore, loan amounting to Rs. 322.05 crore has been disbursed to the State Government, thus constituting 38 per cent of the total sanction. The projects sanctioned under RIDF include 2 major irrigation projects, 4 medium and 93 minor irrigation projects, 1100 micro lift points, 527 rural roads, 5 rural bridges, 149 forest development projects, one dairy (khatal) rehabilitation project, 10 rural drinking water supply projects and 2568 projects for construction of additional infrastructure in upgraded primary and middle schools. Out of total amount of Rs. 387.51 crore sanctioned for rural road and bridge projects, an amount of Rs. 201.76 crore has been disbursed as on March 31, 2007. Further, out of Rs. 340 crore sanctioned for various irrigation projects, Rs. 187.83 crore has been disbursed as on March 31, 2007.

2.13.4 The irrigation projects, on completion, would create additional irrigation potential of about 66,600 hectare. Road and bridge projects would provide connectivity to 2,340 villages. 48,400 hectare area would be brought under afforestation on completion of forest development projects. Completion of Dairy project will facilitate production of 75,000 litres per day of quality milk. The rural drinking water projects would benefit about 2 lakh rural people. The creation of additional infrastructure in 2,568 upgraded primary and middle schools in the State is expected to facilitate enrolment of additional 62,000 students. Besides, these projects would create 714.24 lakh man days of non-recurring employment and 22.93 lakh man days of recurring employment opportunities for the rural people.

2.13.5 In order to optimise the benefits from RIDF projects and enhance the credit absorption capacity in the rural and semi-urban areas, the Group recommends that the State Government may implement all the sanctioned projects under RIDF.

2.13.6 The Group also feels that, looking into the position of rural infrastructure in the State and the low CD ratio in rural and semi-urban areas, NABARD may consider increasing the normative allocation for Jharkhand for loans under RIDF. Though, the normative allocation for the State of Jharkhand under RIDF XIII has been fixed at Rs. 350 crore, the State Government has submitted project proposals to NABARD, for which Rs. 189.56 crore has been sanctioned. The State Government may take measures for submitting project proposals to NABARD for sanction.

2.13.7 Consequent upon the announcements made by the Union Finance Minister in his budget speeches for the years 2006-07 and 2007-08, separate windows under RIDF XII and XIII for rural roads component under Bharat Nirman have been set up with NABARD with a corpus of Rs. 4,000 crore each during 2006-07 and 2007-08. Under the scheme, the loans are granted to a special purpose vehicle, National Rural Roads Development Agency (NRRDA), by NABARD for rural roads in all States. The Group was of the opinion that the State Government may stress upon Government of India to give preference to Jharkhand for construction of rural roads.

2.13.8 NABARD and Government of India have created Watershed Development Fund (WDF), with the objective of creating necessary framework conditions to replicate and consolidate isolated successful initiatives and to spread the message of participatory watershed development. Ten districts have been identified by Central Steering Committee, Government of India, viz. - Deoghar, Dhanbad, East & West Singhbhum, Giridih, Godda, Gumla, Hazaribagh, Ranchi and Sahebganj. In order to create models for replication, NABARD is implementing two watershed projects at Ramgarh and Gola Blocks respectively, through two NGOs, viz. Holy Cross Social Service Centre and PRADAN on full grant basis through Watershed Development Fund of NABARD.

2.13.9 There are a number of schemes in a particular district which are being implemented on stand-alone basis. To bring about convergence of all schemes, NABARD has launched a Pilot Project for Integrated Development of Backward Blocks (PPID) in five identified blocks viz., Chainpur in Gumla District, Tonto in West Singhbhum District, Kathikund in Dumka District, Panki in Palamu District and Markochcho in Koderma District. The objective of Pilot project is to bring about integrated development of backward blocks through credit and convergence of developmental programmes of various agencies. NABARD is also implementing five watersheds (one each) in five districts of Jharkhand.

2.13.10 In order to replicate WADI (Wadi in Gujrati means small orchard covering 1 or 2 acres) Model of Tribal Development, NABARD has sanctioned one Wadi Development project in West Singhbhum district covering 1000 tribal families of Chakradharpur, Bandgao and Sonua blocks under Tribal Development Fund. The objective of the scheme is upliftment of resource poor Tribal communities through development of Orchards to improve the income generation capacity on sustainable basis. The total grant assistance sanctioned under the project is about Rs. 3.6 crore for developing 1000 acres of "wadi" at the rate of one acre for each family. It also includes capacity building of the wadi community, women and health development.

2.13.11 Farmers' Clubs: There are more than 800 Farmers' Clubs promoted in the State by NABARD. These Clubs play the important role of disseminating information on latest farm technologies, the ethics of repayment of bank loans, etc. Banks need to promote such Clubs in all their branches. Vananchal Gramin Bank has the distinction of being the only bank in the country to have farmers' clubs in all its 178 branches.

2.14 Small Industries Development Bank of India (SIDBI)

SIDBI, apart from banks and NABARD, is playing a key role in the area of financing small and medium enterprises sector. SIDBI, with three branches (Ranchi, Jamshedpur and Dhanbad) in Jharkhand, has disbursed a total amount of Rs. 215.17 crore to the SME sector till March 31, 2007. SIDBI has also provided loans to NGOs/MFIs under microfinance to Nav Bharat Jagriti Kendra, Hazaribagh and Network for Enterprise Enhancement & Development Support (NEEDS), Deogarh, which have benefited 2,452 beneficiaries. SIDBI, Jharkhand has also provided insurance cover to 1,392 units under the Credit Guarantee Fund Trust for Small Industries (CGFTSI) scheme.

2.15 Policy initiatives taken by State Government

2.15.1 To promote agriculture and rural prosperity, the State Government has initiated/proposed to initiate various policy initiatives, which include:

- (a) Proposed to invest in various areas, such as horticulture, floriculture, ornamental plants, medicinal and aromatic plants, enhancing soil testing facilities, water and soil conservation programme, etc.;
- (b) Schemes of Pradhan Mantri Gram Sadak Yojana and Mukhya Mantri Gram Sadak Yojana being implemented to connect all villages with all-weather roads;
- (c) 100 days of assured work is being provided to all unemployed under National Rural Employment Guarantee Programme (NREGP) in 20 districts;
- (d) Social Forestry Scheme has been implemented;
- (e) National Horticulture Mission being implemented through Jharkhand State Horticulture Mission in 4 clusters covering 10 districts for developing 18 crops; and
- (f) Jharkhand Renewable Energy Development Agency (JREDA) has been established, which provides subsidy for establishment for Solar energy driven Voltaic Power Plants, pumps, water heating equipment, gasifier, drier, cooker, street light, lantern, domestic light, air pump and bio-gas plants.

2.15.2 National Rural Employment Guarantee Scheme (NREGS)

NREGS was launched by Hon'ble Prime Minister, Shri Manmohan Singh in February 2006. NREGS guarantees a minimum of hundred days' employment at minimum wages every year to each rural household on demand (in the selected districts of its operation). It promises a job to every rural Indian in each household. NREGA aims to enhance the livelihood security of the rural households and can provide the basis of a permanent social security system and even act as an instrument for planned and equitable rural development. The provisions of the NREGA are to be implemented at the State level through the State Employment Guarantee Council, which will be the nodal agency to monitor and review the implementation of the Act at the state level. The panchayats at the districts, intermediaries and village levels shall be the principle authorities for planning and implementation of the schemes, under the Act. The State Government of Jharkhand has also launched the State level rural employment guarantee scheme.

2.16 Role of State Level Bankers' Committee (SLBC)

2.16.1 The Lead Bank scheme was introduced in 1969 to co-ordinate the activities of banks and other development agencies through various fora in order to achieve the overall objective of enhancing the flow of bank finance to priority sector and also to promote banks' role in overall development of the rural sector. A public sector bank having maximum presence in the district is designated as the Lead Bank for the district to ensure this co-ordination, preparation and launching of Annual Credit Plans, and monitoring thereof. The progress in implementation of ACP is reviewed in meetings of Block Level Bankers' Committee (BLBCs), District Consultative Committee (DCC) and SLBC.

2.16.2 The SLBC is an inter-institutional forum for coordination and joint implementation of development programmes by all financial institutions operating in the State. The Committee is presided over by the Chairmen or Executive Directors of convenor banks. As per extant Reserve Bank guidelines, the SLBC meetings are required to be held on quarterly basis.

2.16.3 Allahabad Bank is the SLBC convenor in Jharkhand. The Group was informed that the SLBC meetings are generally held regularly on a quarterly basis, except on some occasions. It was also gathered that the meetings were invariably presided by the Chairman or the Executive Director of Allahabad Bank and were attended by senior officials from other banks and Government officials in the State. It was learnt that the SLBC office of Allahabad Bank was not adequately staffed (only two officers) in order to perform all its functions in an efficient manner. The Group, therefore, recommends that, in view of SLBC being the most important and apex level forum for discussion of the implementation of development programmes in the State, the SLBC meetings may be held regularly on quarterly basis, without fail. The Group also suggests that Allahabad Bank, the SLBC convenor bank in Jharkhand, may be adequately staffed to undertake extensive work called for in the State.

2.16.4 The Group suggests that, in order to have a thorough check on the working of the banks' branches, Zonal Managers must visit all their branches in the State within a couple of months and come out with plans to plug deficiencies, enhance financial inclusion and step up credit substantially. CMDs/EDs of all banks should also visit Jharkhand during the next couple of months, take stock of the business in the region and prepare action plans for their respective banks for playing a more effective role in the development of the state in the light of the recommendations made in this report. An Action Taken Report should be submitted by the CMDs of banks to the Reserve Bank within three months.

2.17 Payment and Settlement System in the State

The payment and settlement system in Jharkhand comprises of 20 computerized Clearing Houses, managed by State Bank of India, at 19 district headquarters and one town (Chirkunda). The return clearing is being conducted on the same day in all Clearing Houses, except Chirkunda and Seraikela. The clearing operations in Ranchi and Jamshedpur are handled through mechanized processing by Mechanized Ink Character Recognition (MICR) cheque processing system. The facility of electronic mode of payments, such as Electronic Clearing Service (ECS),

Electronic Fund Transfer (EFT), etc. has not been in much use except a few centres in the State. The ECS (Debit and Credit) clearing has been introduced in three district headquarters, i.e. Ranchi, Jamshedpur and Dhanbad. However, the EFT scheme has so far not been introduced in the State. There are 192 Real Time Gross Settlement (RTGS) branches, spread in all the 24 districts of the State. The payment and settlement system in the State has been discussed in detail in Chapter 5, as one of the Terms of Reference of the Group is to review the payment and settlement systems in the State and suggest measures towards their improvement.

CHAPTER – 3

MEASURES TO ENHANCE GREATER OUTREACH / PENETRATION OF THE BANKING SYSTEM IN JHARKHAND

- 3.1** Financial Inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups who tend to be excluded from the formal banking channel. Despite widespread expansion of the banking sector during the last over three decades, a substantial proportion of the households, especially the underprivileged sections of the society in rural areas, is at present outside the coverage of the formal banking system. The reasons for financial exclusion may vary from country to country and hence the strategy could also vary but all out efforts need to be made as financial inclusion can truly lift the financial condition and standards of life of the poor and the disadvantaged. The Reserve Bank's broad approach to financial inclusion aims at 'connecting people' with the banking system not just through credit dispensation but a range of services including savings, access to payment systems and insurance, and above all, portray financial inclusion as a viable business model and opportunity. In consonance with the above approach, the Reserve Bank has been making consistent efforts to innovate credit delivery, improve customer service and reach banking services to all segments of the population. Financial inclusion is increasingly seen as a viable business model and opportunity, not just a social cause. In consonance with the above belief, the Reserve Bank has introduced a number of measures for helping banks to attract the financially excluded population to the structured financial system.

3.2 Recent initiatives by the Reserve Bank of India

The Reserve Bank has undertaken a number of measures for attracting the financially excluded population into the structured financial system and enable banks for extending their outreach. These include:

- (i) **No-Frills Accounts:** Banks were advised to make available a basic banking 'no-frills' account with low or nil minimum balances as well as charges, to expand the outreach of such accounts to vast sections of the population.
- (ii) **General Purpose Credit Cards:** With a view to providing credit card like facilities in the rural areas, with limited Point-of-Sale (POS) and limited ATM facilities, all scheduled commercial banks, including RRBs, were advised in December 2005 to introduce a General Credit Card (GCC) Scheme for issuing GCC to their constituents in rural and semi-urban areas without any insistence on security and end-use of the credit, based on the assessment of income and cash flow of the household similar to that prevailing under normal credit card.
- (iii) **Pilot Project for 100 per cent Financial Inclusion:** The convenor banks of the State Level/Union Territory Level Bankers' Committees (SLBC/UTLBC) in all States/Union Territories were advised on April 28, 2006 to identify at least one suitable district in each State/Union Territory for achieving 100 per cent financial inclusion by providing a "no-frills" account and issue of General Credit Card (GCC). They were also advised that on the basis of experience gained, the scope for providing 100 per cent financial inclusion may be extended to cover other areas/districts. The SLBCs/UTLBCs were further advised to allocate villages to the various banks operating in the State for taking the responsibility for ensuring 100 per cent financial inclusion and also to monitor financial inclusion in the meetings of the SLBC/UTLBC from September 2006 onwards.

- (iv) **Relaxation of KYC procedures:** In order to ensure that persons belonging to low income group, both in urban and rural areas, do not encounter difficulties in opening bank accounts, the know your customer (KYC) procedure for opening accounts has been simplified for those accounts with balances not exceeding Rs. 50,000 and credits thereto not exceeding Rs. 1,00,000 in a year. The simplified procedure allows introduction by a customer on whom full KYC drill has been followed.
- (v) **Credit Counselling - Setting up of Centres on Pilot Basis:** The State Level Bankers' Committee convenor banks were advised to set up a financial literacy-cum-counselling centre in any one district on a pilot basis and extend it to all other districts in due course, based on the experience gained. Several banks have since taken initiatives in opening credit counselling centres in the country.
- (vi) **Use of intermediaries as agents:** In January 2006, banks were permitted to utilize the services of non-governmental organizations/Self Help Groups (NGOs/SHGs), micro-finance institutions (other than regular NBFCs) and other civil society organisations as intermediaries in providing financial and banking services through the use of business facilitator (BF) and business correspondent (BC) models. The BC model allows banks to do 'cash-in/ cash-out' transactions at a location much closer to the rural population.
- (vii) **Use of Information and Communication Technology (ICT) solutions:** ICT offers a solution to the challenge of financial inclusion by enabling the provision of affordable financial services at the village level. The Reserve Bank has been encouraging use of ICT solutions by banks for enhancing their outreach with the help of their Business Correspondents (BCs). The BCs carry hand held devices, which are essentially smart card readers. Mobile phones have also been developed to serve as card readers. Banks have been urged to scale up IT initiatives for financial inclusion speedily while ensuring that solutions are highly secure, amenable to audit, and to follow widely-accepted open standards to ensure eventual inter-operability among the different systems.

3.3 Banking outreach in Jharkhand

3.3.1 The State had a network of 1661 bank branches, covered by 22 public sector banks with 1,123 branches, 8 private sector banks with 36 branches, two Regional Rural Banks with 388 branches, eight District Central Co-operative Banks (DCCBs) with 112 branches, and two primary urban co-operative banks with two branches, as on March 31, 2007. The population group-wise distribution of these branches indicated that the rural and semi-urban branches accounted for 62 per cent and 18.2 per cent, respectively, of the total number of branches in the State, as against the all-India average of 34 per cent and 24.1 per cent respectively.

3.3.2 Average Population Per Bank Office (APPBO): The APPBO of the State was 17,418 as on March 31, 2007 as compared to all-India level of 16,000. The data on district-wise APPBO shows a very dismal picture as there are more than 12 districts (Gumla, Lohardaga, Dhanbad, Pakur, Sahebganj, Godda, Giridih, Koderma, Hazaribagh, Chatra, Palamu and Garhwa) in the State (Figure 2.3), which have APPBO more than the State average. The APPBO of the districts ranges from 12,241 in Purbi Singhbhum district to 26,550 in Garhwa district. This greatly indicates that there are various under-banked areas in the State. The Working Group notes that poor access to the banking facilities due to higher APPBO may not achieve the overall objective of financial inclusion as also hamper the implementation of government schemes like NREG Scheme. The NREG scheme provides for wage payment to the beneficiaries essentially through banking channel. The State Government expects that there would be more than 27.5 lakh NREG beneficiaries in the State and wage payment to the tune of Rs. 3,500 crore had to be paid every year. Further, more than 2 lakh old age pensioners are facing difficulties in drawing pension in time.

3.3.3 In order to enhance the banking outreach in the State, the Group recommends that the commercial banks, including RRBs, may consider opening 350 branches in those areas of the State, which are under-banked and especially in the above-mentioned 12 districts having very high APPBO, over a period of two years. The State Level Bankers' Committee may decide on the modalities for allocation of the number of branches to be opened, to the various banks operating in the State. The banks may apply for branch licence for opening of branches in the State to the Reserve Bank of India on a priority basis.

3.3.4 The Group also observed that the State had 32,000 villages with 4,562 village panchayats. Each village panchayat in the State has an average population of 5,500 to 6,000. The State Government is in the process of constructing new multi-purpose Panchayat Bhawans in the State. The State Government has also shown its willingness to provide space, without any rent for premises for one year, in the Bhawans for opening of bank branches, till the time they find a suitable place for setting up the branch. The State Government has also assured for placing of deposits to the tune of at least Rs. 10-15 lakh with the newly opened branches, *ab initio*, to ensure the viability of these branches. Under the National Rural Employment Guarantee Scheme, there are 27.5 lakh job card holders, which have to be guaranteed a minimum of hundred days' employment at minimum wages every year, to enhance the livelihood security of the rural households. The funds under NREG scheme would be directly routed electronically to these branches.

3.3.5 Under the NREG Scheme, the wages need to be credited to the beneficiaries accounts only. As per the estimates, Rs. 3,500 crore per annum would be provided by the Government of India for crediting NREG beneficiaries accounts in the State. With a banking network of 1,661 branches, the Group was of the opinion that it would not be possible for the State Government to pass on the benefits of the Scheme to the beneficiaries without the banks' enhancing their banking outreach. The Group, therefore, feels that to bring every adult population of the State within the reach of formal financial system, the banks need to strive to provide banking facilities in each Panchayat in the long run. The banks should leverage the

opportunity being provided by the State Government. However, the best option in the short run would be to encourage branch-less banking extensively in the State.

3.3.6 The Working Group also suggests that, pending grant of branch licences by the Reserve Bank for opening of new branches in the State, the banks may consider introducing mobile vans on pilot basis, immediately, in the under-banked areas, which are relatively safer areas of the State, as an immediate step, for overcoming the problem of access of banking facilities in such areas. The mobile vans could go to different locations on different days of the week and come back to headquarters by weekend. This service could be started in the districts in Santhal Parganas, i.e. Dumka, Jamtara and Godda districts, immediately. This would greatly help the NREG beneficiaries to get their wages credited directly in their accounts. The banks pointed out that there were security concerns in introduction of mobile vans. Further, the condition of roads in the rural areas were not suitable for the use of Mobile Vans. The banks were also of the opinion that operation of Mobile Vans would require adequate security, which should be provided free of cost by the State Government, to enable them to run the service on viable basis. The Group, therefore, recommends that the State Government may provide security arrangement free of cost, if possible, for introduction of mobile vans in the above-mentioned districts to enable the State to move towards the way to achievement of 100 per cent financial inclusion. The Group also suggests that the issue of providing adequate security should be taken up by banks with the State authorities immediately. The Group also recommends that the cash retention limit of the mobile vans should be around Rs. 5.00 lakh.

3.3.7 The members raised the apprehension that the cash retention limit in the Post Offices was very low and was guided by an Act of 1932. Interaction with the officials from Post Office revealed that no such problem has been encountered so far. However, in the event of transactions exceeding the cash retention limit of the concerned post office, the superintendent of post offices (Controlling head of post offices in a division comprising of 2-3 districts) is competent and has sufficient powers to raise the limit as also reinforce the cash supply by sending cash vans to such post offices.

3.3.8 The major hurdle for opening of new branches in the State was considered to be the acute shortage of staff. The problem was more acute in RRBs as the issue of recruitment of staff rests with the concerned sponsor bank. The Group was informed that the decision to recruit staff and other related micro management has been left to the discretion of the respective Boards of banks. In view of the mandate to achieve 100 per cent financial inclusion in the State and looking to the problems encountered by the branches in the State, the Group suggests that the management of the concerned banks should review immediately all such branches in the State which are inadequately staffed as also the future requirement of opening new branches in the State, and find a solution within six months for ensuring smooth functioning of such branches.

3.4 Financial Inclusion in Jharkhand

3.4.1 As on March 31, 2007, the banks have opened 2,26,421 no-frills accounts as also issued 2,755 General Credit Cards (GCC) in the State. It is observed from the bank-wise figures that the performance of private sector banks, barring some new private sector banks, is nil towards opening of 'no-frills' accounts in the State. As regards issuing GCC to customers in the State, all banks, except eight public sector banks and one RRB, have not issued any GCC as on March 31, 2007 in the State. Ranchi district has been identified, by the SLBC convenor bank, for achieving 100 per cent financial inclusion. Subsequently, three more districts (Pakur, Sahebganj and Gumla) have been identified for a special drive under financial inclusion to minorities.

3.4.2 Financial Exclusion: There are a variety of reasons for financial exclusion. In remote, hilly and sparsely populated areas with poor infrastructure, physical access itself acts as a deterrent. From the demand side, lack of awareness, low income/assets, social exclusion, and illiteracy act as barriers. From the supply side, distance from branch, branch timings, cumbersome documentation and procedures, unsuitable products, language, staff attitudes are common reasons for exclusion. All these result in higher transaction cost apart from procedure hassles. On the other hand, the ease of availability of informal credit sources makes these popular, even if costlier. The requirement of independent documentary proof of identity and address can be a very important barrier in having a bank account, especially for migrants and slum dwellers.

3.4.3 One of the benchmarks employed to assess the degree of reach of financial services to the population of the country, is the quantum of deposit accounts (current and savings) held as a ratio to the adult population. The adult population (above nineteen years of age) of the State is 1,37,37,485 as per 2001 census (ignoring the incremental growth of population thereafter) and the number of current/savings bank accounts is 60,00,348, thus leaving a gap of adult population of 77,37,137 who are financially excluded. The ratio of deposit accounts (data available as on March 31, 2004) per 100 of adult population in the State was only 44 per cent as against the national average of 59 per cent.

3.4.4 The Group agreed that poor penetration of banks in the rural areas has resulted in the rural populace being in the firm grip of the moneylenders. It is, therefore, imperative that concerted efforts are made by the banks towards financial inclusion of the large section of the people, who are deprived of the basic banking facility. The banks should adopt broad approach to financial inclusion aimed at 'connecting people' with the banking system.

- 3.4.5** The Group, however, was of the opinion that the best benchmark to assess the degree of reach of financial services to the population of the State would be the quantum of deposit accounts (current and savings) held as a ratio to the number of households in the State. As per 2001 census, the State had 47,99,081 households, out of which 37,36,524 households and 10,62,557 households are in rural and urban areas, respectively. Considering that there are three adults in a household in the State, 20,00,115 households have been linked with deposit accounts, thus leaving a gap of 27,98,966 households in the State, who are financially excluded.
- 3.4.6** With a view to achieving 100 per cent financial inclusion in the State, the Group suggests that all banks, including private sector banks, in the State may make all out efforts in opening of bank accounts of all households, by issuance of GCC cards, opening of no-frills accounts and KCC cards, within a period of three years. The Lead Banks in the State may play a coordinating role in all efforts being initiated by the banks. The SLBC Convenor bank may prepare a calibrated plan in this regard. The progress in this regard, as also any problems being encountered in achievement of the target, may be discussed in all SLBC meetings.
- 3.4.7** There is a tremendous scope for financial coverage if we have to improve the standards of life of those deprived people. Banks need to redesign their business strategies to incorporate specific plans to promote financial inclusion of low-income group treating it both a business opportunity as well as a corporate social responsibility. Since large sections of low-income group transactions are related to deposits and withdrawals, with a view to containing transaction costs, 'simple to use' cash dispensing and collecting machines akin to ATMs, with operating instructions and commands in vernacular language would greatly facilitate financial inclusion of the rural and semi-urban populace. This will also contain transaction costs. In this regard, it is worthwhile to emulate the example of 'e-Choupal' project brought forth through private sector initiative.

3.4.8 The Group observed that the take off under GCC scheme and opening of no-frills account in the State was very poor, especially in Godda district. The Group, therefore, recommends that the banks should step up opening of no-frills accounts as also issuing of GCCs in the rural and semi-urban areas. The Group observed that though the SLBC had identified Ranchi district for achieving 100 per cent financial inclusion, the same had not been achieved even after one and a half years of time. The Group, therefore, recommends that 100 per cent financial inclusion should be achieved in three districts, i.e. Ranchi, Jamtara and Hazaribagh within a period of six months. The SLBC convenor bank may consider allocating targets for issuing of GCC, KCC and opening of no-frills accounts, to all banks immediately.

3.5 Measures for achieving financial inclusion/extending banks' outreach

3.5.1 Information and Communication Technology (ICT) based financial services: -

The Working Group feels that, in view of distantly located bank branches in the State and to reduce the transaction costs, Jharkhand needs a variety of technology based services to make the banking sector dynamic and within the affordable reach of the common people in remote areas of the State. The use of IT solutions for providing banking facilities at doorstep holds the potential for scalability of the financial inclusion initiatives. It is now well recognized that provision of banking and financial services at the habitat level in villages, at affordable cost, with low entry levels and operated by local persons would substantially enhance financial inclusion.

3.5.2 The prohibitive costs of branch banking which made small ticket transactions unviable have now been solved by the developments in information technology. In this background, the Reserve Bank has been encouraging use of ICT solutions by banks for enhancing their outreach in the remote corners of the country with the help of their Business Correspondents (BCs). As announced in the Reserve Bank's Annual Policy Statement for the year 2007-08, banks have been urged to scale up IT initiatives for financial inclusion speedily while ensuring that solutions are highly

secure, amenable to audit, and to follow widely-accepted open standards to ensure eventual inter-operability among the different systems.

3.5.3 There are various projects kicked off in the various parts of the country using hand-held devices and connecting to the host computers through GPRS/GSM/CDMA/Land line networks. The devices also come in several forms like simputers/Personal Digital Assistants, programmed mobiles, etc. The rural biometric ATMs introduced by banks have been found to be very popular among rural masses. Some major banks are introducing low cost rural ATMs including biometric/voice inter-active mobile ATMs, for cash dispensing and other services in rural areas. The identification of the customers is done through bio-metric and other methods.

3.5.4 Technology for low cost financial inclusion

The features of the two main models presently being utilized by some banks in the country are:

(i) Hand held device with a contact card: It is a compact & portable device and easy to carry in field and ideal for a rural/semi-urban scenario. The device can work uninterruptedly in a completely offline environment with eight hours of battery life. The device can function on the field through any means of connectivity that is available in the country and also has backward compatibility to support magnetic-strip cards. There is an embedded scanner in the device enabling biometric validation of a customer in the field in offline mode. The device supports various financial/non-financial transactions, such as deposit, withdrawal, account transfer, standing instruction, new product request and alerts in offline mode, in the field. It also provides for agent/entity wise detailed transaction reports for all transactions. The device supports for pushing backend updates to smart card such as, interest rates, charge and blocking of cards. It also provides for settlement among multiple banks using the same infrastructure. The off-line hand held equipment is provided to MFIs, NBFCs, RRBs and cooperative banks, data from which would be transferred through core banking solution platform to the concerned banks. The borrowers will be given a biometric card, which provides a unique identification for

the banks' customers in the form of a biometric thumbprint image. This obviates the need for online verification through a huge database and also does not require any PINs/passwords to be issued.

(ii) Near Field Communications (NFC) Mobile with contact-less card: This system provides for a new generation NFC mobile phones with contact-less RFID smart cards (similar to cards embedded in new US passports, with high end security) and integrated fingerprint matching. The smart cards have an extensive ID profile, multiple accounts, last known balance and a history of recent transactions. The operators have portable equipments, which are battery operated and can last for 10 days without electricity. The system provides for finger print matching for all debits to the accounts. The transactions relating to deposit and withdrawals can be carried out in offline mode, based on risk parameters and counters embedded in cards and devices. The offline transactions are to be sent back to the backend server as a batch, thus the system works in areas without connectivity also. The customers' accounts are centrally held with the banks' central server. The business correspondents keep working capital in an aggregator account in the bank's core banking branch. The local operator (Customer Service Point) deposits some working capital into the BC's account in bank, and also keeps a reasonable amount of available cash at the outlet. The deposit and withdrawal transactions are instantly settled between the customer account and BC's account. Full traceability and audit trail of the transactions are maintained.

3.5.5 There are now several vendors in the market incorporating the above features, with both contact and contact-less cards. Models are also being developed to incorporate reading of both the type of cards on a single reading device. Some banks in the country have already initiated the above types of models for IT enabled financial inclusion, which are detailed below.

(i) State Bank of India initiative: SBI has launched a project in December 2006 on making available banking facility to the presently excluded sections of population of Aizwal, Pithoragarh and Medak in the States of Mizoram, Uttarakhand and Andhra Pradesh, respectively. SBI has appointed a NGO as its

business correspondent. Each village is served through a SBI-Tiny Customer Service Point (CSP), which is a BC in the village and delivers banking services to the customers. The prospective customers approach CSP for enrollment and the CSP enters the data in a personal computer, captures one photo and two fingerprints of customer. The collected forms are then sent to nearest SBI branch for approval. The enrollment data is sent to card production centre. The printed cards are then dispatched to CSP, who hands over to the customer after verifying the fingerprint and photo. The registered customers are issued a card with 10 years validity. The cards are built on new generation NFC mobile phone technology and store extensive identity profile including bio-metric finger print data, multiple accounts, last known balance and history of recent transactions. The BC carries portable equipment – NFC mobile, fingerprint unit and transactions printer – which operate on portable battery. The customer's identification is authenticated by matching the fingerprint on the card with the customer's fingerprint. Once authenticated, the chip embedded in the card gets charged, and when brought close to the mobile phone, message templates for deposit, withdrawal and balance enquiry are generated in the mobile. The BC feeds in the relevant transaction and sends the message to the backend server, which authenticates the message, processes the transaction and sends an update back to the mobile, which in turn writes back to the card. When the card is brought close to the printer, transaction report is printed in triplicate. The BC keeps working capital in an aggregator account in an SBI core banking branch and carries cash physically for making payments to the customer. The available services include savings product (SBI-Tiny no-frills pre-paid account), micro credit, micro insurance, cash withdrawal and can be used for routing government payments.

(ii) Government of Andhra Pradesh Project: The Government of Andhra Pradesh has launched a pilot project on routing social security payments to widows, handicapped, old and eligible weavers through the use of smart cards and business correspondents. The pilot involved six banks, viz. State Bank of India, Union Bank of India, Axis Bank, State Bank of Hyderabad, Andhra Bank and Andhra Pradesh Gramin Vikas Bank, in the six mandals of Warrangal district of Andhra Pradesh. The project has been later enlarged to include payments under NREG scheme. The pilot project is now completed and is being fully scaled up to cover the entire State by August 2008 and is expected to cover 5 million beneficiaries. The technology adopted for the project is similar to the one adopted by SBI-Tiny project discussed above. The cards store six fingerprints as against two fingerprints in the case of SBI-Tiny project. The transaction model is also similar except that the AP Government issues the beneficiary data to the banks, who enroll them for issue of smart cards. The AP Government also transfers the money to banks for making payments.

3.5.6 The project is the first experiment in routing government payments through use of intermediaries and smart card technology. Its successful launch reflects the potential of the model in routing other government payments through use of such technology. The decision of the AP Government to meet a substantial portion of the card and device costs has helped nurture the pilot project. Other State Governments like Himachal Pradesh and Uttarakhand are showing interest in routing their payments through IT based banking outreach models.

3.5.7 State Bank of India has also initiated IT based financial inclusion measures in Dhanbad and Hazaribagh districts of Jharkhand. The same model has been adopted as discussed above, except that the Post Offices have been designated as Customer Sales Point (CSP). Digital Photograph and finger prints of three fingers of each hand are obtained and fed into a computer system which is transmitted to Front End Server at Mumbai which generates Customer Information Form (CIF) and transmits it to Dedicated Accounts Unit (DAU) processing. Data Cards are issued and are sent to the customers through Post Offices after proper

identification of the customer. Original Application is sent to the respective link branch for future reference. Once the customer receives the Data Card, he approaches the CSP for either depositing or withdrawing fund from their accounts. Accounts are to be opened in single name only, however “Nomination” facility is available. Maximum withdrawal per day is restricted to Rs. 10,000 and maximum deposit is restricted to Rs. 50,000 only. Once the threshold limit of Rs. 50,000 is crossed, the account is converted into a regular account and delinked with the CSP and transferred to Link Branch for a regular account with full compliance of KYC norms. In addition to periodic uploads throughout the day, CSP uploads all transactions of the day at 5.00 pm daily to DAU. All transactions after 5.00 pm are offline and gets accounted on the next day’s transactions.

3.5.8 The Group was of the view that ICT based financial inclusion initiatives could improve the coverage of banks in rural and semi-urban areas comprehensively by adopting technology and intermediaries. While the initial cost of acquiring small ticket financial inclusion accounts is seen to be high in view of their low returns, the cost of transaction is very low when compared to the traditional banking methods. The banks would also need to train the beneficiaries and CSPs. Capacity Building of the Business Correspondents is the biggest challenge in financial inclusion. By engaging government machinery and routing government payments, the banks can generate additional resources to fund the exercise.

3.5.9 The Group was of the opinion that given the huge demand for banking services in the rural areas, ‘branchless banking’ could be the ideal solution. The Group, therefore, recommends that the Reserve Bank of India, Ranchi, along with senior officials of State Government, bankers and SLBC Convenor bank, may arrange for a visit to Andhra Pradesh to study the project adopted by State Government of Andhra Pradesh. The officials should be of relatively higher management to enable them to take immediate decision in the matter. The Group also recommends that all the banks in Jharkhand should adopt any one of the above-mentioned information technology-based financial inclusion models to achieve the overall objective of financial inclusion by cutting the transaction costs. The State

Government may also consider bearing the major portion of the cost of smart cards and other devices used in the project.

3.5.10 The main concern of the State Government was to credit wages payment to the 27.5 lakh NREG beneficiaries and 2 lakh pensioners through bank accounts so that there are no leakages in the system. The Group was of the opinion that adoption of the above IT based technology for improving the banking outreach would be the perfect solution for this. In view of inadequacy of electricity in the rural and semi-urban areas of the State, the banks may explore the possibility of using solar energy based hand held devices for biometric cards.

3.6 Financial education/literacy

3.6.1 Financial education is broadly defined as providing the familiarity with and understanding of financial market products, especially, rewards and risks, in order to make informed choices. Financial education thus primarily relates to personal financial education to enable individuals to take effective actions to improve overall well-being and avoid distress in matters that are financial.

3.6.2 It is universally considered that one of the main reasons for a large percentage of country's population remaining outside the formal financial system is the lack of adequate financial education/literacy among the masses. Thus, financial literacy assumes greater importance, in the present context, to enhance the ability of the masses to effectively use the available financial resources to improve their well-being. It is, therefore, becoming increasingly apparent that addressing financial exclusion will require a holistic approach on the part of banks in creating awareness about financial products, education, and advice on money management, debt counseling, savings and affordable credit.

3.6.3 Recognising that lack of awareness is a major factor for financial exclusion and that the need for financial education is even greater in India considering the low levels of literacy and large section of population being outside the formal financial set-up, Reserve Bank has taken a number of measures for increasing financial literacy and credit counseling. Reserve Bank has undertaken a project titled “Project Financial Literacy” to disseminate information regarding the central bank and general banking concepts to various target groups, including school and college going children, women, rural and urban poor, defence personnel and senior citizens. A multilingual website in 13 Indian languages on all matters concerning banking and the common person has been launched by the Reserve Bank on June 18, 2007. Comic type books introducing banking to schoolchildren have already been put on the website. Similar books are being prepared for different target groups such as rural households, urban poor, defence personnel, women and small entrepreneurs. Financial literacy programs are being launched in each State with the active involvement of the State Government and the SLBC. Each SLBC convenor has been asked to set up a financial literacy-cum-credit counselling centre in one district as a pilot and extend it to all other districts in due course.

3.6.4 The Group felt that the absence of proper financial counseling, coupled with inadequate financial literacy levels has often resulted in pushing consumers towards costlier options and eventual debt traps, thus leading to an urgent need for the same in all the areas in the State. The Group was informed that the Reserve Bank had advised the SLBC Convenor Banks of all States/Union Territories in May 2007 to set up a financial literacy-cum-counselling centre in any one district on a pilot basis and extend it to all other districts in due course, based on the experience gained. The Group observed that the SLBC Convenor bank in the State had not yet set up any such centres so far. The Group, therefore, recommends that the SLBC convenor bank shall immediately set up a financial literacy-cum-counselling centre in two districts, preferably in Jamtara and Khunti districts, initially and then in all the districts of the State within a period of one year.

It also recommends that Bank of India may open financial literacy-cum-credit counselling center at Gumla within a period of three months on the lines of 'Abhaya' opened at Wardha in Maharashtra by them. The objectives of these centres would be to advise people on gaining access to the financial system including banks, creating awareness among the public about financial management, counseling people who are struggling to meet their repayment obligations and assist them resolve their problems of indebtedness, helping in rehabilitation of borrowers in distress, etc. The centres could even train farmers/women groups to enable them to start their own income generating activities to earn a reasonable livelihood.

3.6.5 The Group also recommends that the State Government, Reserve Bank, Ranchi and the SLBC convenor bank may extensively launch financial literacy programmes in the State. This could be done by launching an awareness campaign through media, newspapers, road shows, street plays, etc. Reserve Bank, Ranchi Office should also attempt creating content / material for financial literacy drive with local flavour and culture. The SLBC convenor bank may take a lead with the help of other major public sector banks and State Government and conduct an awareness campaign of the various financial products and recovery by publishing in local newspapers, through media (television and radio) and also through audio-visuals during the major festivals in the State. The cost may be shared by all the banks depending on the proportion of their presence in the State.

3.6.6 Village Facilitation Centres

The Group recommends that there be a Banking Services Facilitation Centre at each village in the State. It's role would be to act as a link between the bank servicing the region and the residents of the village, promotion of banking services, resolving savings and credit needs of the residents of the village. The aim of such centre should be to achieve total financial inclusion. The State Government may institute an award for attainment of this goal. Village Panchayats may be groomed for this role. They can also act as business facilitators / correspondents for banks.

3.7 Effective Monitoring of Financial Inclusion Measures

- 3.7.1** Various steps have been taken / proposed in this report for achieving 100 per cent financial inclusion. The achievement in all innovative measures for financial inclusion needs to be monitored at regular intervals. The Group suggests that the banks should set up, at controlling office level, an efficient monitoring system to ensure implementation of strategies for financial inclusion. Senior officers from banks' Regional Office/ Zonal office or head office visiting the branches should record their special report on the achievement of financial inclusion and the performance reviews placed before the Boards of respective banks annually. The achievement level under all measures may be reported to Reserve Bank, Ranchi Office on a quarterly basis for efficient monitoring. Similarly, DCC and SLBC fora should also review the progress at regular intervals.
- 3.7.2** The Group observed that the guidelines issued by Reserve Bank of India relating to financial inclusion are not being followed by the banks in true spirit in the State. In order to augment and monitor the initiatives of 100 per cent financial inclusion in the State, the Group suggests that a special sub-committee of SLBC may be constituted in the State, with Executive Director of the SLBC Convenor Bank as the chairman and senior officials of banks in the State as members. The Officer-in-Charge, Reserve Bank of India, Ranchi may act as the facilitating factor.
- 3.7.3** The branch managers are the interface between the customers and the bank and their effectiveness would determine the efficiency of delivery system. In order to address the problem of last mile, the banks may consider introducing a reward system for achieving 100 per cent financial inclusion in the villages allocated to them. This system may induce the bank branch managers to prepare strategies within the policy measures for enhancing financial inclusion.

3.8 Relaxation of KYC Procedures

In order to ensure that persons belonging to low income group, both in urban and rural areas do not encounter difficulties in opening bank accounts, the "know your customer" (KYC) procedures for opening accounts have been simplified for those persons with balances not exceeding Rs. 50,000 and credits in the accounts not exceeding Rs. 1,00,000 in a year. The simplified procedure allows introduction by a customer on whom full KYC drill has been followed. However, if at any point of time, the balances in all his/her accounts with the bank exceeds Rs. 50,000 or total credit in the account exceeds Rs. one lakh, no further transactions would be permitted until the full KYC procedure is completed. The Group observed that the KYC guidelines need to be further simplified for opening of accounts in the rural areas of Jharkhand. To enable banks to open accounts of low-income people, especially beneficiaries under the Government sponsored schemes including NREG scheme, Reserve Bank may consider relaxing the KYC procedures for opening of bank accounts by introduction by the local administration/*panchayati raj* institutions instead of by a customer on whom full KYC drill has been followed.

3.9 Use of Business Facilitators / Business Correspondents

3.9.1 With a view to ensuring greater financial inclusion and increasing the outreach of the banking sector, the Reserve Bank had advised all scheduled commercial banks on January 25, 2006 to enable banks to use the services of intermediaries, such as, NGOs/Farmers' Clubs, cooperatives, community based organisations, IT enabled rural outlets of corporate entities, Post Offices, insurance agents, well functioning Panchayats, Village Knowledge Centres, Agri Clinics/ Agri Business Centers, Krishi Vigyan Kendras and KVIC/ KVIB units, as business facilitators for providing facilitation services. Such services may include (i) identification of borrowers and fitment of activities; (ii) collection and preliminary processing of loan applications including verification of primary information/data; (iii) creating awareness about savings and other products and education and advice on managing money and debt counselling; (iv) processing and submission of applications to banks; (v) promotion and nurturing Self Help Groups/ Joint Liability Groups; (vi) post-sanction monitoring; (vii) monitoring and handholding of Self Help

Groups/ Joint Liability Groups/ Credit Groups/ others; and (viii) follow-up for recovery.

- 3.9.2** Under the "Business Correspondent" Model, NGOs/ MFIs set up under Societies/ Trust Acts, Societies registered under Mutually Aided Cooperative Societies Acts or the Cooperative Societies Acts of States, section 25 companies, registered NBFCs not accepting public deposits and Post Offices may act as Business Correspondents. In addition to activities listed under the Business Facilitator Model, the scope of activities to be undertaken by the Business Correspondents would include (i) disbursal of small value credit; (ii) recovery of principal / collection of interest; (iii) collection of small value deposits; (iv) sale of micro insurance/ mutual fund products/ pension products/ other third party products; and (v) receipt and delivery of small value remittances/ other payment instruments. Approaching a large number of small borrowers spread over an extensive geographical area is always a cost intensive proposition. Routine functions, such as accepting and scrutinizing applications, appraisal, supervision and monitoring of loans, etc. are cost intensive. Considering the time, distance and cost for customers to reach a bank branch, especially in remote areas, the Group believes that banks can aggressively use the Business Facilitator model for increasing their outreach. Banks may also identify well respected local persons like school teachers, postman, primary health workers or retired officials.
- 3.9.3** Apart from the facilitation support, banks may institute suitable agents for providing assistance in financial functions on behalf of banks. The "Business Correspondents" would provide value added services, such as disbursal of small value credit, recovery of principal / collection of interest and sale of micro insurance/mutual fund products/ pension products.
- 3.9.4** The Group also recommends that the banks may have an arrangement with the Department of Posts in the State and institute them as business facilitator/business correspondent, as the reach of local post offices is vast with unique customer interaction and local knowledge.

3.10 Capacity Building

Apart from imparting financial education to the common people, some capacity building measures are also required for the banks' staff, SHGs, MFIs/NGOs for enhancing the geographical coverage of financial services. The Group is of the view that the financial products cannot reach the ultimate borrowers till the time the banks' staff are also trained and sensitized about the importance of the financial inclusion. The Group, therefore, recommends that the State Level Institutions, NABARD and Banks' training institutes may design and conduct a series of workshops for various levels of bank staff. They may also develop suitable training modules for the NGOs / MFIs.

3.11 Sensitisation of staff at the rural branches

The small and marginal farmers approaching the banks for loans are often apprehensive about the urbane nature of the bank personnel. This leads them to the clutches of the money lenders. The Agricultural Officers and Rural Development Officers in the rural branches can play an active role in this regard. It has been observed that mostly the staff posted at rural branches do not stay locally and therefore are unable to have intensive interaction with the farmers and bond with them. The rural officer of the bank should act as friend-philosopher and guide to the farmers. In this backdrop, proper sensitization of staff at the rural branches is a major issue that requires attention. The Group recommends that –

- i) The rural branches need to be adequately staffed to undertake extensive work in the pre-sanction and post-sanction stage;
- ii) The staff posted may be trained to develop a positive attitude;
- iii) The banks may devise a suitable incentive structure for rural posting including monetary benefits in such a way that rural posting is not considered inferior to other postings. The incentives could have a mix of performance based monetary incentives plus a tenure based posting after which the staff may be given preferential posting to the centre of their choice. An appropriate mix of incentives may be decided by each bank such that it is not rendered unfruitful;

- iv) Suitable training modules should be developed for agricultural loans for rural staff;
- v) NABARD should undertake a training programme for the sensitization of branch managers of rural branches; and
- vi) The branch managers should also be encouraged to stay in the rural areas, near the branches.

CHAPTER – 4

INDUSTRIES IN JHARKHAND – STATUS AND PROSPECTS

4.1 Rapid Industrial development is the key to progress. It generates employment and increases the purchasing power of the individual, thereby giving a stimulus for demand of goods. Industrial production also increases the export potential and revenue of the State through sales tax and excise duties, etc.

4.2 Resources galore

4.2.1 The thrust area in Jharkhand State is for industries to maximise the utilization of natural resources. Forty per cent of the total minerals of the country are in this State. Table 4.1 below depicts the share of mineral reserves in Jharkhand vis-à-vis total reserves in the country.

Table 4. 1 – Share of Mineral Reserves

Sl. No.	Mineral	Reserves / M.T. India	Reserves/M.T. Jharkhand	Percentage share of India's reserves
1.	Coal	211,594	69,128	32.0
2.	Iron Ore	12,745	2,972	23.3
3.	Haematite	10,052	3,758	37.0
4.	Magnetite	3,408	5.00	0.01
5.	Limestone	75,678	511	0.7
6.	Copper Ore	441	112	25.0
7.	Bauxite	2,462	70	2.8
8.	Kainite	3	0.13	4.6
9.	Fire Clay	518	50	9.7
10.	Graphite	4.5	0.38	8.4
11.	Quartz & Silica	2,402	148	6.1
12.	Kaoline	1,042	46	4.4
13.	Dolomite	4,386	29	0.7
14.	Bentonite	365	0.80	0.2
15.	Talc Soap Stone	213	0.30	0.1
16.	Black Granite	----	(mn cu. Mtr) 46	.
17.	Coloured Granite	----	(mn cu. Mtr) 340	
18.	Coal Bed Methane	----	(mn cu. Mtr) 369	
19.	Chromite	88.4	0.33	0.4
20.	Mica	3.8	1.8	46.5
21.	China Clay	986	34.4	3.5
22.	Manganese Ore	177	2.3	1.3

Source – Jharkhand Development Report (XLRI)

4.2.2 It has been rightly argued in the Jharkhand Development Report that these natural resources alone would not make the State rich without continued value addition to the downstream process of making the commodity a finished product. The two Steel plants under control of Tata Steel and Bokaro Steel are the critical links. There are downstream industries for making finished products - Almirahs, Filing Cabinets, Washing Machines and a vast range of metal processing industrial and consumable products. There is a need to harness these opportunities and leverage on the strengths of the State in terms of availability of raw materials.

4.2.3 In fact the thrust on value addition would transform the State from a commodity seller with low value addition to a product manufacturer with high value addition. It is heartening to note that net value added in the State increased by 110.1 per cent during the period 1998-99 to 2004-05 as against an all-India increase of 78.7 per cent (*Annual Survey of Industries 2004-05*).

4.3 Status of Industries and CD ratio

4.3.1 The number of industrial units in Jharkhand increased by 10.3 per cent during the period 1998-99 to 2004-05 which was much higher than the national average of 3.5 per cent (*Annual Survey of Industries 2004-05*). Fixed as well as invested capital, during the same period, has increased by 5.0 per cent and 4.9 per cent, respectively as against a rise of 31.2 per cent and 41.4 per cent, respectively, at the all-India level. The number of workers declined in the industrial sector of Jharkhand by 23.8 per cent as compared to an increase of 3.7 per cent at all-India level. This indicates that the industrial units have increasingly relied on new technologies to boost production.

4.3.2 There are 315 large and medium scale industrial units in the State. Small-scale industries, including tiny and artisans, numbered 67,581. Some of the major industries located in the State are given in the table below.

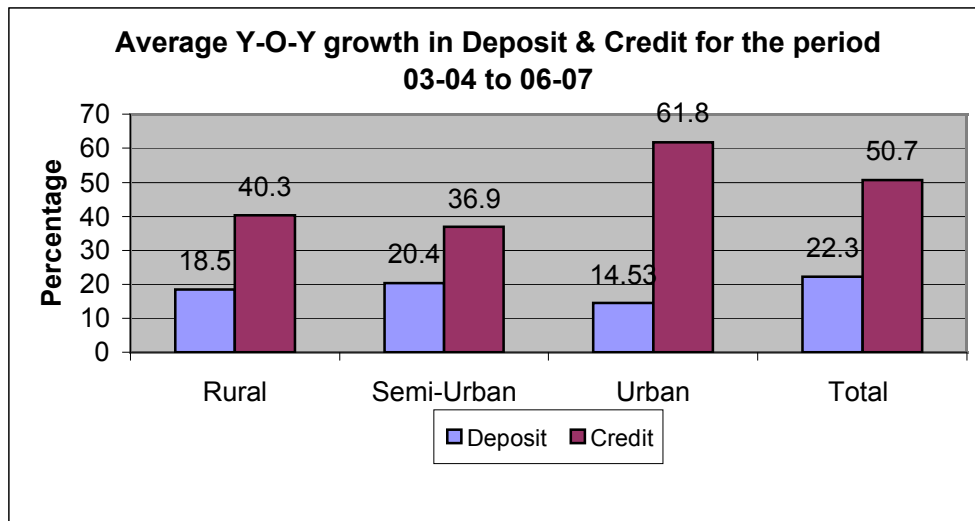
Table 4.2 – List of major industries in Jharkhand

Sr. No.	Name of Industries	Sr. No.	Name of Industries
1	Tata Steel	2	Bokaro Steel Plant
3	Tata Ryerson	4	Lafarge
5	Tata Motors	6	Coal India Ltd. & various subsidiaries
7	Hindustan Copper Ltd.	8	Timken
9	TCIL	10	Usha Beltron (Wires and wire ropes)
11	Uranium Corp. of India Ltd.	12	Tata Cummins
13	TAYO	14	Tata Steel Collieries
15	Bihar Sponge Iron Ltd.	16	Tata Power
17	TRF	18	INDAL
19	Heavy Engineering Corp.	20	BCCL
21	Usha Martin (Steel)	22	Sindri Fertilizer

Source : Jharkhand Development Report (XLRI)

4.3.3 Despite the presence of large number of industries, the CD ratio of the State as on March 31, 2007 continues to languish at 40.83 per cent. The average Y-O-Y percentage growth in the deposit and credit during the period 2003-04 to 2006-07 is given in the Figure 4.1 below. The average growth in the rate of credit has outpaced the growth in deposit during the period. The average growth rate of credit dispensed by the urban branches of banks during the period 2006-07, after reducing the amount of RIDF credit, stood at 57 per cent. As per the data made available by SLBC Jharkhand, the deposit of all the banks as on March 31, 2007 stood at Rs. 37,687 crore. If the banks have to achieve the CD ratio of 60 per cent in the State, there has to be additional credit flow to the tune of Rs. 7,226 crore, taking the deposit of the banks as on March 31, 2007 as the base. The proposed credit outlay under ACP 2007-08 is more than Rs. 10,600 crore. Thus, there is scope for raising the CD ratio and the State has the potential to surpass the national average in CD ratio, if only, the credit is targeted in sectors, which are either potential growth drivers like the Iron & Steel and other mineral based SME Sector or ancillary unit of some of the large industries present in the State. These sectors also offer opportunities to the banks for doubling their credit towards SME sector. SIDBI should also target these sectors for increasing the credit flow.

Figure 4.1



Source – Agenda papers of SLBC, Jharkhand.

The percentage has been rounded off to the nearest decimal.

- 4.3.4** The State Government has been sanctioned loans amounting to Rs. 340 crore under Rural Infrastructure Development Fund (RIDF) by NABARD for 2 major, 4 medium and 93 minor irrigation projects, an amount of Rs. 187.83 crore has only been disbursed as on March 31, 2007. In view of the poor irrigation infrastructure in the State, the Government may consider utilising the RIDF for creation of infrastructure relating to irrigation, rain-water harvesting, etc.
- 4.3.5** The Group strongly recommends that the sub-committees on CD ratio constituted in districts with CD ratio less than 40 per cent. [Recommendations of Expert Group on CD ratio constituted under the chairmanship of Dr. Y.S.P. Thorat (2004)] need to be strengthened. In order to boost the CD ratio in the districts, it should identify special plans for execution as under:
- a.** Identify investment opportunities in the district with the help of GM, DIC, District Agriculture Officer (DAO), District Fisheries Officer (DFO), etc., and infrastructure bottlenecks may be removed with the help of funds available under this head in various government schemes.

b. Efforts to boost the credit absorption capacity in the State may require addressing a whole gamut of issues relating to power, road and other infrastructure, A reference to visit to Kansar and Bargoda villages in Hazaribagh reveals how absence of irrigation facility has deterred the farmers from channelizing their savings into agriculture, which incidentally happens to be their only source of livelihood. Poor irrigation infrastructure makes these farmers wary of availing higher quantum of loans from financial institutions like banks. The villagers opine that a live stream (locals call it river *lapasiya*) in their village can be harnessed for irrigation purpose, which will boost the prospects of distribution of kisan credit cards (KCC) among nearly 250-300 farmers of these two villages. This could deepen the credit outreach by nearly Rs. 60 lakh in these two villages, by taking Rs. 20,000 as average credit flow under each potential KCC numbering 300 that can be distributed among the farmers resulting in improved CD ratio. Further, harnessing the nearby River *Mahane* for irrigation purpose could benefit villagers in two blocks, which can further deepen credit outreach of the banks. In a food deficit State like Jharkhand, which grows less than half of its food grain requirements, it portends win-win situation for farmers, State Government and the banks. The State Government must utilise the RIDF from NABARD for creating irrigation infrastructure. The CD ratio sub committees must look for similar bottlenecks in credit flow in their districts.

c. The State Government is reported to have launched several irrigation schemes. The Group, however, felt that such projects should be completed in a time-bound manner so that concerted focus is given on identifying new opportunities.

d. The sub committees must formulate special time-bound action plans for all the banks with CD ratio less than the average CD ratio of the district and include that as part of monitorable action plan (MAP).

4.4 Constraints in the Growth of Small & Medium industries

- 4.4.1** The growth of industry requires infrastructure support in the form of good power supply, roads, water, availability of raw materials, facilities relating to marketing of products, existence of institutional mechanism for facilitating easy finance, investor friendly policies of the State Government as also good law and order. Availability of raw materials is not a constraint in the State due to huge mineral reserves. The State Government professes to create land banks in the districts under the Industrial Policy 2001. However, the compensation for the land acquired has not been decided yet. Large number of mines on lease basis in deep forest areas (approx 4 bn tonnes reserves) is under litigation. The policy on relief and rehabilitation is reported to be under the active consideration of the State Government
- 4.4.2** As per the Census 2001, household electrification is very poor with only 23.3% households having connectivity. Household electrification was as low as 3-4% in some districts, while it is around 10% for the State as a whole. Out of 32,620 villages (2001 census), nearly 85% of villages are without electricity in Jharkhand. This dismal situation goes hand in hand with a tremendous power potential in Jharkhand, both for hydel and thermal projects as also for renewable energy, given the abundance of coal mines, water bodies and the undulating terrain (source: Jharkhand Development Report by XLRI).
- 4.4.3** Power deficit in the State has increased in the last five years, with the gap rising from 11 million units in 2002-03 to 215 million units in 2006-07. Among the major power projects in the State are – TVNL and Patratu Thermal Power units. There is a need of upgradation of these units. The State has huge potential in generation of power from its hydel sources among the major water bodies, like Subernrekha, Koel-Karo, Damodar, Shonkh, etc. The State Government may consider involving private sector in the generation, transmission and distribution of power in order to meet the existing demand of power as also the future demand due to upcoming industrial units in the State. In fact, the State Government must consider improving

upon the infrastructure in the State either by massive involvement of Private Sector or by using the Public Private Partnership model.

4.4.4 Poor law and order has been a matter of concern. Increasing Naxal activities in the rural areas and crime against the banks and the people may lead to flight of capital as well as entrepreneurs. A re-visit to the relative chapters in the Jharkhand Development Report (XLRI) gives an insight into the need for addressing the issues like land tenancy reforms, socio economic development of the people so as to wean them away from extremist activities and create an investment friendly climate. The State Government may consider addressing these concerns.

4.5 Study on sick Industrial units

4.5.1 A study was conducted by the 'sub group on industry' to understand the reasons for poor performance of the clusters in Bokaro and Adityapur identified for the steel fabrication units and auto ancillary units. The table given below depicts the number of units working in these two clusters and total credit extended to these clusters. The percentage of sick units in Bokaro cluster is very high at 55 per cent, whereas the percentage of sick units at Adityapur cluster stood at 26 per cent.

Table 4.3 – Credit to the units under Bokaro and Adityapur cluster

Sr. No.	Particulars	No. of Units	Total Credit (Rs. in crore)
Bokaro Cluster			
01	Total Units	58	116
02	Out of above no. of sick units	32	69
Adityapur Cluster			
04	Total Units	532	687
05	Out of above no. of sick units	139	157
	Total units working at present	419	575

Source : SBI, Zonal Office, Ranchi

4.5.2 Some of the reasons attributed for the sickness of the units in these clusters and suggested remedial measures are given in the following steps:

Table 4.4 – Reasons and remedial measures for sickness of Industrial units

Sr. No.	Reasons	Suggested Remedial Measures
1	Lack of basic infrastructural support by way of roads, water, and continuous electricity coupled with poor law & order position.	Infrastructural support at all the identified clusters be provided. Infrastructural support at all the identified clusters should be provided. This can be done either by involving the private sector or through Public Private Participation (PPP) model.
2	Even where raw materials were available in the vicinity, lack of proper tie up with suppliers resulted in paying higher prices. There was hardly any marketing support in identification of market, customers, etc., for marketing of these products.	Marketing tie-ups with all the major suppliers & buyers may be entered into directly by a body of industries at clusters. This will increase their bargaining power and give them a platform.
3	<ul style="list-style-type: none"> a. Absence of timely and adequate credit support from banks. b. Lack of entrepreneurship skills among some entrepreneurs. c. Wrong selection of Projects, i.e. starting of unviable projects based on false assumptions. 	Banks to establish separate specialized cells at every cluster to address the industry needs in a structured and speedy manner. Entrepreneurship development centers be established at every cluster by SIDBI with training support from specialized cells of banks. These cells may also help in identification of product & markets, preparation of project reports, etc.
4	Availability of land was also a major constraint.	Government to create a “Land Bank” at each cluster, so that required developed land is made available to the entrepreneurs on demand.
5	Over dependence on single major industry links the fate of industries in cluster with them. This also restricts their bargaining strengths.	More industrial houses have already signed MOUs with State Government, which should be encouraged further. The State Government to remove impediments to ensure speedy project implementation.

4.5.3 The incidence of industrial (non-SSI) sickness in Jharkhand remains low, with the State accounting for only 0.8 per cent of non-SSI sick units at national level in 2002-03. However, the number of non-SSI sick/weak units in Jharkhand has increased from 21 in 2001-02 to 27 in 2002-03. As regards sick SSI units in Jharkhand, the number of such units has declined from 2105 in 2001-02 to 2023 in 2005-06. At national level, in 2005-06, the State accounted for 1.6 per cent of total sick SSI units. However, the credit outstanding in respect of these units has increased from Rs. 36.7 crore in 2001-02 to Rs. 46.7 crore in 2005-06, marking an average increase of 17.6 per cent during 2002-2006. *(Source: Annual Survey of Industries)*

4.5.4 While it was felt that the reasons for sickness of SSI units were mainly sector/industry-specific in nature, the sub-committee of SME Empowered Committee identified certain general reasons, which were responsible for sickness of SSI units in Jharkhand as under:

- (i) Delay in sanctioning of loans.
- (ii) Poor organizational and financial skill of the entrepreneurs. In most of the cases, entrepreneurs do not possess any financial skill, as a result of which they cannot assess the financial health of their units before the units turn sick.
- (iii) Proper market survey for the demand of the product is not undertaken before commencement of commercial production, resulting in poor sales and cash loss, leading to ultimately sickness.
- (iv) Single window facility provided by the State Government under Industrial Policy 2001 is non-functional. As a result of this, potential entrepreneurs are not in a position to know which product would be most suitable for them, keeping their financial and technical capability in view.
- (v) Lack of effective post-disbursement supervision by the banks.
- (vi) Non-availability of power.

- (vii) In Jharkhand, several coal-based SSI units had become sick due to changes in the linkage policy of the Coal India Ltd. under which PSU Coal Companies used to allot quota for soft coke (used as raw material in those units) and /or hard coke (used as raw material) to various SSI units (Actual Users) of the State on a priority basis. With the introduction of e-auction for the soft coke/hard coke, no new linkage is permitted and the SSI units are forced to purchase coke from the successful bidders at the e-auction at a much higher price.
- (viii) Units located in the Bokaro Industrial Cluster turned sick due to lack of marketing outlets for their products.
- (ix) Failure of the banks to pick up 'early warning signals' due to time-lag between the balance -sheet date and receipt of the audited balance-sheet by the banks, resulting in delay in review of the borrowal accounts.
- (x) Inability of the entrepreneurs to identify the reasons for incipient sickness well in time.

4.5.5 The Group takes note of the above and recommends that the time-gap between the balance sheet date and the receipt of the audited balance sheet by the banks should be reduced so that banks can pick up early warning signals of the incipient sickness. Other recommendations are as follows:

- (i) Entrepreneurs should undergo a basic course in financial management as far as possible, which will enable them to detect symptoms of incipient sickness in units run by them. Such training programmes can be arranged by the SISI (now renamed as Micro, Small and Medium Enterprise Development Institute) in collaboration with Industries Department of the State Government.
- (ii) RBI should re-visit the guidelines on rehabilitation of sick units, permitting the banks to infuse fresh fund to the potentially viable units, which had earlier entered into compromise settlement with other banks.

- (iii) The State Government should initiate measures to provide good infrastructural support to the units located in the cluster.
- (iv) The State Government may, with the help of SLBC, continue to identify new industrial clusters in the State.
- (v) The major banks in the State like Allahabad Bank, SBI & BOI should initiate steps to open Rural Development & Self Employment Training Institutes (RUDSETI) in the State.
- (vi) There is an urgent need to conduct sensitization training for the branch managers so that they understand the needs of the entrepreneur for timely and adequate credit input. Concerned banks should organize sensitization training.
- (vii) The banks must establish Industrial Finance branches in such growth centres like Jamshedpur and Ranchi.
- (viii) The State Government may consider creating marketing outlets for the units located in the clusters so that they are linked to the fate of a single large industry.
- (ix) The State Government may address on priority basis the security risk / perception of the entrepreneurs due to adverse law & order, especially those units registered in the Industrial estates established by the State Government.
- (x) The State Government should lay emphasis on small power generating units and developing non-conventional sources of energy through private participation. The State Government may consider amending the laws / rules for encouraging private sector participation in power generation, transmission and distribution under various other sectors.
- (xi) Infrastructure development under PPP arrangement may receive serious consideration of the State Government.

- (xii) The Group feels that SIDBI can play a major role in helping the entrepreneurs for assessing the risk and share market information on various products as also impart training to the promoters of SSI units. The industry associations may also take lead in imparting training to these entrepreneurs.

4.6 Initiatives taken by State Government

4.6.1 The State Government professes to undertake a number of initiatives to attract investments in the State through its Industrial Policy 2001 document. Following are the salient features of the State Government's policy on industrial promotion:

- The Government would identify new industrial areas to ensure that each district has at least two industrial areas, which would facilitate balanced growth of the entire State;
- The Government would actively encourage both Indian and Foreign private investment/participation in infrastructure projects. The Government would also participate in joint ventures. In suitable cases, the Government shall actively consider providing land at concessional rate or free of cost. The Government shall encourage private sector participation on build-operate-transfer (BOT) concept for building and maintenance of roads and bridges;
- The Government shall encourage private sector participation in generation and distribution of power. No permission from State Electricity Board shall be required to set up a captive power generation plant of any capacity to meet the existing as well future demand for power of industrial units;
- The Government shall constitute a "Land Bank" at district level to facilitate the land acquisition process by entrepreneurs;
- The Government would encourage establishment of private industrial estates (100 acres and more) by acquiring and making available such land at the acquisition cost and providing infrastructure facilities such as water, electricity and road. Such private industrial estates shall be allowed to install captive power plants to generate and distribute power directly within such industrial estates;

- The Government would promote 3-tier growth centres, namely at mega, mini and micro levels. It would encourage financial institutions and private sector to establish and maintain industrial growth centres. Land/sheds in growth centres, industrial areas, etc., would be allotted to entrepreneurs on lease of 30 years on annual rent with facility of renewal and revision after every 10 years;
- The Government intends to set up an SEZ along Jamshedpur – Ranchi National highway corridor on both sides. The SEZ would also have an IT park, bio-tech park, hotels, recreation facilities, housing, etc.;
- Foreign investment and technological collaboration by overseas corporate bodies (OCBs) and NRIs would be encouraged in selected sectors, such as infrastructure, power, mineral development, telecommunication, frontier technologies and in the field of non-conventional energy sources, environmental protection, food processing, bio-technologies, tissue culture, pharmaceuticals and value added industries on mutually advantageous basis. Overriding priority shall be given to such proposals;
- The lead banks in their respective districts would prepare “industrial credit plans” to accelerate the flow of credit to the industrial sector with emphasis on SSI, tiny and cottage industries, for which separate targets would be fixed; and
- Special incentives like exemption from environmental clearance and zoning regulations for purposes of location and facility of self-certification for purposes of compliance of the various Acts like Water and Air Pollution Act, Factories Act, Employment Exchange Act, Payment of Wages Act, Minimum Wages Act, Contract Labour Act, Workmen Compensation Act, Shops and Establishments Act, etc., have been announced for industry.

4.6.2 Policy initiatives taken by the State Government include, a reserved list for exclusive purchase from enterprises located in the State.

4.6.3 The State has signed MOU for 66 mega Investment proposals worth Rs 2,76,140.80 crore between February 2003 and November 14, 2007 (source: official website of Government of Jharkhand, www.jharkhand.gov.in) in areas like, Sponge iron, Steel, Power, Pig iron, Pelletisation, Integrated Steel Plant, Power Tillers, Aluminium Smelter and Cement. These proposals are at different stages of execution.

4.6.4 The potential industrial sectors that can be the growth engines for the State are:

- a) **Agro-based** (Crops, vegetables, fruits, horticulture, animal husbandry, dairy, fisheries and food processing)
- b) **Main stream Industry** (Infrastructure, mineral-based, small-scale industries such as handloom, khadi, handicrafts, sericulture, etc.)
- c) **Service-based** (Tourism and Information technology)

4.7 Rural Industrialization

The State Government has undertaken some pioneering work in sericulture, revival of weaver societies, art forms and vocations by the tribals. As a result some of the activities have attained the critical size as a business proposition. To give thrust to this sector, the Government aims to provide benefits in the following areas:

4.7.1 Sericulture: Jharkhand is the leading producer of tussar silk in the country commanding 60 per cent of the total produce. This sector provides employment to significant number of persons from tribal community in the forest areas with earnings of more than Rs. 10,000 per season. The Central Silk Board (CSB) earlier provided the Disease Free Layings (DFLs) but as the supply did not meet the demand, the State Government, reportedly decided to produce the DFLs from nucleus seed. The quantum of DFLs provided earlier by CSB was inadequate and unable to cater to the requirements of the persons engaged in the vocation. The State Government is reportedly provides subsidy to the tune of Rs. three per DFL to the cultivators.

4.7.2 Tussar Silk: The State Government visualizes that there can be value addition of more than 10 times (reported to be) to the basic input, i.e., tussar silk. It has engaged the services of the National Institute of Fashion Technology (NIFT), Kolkata for training the persons in designing clothes from tussar silk. The marketing efforts of these people are met through a dedicated retail outlet of Jharcraft. There is tremendous scope for the banks to finance the Self Help Groups (SHG) in the State under this sector.

4.7.3 Weaving: Handloom is labour intensive cottage industry providing employment to around 1.5 lakh weavers throughout the State. There are 162 weaver societies in the State. Various incentives to the handloom weavers are being provided under Deendayal Hastkargha Protsahan Yojana, which aims at taking care of wide gamut of activities, such as basic inputs like looms and accessories, product development, infrastructure support, institutional support, training to weavers, supply of equipment and marketing support, both at micro and macro levels in an integrated and coordinated manner.

4.7.4 Though, this sector has problems of unpaid loans availed earlier by the weavers, yet the efforts to revive this sector by meeting the marketing needs of the people engaged in the trade, through a dedicated retail outlet of Jharcraft has raised new hopes among the weavers. The banks may consider waiving the loans of the weavers under RBI guidelines on one-time settlement scheme (applicable as on September 30, 2005). Besides, this sector offers immense scope for dispensing credit under Swarojgar Credit Cards (SCCs) / Artisan Credit Cards (ACCs) / General Purpose Credit Cards, where the loan limit of Rs 25,000 /- is felt to be adequate at this stage.

4.7.5 Handicrafts: Handicrafts of Jharkhand reflect the cultural heritage, customs and traditions of the State. The State manufactures handicrafts in cane and bamboo works, woodcarving, stoneware, brassware, lac based handicraft items, paper mache, terracotta, etc. The State Government has engaged the services of National Institute of Design, Ahmedabad to provide training in design to the persons engaged in the trade. The State Government has identified 12 clusters in

the State. The State Government may set up a model suitable 'Handicraft Village' in each of the districts of the State for promoting the traditional arts and crafts of the villages by adopting the "One Tambon One Product" model of Thailand. The project could be encouraged by formation of SHGs, in particular women SHGs. This will even encourage setting up of Micro, Small and Medium enterprises in the villages. The State Government may also assist the villagers in marketing their products domestically as well as internationally.

4.7.6 The State Government has made special efforts to revive the old art forms and tribal paintings like Paitkar (Singhbhum), Sohrai and Kohber (Hazaribag), Jadu Patiya (Dumka). In these art forms, artists use natural dyes in their products. The Government agencies with the help of professional designers have been encouraging the craftsmen to use these art forms on handicraft products. This has started yielding result and some of the products like Swarnarakha and Ranjana sarees, which use such designs, are very popular. Realizing the export potential of the handicraft products from local artists and craftsmen, Jharcraft has taken major e-commerce initiatives. It is making special efforts to introduce online sale of the products using ICICI Bank's payment gateway. Other banks may also consider extending online payment gateway facility to sell these products.

4.7.7 With the availability of marketing channel and e-commerce support from the Government, there is a need to bring these craftsmen under the fold of formal credit institutional mechanism. There is tremendous scope for their financial inclusion using loan products. The banks must target these segments, namely handicraft, weaving & sericulture, to extend finance under group financing and distribution of Artisan Credit Cards (ACC), Swarojgar Credit Cards (SCC) and General-purpose Credit Cards (GCC), etc. As on March 31, 2007, the commercial banks have distributed only 504 SCCs and 267 ACCs amounting to Rs. 1.7 crore and Rs. 1.01 crore, respectively. This was against a target of 3000 SCC and 2015 ACC under ACP 2007-08 (Source: SLBC Jharkhand agenda papers). In view of the meager disbursements made and huge scope for financing, the banks must make concerted efforts to achieve the target.

4.7.8 The Group takes note of the above and recommends as under:

- i. The Director, Jharcraft and Special Secretary, Industries Department should be invited to the State level Swarnjayanti Gram Swarozgar Yojana (SGSY) Committee meetings as special invitees. The experience and expertise as also the moral authority of these officials would help the banks generate more applications under SGSY scheme as also identify homogeneous SHGs.
- ii. The banks should extend the facility of compromise settlement to the weavers under one-time settlement scheme.
- iii. The banks must target these segments like handicraft, weaving and sericulture to extend bank finance, group financing and distribution of Artisan Credit Cards (ACC), Swarogjar Credit Cards (SCC) and General-purpose Credit Cards (GCC), etc. There is also good scope for financing JLGs under these segments.

4.8 Review of performance under Prime Minister's Rozgar Yojana (PMRY)

PMRY is a holistic programme for providing employment to the educated unemployed youth. The guidelines on the scheme clearly lay down the procedure for identifying the key activities for financing under the scheme as also the criteria for selection of beneficiaries by a committee. Selection committee comprises GM, District Industries Centre (DIC); Lead Bank Office; District Employment Officer; banks, etc.

Table 4.5 –Performance of banks under PMRY

	2004-05	2005-06	2006-07
Target (No. of A/cs)	9,000	9,000	9,000
Sanctioned (No. of A/cs)	6,206	6,172	6,272
Amt. (Rs. lakh)	5,639	5,255	5,439
Disbursed (No. of A/cs)	5,669	4,724	5,329
Amt (Rs. lakh)	4,479	3,759	4,421
Achievement as % of sanctioned to target (no. of accounts)	69.0	68.6	69.7
Achievement as % of disbursed to target (no. of accounts)	63	52.5	59.2

Source: SLBC agenda papers.

Amount has been rounded -off to the nearest rupee.

The above table indicates the performance of the banks in the State under PMRY. There has not been any upward revision in the targets under the PMRY scheme. The number of applications sanctioned has also remained stagnant at around 69%. The disbursement under PMRY as percentage of target has varied from 63 per cent during 2004-05 to 59.2 during 2006-07.

- 4.8.1** The banks in the State have not been able to meet the target under this scheme as may be seen from the table 4.5, despite the presence of large number of educated unemployed youth. One of the reasons cited for poor performance of the scheme is the poor recovery of loans under this scheme. It has also been felt that there is a need to strengthen the beneficiary identification mechanism.

Table 4.6 – Recovery under PMRY

(Amount in Rs. lakh)

Year	Demand	Recovery	Percentage
2006-07	10,082.	3,090	31
2005-06	5,594	1,869	33
2004-05	10,362	4,269	41

*Source : Agenda papers of SLBC meetings for Jharkhand
Amount rounded off to the nearest rupee.*

- 4.8.2** The group acknowledges that poor recovery under the scheme is as much a concern for the banks as is the accretion in the number of educated unemployed youth, which has socio economic ramifications. The fund available for infrastructure development and capacity building of the potential beneficiaries under various schemes, including PMRY, can be effectively utilised by the State Government to address the problems. Accordingly, the group suggests a broad road map for the consideration of the State Government.
- i. The district employment exchange may be treated as a repository for potential PMRY beneficiaries. As per RBI Bulletin dated October 12, 2007, only 171 persons enrolled in the employment exchanges all over the country could get jobs during the year 2003-04 (the period for which the data was available).

- ii. The State Government may consider computerizing the District Employment Exchanges and the potential PMRY beneficiaries can be selected from these exchanges by the committee comprising of the DC /DDC as special invitee. After a rigorous training by State Government the names of potential beneficiaries may be recommended to the banks for financing under PMRY scheme.
- iii. The State Government may build entrepreneur Centres at the district level, where the beneficiaries can carry out the economic activities. The list of key activities at present includes trading, kirana shop, garment /cloth shop, which have high loan mortality rate. This should be expanded to include other activities like auto workshop, auto spare parts, etc. The PMRY Task force should prepare Detail Project Report (DPR) for each activity.
- iv. This model can be termed as 'Outsourced Pyramidal Economic model', where the key activity can be sustained through inter dependencies among various units. Besides developing the infrastructure, the Government may consider providing sops to the intermediaries or the PMRY beneficiaries to reduce the cascading cost.
- v. Capacity building and skill upgradation is an important part of undertaking any vocation. Entrepreneurship orientation courses can be introduced in the curriculum at +2 level.
- vi. There is a need for introducing three level of skill upgradation and capacity building viz., the base level can be provided in the beginning of taking up the vocation by providing training at such Institutes like RUDSETI, SISI and other professional Institutes as also with the help of NABARD and SIDBI. At second level, the cost of training can be shared between the State Government and the loan beneficiaries. At the third level, the cost should be entirely borne by the loan beneficiaries.
- vii. The Group feels that the poor recovery is a disincentive for higher lending and one of the reasons for risk aversion by the banks. The State Government must help the banks in their recovery drives against the willful defaulters.

4.8.3 The State Government may consider promoting venture capital funding among the interested entrepreneurs in the State. During the visit to Hazaribagh, it was brought to the notice that some farmers have developed an indigenous lift irrigation prototype, popularly called 'Minoo Mahto Model', which costs less than the original equipment in the market and has efficacy as good or even better than the one available in the market. There is a need to promote such 'local technologies' for the benefit of the State. Necessary help in funding venture capital may be provided by NABARD.

4.9 Development Model and Special Purpose Vehicle

Taking a cue from State Government's keenness to invest up to 50% in any Special Purpose Vehicle (SPV), the group examined the developmental model used by Penang Development Corporation (PDC), Kuala Lumpur, Malaysia (Ref Box 4.1), in which the controlling stake rests with the State Government. PDC has developed townships under similar circumstances with limited resources, by reclaiming wastelands. Under this model, after initial investments and hand holding by the Government, the future requirements of finance, etc., have been met through internal resource generation. The State Government may consider adopting similar model for the development of mega industrial estates and townships in the Santhal Pargana Region, which are safe from law & order point of view as also reclaim the wastelands in other parts of the State.

Box 4.1 – Salient Features of PDC model

It is an integrated development model, with thrust on housing, commercial, public facilities, industrial zone and townships. The objective of the Corporation is to create employment opportunities, maximize land use and generate revenue for the government, which can be utilized in providing other social infrastructure.

It lays thrust on reclaiming the wasteland, which is developed into townships. This Corporation creates companies with long term objective to list on the stock exchanges. Thus, long-term capital requirements are met through raising capital from the public.

PDC does not offer any fiscal concessions to the potential investors, other than good infrastructure. More details of the Corporation can be procured from the following link: www.pdc.gov.my

CHAPTER – 5

EFFECTIVENESS OF THE COOPERATIVE BANKS (RURAL and URBAN) IN THE STATE

5.1 Status of rural Co-operative Credit Structure (CCS) in Jharkhand

5.1.1 In the State of Jharkhand, initially nine District Central Cooperative Banks (DCCBs) were operating covering all 22 districts, with 857 Primary Agricultural Credit Societies (PACS), one Farmers' Service Society (FSS) and 474 Large Area Multi Purpose Societies (LAMPS). On denial of banking licence to Daltonganj DCCB by the Reserve Bank of India in the year 2001, presently there are eight DCCBs operating in the State.

5.1.2 Consequent upon the formation of Jharkhand State in November 2000, no separate State Cooperative Bank (St.CB) has so far been established. All the eight DCCBs continue to be affiliated to Bihar State Cooperative Bank Ltd.

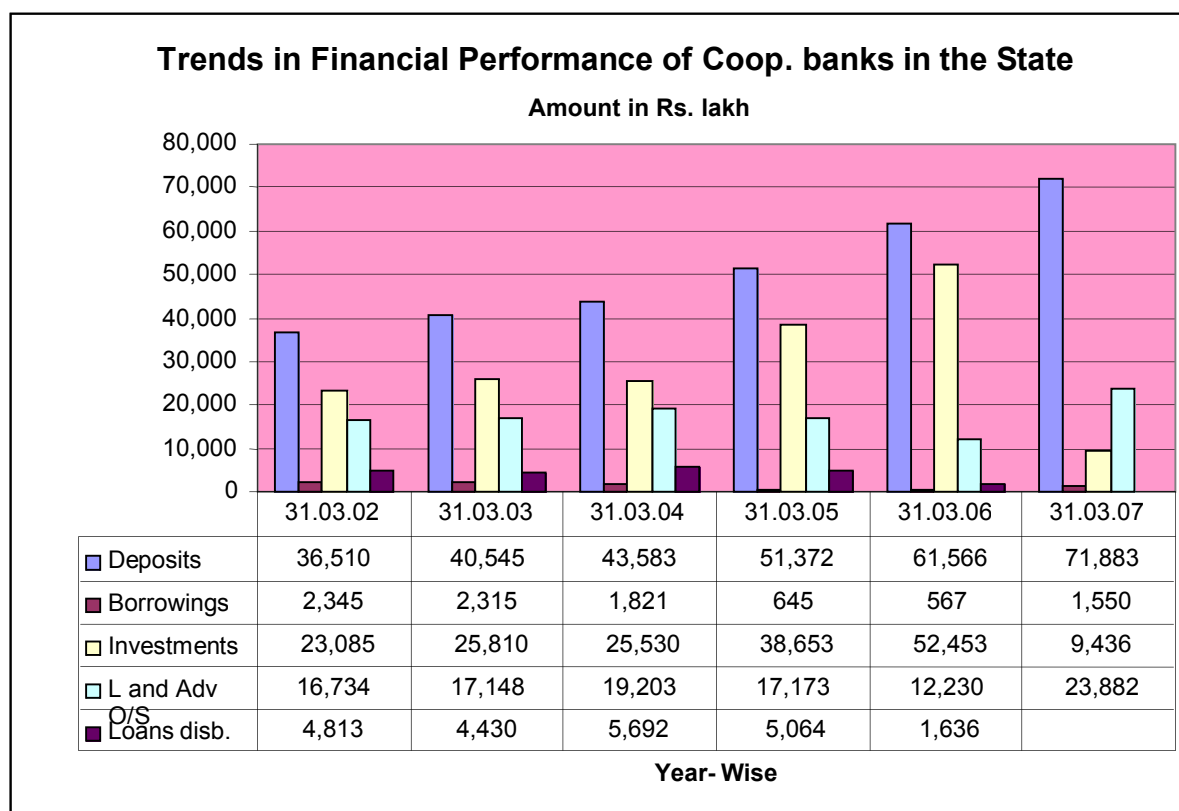
5.1.3 The DCCBs, namely Ranchi-Khunti, Hazaribagh, Gumla-Simdega, Giridih, Singhbhum, Deoghar-Jamtara, Dumka and Dhanbad are operating in 19 out of 24 districts, with a network of 112 branches. Daltonganj DCCB, which is under liquidation, was earlier operating in three districts of Palamau, Latehar and Garhwa.

5.1.4 With the tenure of the Board of Directors of Dhanbad DCCB coming to an end on December 31, 2007, none of the DCCBs in the State has an elected Board presently. In fact, other DCCBs had not elected Boards for almost ten years.

5.1.5 The annual accounts of all the DCCBs have been audited up to 2006-07. Five out of eight DCCBs which do not comply with Section 11(1) of the Banking Regulation Act, 1949 [As Applicable to Co-operative Societies (AACS)] continue to be classified under 'D' category. Dhanbad and Dumka DCCBs are under category 'B' and 'C' respectively. Dhanbad DCCB is the only licensed DCCB in the State.

5.1.6 The trend in growth of deposits, borrowings, investments, loans and advances outstanding and loans disbursed during the last six years in respect of eight DCCBs in the State is given in Figure 5.1:

Figure 5.1



Source: NABARD, Ranchi

5.1.7 After the creation of Jharkhand State, the State Government decided to waive the recovery of agricultural loans up to Rs. 10,000 and interest thereon, outstanding in the accounts of farmers as on March 31, 2003. In return, the State Government released Rs. 137.42 crore, in two instalments during 2004-05 and 2005-06, to the cooperative credit institutions. The mounting overdues under non-agricultural loans continued to contribute to the poor recovery position. This coupled with near absence of any appraisal mechanism and lack of post disbursal follow-up resulted in a vicious circle of eroding profitability of the DCCBs.

5.1.8 The percentage of recovery against demand was less than 40 per cent for six out of eight DCCBs in the State as on June 30, 2006. The DCCB-wise position is given in the following table:

Table No. 5.1: DCCB-wise recovery position as on June 30, 2006

(Amount in Rs. lakh)

Sr. No	Name of DCCB	Demand	Collection	Balance	Recovery %
1	Deoghar-Jamtara CCB	352.54	0.00	352.54	0.00
2	Dhanbad CCB	3,773.19	1,503.99	2,269.20	39.86
3	Dumka CCB	467.62	184.53	283.09	39.46
4	Giridih CCB	616.42	385.43	230.99	62.53
5	Gumla Simdega CCB	1,992.18	358.54	1,633.64	18.00
6	Hazaribagh CCB	1,186.15	249.03	937.12	20.99
7	Ranchi-Khunti CCB	1,290.78	444.33	846.45	34.42
8	Singhbhum CCB	2,231.84	1,893.57	338.27	84.84
	Total	11,910.72	5,019.42	6,891.30	42.14

Source: NABARD, Ranchi

On the analogy of one St.CB - one State, as also to provide much needed guidance to lower tiers of rural cooperative credit structure, the State attempted to form the 'Jharkhand State Cooperative Bank' (JSt.CB) and sought fresh licence from Reserve Bank of India (RBI), proposing that three-tier system shall be re-engineered into a two-tier system by merging all the eight DCCBs with the newly formed Jharkhand St.CB. However, the total net worth of such an entity would have been negative, since only two of the eight DCCBs complied with Section 11 (1) of Banking Regulation Act, 1949 (AACS) and the rest had negative net worth. Hence RBI disallowed the proposal.

5.2 Need for State Co-operative Bank (St.CB) in Jharkhand

5.2.1 All the States in the country have an Apex level St.CB. The importance of the role played by St.CBs is derived from the following:

- i. Provide leadership to the DCCBs;
- ii. Have control and provide guidance in the matter of operations, administration, monitoring and training support;

- iii. Assist in appraisal and monitoring of large projects including financing/ consortium financing to sugar mills, State handloom/ handicrafts societies, large borrowers, etc.;
- iv. Provide guidance and support for investment of surplus resources of DCCBs in Government and Trustee securities or eligible bonds;
- v. Co-operative banks are an important arm in meeting the credit requirements of farmers especially for crop loans, inspite of large presence of commercial banks and RRBs;
- vi. The short-term advances to agriculture and allied activities are mainly provided by co-operatives. At the all-India level, the co-operative banks provide more than 40 per cent of the loans for agriculture and allied purposes;
- vii. The Statutory Liquidity Ratio (SLR) deposits are maintained by the DCCBs with the St.CB. In the absence of a St.CB in Jharkhand, the DCCBs are maintaining their SLR with the St.CB of another State, viz. Bihar St.CB. Only deposits of DCCBs with the St.CB of the 'concerned state' can be reckoned towards SLR deposits;
- viii. In terms of Section 5 (cci) read with 5 (ccvii) of BR Act, 1949 (AACS) along with sec 2 (u) of NABARD Act, 1981, the Bihar St.CB cannot be considered as the Principal Cooperative Society of Jharkhand. Further, there is also the question of propriety of the branches of the BSt.CB operating in the State of Jharkhand as it is not registered as a multi-state cooperative society;
- ix. NABARD provides loans to State Government for contribution to the share capital of DCCBs / PACS/ LAMPS through the St.CB;
- x. Refinance assistance to DCCBs by NABARD is provided through the St.CB. The refinance support is available for various purposes, some of the important ones are enumerated below:
 - (a) Seasonal agricultural operations;
 - (b) Marketing of crops, on behalf of DCCBs/ State Marketing Federation;
 - (c) Procurement, stocking and distribution of chemical fertilisers and other inputs;
 - (d) Trading in yarn by Apex/Regional Weavers Society;

- (e) Production and marketing activities of handloom/ power-loom weavers co-operative societies;
- (f) Production and marketing activities of Cottage/SSI/Village Industries/Rural Artisans;
- (g) Co-operative and other sugar factories;
- (h) Investment credit; and
- (i) Conversion of Short-term loans to medium term loans.

5.2.2 Imperatives for the St.CB in Jharkhand

- i. The majority of the farmers in Jharkhand are small and marginal farmers with fragmented land holdings. The flow of finance to these farmers through the co-operative credit system has to be started expeditiously.
- ii. The eight DCCBs have a wide network of 1,331 PACS and LAMPS, which can be used to provide loans to the farmers.
- iii. The agriculture sector in Jharkhand needs higher level of immediate attention for economic upliftment of the rural poor. To provide adequate credit facilities to the Weaker Sections / SC / ST population of the society mainly engaged in traditional agriculture, the operations of the co-operative banks must be revived.
- iv. As on March 2007, only 1.11 lakh Kisan Credit Cards (KCCs) were issued by the commercial banks against the target of 2.70 lakh for the year 2006-07. The percentage of achievement was only 40.79 per cent. It has been reported that in many remote areas, co-operative banks can issue KCCs as they are present in such areas.
- v. The presence of a St.CB is necessary to revitalise the rural co-operative credit structure, as there is an immediate requirement for creating an enabling environment for the flow of credit to farmers, artisans and other weaker sections through the co-operative credit network.
- vi. The St.CB would also help in institutional building process through timely guidance to DCCBs / branches in implementing various schemes /projects and programmes besides getting assistance under various development funds like Institutional Development Fund (earlier Co-operative Development Fund) of NABARD.

5.3 Formation of Jharkhand St.CB

5.3.1 The existing rural Cooperative Credit Structure in Jharkhand consists of DCCBs at the District-level and PACS/ LAMPS/FSS at the village level. In the absence of a Jharkhand St.CB, the DCCBs in Jharkhand are still affiliated to the Bihar St.CB.

5.3.2 The formation of the St.CB in Jharkhand could be considered in any one of the following three different ways:

- i . Bifurcation of Bihar St.CB;
- ii . Declaration of a cooperative society as St.CB;
- iii. Declaration of a Central Cooperative bank as St.CB.

5.3.3 Option (i): Bifurcation method - The Procedure

- The State Government to approach the Central Registrar of Cooperative Societies for bifurcation of Bihar State Co-operative Bank.
- Scheme of bifurcation to be submitted to the Government of Bihar (GOB).
- General Body of Bihar St.CB to approve the scheme of bifurcation.
- Viability analysis of the 'residual bank' (BSt.CB) and the new bank to be analysed based on last 5-7 year financial position.
- Licence application to be sent through NABARD to RBI for grant of licence.

5.3.4 The Group has identified the following difficulties:

- ☞ Decision in this regard involving Central Registrar of Cooperative Societies and Bihar Government may be delayed.
- ☞ BSt.CB was not complying with Sec 11(1) of BR Act, 1949 (AACS) at the time of bifurcation of Bihar State in the year 2000.
- ☞ As on March 31, 2000, the accumulated losses were at Rs. 3,557.89 lakh and net margin to its working funds constituted (-) 6.5 per cent. Therefore, bifurcation may not result in the new St.CB having the required viability / positive net worth.
- ☞ The bifurcation of St.CB was not included in the Bihar Reorganisation Act, 2000.

☞ The State Government of Jharkhand had held discussions on July 06, 2007 with the Registrar of Co-operative Societies, Government of Bihar and officials of BSt.CB, in this regard. During the meeting, it transpired that GOB was not in favour of bifurcation of assets and liabilities of the BSt.CB, as there was no provision for division of the Co-operative Institutions under the Bihar Re-organisation Act, 2000.

5.3.5 Option (ii): Declaration of a Cooperative Society as St.CB

- ◆ The Cooperative Society should be registered as a society under State Cooperative Societies Act.
- ◆ The society should have been carrying out business before applying for grant of licence.
- ◆ Books of accounts of the society should be inspected by NABARD and a report as detailed in Sec 22(3) of BR Act, 1949 (AACS) to be submitted to RBI.

The proposal would have been possible if the following steps were taken:

- ☞ DCCBs would have been required to liquidate their outstanding borrowings with BSt.CB and get affiliation with the new society.
- ☞ The society would have been subsequently inspected by NABARD and report submitted to RBI.
- ☞ The Society might have then applied to RBI for grant of licence.

5.3.6 Option (iii): Declaration of a Central Cooperative bank as St.CB

- ☞ A good working DCCB with positive net worth may be declared as St.CB by notification of State Government under Sec 2 (u) of NABARD Act, 1981.
- ☞ The selected DCCB will have to de-affiliate itself from BSt.CB. For that matter, all the DCCBs of Jharkhand will have to de-affiliate themselves from BSt.CB.
- ☞ The bye-laws of the new St.CB may be amended through State Government notification.
- ☞ The DCCBs may liquidate their borrowing and other liabilities with BSt.CB and de-affiliate from it in order to enable them to avail finance from the new St.CB.

- ☞ They could also request BSt.CB to transfer their shares and investments to the new St.CB.
- ☞ If such DCCB, converted to St.CB, already holds a banking licence, then there would be no need to seek fresh approval for carrying on banking business. The RBI has to be approached only to amend the licence as regards change in name and address, area of operation and status, etc.

5.3.7 After examining the options available for upgrading a DCCB to the status of a St.CB, a view was reached to upgrade Dhanbad DCCB as Jharkhand St.CB, as an interim measure, subject to fulfilment of all legal and regulatory requirements. It was also felt that urban orientation of Dhanbad DCCB was not coming in the way of its upgradation as St.CB.

5.3.8 The Group, therefore, recommends a roadmap for the short-term as under:

- i. The name of the Dhanbad DCCB should be changed to Jharkhand St.CB and also the bye-laws of Dhanbad DCCB should be changed accordingly.
- ii. After amendment of the bye-laws with reference to name, jurisdiction, objectives, etc., the bank can function as a St.CB and RCS can do the needful as per the existing law for the purpose.
- iii. The name in the license, issued to the Dhanbad DCCB, should be got amended from RBI (through NABARD) to read as Jharkhand St.CB. NABARD has to certify that all the legal and procedural requirements have been complied with.
- iv. NABARD is to conduct statutory inspection with reference to the bank's financial position as on March 31, 2007 for ascertaining the latest net worth.
- v. All existing branches of Dhanbad DCCB to be considered for regularisation by RBI under Section 23 of the Banking Regulation Act, 1949 (AACS) so as to enable them to function as the branches of St.CB.
- vi. All the DCCBs of the State are to be affiliated to the newly constituted St.CB.

- vii. The Group strongly recommends that Government of Jharkhand should sign the MOU with the Government of India and NABARD for acceptance of the revival package for short term rural cooperative credit structure based on the recommendations of the Task Force on Revival of Rural Co-operative Credit Institutions (Chairman: Prof. A. Vaidyanathan) (VCR), at the earliest as it would facilitate infusion of funds and guide the co-operative banks in the State in their capacity building.

5.3.9 The Group also examined the under mentioned suggestions received from the Chief Secretary, Government of Jharkhand in respect of CCS in Jharkhand.

- i. There is a need to restructure the DCCBs as also the Large-Sized Adivasi Multi Purpose Societies (LAMPS) by way of restructuring the debts and infusion of capital.
- ii. Replace the Daltonganj DCCB in Palamu, which has gone under liquidation.

5.3.10 The Group noted that the cooperative banks in the State hold huge potential, but their share in the Annual Credit Plan (ACP) for the year 2006-07 was only 3.6 per cent. The achievement of these cooperative banks as on March 31, 2007 was around 0.06 per cent of ACP in 2006-07. One of the reasons for the poor performance is the poor financial health of the cooperative banks in the State. The Group is of the view that only restructuring and revitalizing the cooperative credit institutions in the State can optimise their credit delivery capacity. However, once the State Government signs the MOU as part of VCR, these issues would have to be addressed. The Group, therefore, recommends that Government of Jharkhand may consider engaging a Management Consultant, which would undertake the study of LAMPS and DCCBs in the State, suggest business strategies in the backdrop of emerging opportunities and rural credit requirements of the State, as also suggest capacity building of staff of the rural cooperative banks.

5.3.11 The State Government plans to adopt, in the medium term, a two-tier rural CCS in the State by merging all the DCCBs. It was, therefore, felt that opening a new DCCB in place of Daltonganj may not serve the desired purpose.

5.4 Human Resources Development (HRD) policy in rural CCS in the State of Jharkhand

5.4.1 A policy on HRD in the co-operative banks in Jharkhand needs to be put in place. Therefore, a beginning has to be made for drawing a specific policy for the banks covering the following areas/aspects:

- Recruitment
- Placement and Transfer
- Training and Development of staff
- Promotion Policy and
- Performance Appraisal System

State Government may consider setting up a Committee to formulate a suitable HRD framework and policy for the cooperative banks, including senior management.

5.4.2 All the DCCBs, except Ranchi, have been reporting shortage of staff. A definite policy on recruitment, based on specified business norms, needs to be drawn urgently. Simultaneously, training and skill up-gradation plan will require to be put in place for the existing as well as newly recruited staff. The staff may be imparted required skill in banking operations and business development and for building a sound cooperative movement.

5.4.3 As the setting up of the training system will take sometime, initially the bank may approach suitable training Institutes for providing training on following aspects;

- Induction training programme for new staff;
- Refresher Training to existing clerical staff; and
- Trainings on Credit Appraisal and Monitoring for the existing officer/ staff of the bank.

5.4.4 The officers at Head Office as well as Regional Offices need to urgently develop skills for appraisal of loan proposals, documentation for various types of advances and recovery measures. The banks may take steps to immediately develop a core group of Managers in appraisal of loan proposal by conducting specially organised programmes in areas, which have large potential in Jharkhand.

5.4.5 The special programmes could include the following activities:

- Short term advances for marketing of crops;
- Appraisal of minor irrigation projects, fisheries and plantation and horticulture and other allied sectors;
- Term loans, working capital and composite loans for tiny industry;
- Loans for Small Road and Water Transport Operators;
- Rural Housing;
- Government sponsored programmes such as SGSY and On-farm water management; and
- Self Help Group - Promotion and Linkage.

These programmes could also be organised within the State by requesting the concerned training institute to depute their faculty for the required period and purpose on a payment basis. NABARD may be approached for financial support for this training.

5.4.6 The new co-operative set up must computerise their day-to-day banking operations and maintenance of data.

5.4.7 Thus, the Group recommends the following roadmap for medium term.

- i. Infusion of funds by the State Government for making the DCCBs having negative net worth compliant with the minimum capital requirement under section 11(1) of the Banking Regulation Act, 1949 (AACS);
- ii. Merger of all compliant DCCBs with the St.CB, with the prior approval of Reserve Bank under a two-tier structure to be introduced by the State Government; and
- iii. The Group does not indicate any specific time frame for medium term solution.

5.4.8 Other recommendations are as under:

- i. Dhanbad DCCB may amend its bye-laws with the approval of RCS to expand its area of operation to cover the entire state of Jharkhand, thereby enabling the affiliation of other DCCBs as its members.
- ii. The State Government may draw up a suitable plan for Human Resource, including recruitment and staffing on professional lines. A system must be in place, to fix responsibility on officials of the banks to ensure proper functioning of the banks.
- iii. Dhanbad DCCB will have to de-affiliate itself from Bihar St.CB. For that matter, all the DCCBs of Jharkhand will have to de-affiliate itself from Bihar St.CB.
- iv. The DCCBs may liquidate their borrowings and other liabilities with BSt.CB and de-affiliate from it in order to enable them to avail finance from the new St.CB.
- v. The management consultant may guide the DCCBs in preparing a comprehensive business plan for operating in a professional, profitable manner as also IT and human resource planning.
- vi. Reserve Bank of India may consider taking up with the State Government of Bihar to close down the branches of Bihar State Co-operative Bank, functioning in Jharkhand, immediately.

5.5 Urban Cooperatives Bank (UCBs) in Jharkhand

5.5.1 There are only two UCBs in Jharkhand viz., Jamshedpur UCB and Koylanchal UCB. Both are Grade I UCBs. The share capital of Jamshedpur UCB and Koylanchal UCB as on March 31, 2007 were Rs. 2.31 crore and Rs. 0.74 crore respectively. These two UCBs are classified as tier I banks. The deposits of Jamshedpur and Koylanchal UCBs as on September 30, 2007 stood at Rs. 3.38 crore and Rs. 5.13 crore, respectively. The quantum of advances disbursed by Jamshedpur and Koylanchal UCB stood at Rs. 2.36 crore and Rs. 2.22 crore, respectively.

5.5.2 The Group recommends as follows:

- (i) There is a need for the State Government to sign the Memorandum of Understanding (MOU) under TAFUB with the Reserve Bank so as to address various issues / problems of the cooperative banking sector especially in the context of this sector's role in the economic development of the State; and
- (ii) The Jamshedpur UCB is registered under the 'Bihar Self Supporting Cooperative Societies Act 1996', which does not have the enabling provisions relating to insurance cover under Deposit Insurance and Credit Guarantee Corporation (DICGC) Act. This is essential to protect the interest of the depositors in the bank. State Government may urgently bring about necessary legislation to amend the relative provisions of the State law (ibid).

CHAPTER – 6

REGIONAL RURAL BANKS (RRBs) IN JHARKHAND

6.1 The Regional Rural Banks (RRBs), to give special attention for financing the weaker sections in rural areas, were set up in 1976 under RRB Act, 1976, with Government of India, State Governments and commercial banks equity participation in the ratio of 50:15:35 respectively, on the basis of the recommendations of the Narasimham Committee constituted in 1975. The intention in having these banks was that there should be an institutional device which combined the local feel and familiarity with the rural problems of cooperatives and the modernized outlook of the commercial banks, with a view to reducing the rural poverty more extensively. RRBs were set up with the objective of developing rural economy through promotion of agriculture, trade, commerce, industry and extending direct financial assistance to the poorer sections of rural society (generally referred to as the "Target Group"), particularly small and marginal farmers, agricultural labourers, rural trade, artisans and small businessmen. These banks are to function within the allotted areas of operation. RRBs have played their role in purveying agricultural credit in Jharkhand but their financial health has been under stress. As a result of merger, there were two RRBs functioning in Jharkhand.

6.2 Profile of RRBs in Jharkhand

6.2.1 There were six RRBs in the State as on March 31, 2006, prior to initiation of State level sponsor bank-wise amalgamation process by Government of India in September 2005. Consequent upon amalgamation process, the number of RRBs has reduced from six to two as on March 31, 2007. The four RRBs, namely Ranchi Kshetriya Gramin Bank, Singhbhum Kshetriya Gramin Bank, Hazaribagh Kshetriya Gramin Bank and Giridih Kshetriya Gramin Bank, were amalgamated in June 2006 to form Jharkhand Gramin Bank sponsored by Bank of India with head office at Ranchi, and two RRBs, namely Palamau Kshetriya Gramin Bank and Santhal

Paraganas Gramin Bank, were amalgamated in June 2006 to form Vananchal Gramin Bank sponsored by State Bank of India with head office at Dumka.

6.2.2 The profile of the two RRBs as on March 31, 2007 is given below:

i. Table 6.1: Area of Operation of RRBs

Sr. no	Name of RRB	Districts covered	No. of branches
1	Vananchal GB (Sponsored by: SBI)	Palamu, Garhwa, Latehar, Deoghar, Jamtara, Godda, Sahibganj, Pakur and Dumka. (9)	178
2	Jharkhand GB (Sponsored by: Bank of India)	Ranchi, Khunti, Gumla, Simdega, Lohardaga, Singhbhum East, Singhbhum West, Saraikela, Hazaribagh, Ramgarh, Chatra, Koderma, Giridih, Bokaro and Dhanbad. (15)	210

ii. Table 6.2: Deposits, Advances and CD ratio as on March 31, 2007
(Amount in Rs. crore)

Sr. No	RRB	Deposits	Advances	CD Ratio
1	Vananchal GB	925.16	263.17	28.45
2	Jharkhand GB	1060.74	312.96	29.50
3	Total	1985.90	576.13	29.01

iii. Table 6.3: Profit / Loss and accumulated loss
(Amount in Rs. crore)

Sr. No	RRB	Net Profit/Loss 2006-07	Accumulated Loss 31.03.2006	Accumulated Loss 31.03.2007
1	Vananchal GB	(-)9.84	(-)67.16	(-)77.00
2	Jharkhand GB	(-)16.23	(-)50.44	(-)66.67
3	Total	(-)26.07	(-)117.60	(-)143.67

Source: RBI, Patna

iv. Table 6.4: Gross and Net NPAs as on 31.03.2007
(Rs. in crore)

Sr. No.	RRB	Gross NPAs as on 31.03.2007	Net NPAs	Net NPAs to Net Advances
1	Vananchal GB	83.10	56.91	24.01%
2	Jharkhand GB	49.58	24.91	8.67%
3	Total	132.68	81.82	15.58%

Source: RBI, Patna

v. **Table 6.5: Achievement of RRBs under ACP 2007-08 (as on March 31, 2007)**

(Amount in Rs. crore)

Sr. No.	Name	Agri.	SSI	OPS	TPS	%age achieved	NPS	Total	%of ACP
1.	Vananchal KGB	41.5	1.2	31.7	74.3	45.7	24.8	99.2	42
2.	Jharkhand KGB	27.4	1.3	32.4	61.1	33.1	24.7	85.8	29
3	Total	68.9	2.5	64.1	135.4	39.0	49.5	184.9	34.8

Source: SLBC Agenda papers

6.2.3 The area of operation of two RRBs with a network of 388 branches in the State is spread over all the 24 districts, except Dhanbad district, which has recently been allotted to Jharkhand Gramin Bank. The total deposits of the two RRBs stood at Rs. 1985.90 crore and total advances stood at Rs. 576.13 crore. The CD Ratio of all RRBs in the State, at 29.01 per cent, is very low as compared to all-India average of all RRBs at 58.51 per cent. Though, the net NPAs to net advances as on March 31, 2007 of both the RRBs in the State stood at 15.58 per cent, the net NPAs of Vananchal Gramin Bank at 24.01 per cent is quite high. The accumulated loss of the two RRBs has increased from Rs. 117.60 crore as on March 31, 2006 to Rs. 143.7 crore as on March 31, 2007. The low CD ratio, high accumulated losses and high percentage of NPAs of Vananchal Gramin Bank are areas of deep concern. However, the Group noted that both Vananchal KGB and Jharkhand KGB have registered profit of Rs. 1.70 crore and Rs. 6.28 crore, respectively during the six months ending September 2007.

6.2.4 The renewed emphasis on agricultural and rural development by the Government of India would lead to a growing demand for different types of financial services in the rural areas, as the financial needs of the rural economy have become diversified. As the CCS suffers from infirmities, the RRB network will have to be leveraged for benefiting the rural areas. RRBs, therefore, have to provide a larger share of credit disbursed, calling for much larger resource mobilization. Greater efforts are required for their institutional strengthening. Thus, on the one hand, the concept of RRBs has to be pursued in the interest of the rural economy and on the other hand, the RRBs have an opportunity to cash in on the gap between demand and supply of banking

services. As mentioned earlier, the RBI has reviewed the performance and role of RRBs in rural credit delivery system and suggested a package to strengthen their resource base and fund requirements, enlarge their activities and improve their performance through good corporate governance. RRBs are expected to play a significant role in financial inclusion of disadvantaged sections of the society.

6.2.5 The Group took note of weaknesses and threats prevailing in the RRBs. Some of these are mentioned below:

- i. Lack of skilled manpower;
- ii. Shortage of staff – Jharkhand KGB has just 1.22 officers and 1.32 clerks per branch;
- iii. Scope to improve housekeeping;
- iv. Lack of adequate patronage to RRBs as eligible institution for placing of government funds, as also for the acceptance of guarantees and security deposits / earnest money of government departments / collection of taxes etc.;
- v. Difficulties in maintaining competitive interest rates in tune with market;
- vi. Retirement of significant number of employees in coming years. Absence of skilled persons; and
- vii. Internal Audit System needs to be strengthened. Jharkhand KGB requires six to seven officers from its sponsored bank for three years for this purpose. The bank proposes to place at least equal number of officers from within, in the audit wing.

6.2.6 The Group offers the following suggestions to bring about an improvement in the functioning of the RRBs:

- (i) Understaffing of the rural branches remains a matter of concern and a major hindrance to the proposal for branch expansion. The sponsor banks should expedite the process of recruitment in the RRBs especially in the backdrop of Dr. Y. S. P. Thorat Committee's recommendations.

- (ii) Though, by amalgamation the RRBs have become bigger in size, yet in the initial months/years, the sponsor banks need to do some handholding in terms of providing skilled manpower in the RRBs especially in the areas like audit, investments, computerization, etc.
- (iii) RRBs must include the credit targets allocated under the Annual Credit Plan (ACP) by SLBC in the Memorandum of Understanding (MOU) signed with the Sponsor Banks. The performance of the weak RRBs under MOU should be monitored periodically by NABARD and sponsor banks.
- (iv) The Sponsor Banks may empower the RRBs by providing them lines of credit at concessional rates and by allowing them to draw drafts at par on any branch of the sponsor banks.
- (v) RRBs can play a crucial role in the financial inclusion of the rural population. The Board of RRBs must review the progress made by the RRBs as a separate agenda for the meeting.
- (vi) RRBs should open more branches in 40% of the villages in Jharkhand, which do not have access to the banks. The RRBs may consider financing the construction of Pucca houses on priority basis.
- (vii) In view of the high level of NPAs, the RRBs, with help of State Government, may launch frequent recovery drives.
- (viii) The State Government should empower the RRBs by honouring the bank guarantees issued by them and also by giving them government business, such as payment of pension, etc.
- (ix) New initiatives are being taken in rural areas by institutions/ organizations, which are active in rural development. RRBs may consider fostering links with such organizations to provide avenues for innovative financing.

6.3 Initiatives taken by Reserve Bank for strengthening RRBs

6.3.1 With a view to making RRBs important vehicles of credit delivery in rural and backward areas, the Reserve Bank has been taking measures from time to time for strengthening them and improving their performance. Considering the critical role of sponsor banks in positioning the RRBs as partners in development of the rural sector and in order to encourage synergies between the parent bank and RRBs, the Reserve Bank has advised all sponsor banks to take steps on issues pertaining to HR, IT and operations of the RRBs sponsored by them.

6.3.2 Considering the instructions issued by Reserve Bank to the sponsor banks for strengthening the functioning of RRBs, the sponsor banks in the State (State Bank of India and Bank of India) should play a critical role in positioning the RRBs as partners in development of the rural sector and take steps on issues pertaining to HR, IT and operations of the RRBs sponsored by them.

6.3.3 The procedure for licensing of branches of RRBs was simplified and the work relating thereto was delegated to Regional Offices of the Reserve Bank since June 13, 2006. The Empowered Committee (EC) for RRBs, set up at each Regional Office of Reserve Bank, is to examine and make recommendations on applications of RRBs for opening of new branches, merger of branches, etc. and the concerned Regional Director of the Reserve Bank would take decisions on such cases after taking into account the recommendation of the EC. The Regional Office of RPCD would issue/cancel licence/s, subject to reporting thereof to Central Office from time to time. Similarly, requests from RRBs for conduct of forex business (as AD Category-II), opening/maintaining of NRE/NRO Rupee Accounts, etc. would also be examined by the ECs. Necessary licence/approval would be issued by the Regional Office of Foreign Exchange Department after considering views of the EC. Certain measures were taken to further liberalize the branch licensing policy for RRBs. These include relaxation of conditions for opening branches in hitherto uncovered districts and opening of service branches/Central Processing Centres/Back Offices. In May 2007, RRBs were allowed to take up corporate insurance agency business without risk participation for distribution of all insurance

products without prior permission from Reserve Bank. RRBs were also to take up consortium lending within the permissible exposure limits.

- 6.3.4** The Group is of the view that RRBs are to be conceived to be an important agency in purveyal of credit in the rural and semi-urban areas, because of their local feel and familiarity. The Group also took note of the views of the Government of India in respect of opening of branches by RRBs in unbanked/underbanked areas of the country. The Group, therefore, suggests that RRBs may consider opening more branches in the State, especially in the districts with high APPBO, as mentioned in Chapter 2 earlier.
- 6.3.5** With a view to improving the funding requirements of RRBs, the Reserve Bank has recently advised all scheduled commercial banks and RRBs that loans granted by commercial banks/sponsor banks to RRBs for the purpose of on-lending to agriculture and allied activities, would be eligible for classification as indirect finance to agriculture sector in the books of commercial banks/sponsor banks. Further, to avoid double counting, the RRBs would not be classifying such loans granted to agriculture sector (out of loans taken from commercial banks/sponsor banks) as direct/indirect finance to agriculture sector and will also be not showing as a part of their bank credit for the purpose of priority sector lending targets. The Group, therefore, suggests that the RRBs should leverage such opportunity and lend more to agriculture sector.
- 6.4** There is a need for sensitization of the staff and managers of RRBs. Capacity building is necessary for which assistance may be sought from institutions like the College of Agricultural Banking, Pune, BIRD, Lucknow, etc.
- 6.5** RRBs may supplement their income through non-fund based activities. They can leverage on their branch presence in the rural areas to cross sell mutual fund units and insurance products as per RBI instructions in this regard.

- 6.6** Reserve Bank has issued guidelines whereby the RRBs can enhance their resource base by availing lines of credit from their sponsor banks at reasonable rate of interest, access to inter RRB term money borrowings, Repurchase Agreement (REPO) / Collateralised Borrowing and Lending Obligations (CBLO) markets, etc. Sponsor banks, in turn, may actively facilitate such access and provide necessary training to RRB staff. Further, to broaden the activities of RRBs, they have been permitted to issue credit/debit cards, set up ATMs, open currency chests and engage in foreign exchange business and undertake pension/Government business through agency arrangements as a sub-agent.
- 6.7** The weak RRBs in the country have to be recapitalised under a package announced by Union Finance Minister. Accordingly, Government of Jharkhand should consider contributing its share. NABARD should follow-up with Government of India for the Central Government's share.
- 6.8** The Group was apprised that the State Government has agreed in principle to recapitalise the two RRBs but due to budgetary constraints the amount for recapitalisation will be apportioned from the budget for the year 2008-09. In view of the weak financial position of the RRB and policy thrust on greater credit flow under the agriculture sector, the Group recommends that the State Government must recapitalise these RRBs at the earliest.
- 6.9** RRBs have a great role in supporting the initiatives taken by the State Government for supporting the economic development of the State. As a stakeholder, it must be the duty of the State Government to ensure that RRBs are sufficiently empowered to carry out banking business in the State. The State Government must ensure that the guarantees issued by them are accepted by other Government agencies.

6.10 It has been reported that some of the State Government nominees are not attending the meetings of Board of Directors regularly. There is a need to review the role of nominee directors in the Board of RRBs. Wherever the nominee directors are not able to discharge their function due to other official pre-occupation, such directors should be replaced immediately.

CHAPTER – 7

REVIEW OF PAYMENT AND SETTLEMENT SYSTEM IN THE STATE

7.1 Overview of Payment and Settlement System in the State

7.1.1 An efficient Payment and Settlement System is the backbone of any financial architecture. The retail payment system in India comprises paper-based clearing and electronic system. Although important electronic inter bank clearing facilities like Electronic Clearing Service (ECS), Electronic Funds Transfer (EFT) System and Special EFT are gaining importance, yet the paper-based cheque clearing, in terms of volume, is the dominant retail payment system in India, including Jharkhand.

7.1.2 There are over 1,047 clearing houses in the country. Of these, State Bank of India and its Associate banks manage around 1,000 clearing houses. Reserve Bank of India and a few other public sector banks, manage the remaining Clearing Houses. Generally, the banks managing the Clearing Houses also act as the settlement banks. At over 40 centres in India, cheque clearing is done using the Magnetic Ink Character Recognition (MICR) Technology.

7.2 Penetration of Electronic Banking in the State and Payment and Settlement System

7.2.1 There are three districts where Electronic Clearing Service (ECS) Scheme has been introduced in Jharkhand. These districts are: Ranchi, Jamshedpur and Dhanbad. Table 7.1 depicts the ECS volumes in Jamshedpur and Ranchi, where the ECS started in November 2006 and January 2007, respectively.

Table 7.1 – ECS monthly Volume in Jamshedpur and Ranchi
(Amount in Rs. lakh)

Scheme Type	Ranchi		Jamshedpur	
	Volume	Value (Rs lakh)	Volume	Value
ECS (Dr)	3,008	102	13,771	375
ECS (Cr)	592	6	1624	27

It may be observed from the table that there is tremendous scope for inter-bank fund settlement through ECS Scheme. The State Government may consider making payment of salary and pension to its employees through ECS. Data for Dhanbad is not available, as the scheme has been launched there recently.

7.2.2 RBI conducted a survey by circulating a questionnaire among 12 major banks (excluding the private sector banks) having 1,427 branches in the State to assess the reach of electronic banking in the State. There are 260 branches of commercial banks in the State that are networked under the Core Banking Solution (CBS) and together they constitute 16.8 per cent of all the branches (excluding the cooperative banks). SBI has reported the presence of CBS branches in all the 24 districts of the State. Besides, there are 306 ATMs in the State spread over 17 districts, of which 141 ATMs are offsite whereas rest are onsite ATMs. This portends well for the faster movement of funds from other cities of the country through RBI's Payment and Settlement System initiatives for inter-bank funds settlement like Special Electronic Funds Transfer (SEFT) or National Electronic Fund Transfer (NEFT) mechanism. The State Government must see this as an opportunity for faster transfer of funds especially under the Government Sponsored Schemes (GSS).

7.2.3 District-wise distribution of CBS branches is shown in Table 7.2

Table 7. 2 – District-wise distribution of CBS Branches

Sr. No.	Name of the District	No. of CBS branches	Names of the banks having CBS branches
1.	Ranchi	71	SBI, BOI, United Bank of India, Union Bank, PNB, CBI, Canara Bank and Bank of Baroda & All Pvt Sector Banks.
2	East Singhbhum	58	SBI, BOI, ALB, United Bank of India, Union Bank, PNB, CBI, Canara Bank and Bank of Baroda & All Pvt Sector Banks
3.	Hazaribagh	9	SBI, PNB, CBI, United Bank of India, Bank of Baroda and three Private SB
4.	Ramgarh	8	SBI, PNB & Union Bank
5.	Bokaro	23	SBI, Union Bank, PNB, United Bank of India, Bank of Baroda & Pvt. Sector Banks
6.	Dhanbad	35	SBI, PNB, Union Bank, CBI, Bank of Baroda and Pvt. SB
7.	Seraikela Kharsaman	6	SBI & BOI
8.	Deoghar	7	SBI, Union Bank, BOB & PNB
9.	W S'bhum	6	SBI, Union Bank & PNB
10	Chatra	2	SBI
11	Koderma	3	SBI
12	Khunti	2	SBI
13	Simdega	1	SBI
14	Gumla	1	SBI
15	Lohardaga	2	SBI & PNB
16	Palamu	5	SBI & PNB
17.	Garhwa	2	SBI
18	Latehar	2	SBI
19	Pakur	3	SBI
20	Dumka	4	SBI & PNB
21	Giridih	5	SBI & PNB
22	Sahebganj	2	SBI
23	Godda	1	SBI
24	Jamtara	2	SBI

7.2.4 RBI EFT System has not been introduced in the State but there are several branches in the State, whose customers are beneficiaries of receiving payments through SEFT / NEFT System. Incidentally, EFT system also forms the backbone of the inter-bank fund settlement effected through Internet banking on the websites of various banks.

7.2.5 There are 225 Real Time Gross Settlement (RTGS) branches, spread in all the 24 districts of the State.

7.3 Inter-bank funds Settlement and Clearing Houses

7.3.1 In Jharkhand, there are Clearing Houses in 19 out of 24 districts. Dhanbad district has two Clearing Houses, one in Dhanbad town and the other at Chirkunda. One of the important requirements for opening and managing the Clearing House is that the bank having currency chest would act as the settlement agency to cater to the fund requirement of members of the Clearing House. The task of managing Clearing Houses at all the twenty places in Jharkhand, has been assigned to SBI. RBI conducted a special study on Payment and Settlement System in some of the select districts of Jharkhand after the constitution of this Working Group, so as to suggest improvements in faster collection of proceeds of the cheque and introduction of RBI's electronic payment System initiatives in these districts.

7.3.2 The profile of the Clearing Houses along with the average volume of instruments submitted with them is indicated in Table 7.3.

Table 7.3. – Profile of 20 Centres managed by SBI

Sr. No	City /Town	District	No. of member banks	No. of branches	No. of instruments per day
1.	Ranchi	Ranchi	33	144	11,514
2.	Jamshedpur	Jamshedpur	32	116	11, 271
3.	Dhanbad	Dhanbad	29	84	6,312
4.	Bokaro SC	Bokaro	25	36	2,082
5.	Hazaribagh	Hazaribagh	19	20	1,376
6.	Giridih	Giridih	14	16	911
7.	Deoghar	Deoghar	14	20	802
8.	Ramgarh Cant	Ramgarh	15	15	455
9.	Chaibasa	P. Singhbhum	10	10	450
10.	Daltonganj	Palamu	8	12	434
11.	Dumka	Dumka	11	13	154
12.	Jhumri Tilaiya	Koderma	6	6	139
13.	Godda	Godda	5	5	57
14.	Sahibganj	Sahibganj	4	5	38
15.	Lohardaga	Lohardaga	6	6	35
16.	Gumla	Gumla	7	7	32
17.	Pakur	Pakur	6	7	27
18.	Simdega	Simdega	6	6	23
19.	Seraikela	Seraikela	6	6	49
20.	Chirkunda	Dhanbad	3	4	21

It was heartening to note that a number of Clearing Houses have increased during the last one and half years. Five Clearing Houses were opened during the period 2006-07. The clearing operations in all these Clearing Houses have been computerized with the help of RBI's in-house developed Magnetic Media Based Clearing software (MMBCS). Reserve Bank has also provided necessary training to the officials operating this software in the Clearing Houses and service branches of banks. This software is also used at the major centres in the country and it facilitates generation of bank-wise, branch-wise settlement reports and Management Information System (MIS), etc. Thus, there is a respite for the bankers from time-consuming and tedious process of manual clearing and an incentive to introduce clearing for High Value instruments, i.e., cheques with value of over Rs. one lakh each.

7.3.3 The MICR clearing (manual) is undertaken at all the 20 Clearing Houses of the State but the return clearing is undertaken at only 18 centres. The two centres where the return clearing is not done are, Chirkunda and Seraikela. Clearing Houses at Ranchi and Jamshedpur have the highest volumes of cheques lodged, which are cleared through mechanized processing. Incidentally, some of these centres also conduct high value clearing. In the short term, Group recommends that High Value Clearing should be introduced in Dhanbad and Bokaro Steel City and the MICR return clearing may be introduced in two Clearing Houses at Chirkunda and Seraikela. Besides, the MICR /MMBCS return clearing should be undertaken on the same day at all the Clearing Houses of the State.

7.4 Non-Clearing House Districts of Jharkhand

7.4.1 There are five districts in the State, which do not have Clearing Houses. They are Jamtara, Garhwa, Chatra, Latehar and Khunti. A study carried out in these districts reveals that in some of the cases, it takes more than 15 days to collect the proceeds as compared to time taken in local cheques, i.e., the time taken from submission of cheque at the counter of the bank by the customer to collection of proceeds of the cheque in his account. This is despite the fact that the inter-bank cheques are submitted over the counter. At times, the banks have been found to be taking such pleas like absence of staff, high volume of work, etc., to delay the release of payment. It has been observed that the delay is directly proportional to the value of cheques, i.e., the higher the amount (high value cheques are mostly Government cheques), the longer is the time taken to clear the cheques. This is just the reverse of the arrangement in a centre having Clearing House, where high value clearing ensures that the proceeds of the cheques are cleared on the same day.

7.4.2 A study of the clearing arrangements at Chatra – one of the Non-Clearing House districts reveals that in the absence of a Clearing House, the banks are submitting the cheques over the counter to clear the proceeds. There are four banks in the district, viz., State Bank of India, Bank of India, Allahabad Bank and Jharkhand Gramin Bank. Cooperative Bank and Post Office have also shown their inclination to participate in the clearing. Only one bank in the district has the currency chest, i.e., SBI. All the banks, except Allahabad Bank, have accounts with State Bank of India, Main Branch, Chatra. Jharkhand Gramin Bank, Main Branch was having an account with Bank of India.

7.4.3 The banks adopted following methodology to collect the proceeds of the cheques payable locally at any of the branches of other banks.

(i) Cheque is drawn on SBI and presented by Bank of India

Bank of India (BOI) presents the cheque to SBI, Chatra over the counter. SBI advises the presenting bank of clearance and credits the amount in the account of BOI maintained in the main branch. Then BOI credits the amount to the customer's accounts. It takes around seven days to complete the clearing cycle. In a reverse scenario, when BOI is a drawee bank and SBI is the drawer's bank, the time taken is around 3-4 days. SBI cites high volume of work and staff shortage for extra days taken for cheque clearance.

(ii) Cheque drawn on Allahabad Bank and drawer's bank is BOI

BOI submits the cheque for clearance over the counter at Allahabad Bank. If the cheque is cleared, i.e., the customer has sufficient balance in the account for debiting the value of cheque, Allahabad Bank issues a Demand Draft on latter's Hazaribagh branch. BOI has to get it cleared by presenting it in regular clearing at Hazaribagh. This cycle takes 15 days.

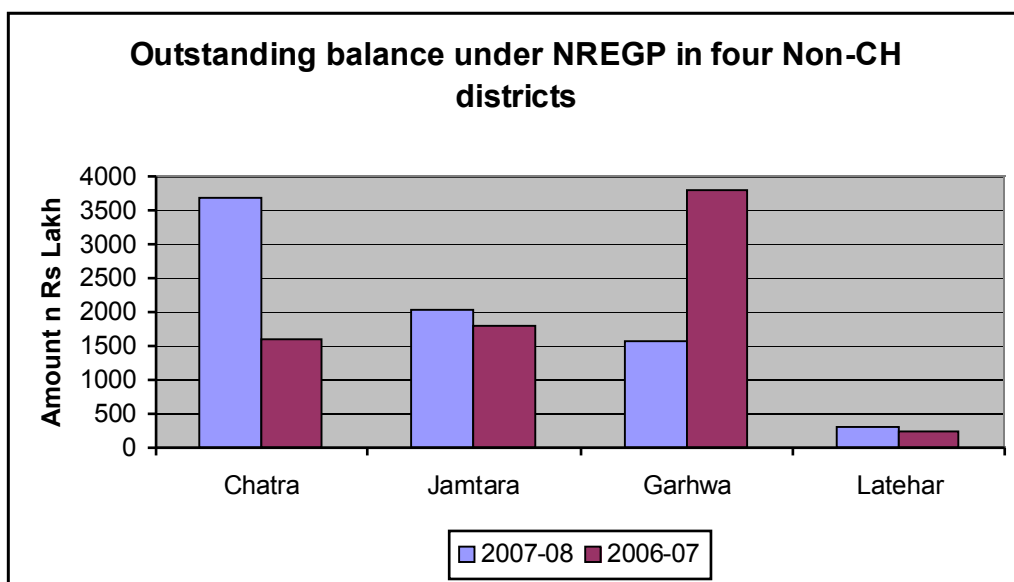
(iii) Cheque is drawn on Jharkhand Gramin Bank

After ascertaining the balance and debiting the customer's account, Jharkhand Gramin Bank issues a cheque drawn on BOI, which is again cleared in the extant clearing arrangement prevailing in the district. The whole process takes a week.

7.4.4 The economy of Chatra district is primarily agrarian with flourishing trading activities in the district Headquarter and adjoining blocks like *Itkhori* and *Simaria*. The transactions are settled primarily in cash, but the government transactions are undertaken through cheques.

7.4.5 Figure 7.1 indicates the funds available under National Rural Employment Guarantee Program in the four districts of the State, where the Clearing Houses are not available, i.e., outstanding balance as on April 01, 2007 and April 01, 2006, respectively. The data for Khunti district was not available with the Ministry of Rural Development, Government of Jharkhand, as this district has been created in September 2007.

Figure 7.1



Source: Ministry of Rural Development, GOI (as on November 17, 2007)
-The amount has been rounded-off to the nearest decimal.

7.5 A case for opening Clearing Houses in five districts

- 7.5.1** The Clearing House arrangements at these five districts do not meet the expectations of either the public or the Government in these districts, where the funds flow under NREGP as well as other Government schemes is very high.
- 7.5.2** As per the information available, Department of Payment and Settlement System (DPSS), RBI has given permission to open Clearing House in Jamtara and Garhwa. The banks may make immediate arrangements for opening Clearing Houses in these two districts and RBI may assist them in their efforts.
- 7.5.3** In other districts like Chatra, Latehar and Khunti, the banks need to pass the resolutions for opening Clearing Houses. Thereafter, they need to approach RBI along with copies of the resolutions and the name of the bank having either Currency Chest or RTGS-enabled, who will manage the Clearing House in these districts.
- 7.5.4** The Group did not receive any specific complaint regarding delay in the collection of proceeds of the cheques in any district. However, a strong need for opening the Clearing Houses is felt in the non-Clearing House districts. The experience elsewhere has been that the delay in collection of proceeds of the cheques has been primarily witnessed outside the Clearing System, i.e., from submission of Cheque at the counter by the bank customers to the lodging of the instrument for clearing and further to the realization of proceeds to the actual crediting of amount in the account of the beneficiary. The system, *per se*, is functioning efficiently, but there is a need to cut down on postal delay in transmitting the cheques from outside the HQs to Clearing House centres. As the communication and transportation system between the district HQ and the remote corners improves in the State, there is likelihood that such delays would be significantly reduced.

- 7.5.5** However, it should be ensured that the Clearing Houses in the five districts are opened with concomitant computerization of clearing operations, using the MMBCS software as this facilitates the same day return of the unpaid cheques. RBI may impart training to the officials on the MMBCS software so as to enable them to handle the clearing operation with ease.
- 7.5.6** The banks managing Clearing Houses in various centres, having cheque volume of 2,000 and above instruments must consider the introduction of High Value Clearing so that the customers and the Government derive the benefit of faster realization of funds.
- 7.5.7** The banks may consider introduction of Electronic Clearing Service (ECS) even if opening of Clearing Houses in some of the Centres are delayed. In order to do this, the banks may identify a settlement bank (which may in future be also the settlement bank for the main clearing) having currency chest branch in the district. RBI may allot the MICR codes to all the branches in the district. The State Government may route all payments to the pensioners, salary to its employees, NREGP beneficiaries and beneficiaries under various Government Sponsored Schemes (GSS) through ECS Scheme. RBI should impart training to the banks on managing the ECS software.
- 7.5.8** The State Government may consider initiating a study to review the procedure of payment between the district HQs and the block. The procedure may be aligned with latest payment system products introduced by RBI so as to reduce the stress on paper-based clearing.
- 7.5.9** Under the Centralized ECS facility, the master file for crediting/debiting the beneficiaries' accounts is processed at Reserve Bank of India, Mumbai. Thereafter, the centre-wise statements are forwarded to the Clearing Houses managed by Reserve Bank of India. These are then forwarded to the concerned banks in a particular centre to credit/debit the beneficiaries' accounts. The banks in Jharkhand have around 260 CBS branches and 225 RTGS branches. Moreover,

State Bank of India is managing all Clearing Houses in the State. In view of the large number of RTGS -enabled and CBS branches available in the State, RBI may examine the feasibility of introduction of Centralized ECS in the State for crediting/debiting the beneficiaries' accounts in the district headquarters, especially utilising the SBI network. This will help in swifter transmission of Government payments in the State.

7.5.10 There are two mechanized cheque processing centres in the State, one at Ranchi and the other at Jamshedpur. As per the extant guidelines, all Clearing Houses processing more than 10,000 cheques per day should introduce mechanized cheque processing. Incidentally, only Ranchi and Jamshedpur have more than the above requisite cheque volumes. Increase in trade and commerce can only generate cheque volumes. Rural branches in the districts can also participate in the clearing at the district HQs by way of becoming sub-members of the concerned Clearing Houses and participating in one or two identified days of the week.

7.5.11 There are still a number of districts in the State, which do not have a back up Clearing House. The member banks of Clearing House in each district should consider identifying one of the member banks as the back up and advise the same to RBI. Such banks should also be responsible for maintaining all clearing related database as also maintaining a skeletal computer peripherals for the purpose.

7.5.12 Apart from the district HQs, the banks may identify other centres with reasonable banking activity and consider opening Clearing House in such centres.

7.5.13 The 260 CBS branches of commercial banks in Jharkhand must initiate steps to extend the inter bank funds transfer facility from anywhere in India under the NEFT scheme. This would solve the problems of inward remittance by the migrant labourers from these districts.

7.5.14 There is a huge scope for the development of tourism in Jharkhand, the banks may consider opening more off-site ATMs in areas of tourist interest.

7.5.15 The banks managing the Clearing House must carry out audit of the Clearing House operations from information and clearing systems point of view.

CHAPTER – 8

OTHER BANKING RELATED MATTERS

8.1 Legislation for Protection of Depositors' interest in respect of Non-Banking and Unincorporated Institutions

8.1.1 During the high level discussions between the Government and RBI officials during the Governor's visit to Ranchi in October, 2007, the Government officials had expressed their concern over the conduct of fraudulent and exploitative operations of some non-banking entities, both companies and unincorporated bodies, in the region. Such entities were reportedly lending at usurious rates of interest, cheating depositors of their hard-earned savings and serving as conduits for money laundering.

8.1.2 The concerns raised by the State Government were considered and deliberated upon in the meetings of the Working Group. In this context, the Group also visited the applicable laws and regulatory systems regarding such entities. After considering the various facets, the Group was of the view that the State Government, may on the lines of some other States, enact an appropriate legislation to protect the interests of depositors and bring such fraudulent entities to book. Copies of legislations of other States, namely, Bihar, Maharashtra and Tamil Nadu have been made available to the State Government. The Group also recommends that the Economic Offences Wing (EOW) of the State Government may be strengthened on the lines of other States so as to detect the unlawful solicitation of deposits by these institutions.

8.2 Construction of Pucca Houses

8.2.1 During the meeting of the Governor, Reserve Bank of India with Hon'ble Chief Minister of Jharkhand, the Chief Secretary informed that *pucca* houses are not available in many villages. Many bank managers hesitated to stay in the villages. In his meeting with Executive Director, National Housing Bank (NHB), Secretary, Government of Jharkhand, Department of Housing informed that the State did not have any housing policy at present and agreed on the need for a housing policy which will not only clarify the role of various agencies in the state, but would also address the housing problems of the deprived section of the State.

8.2.2 The Group therefore, offers the following suggestions:

- (i)** State Government should formulate a housing policy with emphasis on construction of pucca houses in the villages.
- (ii)** NHB should consider formation of a Special Purpose Vehicle (SPV) where State Government shall also contribute partially.
- (iii)** SLBC should include agenda on housing during all meetings in the future and invite persons from NHB to attend such meetings regularly as is done by other SLBCs.
- (iv)** Models adopted successfully in other states can also be emulated, e.g. the model adopted in Haryana where the cost was shared by the owners as well as by the State Government and the family members also put their labour in construction of their houses.
- (v)** NHB should open a sub office in Jharkhand so as to facilitate the implementation of the housing programme of the State Government.
- (vi)** NHB has suggested that the State Authorities should undertake a study with the following terms of reference:

- Study of existing State Housing Profile with respect to type of houses, conditions of houses including structural conditions and availability of basic amenities, etc. (based on either Census 2001 data or any other data as available with the State).
- Various initiatives taken by State Government including implementation of the Central and State sponsored schemes both in rural and urban areas along with year-wise physical and financial targets and achievements.
- Future strategies / plans of the Government in terms of its Housing and Habitat Policy.
- Existing framework of Financial Institutions, viz. Banks, Housing Finance Companies (HFCs) and Co-operative Sector Institutions providing mortgage loans.
- Study on year-wise housing loans disbursed by Financial Institutions and their outstanding portfolio.
- Identification of gaps and constraints with market segmentation, i.e. Poor/Extremely Weaker Section (EWS)/Lower Income Group (LIG)/Middle Income Group (MIG)/Higher Income Group (HIG), etc. for increasing the housing stock as well as housing finance in the State.
- Examination of existing State Land Policies /Laws especially relating to Stamp Duty & Registration Charges, State Agriculture Land Act, State ULCA, State RCA, etc.
- Recommendations for bringing appropriate changes in the existing State Laws.

(vii) NHB have suggested that they have certain refinance schemes, such as:

- Golden Jubilee Rural Housing Finance Scheme to enable increased institutional credit for housing in rural areas.
- Top-up Loan Scheme for providing additional loan over and above the capital grant provided by the Government under Indira Awaas Yojana (IAY) to meet the resource gap in construction of houses in rural areas.

- Productive Housing in Rural Areas (PHIRA), a composite loan scheme, for providing loans for construction /upgradation/repairs of house along with loans for providing income generating assets in rural areas.

The banks may consider availing refinance facility offered by NHB under its various schemes mentioned above.

8.3 Zero-Lending Branches

8.3.1 The State Government pointed out that there is a large number of zero-lending branches in Jharkhand. The Group discussed the issue and came to the conclusion that the State Government, by saying that there are zero-lending branches, meant that there were some branches in the State, which were not lending under the Government sponsored poverty alleviation programmes. The Group was also informed that there were some branches in the State, that have not recorded growth in the incremental advances on year-on-year basis after taking into account the repayment of bank loans.

8.3.2 The State Government had made available a list of 21 such zero-lending branches and 24 branches, which had achieved less than 24 per cent of the target during 2006-07 under Swarnajayanti Gram Swarozgar Yojana (SGSY). These branches are located in following six districts, viz., Latehar, Sahibganj, Dhanbad, East Singhbhum, Hazaribagh and Deoghar. Data received from the districts reveal that there may be more such zero-lending branches in the State. This is a matter of concern.

8.3.3 There is a need to understand the reasons for non-lending under Government sponsored schemes (GSS) by the zero-lending branches. The banks are financial intermediaries and lending is the dharma of each banker. The Group, therefore, recommends that SLBC should conduct a study to identify the zero-lending branches and ascertain the reasons for non-lending by them. In case a branch does not meet the target under GSS, the controlling head of such bank branch must issue necessary instructions to ensure that the targets allocated to such a branch are met with the help of neighbouring branches.

8.3.4 As regards the achievement of less than 25 per cent of target under SGSY, the Group recommends that this matter should be taken up at the State Level SGSY Committee meetings convened under the chairmanship of Principal Secretary / Secretary, Department of Rural Development, Government of Jharkhand. The Group is of the view that there is a need to strengthen this institutional mechanism and the banks must ensure that no less than the senior level functionaries should participate in such meetings. However, the irritants in smooth flow of credit to the individual and group swarojgaris under SGSY must be removed with the help of government agencies. The State Government and NABARD must make available a list of good NGOs in the district. The State Government may also consider initiating steps to strengthen the extension services in the districts both in terms of number as well quality of the staff as that would help in identifying good SHGs. The State Government may also consider providing training to extension officers with the help of NABARD.

8.4 Single Officer Branches

8.4.1 The State Government is of the view that the staff constraint at bank branches restricts the flow of credit in the rural areas as it affects credit appraisal, financing of SHGs, credit in other GSS, recovery of bank dues, etc. As per the data received from the banks, the status of single officer branches of major banks in Jharkhand as on September 30, 2007 is as under.

Table 8.1: Single Officer Branches of RRBs

Sr. no.	Name of the Bank	Total no of Branches	No. of Single Officer Branches
1.	Vananchal Gramin Bank	178	95
2.	Jharkhand Gramin Bank	210	164
Total		388	259

Table 8.2: Single Officer bank branches of commercial banks

Sr. no.	Name of the Bank	Total no of Branches	No. of Single Officer Branches
1	State Bank of India	382	105
2	Bank of India	253	44
3	Allahabad Bank	100	25
4	Union Bank of India	45	10
5	United Bank of India	45	Nil
6	Punjab National Bank	57	14
7	UCO Bank	36	Nil
8	Central Bank of India	55	2
9	Canara Bank	48	Nil
10.	Bank of Baroda	36	7
Total		1057	207

8.4.2 The Group is of the opinion that staff constraint is the biggest impediment in not only normal banking operations of the banks, but also in their expansion plans, especially for RRBs. Banks can overcome the shortage of staff through various methods like recruitment and utilising non-public business working day, etc. The Group recommends that the banks must review the performance of the single officer bank branches and devise suitable strategies so that the normal banking function is not hampered.

8.5 Upgrading of Controlling Offices of banks

8.5.1 The Group recommends that all the banks operating in the State should initiate actions toward keeping one Controlling Head to oversee all their branches in the State. As such, there is a demand from the State Government for an independent circle for Jharkhand headed by a CGM. State Bank of India may examine this. It was also brought to the notice of the Group that branches of some commercial banks were reporting to zonal offices located in Bihar, when there were other controlling offices of the same bank in Jharkhand. The Group recommends that banks must strive to remove such anomalies. Further, RRBs must report to a senior official of the sponsor bank located in Jharkhand.

8.6 Issues pending with the State Government

8.6.1 The Group also examined other demands made by the banks, e.g., exemption of stamp duty, appointment of special recovery officers, amendments in Public Debt Recovery (PDR), strengthening of the office of Lead District Managers and raising of special battalion, etc. The bankers feel that extant provisions under these statutes are acting as impediments in the smooth flow of credit in the State.

8.6.2 Non-exemption of stamp duty on agreements beyond Rs. 15,000 is a constraint as the average financing under various loans is more than this amount. The State Government may consider exemption of stamp duty to encourage the farmers to avail higher loan limits under KCC.

8.6.3 Appointment of Special Certificate Officers in 11 districts of the State on a pilot basis has been part of agenda of successive SLBC meetings. The banks have shown their inclination to share the cost of appointment of such officers and this stems from their concern on the increasing amount locked in pending certificate cases. Table 8.3 given below indicates that, except for the year 2004, there has been a rise in the certificate cases in both number as well as amount.

Table 8.3 – Pending certificate cases in the State since March 31, 2004

(Amount in Rs. crore)

Sr. No.	Banks	As on 31.03. 2004		As on 31.03. 2005		As on 31.03. 2006		As on 31.03. 2007	
		No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
1.	Commercial Banks	33,393	110	33,221	133	54,161	123	84,279	199
2.	RRBs	10,940	7	8,979	8	8,554	8	9,786	10
Total		44,333	117	42200	141	62,715	131	94,065	209

Source: -Agenda papers of SLBC Jharkhand.

-There may be slight deviation in the amount due to rounding off.

8.6.4 The increase in the amount locked in the Certificate cases was a matter of concern. The Group therefore recommends as under:

- (a) The banks and the State Government should expedite the process of appointment of special certificate officers.
- (b) SLBC should advertise in the Newspaper, 'expression of interest' from the willing parties to be appointed as special certificate officers.
- (c) The list of Special Certificate officers to be appointed in different district should be made available to the State Government for issuing notification vesting them with necessary magisterial powers.
- (d) The banks and the State Government should form an institutional mechanism for periodic review of the progress in the disposal of certificate cases. Accordingly, a coordination committee comprising of Officials from State Government, SLBC and the banks should be formed under the chairmanship of a senior State Government official.

8.6.5 The data available in Table 8.3 also reveals that the amount locked in the pending certificate cases have not only been increasing over the years, but the banks have been paying upfront fee at the rate of 10 per cent. This is a typical case of good money chasing the bad money. The State Government may consider amending the PDR Act so as to incorporate payment of fee back-ended. This will also act as an incentive for the State Government to recover the money locked in the certificate cases.

8.6.6 There are many districts in the State affected by increased Naxal activities. It not only undermines the law and order, but pose serious threat to the movement of treasure and risk of crime against banks. The Group has been apprised of the State Government's inclination to raise a special battalion to protect the movement of treasure. The Group recommends that SLBC should take the lead on behalf of the banks to coordinate with the State Government to lay down the modalities for raising such a battalion.

- 8.6.7** It was brought to the notice of the Group that some of the bank branches in the State were not maintaining adequate cash balance for their normal banking requirements. The controlling heads of banks must take a review of all branches, particularly in the rural and semi-urban branches, under their jurisdiction and ensure that adequate cash balance is maintained.
- 8.6.8** It was brought to the notice of the Group that the banks have requested the State Government to provide them with check-off facility in respect of loans extended to the employees of the State Government. The banks argued that loans against the salary of the State Government employees are considerably safe and recovery is prompt. Under the check-off facility, the State Government has to deduct the Equated Monthly installments (EMIs as per the demand raised by the banks) from the salary of the employees and pay it to the banks. The Group recommends that the State Government may consider extending check-off facility to the banks.
- 8.6.9** The Group also examined the need for strengthening the office of the Lead District Managers (LDM). The office of LDM was an important interface between the banks and the State Government as also an important agency for coordinating the efforts of financial institutions in the district concerned for overall economic development of the area. However, some of the districts were either not having a regular LDM or one LDM having the charge of two or more districts. The Group was of the opinion that shortage of staff in such agencies hinders the process of monitoring the ongoing schemes as also the quantum of flow of credit in the districts. The Group, therefore, recommends that the office of LDM must be strengthened by providing adequate staff. Under no circumstances, the LDMs should be given additional charge of other districts. The lead banks should provide proper infrastructure / facilities to the office of LDMs so that they may discharge their duties efficiently.

CHAPTER – 9

SUMMARY OF RECOMMENDATIONS

The recommendations made in this report are summarized hereunder:

Chapter 1 – State Profile

1. The State's contribution to all-India foodgrain production accounted for only one per cent and also has shown a steep declining trend, in spite of 95 per cent of the State's cultivable land being used for foodgrain cultivation. The overall foodgrain yield is also declining over the years. The main reason for backwardness in agriculture in the State could be mono-cropping pattern of cultivation of foodgrains, low consumption of fertilizers, inadequate irrigation facilities, small land holdings, low utilization of high technology in farming, etc. Thus to bring about diversification in agricultural productivity in the State, promotion of efficient use of resources and technology, private sector participation through contract farming and leasing arrangements, evolving new location specific and improved varieties of farm crops deserve future attention. Agricultural research and development must be geared to re-prioritise investment on new technologies so as to supplement the traditional technologies with new advances in bio-technology in order to accelerate the process of diversification. [Para 1.3.6] **Action: State Government/Banks**

2. Irrigation stands out as the most critical requirement for the development of agriculture. The State has about 17 lakh hectares of unused land and the resource-less farmers are unable to cultivate it due to lack of irrigation facilities. Massive public investment is required to utilize this land for agricultural cultivation so as to bring a horizontal expansion in the agriculture sector. The State has good possibilities for minor irrigation projects, which need to be taken up/enhanced on a large scale by public-private partnership or public investment. [Para 1.3.7] **Action: State Government**

3. The agro-climatic conditions of the State are conducive for commercial cultivation of large varieties of fruits, vegetables, flowers and medicinal and aromatic plants. However, the productivity is low due to non-availability of quality planting material and irrigation. Major thrust needs to be given for bringing additional area under plantation and horticulture as also enhancing the productivity level. Adoption of dry land horticulture technology can also lead to development in the sector. [Para 1.3.9] **Action: State Government**

4. Large tracts of hilly and undulated terrain as also the climate in the State are more suited to development of floriculture instead of traditional agriculture. With the launch of National Horticulture Mission and continuous efforts by the State Government to promote investment in the sector, banks need to play a catalytic role by promoting investments in the sector. [Para 1.3.10] **Action: Banks**

5. There is a good potential for commercial cultivation and processing of medicinal and aromatic plants in the State. There is need of greater focus in this area, as cultivation of such plants would also lead to setting up of more processing industries and ultimately call for more investment in the State.

[Para 1.3.12] **Action: State Government/Banks**

6. The State has potential for development of inland fisheries. Against the huge water resources potential available, exploitation is very low. Development of new ponds for composite fish culture, setting up of carp hatcheries, promotion of integrated fish farming along with animal husbandry activities, provision of training and technology to farmers, needs to be taken into consideration for promoting pisciculture. [Para 1.3.13] **Action: State Government/NABARD**

7. The rural industries sector provides employment opportunities to vast sections of the society which mainly comprise of the weaker sections, minorities and women. This sector, in addition, has immense export potential, which needs to be exploited to earn valuable foreign exchange for the country. Handicrafts of Jharkhand reflect the cultural heritage, customs and traditions of the State. The State manufactures handicrafts in cane and

bamboo works, woodcarving, stoneware, brassware, lac based handicraft items, paper mache, terracotta, etc. The State Government may set up a model suitable 'Handicraft Village' in each of the districts of the State for promoting the traditional arts and crafts of the villages by adopting the "One Tambon One Product" model of Thailand. The project could be encouraged by formation of SHGs, in particular women SHGs. This will even encourage setting up of Micro, Small and Medium enterprises in the villages. The State Government may also assist the villagers in marketing their products domestically as well as internationally.

[Para 1.5] **Action: State Government**

8. The Government intends to give boost to tourism sector by attracting higher investment in the areas with tourist potential and to generate employment opportunities through combined efforts of governmental agencies and the private sector. Priority may be accorded to develop eco-tourism, religious tourism, heritage tourism, adventure tourism, amusement parks, resorts and way side amenities. [Para 1.6] **Action: State**

Government

Chapter 2 - Role of Banks and Financial Institutions in supporting the initiatives taken by the State Government for promoting Economic Development

9. Consequent upon carving of the State of Jharkhand from Bihar, the Bihar State Co-operative Bank was not bifurcated to form a separate State Co-operative Bank of Jharkhand. With a view to providing leadership to the short-term rural cooperative credit structure; controlling and providing guidance and support in the matter of operations, administration, investment, monitoring and training support; assisting in appraisal and monitoring of large projects; and refinance assistance to lower tiers, there is an urgent need for formation of State Co-operative Bank in the State. [Para 2.2.5] **Action: State**

Government

10. The Group observed that out of 212 blocks in the State, there were three blocks (all in Chatra district), namely Lawalong, Kunda and Gidhaur, which were unbanked, i.e. there were no bank branches in these blocks to take care of the banking needs of the people. As such, the Group recommends strongly that the Lead Bank in Chatra district may open at least one branch each in all the three unbanked blocks within a period of six months.
[Para 2.2.8] **Action: Lead Bank of Chatra district**

11. The CDR of public sector banks, RRBs and co-operative banks in the State is not up to the desired level. The Group was of the view that the CD ratio depended on several factors such as the demand for credit as also the absorption capacity of various activities in the State's economy. Absorption capacity in turn depended on infrastructure such as roads, power supply, etc. The role of Government in providing infrastructure was crucial for increasing the absorption capacity. The Group, therefore, suggests that the State Government should strive for improving the various infrastructures in the State so as to increase the State's absorption capacity.
[Para 2.3.5] **Action: State Government**

12. The outstanding priority sector advances, including agriculture, SSI and Other Priority Sectors, of all banks in the State, as percentage to total advances in the State, had shown a declining trend in recent years. The Group was of the opinion that banks need to be geared up in the area of lending to weaker sections category, SC/ST, women and minority communities, where it has shown a negative growth rate in the year 2007 as compared to the previous year. In fact, the banks need to be cautioned on the entire key parameters, as the average annual growth rate has come down drastically in the year 2007.
[Para 2.4.4] **Action: Banks/SLBC Convenor Bank**

13. The banks have not been achieving the targets set under Annual Credit Plans for almost all the years, i.e. 2002-2003 to 2006-07, except in one or two years. As agriculture provides livelihood to about 80 per cent of the State's population and there is a declining share of agriculture and allied activities in NSDP, the Group suggests that the Annual Credit Plans may be prepared taking into account the potential available and the targets

for various sectors may be set accordingly. All banks need to achieve the target set under the ACP in all sectors. [Para 2.5] **Action: Lead Banks/NABARD/SLBC**

Convenor/Banks

14. The Group strongly feels that the banks need to step up their lending to agriculture sector in view of the importance given to it in terms of its employing to a huge workforce. Though, the agriculture lending target of 18 per cent of Adjusted Net Bank Credit (ANBC) or Credit Equivalent amount of Off-Balance Sheet Exposures, whichever is higher, has been stipulated for domestic commercial banks on an all-India basis, the Group recommends that all banks in the State may raise their lending to agriculture sector so as to reach at least 18 per cent of ANBC in the State. The banks should also provide investment credit to farmers so as to enhance the credit absorption capacity.

[Para 2.7.3] **Action: Banks**

15. In order to take banking facilities at the doorstep of the farmers especially during crop seasons to offer them the services related to application, processing, sanction, documentation and disbursal through a 'single window' system, the Group recommends that the banks in a particular region may organize credit camps in association with the State Government.

[Para 2.7.4] **Action: Banks/State Government**

16. The State has 8,59,200 farmers, of which 7,90,220 are with landholdings and 68,980 are oral lessees/tenant farmers. The data indicates that private sector banks and RRBs in the State have either not been issuing or issuing very few number of KCCs as against the target during all the years from 2001-02 till 2006-07, except in the year 2004-05. The Group, therefore, suggests that all banks, including private sector banks and RRBs, may set a self-set target to cover all the farmers of the State through issuance of KCCs within a period of one year. The SLBC Convenor bank may ensure that the self-set targets by the banks are fixed in such a manner so as to cover all eligible farmers by March 2009.

[Para 2.7.7] **Action: Banks/SLBC Convenor**

17. It is learnt that KCCs are being issued to eligible farmers only for crop loans, while term loans for agriculture and allied activities have not been covered under the scheme so far, though the revised scheme provides for a single window platform for comprehensive loan requirements. It is also learnt that the limit is being fixed without taking into consideration the scale of finance, actual land holding, repaying capacity of borrowers, etc. The Group, therefore, recommends that the Controlling Offices may advise all the branches to strictly follow Reserve Bank/NABARD guidelines. [Para 2.7.8]

Action: Controlling Offices of Banks

18. The Group was of the view that KCCs may be issued to the tenant farmers/oral lessees/landless farmers/share croppers on the basis of certificates provided by local administration/Panchayati Raj institutions regarding the cultivation of crops by them. [Para 2.7.9] **Action: Banks/State Government**

19. The stamp duty requirements for farmers not only adds to the cost of loans but also leads to delays on account of non-availability of stamp paper in remote places. The Group was of the view that the State Government may consider exemption of stamp duty, the collection of which was very insignificant at present, to encourage the farmers to avail higher loan for agriculture sector.

[Para 2.7.10] **Action: State Government**

20. In order to avoid delays in sanctioning of loans and increase in the transaction cost to the farmers, the Group suggests that the State Government should take steps to update and computerize the land records.

[Para 2.7.11] **Action: State Government**

21. The percentage of recovery to demand of agricultural advances by banks in the State has been declining over the years. The Group, therefore, suggests that all banks in the State should make all out efforts, with the help of State Government's District Administration, and conduct frequent recovery drives, so as to maximize recovery. [Para 2.7.12] **Action: Banks/State Government**

22. Inadequacy of farm credit continues to be one of the major bottlenecks hindering the growth of agriculture in the State. The State has a large number of farmers with small and fragmented land holdings. Thus, there is little scope, in terms of viability, for banks to provide investment credit to farmers. The Group was of the view that in order to bring about diversification in agricultural productivity in the State, promotion of efficient use of resources and technology, private sector participation through contract farming and leasing arrangements, evolving new location specific and improved varieties of farm crops deserve future attention. Agricultural research and development must be geared for re-prioritisation of investment on new technologies so as to supplement the traditional technologies with new advances in bio-technology so as to accelerate the process of diversification. State Government in close coordination with banks need to work on above issues. [Para 2.7.13] **Action: Banks/State Government**

23. The Group felt that one of the main reasons for backwardness in agriculture in the State is poor irrigation facilities. A visit to the Kansar and Bargoda blocks of Hazaribagh district and interaction with several farmers suggest that creation of check dams in their areas to harness water from River Lapasiya, which is a live stream can ensure water for farming. This will benefit the farmers in both the blocks, i.e., Kansar and Bargoda. However, creation of check dams in the nearby river can ensure water supply to more than 100-150 villages in two blocks. The Group took note of the above and accordingly recommends that the SLBC convenor bank in consultation with NABARD and the State Government may survey different blocks in the State, where the irrigation facilities can be created in the short term (say over a period of 9-12 months) in medium term (say 1-3 years) and long term (more than 3 years). [Para 2.7.15] **Action: SLBC Convenor Bank/NABARD/State Government**

24. The Group was informed that the State Government has started various irrigation projects, but they are not nearing completion. The Group, therefore, suggests that the State Government may take up the task of creating irrigation infrastructure like check dams in various areas as a priority, with the help of NREGP beneficiaries, and may also constitute a time frame for completion of the irrigation projects, as also improve the disbursement level under RIDF.

[Para 2.7.16] **Action: State Government**

25. The agricultural extension system is the conduit pipe between the research institutions and the farmers for conveying to the farmers improved agricultural technology, which can increase their yields and incomes within the framework of their environment and assets. The main ingredients of reform in extension services should be (i) active involvement of farmers through user groups/associations; (ii) increasing the use of media and information technology including cyber kiosks to disseminate knowledge of new agricultural practices; and (iii) information on output and input prices and inducting agricultural graduates and NGOs to offer extension advice. For enhancing extension system, the Group suggests that the Government agencies should join hands with private and community driven organizations. [Para 2.7.17] **Action: State Government**

26. The State Government has initiated a massive programme for establishment of "Common Service Centres" (CSC) using ICT. These could be effectively used for collection of data as also for dissemination of information / providing technical inputs particularly relating to agriculture. Suggestions to improve the situation are given below:

(i) Various Government agencies, in consultation and support with Research Institutes, banks and NABARD, may devise a **common development programme** for agricultural extension for Jharkhand;

(ii) The State Agriculture Management and Extension Training Institute (**SAMETI**), presently serving as Nodal Agency for organisation and coordination of Agricultural Extension activities in the State, may join hands with the Agricultural Technology Management Agency (**ATMA**), presently working in 12 districts of Jharkhand. All the twenty four districts of Jharkhand may be covered under the scheme of ATMA;

(iii) The extension system can be very effective in Jharkhand by using the services of **Individual Rural Volunteers**. NABARD may provide training relating to extension system to the ex-servicemen, retired school teachers, retired govt. employees, educated youth, members of Farmer clubs, etc., who can serve as Individual Rural Volunteers;

(iv) Modern farm practices and standardised technology available in Agriculture research centres needs to be converted to bankable schemes so that the result of Research and Development can be brought to field. Agriculture research centres need to have regular interface with the banks, financial institutions, NABARD, Corporate sectors and NGOs;

(v) To make agriculture extension system more effective, the financial institutions need to be involved through the representation of District Development Managers of NABARD and Lead District Managers in the Management body of ATMA at district level.

(vi) For capacity building of NGOs, sensitisation programmes and exposure programmes for field officers of banks may be organised by SAMETI on region specific advanced technology in agriculture and allied activities.

(vii) The Farmers' Clubs and SHGs could work as an effective link in the extension process.

(viii) The extension system needs to cater to the requirements of the tenant farmers, share-croppers, farmers with small area of land, women farmers, who form the larger chunk of the farming community.

(ix) The Agriclincs and Agribusiness centres (ACABC) by agriculture graduates could strengthen/supplement the extension services. As the farmers in the State are not used to paying for the technical advice / services received, some Government support would be required to improve their viability. The Government could consider using ACABCs for providing extension support i.e. they could be paid for providing support to the farmers.

[Para 2.7.18] **Action: State Government/NABARD/Banks**

27. An efficient agricultural marketing is essential for the development of the agriculture sector as it provides outlets and incentives for increased production. The Group is of the view that the State Government may consider enacting a separate APMC Act on the lines of the model Act suggested by Government of India. [Para 2.7.19] **Action: State Government**

28. Producing certified seed is a good way to add value to crops and profits to the farm operation. In Jharkhand, there is need for development of private sector seed companies. The Group suggests that banks may consider giving a boost to this sector which will go a long way in providing quality seeds to the farmers, which will lead to higher productivity. [Para 2.7.20] **Action: Banks**

29. A vital facility required in Jharkhand is the availability of reliable seed certification agencies. A dependable Seed Certification Authority is perhaps the most important indicator of a mature seed industry. Given the demand for more and more seed certification agencies, banks must finance Seed Testing Laboratories in the private sector. [Para 2.7.21] **Action: Banks**

30. There is tremendous scope for cooperative development and milk route development through institutional arrangements with milk processing plants. Following suggestions are suggested to boost the sector:

- a. The State Government could promote milk cooperative societies and milk unions on the AMUL pattern in all potential districts. It may be ensured that adequate backward-forward linkage infrastructures are strategically provided depending on potential. The State Government may also consider setting up of State level milk cooperative federation.
- b. The State Government may start milk collection using refrigerated tankers from as many villages as possible. Small size refrigeration tanker jeeps can also be used in case of smaller volume of collection.
- c. The State Government may consider a major livestock upgradation programme, if necessary in consultation with National Dairy Development Board, Government of

India, National Dairy Research Institute, BAIF Development Research Foundation, Indo-Norwegian Collaboration, Indo-Swiss Collaboration, etc. to upscale the availability of cross bred high yielding animals.

- d. The State Government may consider giving incentives to the local NGOs, Dairy Societies, PACS/LAMPS, Agricultural Universities, KVKs, etc. to periodically hold organised cattle markets so that there is a supply of good quality cattle for purchase.
- e. The Gokul Gram Yojana in the State may be monitored closely and steps to integrate the selected centres with various other development initiatives like rural roads, milk collection network, drinking water projects, etc. may be undertaken.
- f. More number of Dairy Farmers' Training Centres may be started in various districts of the State to impart efficient management practices.

[Para 2.8.1] **Action: State Government**

31. Development of new ponds for composite fish culture, setting up of carp hatcheries, promotion of integrated fish farming along with animal husbandry activities, providing training and technology to farmers need to be taken into consideration for promoting pisciculture. This calls for initiatives from State Government for providing infrastructure and from banks for active participation in providing loans and additional related services.

[Para 2.8.2] **Action: State Government/Banks**

32. There is a good scope for expansion/strengthening of sericulture activity so as to provide additional livelihood income for the rural poor in the State. The Group was of the opinion that there is an urgent need to take over the lead role in promoting this activity by banks. The banks may extend loans to the people dealing in this activity through issuing Kisan Credit Cards, etc. The Group suggests that banks may take steps in forming the tribal people engaged in this activity into SHGs and link them with credit. [Para 2.8.3]

Action: Banks

33. The banks may consider granting loans to Reeling and Spinning units as well as to the women groups formed. Looking into the capacity of the State to produce tussar silk, the Group suggests that, under the NREG Scheme, the State Government may initiate plantation of host trees (Ber, Kusum and Palash) extensively for sericulture and lac cultivation. This step would provide employment to rural beneficiaries under NREG Scheme as also benefit the people engaged in sericulture activity and lac cultivation.

[Para 2.8.3] **Action: Banks/State Government**

34. Jharkhand is the leading producer of lac in the country. To strengthen lac production, the requirements are to increase the cultivation of number of trees per unit area of land, its productive capacity, and to organise marketing of lac and ensure stability in prices. There is ample scope for promotion of intensive cultivation of lac by raising short gestation host plants like Flemingia Semialata with combination of Galwang and Ber. The lac development scheme of Forest Department aims to ensure the availability of lac host plants to the lac producers in the State. The potentials of the activity can be harnessed by promoting Lac Cooperatives, producers companies, SHGs, etc. Banks may also popularise bankable schemes including setting up processing units. Entrepreneurs can also be encouraged to exploit the potential.

[Para 2.8.4] **Action: Banks/State Government**

35. The agro-climatic conditions of the State are conducive for commercial cultivation of large varieties of fruits, vegetables, flowers and medicinal and aromatic plants. However, the productivity is low due to non-availability of quality planting material and irrigation. The measures to develop the sector are discussed below:

- i. The activities of the Vegetable Federation (Veg Fed), to promote modern agricultural practices in vegetable cultivation among the farmers and to provide them with undertaking opportunities, may be upscaled to provide forward-backward linkages. The federation may work in close coordination with NABARD and banks to enhance flow of credit to the sectors. SHGs, JLGs, Farmers' Clubs, etc. maybe promoted under the aegis of the Federation to bring about access of small and marginal farmers to banks and markets.

- ii. Corporate sector may be encouraged to have direct link with farmers through banks, PACS/LAMPS/Veg Fed, etc. to smoothen the supply chain and improve Farm Gate prices.
- iii. The State Government may take steps to popularise the advantages under the National Horticulture Mission and district level Task Forces may be constituted to review the progress.
- iv. A special drive to ground the Agriculture Export Zone and to identify entrepreneurs may be launched under the initiative of the Government of Jharkhand.

[Para 2.8.5] **Action: State Government/ Banks**

36. The Group has observed that the State has immense potential for increasing the agricultural productivity as also the various activities allied to agriculture. It, therefore, suggests that each bank in the State may have core competence at least in any one of the activities relating to agriculture. This will ensure automatic upheaval of agriculture and allied activities productivity.

[Para 2.8.6] **Action: Banks**

37. The State has got potential for establishment of small and medium (manufacturing and service) enterprises. The Group was of the view that there is great scope for lending to the SSI sector by banks in the State. The Group also observed that though the average year-on-year growth rate in bank credit in the State has been 26 per cent, the year-on-year growth rate in lending to SSI sector has been around 17 per cent only. The Group, therefore, recommends that the banks may increase their lending to small and medium enterprises sector by adopting cluster approach. [Para 2.9.3] **Action: Banks**

38. The Group was of the opinion that the main constraint hampering the growth of small and medium enterprises in the State is lack of infrastructural facilities, including roads, and marketing opportunities. The Group also feels that lack of adequate supply of power is the major constraint for growth of SMEs in the State. The Group, therefore, suggests that the State Government may ensure provision of necessary infrastructure, especially continuous and uninterrupted power supply to the industrial estates, as also marketing

avenues. In fact, the Public-Private Partnership model may be adopted for provision of necessary infrastructure in the State. [Para 2.9.4] **Action: State Government**

39. The Group was informed that the banks are not following the Reserve Bank guidelines on collateral/security norms for lending to SSI sector. The Group, therefore, suggests that all banks should strictly follow the guidelines stipulated by Reserve Bank of India in respect of collateral security/margins for granting loans to small and medium enterprises. They should also consider granting collateral free loans up to Rs. 25 lakh under the CGFTSI scheme of SIDBI.

[Para 2.9.5] **Action: Banks**

40. The Group observes that the linkage established by banks with SHGs in the State has not been phenomenal, though efforts have also been made by the State Government in formation of groups in the tribal areas working in the activities relating to sericulture, handlooms and handicrafts. The Group, therefore, suggests that, SHGs being successful in other States in cutting transaction costs as also reaching the unreached, the State Government, NABARD and NGOs should take the lead in formation of SHGs and then the banks can provide credit linkage to them. The ultimate objective should be to transform the SHGs into self-sufficient micro-enterprises.

[Para 2.10.4] **Action: State Government/NABARD/Banks**

41. Training unemployed persons to prepare project profiles, product design, product promotion, pricing, marketing, accounting and acquainting them with bank procedures and formalities, etc. could provide them opportunities for gainful self employment and promote micro credit. Some banks have set up Rural Development and Self Employment Training Institutes (RUDSETI) in certain States for imparting training exclusively to the rural unemployed. The Group was of the opinion that such measures evoke very good response from borrowers and facilitates enlargement of bank clientele. It, therefore, recommends that Allahabad Bank, State Bank of India and Bank of India may consider setting up similar institutes in at least three major cities of Jharkhand within a period of six months. Allahabad Bank may also set up an Entrepreneurship Development Institute with the help of State Government. [Para 2.10.5] **Action: Allahabad Bank/State Bank of India/Bank of India**

42. The targets set under SGSY and PMRY have never been met over the last six years. While, the achievement level against sanction under SGSY and PMRY schemes has been quite satisfactory, the recovery against demand during the years has been very poor. The Group was of the view that achieving the physical and financial targets by the banks has been the primary focus area and the aspect of loan recovery has not been given adequate importance. Block Level Bankers' Committee (BLBC) has to play a larger role in the selection of beneficiaries and preparation of appropriate and implementable project reports. The Group, therefore, suggests that Block Level Bankers' Committee (BLBC) should identify key activities for flow of credit under SGSY scheme to ensure quality financing and non-rejection of large number of applications. Since the selection of beneficiaries and preparation of appropriate and implementable project reports are the corner stones for the successful implementation of any GSS, all the agencies responsible for the same, i.e. borrowers, bankers and Government officials, should work in unison for achieving the objectives of these schemes and creating a congenial environment for promoting entrepreneurship. Government agencies such as District Rural Development Agency (DRDA), District Industries Centre (DIC), Women Development Corporation (WDC) and NABARD have to play a pro-active role in capacity building and training of the prospective entrepreneurs. [Para 2.11.4] **Action: State Government/Banks/NABARD**

43. Banks should organize recovery camps periodically in close co-ordination with the district administration. The Government should extend all necessary co-operation and assistance in the recovery drives. The branch managers should actively follow up the borrowal accounts after disbursement of credit for ensuring successful implementation of the projects and timely recovery.

[Para 2.11.5] **Action: Banks/State Government**

44. The government, banks and all other stake holders may participate in the Village Development Plan, introduced by NABARD, so that there is a ripple effect of all round development in adjoining villages.

[Para 2.13.2] **Action: State Government/Banks/NABARD**

45. In order to optimise the benefits from RIDF projects and enhance the credit absorption capacity in the rural and semi-urban areas, the Group recommends that the State Government may implement all the sanctioned projects under RIDF. [Para 2.13.5]

Action: State Government

46. The Group also feels that, looking into the position of rural infrastructure in the State and the low CD ratio in rural and semi-urban areas, NABARD may consider increasing the normative allocation for Jharkhand for loans under RIDF. Though, the normative allocation for the State of Jharkhand under RIDF XIII has been fixed at Rs. 350 crore, the State Government has submitted project proposals to NABARD, for which Rs. 189.56 crore has been sanctioned. The State Government may take measures for submitting project proposals to NABARD for sanction. [Para 2.13.6] **Action: NABARD/State**

Government

47. Consequent upon the announcements made by the Union Finance Minister in his budget speeches for the years 2006-07 and 2007-08, separate windows under RIDF XII and XIII for rural roads component under Bharat Nirman have been set up with NABARD with a corpus of Rs. 4,000 crore each during 2006-07 and 2007-08. Under the scheme, the loans are granted to a special purpose vehicle, National Rural Roads Development Agency (NRRDA), by NABARD for rural roads in all States. The Group was of the opinion that the State Government may stress upon Government of India to give preference to Jharkhand for construction of rural roads. [Para 2.13.7] **Action: State Government**

48. Banks need to promote Farmers' Clubs, as they play the important role of disseminating information on latest farm technologies, the ethics of repayment of bank loans, etc., in all their branches. Vananchal Gramin Bank has the distinction of being the only bank in the country to have farmers' clubs in all its 178 branches. [Para 2.13.11]

Action: Banks

49. The Group was informed that the SLBC meetings are generally held regularly on a quarterly basis, except on some occasions. It was learnt that the SLBC office of Allahabad Bank was not adequately staffed (only two officers) in order to perform all its functions in an efficient manner. The Group, therefore, recommends that, in view of SLBC being the most important and apex level forum for discussion of the implementation of development programmes in the State, the SLBC meetings may be held regularly on a quarterly basis, without fail. The Group also suggests that Allahabad Bank, the SLBC convenor bank in Jharkhand, may be adequately staffed to undertake extensive work called for in the State. [Para 2.16.3] **Action: SLBC Convenor Bank**

50. In order to have a thorough check on the working of the banks' branches, the Group suggests that, Zonal Managers must visit all their branches in the State within a couple of months and come out with plans to plug deficiencies, enhance financial inclusion and step up credit substantially. CMDs/EDs of all banks should also visit Jharkhand during the next couple of months, take stock of the business in the region and prepare action plans for their respective banks for playing a more effective role in the development of the state in the light of the recommendations made in this report. An Action Taken Report should be submitted by the CMDs of banks to the Reserve Bank within three months.

[Para 2.16.4] **Action: Banks**

Chapter 3 – Measures to enhance greater outreach/penetration of the banking system in Jharkhand

51. The Working Group notes that poor access to the banking facilities due to higher APPBO may not achieve the overall objective of financial inclusion as also hamper the implementation of government schemes like NREG Scheme. The NREG scheme provides for wage payment to the beneficiaries essentially through banking channel. The State Government expects that there would be more than 27.5 lakh NREG beneficiaries in the State and wage payment to the tune of Rs. 3,500 crore had to be paid every year. Further, more than 2 lakh old age pensioners are facing difficulties in drawing pension in time. In order to enhance the banking outreach in the State, the Group recommends that the commercial banks, including RRBs, may consider opening 350 branches in those

areas of the State, which are under-banked and especially in the 12 districts having very high APPBO, over a period of two years. The State Level Bankers' Committee may decide on the modalities for allocation of the number of branches to be opened, to the various banks operating in the State. The banks may apply for branch licence for opening of branches in the State to the Reserve Bank of India on a priority basis. [Para 3.3.3]

Action: SLBC Convenor Bank/Banks/Reserve Bank of India

52. The State Government is in the process of constructing new multi-purpose Panchayat Bhawans in the State. The State Government has also shown its willingness to provide space, without any rent for premises for one year, in the Bhawans for opening of bank branches, till the time they find a suitable place for setting up the branch. With a banking network of 1,661 branches, the Group was of the opinion that it would not be possible for the State Government to pass on the benefits of the NREG Scheme to the beneficiaries without the banks' enhancing their banking outreach. The Group, therefore, feels that to bring every adult population of the State within the reach of formal financial system, the banks need to strive to provide banking facilities in each Panchayat in the long run. The banks should leverage the opportunity being provided by the State Government. However, the best option in the short run would be to encourage branch-less banking extensively in the State. [Para 3.3.5] **Action: Banks**

53. The Working Group also suggests that, pending grant of branch licences by the Reserve Bank for opening of new branches in the State, the banks may consider introducing mobile vans on pilot basis, immediately, in the under-banked areas, which are relatively safer areas of the State, as an immediate step, for overcoming the problem of access of banking facilities in such areas. The mobile vans could go to different locations on different days of the week and come back to headquarters by weekend. This service could be started in the districts in Santhal Parganas, i.e. Dumka, Jamtara and Godda districts immediately. This would greatly help the NREG beneficiaries to get their wages credited directly in their accounts. [Para 3.3.6] **Action: Banks**

54. The banks were of the opinion that operation of Mobile Vans would require adequate security, which should be provided free of cost by the State Government, to enable them to run the service on viable basis. The Group, therefore, recommends that the State Government may provide security arrangement free of cost, if possible, for introduction of mobile vans in the above-mentioned districts to enable the State to move towards the way to achievement of 100 per cent financial inclusion. The Group also suggests that the issue of providing adequate security should be taken up by banks with the State authorities immediately. The Group also recommends that the cash retention limit of the mobile vans should be around Rs. 5.00 lakh.

[Para 3.3.6] **Action: State Government/Banks**

55. The major hurdle for opening of new branches in the State was considered to be acute shortage of staff. The problem was more acute in RRBs as the issue of recruitment of staff rests with the concerned sponsor bank. In view of the mandate to achieve 100 per cent financial inclusion in the State and looking to the problems encountered by the branches in the State, the Group suggests that the management of the concerned banks should review immediately all such branches in the State which are inadequately staffed as also the future requirement of opening new branches in the State, and find a solution within six months for ensuring smooth functioning of such branches.

[Para 3.3.8] **Action: Banks**

56. The Group agreed that poor penetration of banks in the rural areas has resulted in the rural populace being in the firm grip of the moneylenders. It is, therefore, imperative that concerted efforts are made by the banks towards financial inclusion of the large section of the people, who are deprived of the basic banking facility. The banks should adopt broad approach to financial inclusion aimed at 'connecting people' with the banking system.

[Para 3.4.4] **Action: Banks**

57. The Group was of the opinion that the best benchmark to assess the degree of reach of financial services to the population of the State would be the quantum of deposit accounts (current and savings) held as a ratio to the number of households in the State. With a view to achieving 100 per cent financial inclusion in the State, the Group suggests that all banks, including private sector banks, in the State may make all out efforts in opening of bank accounts of all households, by issuance of GCC cards, opening of no-frills accounts and KCC cards, within a period of three years. The Lead Banks in the State may play a coordinating role in all efforts being initiated by the banks. The SLBC Convenor bank may prepare a calibrated plan in this regard. The progress in this regard, as also any problems being encountered in achievement of the target, may be discussed in all SLBC meetings. [Para 3.4.6] **Action: SLBC Convenor/Banks/Lead Banks**

58. Banks need to redesign their business strategies to incorporate specific plans to promote financial inclusion of low-income group treating it both a business opportunity as well as a corporate social responsibility. Since large sections of low-income group transactions are related to deposits and withdrawals, with a view to containing transaction costs, 'simple to use' cash dispensing and collecting machines akin to ATMs, with operating instructions and commands in vernacular language would greatly facilitate financial inclusion of the rural and semi-urban populace. This will also contain transaction costs. In this regard, it is worthwhile to emulate the example of 'e-Choupal' project brought forth through private sector initiative.

[Para 3.4.7] **Action: Banks**

59. The Group observed that the take off under GCC scheme and opening of no-frills account in the State was very poor, especially in Godda district. The Group, therefore, recommends that the banks should step up opening of no-frills accounts as also issuing of GCCs in the rural and semi-urban areas. The Group observed that though the SLBC had identified Ranchi district for achieving 100 per cent financial inclusion, the same had not been achieved even after one and a half years of time. The Group, therefore, recommends that 100 per cent financial inclusion should be achieved in three districts, i.e. Ranchi, Jamtara and Hazaribagh within a period of six months. The SLBC convenor bank

may consider allocating targets for issuing of GCC, KCC and opening of no-frills accounts, to all banks immediately.

[Para 3.4.8] **Action: Banks/SLBC Convenor Bank**

60. The group was of the opinion that given the huge demand for banking services in the rural areas, 'branchless banking' could be the ideal solution. The Group, therefore, recommends that the Reserve Bank of India, Ranchi, along with senior officials of State Government, bankers and SLBC Convenor bank, may arrange for a visit to Andhra Pradesh to study the project adopted by State Government of Andhra Pradesh. The officials should be of relatively higher management to enable them to take immediate decision in the matter.

[Para 3.5.9] **Action: Reserve Bank of India, Ranchi/State Government/banks/SLBC Convenor Bank**

61. The Group also recommends that all the banks in Jharkhand should adopt any one of the above-mentioned information technology-based financial inclusion models to achieve the overall objective of financial inclusion by cutting the transaction costs. The State Government may also consider bearing the major portion of the cost of smart cards and other devices used in the project.

[Para 3.5.9] **Action: Banks/State Government**

62. The main concern of the State Government was to credit wages payment to the 27.5 lakh NREG beneficiaries and 2 lakh pensioners through bank accounts so that there are no leakages in the system. The Group was of the opinion that adoption of the above IT based technology for improving the banking outreach would be the perfect solution for this. In view of inadequacy of electricity in the rural and semi-urban areas of the State, the banks may explore the possibility of using solar energy based hand held devices for biometric cards.

[Para 3.5.10] **Action: Banks**

63. The Group felt that the absence of proper financial counseling, coupled with inadequate financial literacy levels has often resulted in pushing consumers towards costlier options and eventual debt traps, thus leading to an urgent need for the same in all the areas in the State. The Group observed that the SLBC Convenor bank in the State had not yet set up any financial literacy-cum-counselling centre so far. The Group, therefore, recommends that the SLBC convenor bank shall immediately set up a credit cum financial counselling centre in two districts, preferably in Jamtara and Khunti districts, initially and then in all the districts of the State within a period of one year. [Para 3.6.4]

Action: SLBC Convenor Bank

64. The Group also recommends that Bank of India may open financial literacy-cum-credit counselling center at Gumla within a period of three months on the lines of 'Abhaya' opened at Wardha in Maharashtra by them. The objectives of these centres would be to advise people on gaining access to the financial system including banks, creating awareness among the public about financial management, counseling people who are struggling to meet their repayment obligations and assist them resolve their problems of indebtedness, helping in rehabilitation of borrowers in distress, etc. The centres could even train farmers/women groups to enable them to start their own income generating activities to earn a reasonable livelihood.

[Para 3.6.4] **Action: Bank of India**

65. The Group also recommends that the State Government, Reserve Bank, Ranchi and the SLBC convenor bank may extensively launch financial literacy programmes in the State. This could be done by launching an awareness campaign through media, newspapers, road shows, street plays, etc. Reserve Bank, Ranchi Office should also attempt creating content / material for financial literacy drive with local flavour and culture. The SLBC convenor bank may take a lead with the help of other major public sector banks and State Government and conduct an awareness campaign of the various financial products and recovery by publishing in local newspapers, through media (television and radio) and also through audio-visuals during the major festivals in the State. The cost may be shared by all the banks depending on the proportion of their

presence in the State. [Para 3.6.5] **Action: Reserve Bank of India, Ranchi/State Government/ SLBC Convenor Bank**

66. The Group recommends that there be a Banking Services Facilitation Centre at each village in the State. It's role would be to act as a link between the bank servicing the region and the residents of the village, promotion of banking services, resolving savings and credit needs of the residents of the village. The aim of such centre should be to achieve total financial inclusion. The State Government may institute an award for attainment of this goal. Village Panchayats may be groomed for this role. They can also act as business facilitators / correspondents for banks. [Para 3.6.6] **Action: State Government**

67. The achievement in all innovative measures for financial inclusion needs to be monitored at regular intervals. The Group suggests that the banks should set up, at controlling office level, an efficient monitoring system to ensure implementation of strategies for financial inclusion. Senior officers from banks' Regional Office/ Zonal office or head office visiting the branches should record their special report on the achievement of financial inclusion and the performance reviews placed before the Boards of respective banks annually. The achievement level under all measures may be reported to Reserve Bank, Ranchi Office on a quarterly basis for efficient monitoring. Similarly, DCC and SLBC fora should also review the progress at regular intervals. [Para 3.7.1] **Action: Banks**

68. The Group observed that the guidelines issued by Reserve Bank of India relating to financial inclusion are not being followed by the banks in true spirit in the State. In order to augment and monitor the initiatives of 100 per cent financial inclusion in the State, the Group suggests that a special sub-committee of SLBC may be constituted in the State, with Executive Director of the SLBC Convenor Bank as the chairman and senior officials of banks in the State as members. The General Manager-in-Charge, Reserve Bank of India, Ranchi may act as the facilitating factor. [Para 3.7.2] **Action: SLBC Convenor Bank**

69. The banks may consider introducing a reward system for achieving 100 per cent financial inclusion in the villages allocated to them. This system may induce the bank branch managers to prepare strategies within the policy measures for enhancing financial inclusion. [Para 3.7.3] **Action: Banks**

70. The Group observed that the KYC guidelines for low-income group people needs to be further simplified for opening of accounts in the rural areas of Jharkhand. To enable banks to open accounts of low-income people, especially beneficiaries under the Government sponsored schemes including NREG scheme, Reserve Bank may consider relaxing the KYC procedures for opening of bank accounts by introduction by the local administration/*panchayati raj* institutions instead of by a customer on whom full KYC drill has been followed. [Para 3.8] **Action: Reserve Bank of India**

71. Approaching a large number of small borrowers spread over an extensive geographical area is always a cost intensive proposition. Routine functions, such as accepting and scrutinizing applications, appraisal, supervision and monitoring of loans, etc. are cost intensive. Considering the time, distance and cost for customers to reach a bank branch, especially in remote areas, the Group believes that banks can aggressively use the Business Facilitator model for increasing their outreach. Banks may also identify well-respected local persons like school teachers, postman, primary health workers or retired officials.

[Para 3.9.2] **Action: Banks**

72. Apart from the facilitation support, banks may institute suitable agents for providing assistance in financial functions on behalf of banks. The “Business Correspondents” would provide value added services, such as disbursement of small value credit, recovery of principal / collection of interest and sale of micro insurance/mutual fund products/ pension products. [Para 3.9.3] **Action: Banks**

73. The Group also recommends that the banks may have an arrangement with the Department of Posts in the State and institute them as business facilitator/business correspondent, as the reach of local post offices is vast with unique customer interaction and local knowledge. [Para 3.9.4] **Action: Banks**

74. Apart from imparting financial education to the common people, some capacity building measures are also required for the banks' staff, SHGs, MFIs/NGOs for enhancing the geographical coverage of financial services. The Group is of the view that the financial products cannot reach the ultimate borrowers till the time the banks' staff are also trained and sensitized about the importance of the financial inclusion. The Group, therefore, recommends that the State Level Institutions, NABARD and Banks' training institutes may design and conduct a series of workshops for various levels of bank staff. They may also develop suitable training modules for the NGOs / MFIs. [Para 3.10] **Action: State Government/NABARD/Banks**

75. The small and marginal farmers approaching the banks for loans are often apprehensive about the urbane nature of the bank personnel. The rural officer of the bank should act as friend-philosopher and guide to the farmers. Thus, proper sensitization of staff at the rural branches is a major issue that requires attention. The Group recommends that –

- i) The rural branches need to be adequately staffed to undertake extensive work in the pre-sanction and post-sanction stage;
- ii) The staff posted may be trained to develop a positive attitude;
- iii) The banks may devise a suitable incentive structure for rural posting including monetary benefits in such a way that rural posting is not considered inferior to other postings. The incentives could have a mix of performance based monetary incentives plus a tenure based posting after which the staff may be given preferential posting to the centre of their choice. An appropriate mix of incentives may be decided by each bank such that it is not rendered unfruitful;
- iv) Suitable training modules should be developed for agricultural loans for rural staff.
- v) NABARD should undertake a training programme for the sensitization of branch managers of rural branches; and

vi) The branch managers should also be encouraged to stay in the rural areas, near the branches.

[Para 3.11] **Action: Banks**

Chapter 4 – Industries in Jharkhand – Status and prospects

76. The State has the potential to surpass the national average in CD ratio, if only, the credit is targeted in those sectors, which are either potential growth drivers like the Iron & Steel and other mineral based SME Sector or ancillary unit of some of the large industries present in the State. These sectors also offer opportunities to the banks for doubling their credit towards SME sector. SIDBI should also target these sectors for increasing the credit flow. [Para 4.3.3] **Action: banks / SIDBI**

77. The sub-committees on CD ratio constituted in districts with CD ratio less than 40 per cent need to be strengthened. In order to boost the CD ratio in the districts, it should identify special plans for execution. Identify investment opportunities in the district with the help of GM, DIC, District Agriculture Officer (DAO), District Fisheries Officer (DFO), etc., and infrastructure bottlenecks may be removed with the help of funds available under this head in various government schemes. Districts where the CD ratio is below 25% may be identified for greater focus. [Para 4.3.5 (a)] **Action: State Government and banks**

78. Absence of irrigation facility has deterred the farmers from channelizing their savings into agriculture, which incidentally happens to be their only source of livelihood. Poor irrigation infrastructure makes these farmers wary of availing higher quantum of loans from financial institutions like banks. The State Government must utilise the RIDF from NABARD for creating irrigation infrastructure. The CD ratio sub committees must look for similar bottlenecks in credit flow in their districts. [Para 4.3.5(b)] **Action: State Government/banks/NABARD**

79. The State Government is reported to have launched several irrigation schemes. The Group, however, felt that such projects should be completed in a time-bound manner so that concerted focus is given on identifying new opportunities. [Para 4.3.5(c)] **Action: State Government**

80. The sub committees must formulate special time-bound action plans for all the banks with CD ratio less than the average CD ratio of the district and include that as part of monitorable action plan (MAP). [Para 4.3.5(d)] **Action: State Government/Lead Banks/banks**

81. The State has huge potential in generation of power from its hydel sources. The State Government may consider involving private sector in the generation, transmission and distribution of power in order to meet the existing demand of power as also the future demand due to upcoming industrial units in the State. In fact, the State Government must consider improving upon the infrastructure in the State either by massive involvement of Private Sector or by using the Public Private Partnership model. [Para 4.4.3] **Action: State Government**

82. Poor law and order has been a matter of concern. Increasing Naxal activities in the rural areas and crime against the banks and the people may lead to flight of capital as well as entrepreneurs. The State Government must create conducive environment for banking as also investment.

[Para 4.4.4] **Action: State Government**

83. Remedial measures for sickness of Industrial units are given below:

(i) Infrastructural support at all the identified clusters should be provided. The State government can achieve this either by involving the private sector or through Public Private Participation (PPP) model.

(ii) Banks to establish separate specialized cells at every cluster to address the industry needs in a structured and speedy manner.

(iii) Entrepreneurship development centers be established at every cluster by SIDBI with training support from specialized cells of banks. These cells may also help in identification of product & markets, preparation of project reports, etc.

[Para 4.5.2(1-3)] **Action: State Government/SIDBI/Banks**

84. Entrepreneurs should undergo a basic course in financial management as far as possible, which will enable them to detect symptoms of incipient sickness in units run by them. Such training programmes can be arranged by the SISI (now renamed as Micro, Small and Medium Enterprise Development Institute) in collaboration with Industries Department of the State Government.

[Para 4.5.5.i] **Action: State Government**

85. RBI should re-visit the guidelines on rehabilitation of sick units, permitting the banks to infuse fresh funds to the potentially viable units, which had earlier entered into compromise settlements with other banks.

[Para 4.5.5.ii] **Action: RBI**

86. The State Government should initiate measures to provide good infrastructural support to the units located in a cluster.

[Para 4.5.5.iii] **Action: State Government**

87. The State Government may, with the help of SLBC, continue to identify new industrial clusters in the State.

[Para 4.5.5.iv] **Action: State Government & SLBC.**

88. The major banks in the State like Allahabad Bank, SBI & BOI should initiate steps to open Rural Development & Self Employment Training Institutes (RUDSETI) type institutes in the State.

[Para 4.5.5.v] **Action: Bank of India/State Bank of India/Allahabad Bank.**

89. There is an urgent need to conduct sensitization training for the branch managers so that they understand the needs of the entrepreneur for timely and adequate credit input. Concerned banks should organize sensitization training. [Para 4.5.5.vi] **Action: All banks**

90. The banks must establish Industrial Finance branches in such growth centres like Jamshedpur and Ranchi. [Para 4.5.5.vii] **Action: All banks**

91. i. The State Government may consider creating marketing outlets for the units located in the clusters so that they are linked to the fate of a single large industry.

ii. The State Government may address on priority basis the security risk / perception of the entrepreneurs due to adverse law & order, especially those units registered in the Industrial estates established by the State Government.

iii. The State Government should lay emphasis on small power generating units and developing non-conventional sources of energy through private participation.

iv. Infrastructure development under PPP arrangement may receive serious consideration of the State Government.

[Para 4.5.5.ix -xii] **Action: State Government**

92. The State Government may set up a model suitable 'Handicraft Village' in each of the districts of the State for promoting the traditional arts and crafts of the villages by adopting the "One Tambon One Product" model of Thailand. The project could be encouraged by formation of SHGs, in particular women SHGs. This will even encourage setting up of Micro, Small and Medium enterprises in the villages. The State Government may also assist the villagers in marketing their products domestically as well as internationally.

[Para 4.7.5] **Action: State Government**

93. Realizing the export potential of the handicraft products from local artists and craftsmen, Jharcraft has taken major e-commerce initiatives. It is making special efforts to introduce online sale of the products using ICICI Bank's payment gateway. Other banks may also consider extending online payment gateway facility to sell these products.

[Para 4.7.6] **Action: Banks**

94. The Director, Jharcraft and Special Secretary, Industries Department should be invited to the State level Swarnjayanti Gram Swarozgar Yojana (SGSY) Committee meetings as special invitees. [Para 4.7.8 (i)] **Action: State Government/Banks**

95. The banks should extend the facility of compromise settlement to the weavers under one-time settlement scheme. [Para 4.7.8 (ii)] **Action: Banks**

96. The banks must target these segments like handicraft, weaving and sericulture to extend bank finance, group financing and distribution of Artisan Credit Cards (ACC), Swarojgar Credit Cards (SCC) and General-purpose Credit Cards (GCC), etc. There is also good scope for financing JLGs under these segments. [Para 4.7.8 (iii)] **Action: Banks**

97. The district employment exchange may be treated as a repository for potential PMRY beneficiaries. [Para 4.8.2 (i)] **Action: State Government/Banks**

98. The State Government may consider computerizing the District Employment Exchanges and the potential PMRY beneficiaries can be selected from these exchanges by a committee comprising of the DC /DDC and after a rigorous training by State Government the names of these candidates may be recommended to the banks for financing under PMRY scheme. [Para 4.8.2 (ii)] **Action: State Government/Banks**

99. The State Government may build entrepreneur Centres at the district level, where the beneficiaries can carry out the economic activities. The list of key activities at present includes trading, kirana shop, garment /cloth shop, which have high loan mortality rate. This should be expanded to include other activities like auto workshop, auto spare parts, etc. The PMRY Task force should prepare DPR for each activity. [Para 4.8.2 (iii)] **Action: State Government/Banks**

100. Besides developing the infrastructure, the Government may consider providing sops to the intermediaries or the PMRY beneficiaries to reduce the cascading cost. [Para 4.8.2 (iv)] **Action: State Government**

101. Capacity building and skill upgradation is an important part of undertaking any vocation. Entrepreneurship orientation courses can be introduced in the curriculum at +2 level. [Para 4.8. 2 (v)] **Action: State Government**

102. There is a need for introducing three level of skill upgradation and capacity building viz., the base level can be provided in the beginning of taking up the vocation by providing training at such Institutes like RUDSETI, SISI and other professional Institutes as also with the help of NABARD and SIDBI. At second level, the cost of training can be shared between the State Government and the loan beneficiaries. At the third level, the cost should be entirely borne by the loan beneficiary. [Para 4.8. 2 (vi)] **Action: State Government/Banks**

103. Poor recovery is a disincentive for higher lending and one of the reasons for risk aversion by the banks. The State Government must help the banks in their recovery drives against the willful defaulters. [Para 4.8.2 (vii)] **Action: State Government**

104. The State Government may consider promoting venture capital funding among the interested entrepreneurs in the State. There is a need to promote such 'local technologies' for the benefit of the State. Necessary help in funding venture capital may be provided by NABARD. [Para 4.8.3] **Action: State Government/NABARD.**

105. The State Government may consider adopting PDC model for the development of mega industrial Estates and townships in the Santhal Pargana Region, which are safe from law & order point of view as also reclaim the wastelands in other parts of the State. [Para 4.9] **Action: State Government**

Chapter 5 – Effectiveness of the co-operative banks (rural and urban) in the State

106. The presence of a St.CB is necessary to revitalize the CCS, as there is the immediate requirement for creating an enabling environment for the flow of credit to farmers, artisans and other weaker sections through the co-operative credit network. [Para 5.2.1(v)] **Action: State Government**

107. After examining the options available for upgrading a DCCB to the status of a St.CB, a view was reached to upgrade Dhanbad DCCB as Jharkhand St.CB, as an interim measure, subject to fulfilment of all legal and regulatory requirements. It was also felt that urban orientation of Dhanbad DCCB was not coming in the way of its upgradation as St.CB. [Para 5.3.7] **Action: State Government/NABARD/RBI**

108. The Group recommends short-term roadmap for setting up of State Co-operative Bank as under:

- i. The name of the Dhanbad DCCB should be changed to Jharkhand St.CB and also the bye-laws of Dhanbad DCCB should be changed accordingly.
- ii. After amendment of the bye-laws with reference to name, jurisdiction, objectives, etc., the bank can function as a St.CB and RCS can do the needful as per the existing law for the purpose.
- iii. The name in the license, issued to the Dhanbad DCCB, should be got amended from RBI (through NABARD) to read as Jharkhand St.CB. NABARD has to certify that all the legal and procedural requirements have been complied with.
- iv. NABARD is to conduct statutory inspection with reference to the bank's financial position as on March 31, 2007 for ascertaining the latest net worth.
- v. All existing branches of Dhanbad DCCB to be considered for regularisation by RBI under Section 23 of the Banking Regulation Act, 1949 (AACS) so as to enable them to function as the branches of St.CB.
- vi. All the DCCBs of the State are to be affiliated to the newly constituted St.CB.
- vii. The Group strongly recommends that Government of Jharkhand should sign the MOU with the Government of India and NABARD for acceptance of the revival package for short term rural cooperative credit structure based on the recommendations of the Task Force on Revival of Rural Co-operative Credit Institutions (Chairman: Prof. A. Vaidyanathan) (VCR), at the earliest as it would facilitate infusion of funds and guide the co-operative banks in the State in their capacity building.

[Para 5.3.8] **Action: State Government/NABARD/RBI**

109. The Group is of the view that only restructuring and revitalizing the cooperative credit institutions in the State can optimise their credit delivery capacity. However, once the State Government signs the MOU as part of VCR, these issues would have to be addressed. The Group, therefore, recommends that Government of Jharkhand may consider engaging a Management Consultant, which would undertake the study of LAMPS and DCCBs in the State, suggest business strategies in the backdrop of emerging opportunities and rural credit requirements of the State, as also suggest capacity building of staff of the rural cooperative banks. [Para 5.3.10] **Action: State Government**

110. The State Government may consider setting up a Committee to formulate a suitable HRD framework and policy for the cooperative banks, including senior management. [Para 5.4.1] **Action: State Government**

111. All the DCCBs, except Ranchi, have been reporting shortage of staff. A definite policy on recruitment, based on specified business norms, needs to be drawn urgently. Training and skill up-gradation plan will require to be put in place for the existing as well as newly recruited staff. The staff may be imparted required skill in banking operations and business development and for building a sound cooperative movement. The programmes could also be organised within the State by requesting the concerned training institute to depute their faculty for the required period and purpose on a payment basis. NABARD may be approached for financial support for this training. [Para 5.4.2 and 5.4.5] **Action: State Government and NABARD**

112. As the setting up of the training system will take sometime, initially the bank may approach suitable training Institutes for providing training on following aspects;

- Induction training programme for new staff;
- Refresher Training to existing clerical staff; and
- Trainings on Credit Appraisal and Monitoring for the existing officer/staff of the bank.

[Para 5.4.3] **Action: Banks**

113. The officers at Head Office as well as Regional Offices need to urgently develop skills for appraisal of loan proposals, documentation for various types of advances and recovery measures. The banks may take steps to immediately develop a core group of Managers in appraisal of loan proposal by conducting specially organised programmes in areas, which have large potential in Jharkhand. [Para 5.4.4] **Action: Banks**

114. The new co-operative set up must computerise their day-to-day banking operations and maintenance of data. [Para 5.4.6] **Action: State Government**

115. The Group recommends the following roadmap for the rural co-operatives for the medium term:

- i. Infusion of funds by the State Government for making the DCCBs having negative net worth compliant with the minimum capital requirement under section 11(1) of the Banking Regulation Act, 1949 (AACS);
- ii. Merger of all compliant DCCBs with the St.CB, with the prior approval of Reserve Bank under a two-tier structure to be introduced by the State Government.

[Para 5.4.7] **Action: State Government**

116. Other recommendations relating to rural co-operatives are as under:

- i. Dhanbad DCCB may amend its bye-laws with the approval of RCS to expand its area of operation to cover the entire state of Jharkhand, thereby enabling the affiliation of other DCCBs as its members.
- ii. The State Government may draw up a suitable plan for Human Resource, including recruitment and staffing on professional lines. A system must be in place, to fix responsibility on officials of the banks to ensure proper functioning of the banks.
- iii. Dhanbad DCCB will have to de-affiliate itself from Bihar St.CB. For that matter, all the DCCBs of Jharkhand will have to de-affiliate itself from Bihar St.CB.
- iv. The DCCBs may liquidate their borrowings and other liabilities with BSt.CB and de-affiliate from it in order to enable them to avail finance from the new St.CB.

- v. The management consultant may guide the DCCBs in preparing a comprehensive business plan for operating in a professional, profitable manner as also IT and human resource planning.
- vi. Reserve Bank of India may consider taking up with the State Government of Bihar to close down the branches of Bihar State Co-operative Bank, functioning in Jharkhand, immediately.

[Para 5.4.8] **Action: State Government/RBI**

117. The Group recommends as follows:

- (i) There is a need for the State Government to sign the Memorandum of Understanding (MOU) under TAFcUB with the Reserve Bank so as to address various issues / problems of the cooperative banking sector especially in the context of this sector's role in the economic development of the State; and
- (ii) The Jamshedpur UCB is registered under the 'Bihar Self Supporting Cooperative Societies Act 1996', which does not have the enabling provisions relating to insurance cover under Deposit Insurance and Credit Guarantee Corporation (DICGC) Act. This is essential to protect the interest of the depositors in the bank. State Government may urgently bring about necessary legislation to amend the relative provisions of the State law (ibid).

[Para 5.5.2] **Action: State Government**

Chapter 6 – Regional Rural Banks in Jharkhand

118. The renewed emphasis on agricultural and rural development by the Government of India would lead to a growing demand for different types of financial services in the rural areas, as the financial needs of the rural economy have become diversified. RRBs, therefore, have to provide a larger share of credit disbursed, calling for much larger resource mobilization. Greater efforts are required for their institutional strengthening. Thus, on the one hand, the concept of RRBs has to be pursued in the interest of the rural economy and on the other hand, the RRBs have an opportunity to cash in on the gap

between demand and supply of banking services. RRBs are expected to play a significant role in financial inclusion of disadvantaged sections of the society.

[Para 6.2.4] **Action: RRBs**

119. The Group offers the following suggestions to bring about an improvement in the functioning of the RRBs:

- (i) Understaffing of the rural branches remains a matter of concern and a major hindrance to the proposal for branch expansion. The sponsor banks should expedite the process of recruitment in the RRBs especially in the backdrop of Dr. Y. S. P. Thorat Committee's recommendations.
- (ii) Though, by amalgamation the RRBs have become bigger in size, yet in the initial months/years, the sponsor banks need to do some handholding in terms of providing skilled manpower in the RRBs especially in the areas like audit, investments, computerization, etc.
- (iii) RRBs must include the credit targets allocated under the Annual Credit Plan (ACP) by SLBC in the Memorandum of Understanding (MOU) signed with the Sponsor Banks. The performance of the weak RRBs under MOU should be monitored periodically by NABARD and sponsor banks.
- (iv) The Sponsor Banks may empower the RRBs by providing them lines of credit at concessional rates and by allowing them to draw drafts at par on any branch of the sponsor banks.
- (v) RRBs can play a crucial role in the financial inclusion of the rural population. The Board of RRBs must review the progress made by the RRBs as a separate agenda for the meeting.
- (vi) RRBs should open more branches in 40% of the villages in Jharkhand, which do not have access to the banks. The RRBs may consider financing the construction of Pucca houses on priority basis.
- (vii) In view of the high level of NPAs, the RRBs, with help of State Government, may launch frequent recovery drives.

(viii) The State Government should empower the RRBs by honouring the bank guarantees issued by them and also by giving them government business, such as payment of pension, etc.

(ix) New initiatives are being taken in rural areas by institutions/ organizations, which are active in rural development. RRBs may consider fostering links with such organizations to provide avenues for innovative financing.

[Para 6.2.6] **Action: Sponsor Banks/RRBs/ State Government**

120. Considering the instructions issued by Reserve Bank to the sponsor banks for strengthening the functioning of RRBs, the sponsor banks in the State (State Bank of India and Bank of India) should play a critical role in positioning the RRBs as partners in development of the rural sector and take steps on issues pertaining to HR, IT and operations of the RRBs sponsored by them.

[Para 6.3.2] **Action: Sponsor Banks**

121. The Group is of the view that RRBs are to be conceived to be an important agency in purveyal of credit in the rural and semi-urban areas, because of their local feel and familiarity. The Group also took note of the views of the Government of India in respect of opening of branches by RRBs in unbanked/underbanked areas of the country. The Group, therefore, suggests that RRBs may consider opening more branches in the State, especially in the districts with high APPBO, as mentioned in Chapter 2 earlier.

[Para 6.3.4] **Action: RRBs**

122. With a view to improving the funding requirements of RRBs, the Reserve Bank has recently advised all scheduled commercial banks and RRBs that loans granted by commercial banks/sponsor banks to RRBs for the purpose of on-lending to agriculture and allied activities, would be eligible for classification as indirect finance to agriculture sector in the books of commercial banks/sponsor banks. The Group, therefore, suggests that the RRBs should leverage such opportunity and lend more to agriculture sector.

[Para 6.3.5] **Action: RRBs**

123. There is a need for sensitization of the staff and managers of RRBs. Capacity building is necessary for which assistance may be sought from institutions like the College of Agricultural Banking, Pune, BIRD, Lucknow, etc. [Para 6.4] **Action: RRBs**

124. RRBs may supplement their income through non-fund based activities. They can leverage on their branch presence in the rural areas to cross sell mutual fund units and insurance products as per RBI instructions in this regard.

[Para 6.5] **Action: RRBs**

125. Reserve Bank has issued guidelines whereby the RRBs can enhance their resource base by availing lines of credit from their sponsor banks at reasonable rate of interest, access to inter RRB term money borrowings, Repurchase Agreement (REPO) / Collateralised Borrowing and Lending Obligations (CBLO) markets, etc. Sponsor banks, in turn, may actively facilitate such access and provide necessary training to RRB staff. Further, to broaden the activities of RRBs, they have been permitted to issue credit/debit cards, set up ATMs, open currency chests and engage in foreign exchange (FOREX) business and undertake pension/Government business through agency arrangements as a sub-agent. [Para 6.6] **Action: RRBs & Sponsor Banks**

126. The weak RRBs in the country have to be recapitalised under a package announced by Union Finance Minister. Accordingly, Government of Jharkhand should consider contributing its share. NABARD should follow-up with GOI for the Central Government's share.

[Para 6.7] **Action: State Government/NABARD**

127. RRBs have a great role in supporting the initiatives taken by the State Government for supporting the economic development of the State. As a stakeholder, it must be the duty of the State Government to ensure that RRBs are sufficiently empowered to carry out banking business in the State. The State Government must ensure that the guarantees issued by them are accepted by other Government agencies. [Para 6.9] **Action: State Government**

128. It has been reported that some of the State Government nominees are not attending the meetings of Board of Directors regularly. There is a need to review the role of nominee directors in the Board of RRBs. Wherever the nominee directors are not able to discharge their function due to other official pre-occupation, such directors should be replaced immediately. [Para 6.10] **Action: RRBs, Sponsor Bank, NABARD, RBI & State Government.**

Chapter 7 – Review of Payment and Settlement System in the State

129. There is tremendous scope for inter-bank fund settlement through ECS Scheme. The State Government may consider making payment of salary and pension to its employees through ECS.

[Para 7.2.1] **Action: State Government**

130. The MICR clearing (manual) is undertaken at all the 20 CHs of the State but the return clearing is undertaken at only 18 centres. In the short term, the High Value Clearing may be introduced in Dhanbad and Bokaro Steel City and the MICR return clearing may be introduced in two CHs at Chirkunda and Seraikela. Besides, the MICR /MMBCS return clearing should be undertaken on the same day at all the Clearing Houses of the State. [Para 7.3.3] **Action: All banks**

131. As per the information available, Department of Payment and Settlement System (DPSS), RBI has given permission to open Clearing Houses in Jamtara and Garhwa. The banks may make immediate arrangements for opening Clearing Houses in the districts of Jamtara and Garhwa and RBI may assist them in their efforts.

[Para 7.5.2] **Action: All banks in Garhwa & Jamtara district / RBI**

132. In other districts like Chatra, Latehar and Khunti, the banks need to pass the resolutions for opening Clearing Houses. Thereafter, they need to approach RBI along with copies of the resolutions and the name of the bank having either Currency Chest or RTGS-enabled, who will manage the Clearing House in each of these districts. [Para 7.5.3] **Action: RBI /Banks / Lead Banks of these districts.**

133. It should be ensured that the Clearing Houses in the five districts are opened with concomitant computerization of clearing operations, using the MMBCS software as this facilitates the same day return of the unpaid cheques. RBI may impart training to the officials on the MMBCS software so as to enable them to handle the clearing operation with ease. [Para 7.5.5] **Action: Bank managing the Clearing House in these districts and RBI.**

134. The banks managing Clearing Houses in various centres, having cheque volume of 2,000 and above instruments must consider the introduction of High Value Clearing so that the customers and the Government derive the benefit of faster realization of funds. [Para 7.5.6] **Action: Bank managing the Clearing House in these districts.**

135. The banks may consider introduction of Electronic Clearing Service (ECS) even if opening of Clearing Houses in some of the Centres are delayed. In order to do this, the banks may identify a settlement bank (which may in future be also the settlement bank for the main clearing) having currency chest branch in the district. RBI may allot the MICR codes to all the branches in the district. The State Government may route all payments to the pensioners, salary to its employees, NREGP beneficiaries and beneficiaries under various Government Sponsored Schemes (GSS) through ECS Scheme. RBI should impart training to the banks on managing the ECS software. [Para 7.5.7] **Action: All banks /RBI / State Government**

136. The State Government may consider initiating a study to review the procedure of payment between the district HQs and the block. The procedure may be aligned with latest payment system products introduced by RBI so as to reduce the stress on paper-based clearing.

[Para 7.5.8] **Action: State Government**

137. Under the Centralized ECS facility, the master file for crediting/debiting the beneficiaries accounts is processed at Reserve Bank of India, Mumbai. Then the centre-wise statements are forwarded to the Clearing Houses, which are being managed by Reserve Bank of India, for arranging for forwarding the reports to the concerned banks in the particular centre to credit/debit the beneficiaries accounts. The banks in Jharkhand have around 260 CBS branches and 225 RTGS branches. Moreover, State Bank of India is managing all Clearing Houses in the State. In view of the large number of RTGS - enabled and CBS branches available in the State, RBI may examine the feasibility of introduction of Centralized ECS in the State for crediting/debiting the beneficiaries accounts in the district headquarters, especially utilising the SBI network. This will help in routing the government payments faster.

[Para 7.5.9] **Action: RBI**

138. Rural branches in the districts can also participate in the clearing at the district HQs by way of becoming sub-members of the member banks and participating in one or two identified days of the week. [Para 7.5.9] **Action: Banks managing Clearing Houses/RBI**

139. Still, there are a number of districts in the State, which do not have a back up Clearing House. The member banks of each Clearing House in each district should consider identifying one of the member banks as the back up and advise the same to RBI. Such banks should also be responsible for maintaining all clearing related database as also maintaining skeletal computer peripherals for the purpose. [Para 7.5.11]

Action: Banks managing Clearing Houses/RBI

140. Apart from the district HQs, the banks may identify other centres with reasonable banking activity and consider opening Clearing House in such centres. [Para 7.5.12]

Action: Banks/RBI

141. The 260 CBS branches of commercial banks in Jharkhand must initiate steps to extend the inter bank funds transfer facility from anywhere in India under the NEFT scheme. This would solve the problems of inward remittance by the migrant labourers from these districts. [Para 7.5.13] **Action: Banks/RBI**

142. There is a huge scope for the development of tourism in Jharkhand. Hence, the banks may consider opening more off-site ATMs in areas of tourist interest.

[Para 7.5.14] **Action: Banks**

143. The banks managing the Clearing House must carry out audit of the Clearing House operations from information and clearing systems point of view.

[Para 7.5.15] **Action: Banks managing Clearing Houses in the State**

Chapter 8 – Other Banking Related Matters

144. After considering the various facets, the Group was of the view that the State Government, may on the lines of some other States, enact an appropriate legislation to protect the interests of depositors and bring such fraudulent entities to book. The Group also recommends that the Economic Offences Wing (EOW) of the State Government may be strengthened on the lines of other States so as to detect the unlawful solicitation of deposits by these institutions.

[Para 8.1.2] **Action: State Government**

145. The State Government should formulate a housing policy with emphasis on construction of *pucca* houses in the villages. [Para 8.2.2(i)] **Action: State Government**

146. NHB should consider formation of a Special Purpose Vehicle (SPV) where State Government shall also contribute partially. [Para 8.2.2 (ii)] **Action: State Government / NHB**

147. SLBC should include agenda on housing during all meetings in the future and invite persons from NHB to attend such meetings regularly as is done by other SLBCs. [Para 8.2.2(iii)] **Action: SLBC / NHB**

148. Models adopted successfully in other states can also be emulated, e.g. the model adopted in Haryana where the cost was shared by the owners as well as by the State Government and the family members also put their labour in construction of their houses. [Para 8.2.2(iv)] **Action: State Government/ NHB / Banks**

149. NHB should open a sub office in Jharkhand so as to facilitate the implementation of the housing programme of the State Government. [Para 8.2.2(v)] **Action: NHB**

150. The State Authorities should undertake a study on the housing problems faced by the people in the State. NHB has provided indicative terms of reference for the study. [Para 8.2.2(vi)] **Action: State Government**

151. The banks may consider availing refinance facility offered by NHB under its various schemes like Golden Jubilee Rural Housing Finance Scheme, Top Up scheme and PHIRA. [Para 8.2.2(vii)] **Action: Banks**

152. There is a need to understand the reasons for non-lending under Government sponsored schemes (GSS) by the zero-lending branches. The banks are financial intermediaries and lending is the dharma of each banker. The Group, therefore, recommends that SLBC should conduct a study to identify the zero-lending branches and ascertain the reasons for non-lending by them. In case a branch does not meet the target under GSS, the controlling heads of such bank branch must issue necessary instructions to ensure that the targets allocated to such a branch are met with the help of neighbouring branches. [Para 8.3.3] **Action: SLBC/Banks**

153. As regards the achievement of less than 25% of target under SGSY, the Group recommends that this matter should be taken up at the State Level SGSY Committee meetings convened under the chairmanship of Principal Secretary / Secretary, Department of Rural Development, Government of Jharkhand. The Group is of the view-- that there is a need to strengthen this institutional mechanism and the banks must ensure that no less than the senior level functionaries should participate in such meetings. However, the irritants in smooth flow of credit to the individual and group swarojgaris under SGSY must be removed with the help of government agencies. The State Government and NABARD must make available a list of good NGOs in the district. The State Government may also consider initiating steps to strengthen the extension services in the districts both in terms of number as well quality of the staff as that would help in identifying good SHGs. The State Government may also consider providing training to extension officers with the help of NABARD.

[Para 8.3.4] **Action: State Government/Banks/NABARD**

154. The Group is of the opinion that staff constraint is the biggest impediment in not only the normal banking operations of the banks, but also the expansion plans especially the RRBs. Banks can overcome the shortage of staff through various methods like recruitment and utilizing non-public business working day, etc. The Group recommends that the board of the banks must review the performance of the single officer bank branches and devise suitable strategies so that the normal banking function is not hampered.

[Para 8.4.2] **Action: RRBs/ Sponsor Banks / Banks**

155. The Group recommends that all the banks operating in the State should initiate action toward keeping one Controlling Head to oversee all their branches in the State. It was also brought to the notice of the Group that some of the branches of a commercial bank were reporting to zonal offices located in Bihar, when there were other controlling offices of the same bank in Jharkhand. The Group recommends that banks must strive to remove such anomalies and RRBs must report to a senior official of the sponsor bank located in Jharkhand.

[Para 8.5.1] **Action: All the banks with Controlling Heads in the State**

156. Non-exemption of stamp duty on agreements beyond Rs. 15,000 is a constraint as the average financing under various loans is more than this amount. The State Government may consider exemption of stamp duty to encourage the farmers to avail higher loan limits under KCC. The State government may also consider introducing franking machines.

[Para 8.6.2] **Action: State Government**

157. In order to address the problem of pending certificate cases, the Group recommends as under:

- (a) The banks and the State Government should expedite the process of appointment of special certificate officers.
- (b) SLBC should advertise in the Newspaper, 'expression of interest' from the willing parties to be appointed as special certificate officers.
- (c) The list of Special Certificate officers to be appointed in different districts should be made available to the State Government for issuing notification vesting them with necessary magisterial powers.
- (d) The banks and the State Government should form an institutional mechanism for periodic review of the progress in the disposal of certificate cases. Accordingly, a coordination committee comprising of Officials from State Government, SLBC and the banks should be formed under the chairmanship of a senior State Government official.

[Para 8.6.4] **Action: Banks/ SLBC / State Government**

158. The amount locked in the pending certificate cases have not only been increasing over the years, but the banks have been paying upfront fee at the rate of 10 per cent. The State Government may consider amending the PDR Act so as to incorporate payment of fee back-ended. This will also act as an incentive for the State Government to recover the money locked in the certificate cases. [Para 8.6.5] **Action: State Government**

159. There are many districts in the State affected by increased Naxal activities. It not only undermines the law & order, but poses serious threat to the movement of treasure and risk of crime against banks. The Group has been apprised of the State Government's inclination to raise a special battalion to protect the movement of treasure. The Group recommends that SLBC should take the lead on behalf of the banks to coordinate with the State Government to lay down the modalities for raising such a battalion.

[Para 8.6.6] **Action: SLBC / State Government**

160. It was brought to the notice of the Group that some of the bank branches in the State were not maintaining adequate cash balance for their normal banking requirements. The controlling heads of banks must take a review of all branches, particularly in the rural and semi-urban branches, under their jurisdiction and ensure that adequate cash balance is maintained. [Para 8.6.7] **Action: Banks**

161. It was brought to the notice of the Group that the banks have requested the State Government to provide them with check-off facility in respect of loans extended to the employees of the State Government. The banks argued that the salary earned by the State Government employee ensures the safety and prompt recovery of the loan. The Group recommends that the State Government may consider extending check-off facility to the banks as that would ensure considerable flow of credit. [Para 8.6.8] **Action: State Government**

162. The Group examined the need for strengthening the office of the Lead District Managers (LDM). Some of the districts either did not have a regular LDM or one LDM was having the charge of two or more districts. The Group was of the opinion that shortage of staff in such agencies hinders the process of monitoring the ongoing schemes as also the quantum of flow of credit in the districts. The Group, therefore, recommends that the offices of LDM must be strengthened by providing adequate staff. The lead banks should provide proper infrastructure / facilities to the office of LDMs so that they may discharge their duties efficiently. [Para 8.6.9] **Action : Banks**