

**EXPERT COMMITTEE**

**ON**

**INTEGRATED RURAL DEVELOPMENT  
PROGRAMME**

**INTERIM REPORT**

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***"Recall the face of the poorest and the weakest man whom you may have seen and ask yourself if the step you contemplate is going to be of any use to him....."***

***- Mahatma Gandhi***

## Interim Report

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## PREFACE

Following the consultations between the Ministry of Rural Development, Government of India and the Reserve Bank of India (RBI), an Expert Committee under the Chairmanship of Shri D.R. Mehta, Deputy Governor, was constituted by RBI on the 29th September 1993, to review the Integrated Rural Development Programme (IRDP) and to recommend suitable measures for strengthening it with a view to making it more effective for alleviation of poverty. The Committee comprises 14 members, both official and non-official, besides the Chairman. The Constitution and the Terms of Reference of the Committee are indicated in the Annexure I

The Committee was able to collect mass of statistical data and other information on the issues involved. For eliciting the views on the various aspects of the Terms of Reference of the Committee, a structured questionnaire (Annexure II) was sent to banks, State Governments, State level functionaries, experts, and Voluntary Organisations. In all over 2200 persons and institutions were addressed. The response was quite encouraging and the suggestions emerging therefrom constituted an important input of the deliberations of the Committee.

Since the Committee could not complete the task assigned to it, owing to the complexity and vastness of the subject to be addressed to, it was decided to make interim recommendations on some of the urgent issues on which the Committee could complete its deliberations and formulate its views. Accordingly, this Interim Report is being presented. The Committee expects to come

out with the Final Report shortly.

It may also be relevant to state here that this Report has been prepared in the context of the continued and assured support of the Government and banking system to IRDP. There is a clear indication that despite the greater market orientation of the Indian Economy, it would still have a human face, the latter policy being expressed in the form of poverty alleviation programmes.

## Section - I

### The Background

1.1 The Integrated Rural Development Programme (IRDP) is a direct instrument for attacking India's rural poverty, which is both extensive and endemic. The normal growth process appears to bypass the rural poor and hence IRDP is designed to provide them with access to assets, skills, support services and institutional arrangements, with the basic objective of enabling them to cross the poverty line through additional employment and income generation.

1.2 The IRDP was introduced in selected areas of country in 1978. It was subsequently extended to the whole of the rural India with effect from October 2, 1980. The target group of the IRDP consists of families of small and marginal farmers, agricultural labourers and rural artisans whose family income is below the pre-determined poverty line, which at present, is set at Rs.11,000 per annum.

1.3 Under the IRDP, acquisition of assets by the poor in the primary, secondary and tertiary sectors is enabled through financial assistance in the form of credit advanced by banks and subsidy provided by the Government. Normally, subsidy is provided at the rate of 25 per cent of the project cost for small farmers; 33.3 per cent for agricultural labourers; marginal farmers and rural artisans; and 50 per cent to SC/ST beneficiaries and the physically handicapped.

1.4 Since the inception of IRDP, bank credit of Rs.13,230 crores and Government subsidy amounting to Rs.8,202 crores, aggregating

Rs.21,432 crores had been provided to 447 lakh families, below poverty line, till the end of the financial year 1994.

1.5 There are a number of supporting programmes too. Training of Rural Youth For Self-Employment (TRYSEM) for providing technical assistance to rural youth in the age-group of 18 and 35 years from poor families to enable them to find self-employment is one of these. Development of Women And Children In Rural Areas (DWCRA) for focussing attention on women members of such families, with a view to providing them with opportunities of self-employment, is another. Other supporting programmes include provision of infrastructure for filling in critical gaps, having direct relevance to the beneficiaries.

## Section - II

### The Central Issues

2.1 At the outset, it is necessary to candidly admit that despite the general acceptance of the objectives and the extensive organisational apparatus built to translate them into actuality, the IRDP has, not achieved the desired results. In fact the Concurrent Evaluation of IRDP for the year 1989, conducted by Government of India, revealed that only in 28% of the cases, old beneficiaries had been able to cross the then existing poverty line of Rs.6,400/- per annum. There is no further evidence to suggest any subsequent improvement. This is the starting point of the Committee's work.

2.2 The Committee feels that this situation warrants a critical appraisal of both the principles underlying the IRDP, as also, its modalities of implementation. Conceptually, the Committee would like to highlight three central issues; non-homogeneity of the poor; their poor resource-endowment; and their unpreparedness to deal with the different arms of the Government, institutions and market. There are many other important issues, as well.

First, the poor are not a homogeneous group. This underlying factor, the Committee feels, has not been adequately appreciated. Differences arise owing to social, economic, political and locational factors. The poor thus have to be segmented and the programmes designed for them would have to be location and sub-group specific and not cast in a general mould only.

Secondly, the resource endowment of the poor are obviously insufficient to generate adequate earnings. Even where some of



the poor own limited assets, they are of poor quality and of negligible value. Similarly, some sections of the poor may have acquired some skills but they are not adequately marketable. The total resource endowment of the poor, in terms of assets and skills, often do not provide even the subsistence level of income.

Thirdly, the poor as individuals are seldom equipped to deal effectively with the delivery systems, be they of banks, arms of the Government or traders or suppliers in the private sector. This is as much a sociological problem as an economic one. It is this infirmity of the poor, which perhaps has let the normal development process proceed past them. The search of the Committee therefore, has been for a solution in terms of collective action and supportive institutional arrangements to overcome it.

2.3 As originally conceived, the IRDP was ideally tailored to the needs of the poor. Indeed, the problems of the poor do match with the prophesied role of the IRDP, in as much as, it would provide the assets that the poor do not have, and also the necessary support services to facilitate their productive use. However, when this neatly conceived concept was sought to be translated into real projects, several distortions emerged, eroding the effectiveness of the programme itself. Several evaluation studies of the IRDP have highlighted the deficiencies in modalities, such as faulty selection of the beneficiaries, weak designs of the projects, absence of backward and forward linkages, lack of co-ordination among the key agencies like banks, Panchayats, Government departments, and Non Governmental Organisations (NGOs), weaknesses in the administration of the IRDP, etc. The

IRDP does not appear to have proved successful because the entrepreneur so financed is neither owned by the Government nor by the bank. Perhaps, both look at the entrepreneur as a liability. The Committee has, therefore, sought to find ways and means of inducing both the Government and the banks to look at the borrower under the programme not as a mere beneficiary but as a successful entrepreneur. In the present macro environment of a liberalised economy, the Committee feels that the efforts should be directed towards ensuring that the projects of the beneficiaries under the programme graduate into viable units sustainable in a free market even after the prop of Governmental assistance is withdrawn.

2.4 Obviously, it has not been possible, in this Interim Report to deal elaborately with all the issues under the Terms of Reference. The Interim Report focusses itself on the following aspects:

- i. Identification of Beneficiaries;
- ii Project Planning, Diversification and Streamlining of Credit Delivery System;
- iii. Infrastructural Support;
- iv. Institutional and Organisational Support;
- v. Mode of Subsidy;
- vi. Better Recovery Performance; and
- vii. Information, Education and Communication.

## SECTION -III

### Identification of beneficiaries : The segmentation principle

3.1 At present, under the IRDP the identification of beneficiaries is preceded by a comprehensive survey of the rural poor, which is undertaken by the village and block functionaries. Thereafter a list of the poor families is prepared by the block development authorities for being placed before the village assembly (Gram Sabha), for approval of, what are called, the families below the poverty line (BPL). The meeting of the village assembly is attended by the local people, bank and block officials and representatives of prominent voluntary action groups. Further, the list of beneficiaries thus selected is required to be displayed on the notice board of the village panchayat and the block office.

3.2 However, the prescribed process of survey, identification and approval, in practice, is often afflicted by serious shortcomings. In many States, surveys of families below the poverty line had not even been conducted, as observed by the Comptroller and Auditor General of India. Besides, the participation of village population in the process of identification at various level, from the village assembly onwards, leaves much to be desired. Often the village assemblies have a very thin attendance when the identification of the poor is being undertaken. The presence of the people from the villages other than the one having headquarters of the panchayat is even poorer. Owing to the inadequate publicity of the list of selected beneficiaries, possible objection to wrong selection cannot surface easily. Even the people who participate, have limited contribution to make. Owing to these deficiencies the intended democratic process has not yielded the desired results.

3.3 The Committee is of the firm view that appropriate identification of beneficiaries is the foundation of the IRDP and any flaw in this process will undoubtedly vitiate its core. The Committee is also of the view that the democratic character of the IRDP should not only be fully restored but strengthened by ensuring greater involvement of village population and by imparting, to the process of identification a greater degree of transparency. In the light of these considerations, the Committee recommends that :

- 1) The States in which surveys have not been undertaken either fully or partially, should be advised by the Ministry of Rural Development to have the surveys conducted or completed by the end of the financial year 1995, failing which assistance to the defaulting blocks should be withheld till such time this deficiency is removed.
- ii) After the BPL lists have been drawn by the block authorities, on the basis of the surveys conducted, the panchayats, which have now been assigned a greater role in the development of villages, should consider and approve the lists. The fact that panchayats have a minimum prescribed representation of SC/ST and women, would add credibility to the selection process. To such meetings, panchayats should also invite the bank officials, school teachers, village post masters, representatives of grass root NGOs, and prominent elders in the village.
- iii) The lists approved by the panchayats should be displayed at prominent places such as panchayat office, post office, village chopals, bank branches.
- iv) The lists approved by the panchayats should then be placed before the Gram Sabha after a minimum waiting period of 15

days.

v ) The fact that Gram Sabha would consider the BPL lists on a particular date should receive advance and wide publicity.

vi ) The BPL list should be finally approved by the Gram Sabhas.

3.4 Another important recommendation of the Committee relates to what might be called segmentation of the poor, for purposes of deciding on the type of employment to be offered. At present under the IRDP all the poor families, below the poverty line, are being considered for self-employment, without taking into account their skills and experiences in handling credit financed assets. The underlying presumption is that all the poor have the necessary endowment to deal with them. The experience so far however, belies it. It is also noteworthy that the poorest of the poor, without any skills and experience in handling assets, prefer wage-employment to self-employment. Thus both in terms of their ability and motivation, the poorest of the poor need to be distinguished from the other class of the poor which have some skills and experience in handling assets and have also the potential of becoming entrepreneurs. The responsibility of segmentation of the poor families into two distinct categories should be shouldered by a committee comprising the representatives of Blocks, Panchayats and Lead Banks besides school masters, post masters and any other prominent villagers and grass root NGOs identified by block authorities. The Committee further recommends that the poorest of the poor who lack in skills and experience in handling assets should initially be provided wage-employment under various schemes of the State Governments and Jawahar Rozgar Yojana (JRY). They also need to be supported by providing for greater social consumption expenditure such as improved access to primary education, health, public distribution of food

grains, shelter etc. Indeed, the economic activities for this segment have to be built up as an integrated package consisting of wage-employment opportunities and social services since their ability to sustain credit financed assets is extremely limited. This does not mean that the Committee rules out the possibility of this class of the poor benefiting from the IRDP: they could also be provided with assistance under IRDP, subject to acquiring or upgrading their skills under TRYSEM or other related training programmes. This introduces an element of necessary gradualism. Another way of providing them with assistance under the IRDP may be to get them organised as Self-Help Groups, since the collective strength and peer pressure could enable them to meet the standard of the IRDP assistance.

3.5 The other segment of the poor, that is families above the poorest of the poor, which already has a reasonable measure of skills and experience in handling assets, could, in the view of the Committee, be provided assistance under IRDP straightaway.

3.6 The segmentation principle also holds true for another category, namely the educated unemployed. For the relatively new entrants to the job market also, viz. literate/educated rural youth, a special categorisation needs to be made so that they can be provided training under TRYSEM or other similar programmes, followed by assistance under the IRDP.

3.7 The Committee is aware that while recommending the above differentiation among the poor, with provision for separate dispensations, there is a shift from the traditional approach according to which all the poor are being treated alike. The Committee firmly believes such a course is essential to optimise benefits from the IRDP. Of course, the poorest of the poor, as emphasised earlier, could also graduate into the next level by acquiring skills and training. This approach may also be useful

in another way : it would enable the system to devise sub-category specific and more meaningful employment or self employment programmes.

## Section - IV

### Project Planning, Diversification and streamlining of Credit Delivery System

4.1 It is worth repeating that the resource endowment of the poor are small and heterogeneous. The IRDP recognises, to an extent, the former but fails to take note of the latter. Further, as the IRDP aims to provide "additional" income, the proposed new economic activity is perceived as a subsidiary activity by both the beneficiary household and the State. This leads to two serious limitations: (i) The IRDP does not take into account, their varying capabilities and needs. In the process, the IRDP fails to capitalise on the existing capabilities and resource endowments of the poor. (ii) Since the new activity financed under the IRDP is unrelated to the existing activity/skill, the returns to the assisted are meagre.

4.2 Very often, the activities under IRDP fail to generate substantial incremental income. One of the reasons for this could be the faulty design of projects. Estimates made of income and expenditure are occasionally unrealistic: demand for the products and services are often not accurately forecast; and the activities ultimately chosen by beneficiaries may not match their skill endowments. Also, there may not be a market for items produced. Inadequate investments at initial stages coupled with built-in-inflexibility, caused by rigid regulations, lead to low income generation.

4.3 The quality of project design thus needs to be improved. Best results could be achieved if project planning is done by professionally competent teams but in a decentralised manner so as to take into account local assets and markets, resource endowments of beneficiary households, their needs and capabilities.



4.4 The Committee, therefore, suggests that the work relating to identification of investment opportunities and preparation of project profiles may be undertaken by a district level Technical Group consisting of Lead District Officer of Reserve Bank of India (RBI), District Development Manager of National Bank for Agriculture and Rural Development (NABARD), lead bank manager and concerned technical officials of State Governments. Besides, non-governmental consultants in the relevant field may also be engaged for getting such projects prepared. Many of the projects so prepared may be relevant for the entire district. However, considering the availability of both human and material resources, locational factors and other germane issues as also problems, some of the projects should also be block specific. This will have the merit of taking the advantage of technical expertise which is mostly available at the district level or in the open market, at the same time taking into account the needs at block level. For the sake of clarity and to ensure efficient and expeditious preparation of such project profiles, the centralised agency of DRDA may set up the above mentioned Technical Group, co-ordinate its activities and bear the cost of preparation of project profiles. It may also be emphasised that in the preparation of project profiles, NABARD guidelines need to be treated as only suggestive indicators and in no case they should be considered as outer limits for financing the projects. These indicators or coefficients of costs and benefits should also be revised by NABARD periodically, say within 6 months to a year.

Land based activities including minor irrigation, as also those in the Industries Service Business (ISB) sector, specially in the service segment, should be considered as thrust areas of IRDP. Projects for these should receive high priority. This will

help not only in stepping up the flow of credit under the IRDP but also improve the quality of lending.

4.5 A comment on the related issue of Service Area Approach is also apposite at this stage as on this depends the IRDP loaning. Detailed instructions have been issued by the RBI for preparation of Service Area Plans at the village/branch/block/district levels. While district credit plan exercises are to be completed by February, physical and financial targets under the IRDP are indicated by Government of India only by May or even later because of the budgetary procedures. Banks have, therefore, expressed difficulties in preparing their Action Plan /Service Area Plan before the beginning of the year without outlays/details of subsidy allocation from Government. The Committee, therefore, suggests that the banks may be authorised to finalise targets in respect of the IRDP under Service Area Plans on the basis of previous year's actual figures after adding 10% towards cushioning without waiting for the receipt of targets from Government of India.

4.6 Another related issue is of the purchase of land which since 1991-92 is a permissible activity under the IRDP. Advantage of this is already being taken by bodies like the National Scheduled Castes and Scheduled Tribes Development Finance Corporation, a few Land Development Banks etc. In the Indian situation, land is not merely an economic asset, but it also confers social status on the owners. The Committee, therefore, is of the view that banks should provide loans under the IRDP for the acquisition of land. Banks should also sanction required short term credit in the form of cash credit limits to such borrowers for meeting the current farm expenditure. The Reserve Bank of India may consider issuing suitable instructions to banks regarding the purchase of

land under IRDP and sanction of working capital loan for meeting farm expenditure. As the price of land might vary from place to place, depending on fertility and other factors, certain indicators regarding price may have to be made available to banks in consultation with NABARD.

4.7 While dealing with projects under the IRDP, animal husbandry deserves a special comment. For years, animal husbandry has been an important component of the IRDP. In the absence of adequate infrastructure for feed, marketing, and for procuring good breed of animals, there have been several problems. Many complaints of misuse of subsidy and credit in this sector have also become common. Therefore, extension of credit for this purpose should be related to procurement of good quality animals and to those areas where feed, fodder, veterinary support and marketing linkages are available or can be established under IRDP/JRY or similar programmes.

4.8 The level of income generation from any economic activity, inter alia, depends on quantum of investment made. The experience suggests that the level of investment for each family/enterprise under the IRDP has been rather low, over the years. This point has been substantiated by the Concurrent Evaluation Studies of Government of India as also other studies; the average investment for each family for the year 1989 stood at Rs.4,276 Rs.3,631 and Rs.4,512 for primary, secondary and tertiary sectors respectively. Using the stipulated incremental capital output ratio of 2.75, schemes of investments ranging from Rs.5,800 to Rs.7,600 can generate incremental income between Rs.2,100/- and Rs.2,800/- only; schemes with investments between Rs.3,400/- and Rs.4,500/- can generate incremental income between Rs.1,500/- and Rs.1,700/- only. In fact this is on the assumption that the required infrastructural facilities are available. Needless to say,

with an incremental income of Rs.2,800/- per year i.e monthly income of Rs.240/-, the poor will not be in a position to cross the poverty line, especially, when most of the IRDP beneficiaries do not have any other occupation, main or subsidiary. The Ministry of Rural Development assessed in 1986-87 that per capita investment of Rs.13,000-14,000 was required to generate such additional income to a family as would enable it to cross the poverty line, in one go. The actual annual all-India average per capita investment (both credit and subsidy) under IRDP was only Rs.4,780/- during Seventh Plan and Rs.7,531/- during 1990-93. Even the Public Accounts Committee in their 91st Report stated; "A Programme which does not help the poor households to cross the poverty line in one go cannot carry any credibility as to its validity. Hence credible outlays are the elementary need of the IRDP". The Committee is also of the view that there is a strong case for enlarging significantly the per family/ enterprise investment under the IRDP. This will call for larger credit as also higher amount of subsidy. While RBI may advise the banks in the matter of credit, Ministry of Rural Development may consider raising the ceiling limit for subsidy.

4.9 The Committee also observed that the Credit Subsidy Ratio under the IRDP was at times low. While loan-subsidy or debt-equity ratio would depend on the nature of a project, there is scope for increasing loan portion to meet the full financial requirements of the borrower to ensure adequate income generation. The Committee, therefore, recommends that depending on the financial requirements of the project, the loan subsidy ratio should ordinarily be atleast 2:1. The Committee, however, appreciates that it might not be possible in all cases, particularly when the amount of subsidy is substantially higher.

4.10 In order to make IRDP projects fully sustainable and productive, it is essential to provide not merely term loan for acquiring assets, but also meet their working capital requirements. A number of micro studies have revealed that, in the absence of adequate working capital support, the assets created have become non-operational or non-viable. This is especially true in the case of artisans, household industries, tiny businesses and services. Therefore, the Committee recommends that working capital requirements should be fully taken into consideration while sanctioning loans to the IRDP beneficiaries and suitable cash credit limits sanctioned together with term loans.

4.11 At present banks are not permitted to obtain mortgage of land in respect of agricultural advances upto Rs.15,000/- where movable assets are created and upto Rs.5,000/- where movable assets are not created. In the case of ISB sector the cut-off point for not obtaining mortgage has, however, been fixed at Rs.25,000/-. Considering the state of land records in several parts of the country, the problem arising out of joint land holdings and differentiation against the beneficiaries seeking agriculture related loans, the Committee recommends that the limit for not obtaining mortgage should be uniformly fixed at Rs.25,000/- for all activities under the IRDP. For loans under the IRDP exceeding the cut-off limit of Rs. 25,000/- normal banking terms such as obtention of mortgage/ margin etc. may be followed without however, asking for collateral security in cases where the loan amount does not exceed Rs.50,000/-.

4.12 It is now accepted that growth of employment opportunities in the agricultural sector has not been commensurate with the increase in the rural population. It is doubtful whether in future, agriculture would be able to absorb the growing number of

unemployed rural youth. Under IRDP, the emphasis has been so far on the primary sector. At the national level, 44% of families assisted under IRDP are accounted for by the primary sector, and 56% by secondary and tertiary sectors. Studies have revealed that availability of input and marketing facilities is higher for schemes in the secondary and the tertiary sectors. Further, the average performance of all schemes in the tertiary and the secondary sectors in enabling the beneficiaries to cross the poverty line of Rs.6,400 was better at 33% and 26% respectively as compared to 23% in the primary sector. The Committee therefore, recommends that the non-farm, tiny/small enterprises and services sector, may be further promoted so that more employment opportunities are created. To promote ISB Sector as also to improve the quality of life in villages, which are bereft of even the elementary market outlets, Panchayats may be permitted or even encouraged to construct shops under JRY on their own land in their areas. These could be let out through auction. This would provide infrastructure for ISB sector apart from generating non-tax income for Panchayats, which incidentally are starved of funds. In addition, there is also scope for bringing the consumer in the villages, particularly distant ones, and producers (whether in the public or private sector) in urban and industrial areas together through the intermediation of mobile sellers from BPL families. The main difficulty of ensuring supplies from producers to these intermediaries can be got over by getting limited insurance cover from general insurance companies. The discussion with insurance companies indicated that for amount of Rs.10,000/-, such cover could be given by them subject to part-sharing of risk by the producers. The Committee recommends this idea to Ministry of Rural Development, Government of India and suggests that the insurance premia on such cover could be borne

by the Government out of IRDP funds.

4.13 A system of cash disbursement of credit under IRDP is already operating in certain selected blocks of country. Similarly Family Credit Plan Scheme has also been tried in several districts. Disbursement of cash to IRDP beneficiaries gives them opportunities to choose the assets. In view of the positive response to the scheme of cash disbursement, it is suggested that the same may be extended throughout the country. Accordingly, purchase committees may be dispensed with and DRDAs advised to extend necessary support to enable IRDP beneficiaries to acquire quality assets at reasonable costs. As the Family Credit Plan Scheme would enable the flow of multipurpose credit to more than one member of the family, thereby lifting the entire family above the poverty line, the scheme requires to be further encouraged. Reserve Bank of India may consider issuing suitable instructions to banks in this regard.

4.14 The Committee observes that large scale under-financing of IRDP beneficiaries in the initial years of programme has resulted in sub-optimal utilisation of assets and inadequate income generation which, in turn, had an adverse impact on the quality of lending in general and on recovery in particular. The Committee therefore, recommends that supplementary doses of assistance under IRDP may be extended upto the limit stipulated under existing subsidy ceilings to beneficiaries who have not crossed the poverty line with the initial assistance extended to them under IRDP. This may be done only after case by case scrutiny of borrower performance. Reserve Bank of India may consider issuing suitable instructions to banks in this regard.

## Section V

### Infrastructural Support

5.1 Availability of adequate infrastructural support is a sine qua non for the successful implementation of projects under IRDP. This calls for long term planning by concerned agencies so that a blue print of a perspective infrastructural plan is prepared. This should provide the framework of credit planning and targeting. However, there has not been adequate co-ordination between the credit plan and the infrastructural plan and this has resulted in ineffectiveness and even wastage of the credit input.

5.2 Although the activities and enterprises promoted under IRDP assume the availability of adequate forward and backward linkages, sufficient support systems at district and State levels have not been established to render these services. This is in sharp contrast to the situation prevalent in regard to the promotion of the small scale industries and other enterprises for which organisations such as Small Industries Development Organisation, Small Industries Services Institute, State Small Industries Development Corporation, National Small Industries Corporation etc. exist. The Concurrent Evaluation of IRDP conducted by Government of India during the year 1989 revealed that at the national level input facility was available in all sectors only to the extent of 45%. The availability of input facility was higher for schemes in the tertiary and the secondary sectors at 46% and 53% respectively as compared to 41% in the primary sector. The study also pointed out that the desired marketing facility was available at the national level only to the extent of 45%; the relevant figures for the primary, the secondary and the tertiary sectors being 42%, 46% and 51% respectively.



Again, the availability of repair facility was available only to the extent of 42% in all the sectors i.e. 41% in the primary sector, 48% in the secondary sector and 40% the tertiary sector.

5.3 What is more disturbing is that though funds under the programme were to be utilised for filling up the critical gaps in the infrastructure which were directly related to the projects of IRDP beneficiaries, in some States, IRDP funds were used/diverted to augment the resources of the State Governments for creating general infrastructure. There is enough evidence to support this point.

5.4 The development of infrastructure should not be confined to provision of only electricity, roads and other communication facilities; it should also include construction of shops, work sheds, dhabas etc. which could be made use of by IRDP beneficiaries who may like to engage in service activities.

5.5 For beneficiaries of IRDP and DWCRA programmes, the development of linkages, both forward and backward, for marketing of various products, resulting from their income generating activities, becomes necessary. The institutional arrangements set up to support such programmes through District Supply and Marketing Societies (DSMS) and other para-statal bodies have not resulted in any effective linkages of the kind which were expected. This issue needs to be tackled both through an effort towards making the dormant official structure more active, as well as through linkages with existing successful organisations, and individuals in the private sector. What is necessary is a much greater understanding of the marketing problem confronting IRDP beneficiaries so that with increase in production as well as productivity, they are able to obtain a better price than is currently available to them. Productspecific programmes taken up in a district should invariably look into the marketing system so as

to evaluate their adequacy.

5.6 The Council for Advancement of People's Action and Rural Technology (CAPART) should also play an effective role in improving the product design and marketing of IRDP and DWCRA products and enhance its activities in this area.

5.7 The Ministry of Rural Development, Government of India has recently permitted that proposals for creation of programme infrastructure upto investment of Rs.10 lakhs would henceforth be approved by District Rural Development Agencies (DRDA). Proposals involving amounts of Rs.25 lakhs and above would, however, require the approval of Divisional Commissioners. With a view to speeding up the process of setting up requisite infrastructural facilities, the Committee recommends that the limit of expenditure, for setting up of infrastructure may be raised from the present ceiling of 10% of the budgetary allocation for IRDP at DRDA level, to 20%. It is also necessary to ensure that funds earmarked for infrastructural development of IRDP are not diverted elsewhere. The Committee further recommends that the DRDA must prepare a detailed perspective plan of infrastructure in consultation with District Consultative Committee (DCC) and Block Level Bankers' Committee (BLBC), taking into account the resource availability and the felt needs of the rural population.

5.8 Presently under the IRDP, a centrally sponsored scheme of "Training of Rural Youth for Self Employment" (TRYSEM) is available. The objective of TRYSEM is to provide technical and entrepreneurial training to rural youth, from below the poverty line, to take up self-employment and wage employment. The Ministry of Rural Development has since revised the stipend rates and guidelines for TRYSEM. In most of the States, however, adequate emphasis is not being given to development of the skills of poor. The presently available technical training institutions impart-

ing skills are also beyond the reach of literate youth, below the poverty line. The training facilities locally organised by DRDA are deficient both in terms of standard and of identification of skill requirements and skill opportunities. It should, therefore, be the responsibility of the Central and State Governments to ensure that opportunities for acquiring suitable technical skills are made available to the poor rural youth.

5.9 While the need for imparting new skills or upgrading the existing ones of the rural poor for increasing their employability or income has been recognised generally, creation of adequate infrastructure for this purpose has not matched the need in this regard. It is therefore, of critical importance that training institutions are promoted and adequate facilities made available for training on an emergent basis all over the country. The Committee, therefore, recommends setting up of at least one mini Industrial Training Institute (ITI) or Rural Polytechnic in each block. For establishing such training institutions, infrastructural funds available under IRDP could be availed of. Besides, support could also be sought from the other organisations like SC/ST Corporations and Area Development Organisations. Further, the wage component of construction activity of such institutions could be linked to programmes under Jawahar Rozgar Yojana (JRY). Such training institutions should impart training in both traditional and modern skills relevant to the activities in that area. These mini ITIs once established under the IRDP should be managed and run by the DRDA under the overall guidance of Department of Technical Education of the State concerned.

5.10 Besides, additional shifts for TRYSEM candidates should be opened in all existing ITIs, and other training institutions. A programme for such additional shifts should be centrally drawn up by the Director General of Employment and Training of India in

consultation with the Ministry of Rural Development. Similarly, at the State level, Secretary (Technical Education) should formulate these training programmes in consultation with the Secretary (RD).

5.11 While there is need to substantially enhance the training facilities now available, the necessity of ensuring higher order linkage between the type of training imparted under TRYSEM and the activity chosen by the beneficiary hardly needs any emphasis. The Concurrent Evaluation of IRDP conducted by the Government of India in 1989 points out that at the national level, 81% of TRYSEM beneficiaries of the sample was provided assistance for activities other than that for which training was imparted. It is not clear whether such deviation took place because the beneficiaries themselves subsequently chose to take up different activities. Nevertheless, the Committee would stress that the level of co-ordination now obtaining between the selection of activities by beneficiaries and the types of training contemplated/provided leaves much to be desired. While it may not be appropriate to stipulate that training under TRYSEM should be a pre-requisite for grant of assistance under IRDP the Committee recommends that

a) Training schedules and contents should be drawn up by those concerned only in consultation with DCC so as to ensure better co-ordination between imparting of training and selection of activities by beneficiaries; and

b) There should be a system of frequently checking and reporting to DCC the extent of divergence between the activities chosen by beneficiaries and the type of training provided.

5.12 The Committee also recommends that banks may provide Orientation Training Programme for IRDP beneficiaries.

5.13 The Committee further suggests that the private sector could be advantageously associated with the task of setting up mini ITIs and Rural Polytechnics. There could also be a scheme for subsidising the running of such institutions out of IRDP funds on the pattern of State Government subsidising private schools. This would reduce the overall cost of imparting training and at the same time provide better and specialised training facilities.

## Section VI

### Streamlining Institutional and Organisational Support

The IRDP derives its organisational and institutional support from the banking system, DRDA, Panchayati Raj Institutions, NGOs, Voluntary Organisations (VOs) and Self-Help Groups (SHGs).

6.1 The banking system provides credit support to IRDP. For the year ended 1994 term credit of the order of Rs. 1083 crores was extended by banking system to beneficiaries of IRDP. According to the present procedure, applications are sponsored to banks by block authorities. Banks are required to appraise the credit proposals on their own and dispose them of normally within a fortnight. They are also required to effectively monitor and verify the end-use of credit besides, effecting recoveries.

6.2 Although, banks have extended sizeable amount of credit under the IRDP, the deficiencies observed in the credit delivery system relate to non-sanction of working capital wherever required, fixing of unrealistic repayment schedules without making allowance for proper gestation period etc. As regards non-sanction of working capital the Committee has already made its recommendations (vide paragraph 4.10 of the Report).

6.3 The repayment period for loans under IRDP should not be less than 3 years according to the present instructions. Studies have however revealed that at the national level, repayment period was fixed for less than 3 years in 9% of the cases while in the case of 26% it was barely 3 years. The Concurrent Evaluation study conducted by Government of India in 1989 has brought to light that in the case of Dena Bank repayment period fixed was for less than 3 years in the case 83% of loans ; United Bank of India and Andhra Bank fixed a repayment period of just 3 years for 63% and 57% respectively of the total number of cases. The Committee

feels that such findings by the evaluation studies call for greater introspection by banks. In their anxiety to achieve the targets or effect recovery within the shortest period, banks fail to devote adequate attention to proper appraisal of the proposals and as a result fix unrealistic and uniform repayment schedules for all loans. This, however, has proved counter-productive as disallowing of adequate repayment period has contributed to build up of overdues. The Committee recommends that banks should fix repayment schedules realistically after taking into account the level of income generation and economic life of the assets. On the basis of the study of the existing loan profiles afflicted by low rates of recovery, the Committee recommends that the minimum repayment period for the IRDP loans may be fixed at 5 years as against 3 years stipulated at present. Wherever necessary, banks should also provide initial moratorium.

6.4 The Committee feels that if the IRDP is to emerge as an effective instrument, the banking system should consider, alleviation of rural poverty through credit dispensation, as one of its important responsibilities. Continuing guidance from and monitoring by RBI in this regard would be helpful in achieving this. Additional method to achieve better involvements of banks in the programme would be to grant them more autonomy in the selection of beneficiaries and insist on corresponding accountability in regard to sanction and recovery. The Committee, therefore, suggests that atleast in a few districts, on a pilot basis, instead of block authorities sponsoring applications, banks may be given the freedom to select the beneficiaries from out of BPL list.

6.5 The activities financed under the IRDP would be more successful if group/cluster approach is adopted. Apart from achieving economies of scale, this will mean a recognition of community working which is common among many villages in the country. This

would also ensure peer pressure in the matter of recovery of loans. The Committee, therefore, recommends that banks may provide group loans for various activities under IRDP. Such group loans should also cover assistance required for infrastructure. The rate of interest and security requirements in such cases should, however, be related to the per capita quantum of loan.

6.6 The Lead Bank Officer should play a more vigorous role in the implementation of the IRDP. He must strictly supervise the constitution and working of Technical Group charged with the responsibility of preparation of project profiles referred to in paragraph 4.4 of the Report. He should also maintain proper liaison with the Controlling Offices of other banks in regard to implementation of the entire programme in the district and be in close contact with the State Government officials and Panchayati Raj Institutions, VOs and SHGs.

6.7 The DRDAs functioning under the Chairmanship of District Collector, who is assisted by Project Officer and Assistant Project Officers, besides the supporting administrative staff, provide the Government sponsored support system to the IRDP. They are required to monitor and evaluate the programme implementation by Government and Non-Governmental agencies besides securing inter-sectoral, and inter-departmental co-ordination in regard to the implementation of IRDP. Subsidy funds allocated by Government are also kept with DRDAs.

6.8 The Committee is of the opinion that if DRDAs are to fulfill the mission assigned to them, they should be reorganised into compact teams of professionals and technical experts. They must have full time professionals as Project Officers and Assistant Project Officers. Credit Officers may be drawn from commercial banks, RRBs or NABARD. Open market recruitment preferably on



direct/ consultancy basis from recognised NGOs or professional bodies may also be considered.

6.9 The Committee suggests that a comprehensive review of the existing structure of development administration in States should be carried out and steps taken to induct officers of sufficient seniority and proven integrity into DRDAs. In each DRDA there should be 3 or 4 Assistant Project Officers, each specialised in a different discipline. For improving the poor level of accounting work, the Committee suggests deputation of officers from State Financial and Accounts Services to DRDAs.

6.10 With the strengthening of DRDAs on the above lines, they should be in a position to prepare a perspective plan of infrastructure, at block level. They should, also help banks in preparing credit plans. The DRDAs should assume lead role in regard to providing training facilities to BPL families for making them eligible for assistance under IRDP. They should also help banks in the matter of recovery.

6.11 For reinforcing people's participation in the IRDP, the Panchayati Raj Institutions at grass root or middle level have to be involved in the implementation of the programme. The village level Panchayati Raj institutions should play an important role in identification of beneficiaries as suggested in para 3.3 of the report. Further, in the light of the recent legislations empowering the Panchayati Raj institutions, the RBI and Government of India, Ministry of Rural Development may work out suitable co-ordinating mechanisms in this regard.

6.12 One of the factors inhibiting the successful implementation of IRDP is the high transaction costs in dispensing small amounts of credit to a large number of clientele spread over the length and breadth of the country. The Committee feels that the transaction costs can be considerably reduced by enhancing the

role of VOs and SHGs in credit dispensation, ensuring its end use, and providing backward/ forward linkages under the IRDP. Direct involvement of the VOs in every stage of implementation of the IRDP would enable them to function as catalysts. There are a large number of VOs in the country and it should not be difficult to identify a few efficient ones with a good track record, which can be entrusted with certain tasks connected with the implementation of IRDP. The Committee, therefore, recommends that in the case of projects approved by CAPART, a few VOs atleast on a pilot basis can be given a list of BPL families for identification of borrowers for being sponsored to banks, with the additional responsibility of ensuring backward and forward linkages and verifying the end use of credit. Such an arrangement, apart from providing relief to the already overburdened banks, would facilitate acquisition of quality assets and adequate income generation.

6.13 Studies undertaken by NABARD have revealed that many shortcomings of formal credit delivery system like defective loan appraisal, improper choice of activity, wrong selection of beneficiary, inadequate linking of credit with marketing, poor supervision over end use of credit etc. can be considerably mitigated at the same time keeping down the transaction costs, with the formation and assistance of SHGs. Although SHGs are yet to be recognised as an accepted channel of credit delivery, the Committee recommends that it would be advantageous to encourage their formation and involvement in credit dispensation under IRDP. NABARD has already taken initiative in forging links between banks and informal groups of women under DWCRA, a sub component of IRDP. As it has also undertaken a pilot project for refinancing banks in respect of credit facilities extended to some SHGs, the Committee recommends that the possibility of

routing assistance under IRDP to BPL families through the medium of SHGs on a larger scale should be explored. The Committee further recommends that NABARD may consider directly lending to consortia of SHGs where they are organised effectively to its satisfaction.

## Section VII

### Changes in the Mode of Subsidy

7.1 Under the IRDP, subsidy is provided in the range of 25% to 50% depending on the category of the beneficiary and the nature of the activity. Subsidy is disbursed along with the loan to enable the beneficiary to meet the full project cost. For this purpose, DRDA maintains savings accounts with principal bank branches in the district. The branch which disburses the IRDP loan simultaneously makes available the subsidy also by debiting the account of its branch (link branch) where DRDA maintains its account. Thus, the present system of subsidy disbursement is front-end based.

7.2 The Committee concurs with the views expressed by the majority of people/ institutions contacted in the course of its in-depth study that the present front-end subsidy system has caused leakages and malpractices besides encouraging beneficiaries to clandestinely dispose of assets. With a view to preventing the misuse of capital subsidy, the Committee recommends switch over to a back-end subsidy system. Although, the full project cost including subsidy would be disbursed to borrowers as loan right at the beginning by the banks, the real benefit of subsidy under this system would be made available to the beneficiaries only at the end.

7.3 The DRDAs would keep subsidy funds with principal bank branches of the district in savings bank accounts and as and when the loan is sanctioned to the beneficiary, the subsidy amount available will be brought to the books of the branch as hitherto by debiting the link branch account where DRDA funds are parked. This amount would be kept in the form of fixed deposit in the name of the beneficiary and allowed to earn interest at the

appropriate rate. Interest would be charged by the bank on the full amount of project cost disbursed to the beneficiary as loan. The loan instalments would also be worked out for the full project cost. The repayment schedule of loan would be drawn in such a way that the fixed deposit (subsidy) amount along with the interest accrued would be sufficient for adjustment towards the last few instalments. The loan document would be taken by the bank for the full project cost and it would be stipulated that in case of misutilisation of the loan, the full amount of subsidy will be forfeited. Such forfeited amount of subsidy will also be available to banks for adjusting against the borrowers' dues. It will be further stipulated that the borrower will not be entitled for any benefit of subsidy if the loan is fully repaid before the stipulated period say within the first 2 years. In case of full repayment after 2 years but before the stipulated period of the loan, the benefit of subsidy will be available on a pro rata basis only. Last, but not the least, the availability of the benefit of subsidy to the borrower will be contingent on his prompt repayment of loan and maintaining the asset in good condition. In case of paucity of funds in the DRDAs account, banks would be entitled to claim interest from DRDAs as per RBI's instructions. The Committee, also recommends that the amount of subsidy kept with the banks in the form of fixed deposit may not be taken into account by RBI for computation of demand and time liabilities for the purpose of Cash Reserve Ratio(CRR)/Statutory Liquidity Ratio (SLR). However, this need not be a condition precedent to the introduction of the proposed back-end subsidy system.

7.4 The Committee further feels that the benefit of subsidy must also be available to those borrowers who prefer to avail themselves of the required working capital in the form of cash credit

together with or without term loan. The amount of subsidy, which the borrower is entitled to in such cases may also be kept in the form of fixed deposit in the borrower's name and interest accruing on such fixed deposits periodically credited to the cash credit account. The benefit of concessional rate of interest on cash credit account will be available to the borrower only upto a stipulated period by which time he would be able to cross the poverty line. The fixed deposit account may also be closed at this juncture and proceeds thereof credited to the cash credit account. The other stipulations regarding forfeiture of subsidy/surrender of pro rata subsidy/prompt repayment/ proper maintenance of asset etc. will also apply mutatis mutandis in this case.

7.5 Under the system suggested above, beneficiaries who have availed themselves of only term loan would feel that their liability to the bank is to the extent of full project cost in view of the amount indicated in the loan documents and also because repayment instalments have been worked out accordingly. Under the front-end system, repayment schedule was worked out for project cost net of subsidy. Hence the beneficiary did not have to pay any interest on the subsidy portion; correspondingly, no income accrued to him either, by way of interest as the subsidy was not kept in fixed deposit with the bank. Under the proposed system, the beneficiaries who have obtained term loan as also working capital finance will look forward to receiving something extra i.e the interest accruing/accumulated on fixed deposit, which they are aware, is inter alia, contingent on their good repayment performance. The real advantage of back-end subsidy lies in bringing about such a change in the psychological outlook of the beneficiaries, which should instill in them a spirit of accountability. The changed psychological outlook can

be further reinforced by indicating in the IRDP loan pass books which are presently required to be issued to the beneficiaries, the maturity value of fixed deposit, which will be made available to them towards the end of currency of term loan. This would discourage the loanees from disposing of the assets just to take advantage of subsidy. As the repayment schedule would be worked out for total project cost inclusive of subsidy, it might appear that the loan instalments will be slightly higher. This can, however, be taken care of by suitably elongating the repayment schedule. The interest differential at around 2% which the borrowers have to pay additionally may not be considered as a heavy burden on them because of the benefit of compounding of interest on fixed deposit. In view of the nil interregnum between initial disbursement of full project cost by the bank and debit of subsidy amount to DRDA's account with link branch, banks will not also have any difficulty in adopting the procedure. On the other hand the amount of fixed deposit lying with banks can add to their float funds for lending at higher interest rates than what they have to pay on such deposits. The proposed exemption of the amounts lying in the form of fixed deposits with the banks from CRR/SLR obligations should provide an additional incentive to banks to lend more under IRDP.

## Section VIII

### Towards Better Recovery Performance

8.1 The recovery performance in respect of the IRDP advances granted by the public sector banks as a percentage to demand has declined to 30.87 as at the end of June 1993 from 41.34 as at the end of June 1991. The low recovery of the IRDP loans has affected the credibility of the entire programme. Poor recovery of loans hinders effective recycling of funds by banks and consequently they would remain unenthused about enhancing their rural lending. For successful implementation of the IRDP, it is essential that banks should continuously be extending credit under the programme on their own after considering viability of each proposal, instead of only reacting to directions from RBI/Government of India. Such an arrangement would, however, presuppose that flow of funds back to the institutions by way of recovery is never impeded. It is, therefore, essential that the concern of banks about poor recovery as also non-availability of adequate support from governmental agencies for recovery is promptly recognised. The Committee suggests that for improving the recovery performance, a strategy involving a suitable blend of firm line of action against wilful defaulters and provision of suitable incentives for prompt repayment/recovery may be drawn up. Accordingly following measures may be adopted at different levels.

8.2 With a view to highlighting the importance of recovery of loans, Government of India may consider linking certain percentage of subsidy allocation to a minimum level of recovery in blocks/ districts. In the event of non-achievement of the recovery targets in that area, Government could divert subsidy allocation to other areas where recovery is higher. Further, Minis-



try of Rural Development, Government of India should constantly review the recovery position in coordination with State Governments and banks.

8.3 The State Governments should also render effective support to banks in the matter of recovery. So far only 16 States viz. Assam, Bihar, Gujarat, Haryana, Himachal Pradesh, Karnataka, Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Orissa, Punjab, Rajasthan, Tripura, Uttar Pradesh and West Bengal have enacted the "Model Bill" as recommended by Talwar Committee for recovery of dues to commercial banks. The States which have not passed the Model Bill so far, should be asked to propose a suitable time frame for enacting such legislation.

8.4 Even in the states, which are extending the provisions of Revenue Recovery Act for recovery of bank dues, results are not wholly satisfactory because of large number of cases involved, complicated procedures and as these cases are handled by the existing revenue officers who are preoccupied with their multifarious work. Indeed, the recovery cases of banks are very low in their priority. It is, therefore, necessary that special recovery officers are appointed by State Governments exclusively to recover the bank dues. These officers could also be assisted by process servers and other supporting staff. Preferably for each district, one recovery officer with necessary complement of staff may be appointed. In terms of legal requirements, such special recovery officers will continue to be in the services of State Governments, they cannot be taken on deputation. The lead bank and DRDA could bear the establishment cost of the proposed set up. Cases of all the banks would be handled by recovery officer. He will also have to be mobile and should hold recovery camps frequently in various parts of the district.

8.5 The DRDAs, being the nodal agencies specified for implementation of IRDP should lend credible support to banks in the matter of effecting recovery. The Committee has in para 6.8 suggested that DRDAs require to be strengthened by inducting credit officers from banks. With the assistance of these officers, recovery cells could be formed in every DRDA which should draw up feasible action plans jointly with banks to step up the recovery percentage. The DRDA must also help the banks in conducting joint recovery camps and establishing contacts with defaulters.

8.6 Perhaps the best but so far little tapped channel for effecting recovery of loans under the IRDP are V.Os and SHGs. They can interact with the borrower at informal and personal level. They would also be in a position to better convince the borrowers that unless loans are repaid, financial institutions would not be able to lend further. SHGs by their very constitution would be able to exert considerable peer pressure on the borrowers which would persuade them to repay loans in time. Scheme of "Vikas Volunteer Vahinis" launched by NABARD should be further strengthened to help banks in effecting recovery.

8.7 Occasional non-creation of the assets or non-utilisation of loans by the borrowers is one of the problems of the IRDP. Besides, in some cases, disposal of the assets created/acquired, without repaying the loan, is another malady. Further, even when the assets are in position, the borrowers in the absence of adequate and effective follow up or because of their own disinclination, do not promptly repay the bank loans. To get over this problem, a system of ensuring closer monitoring and follow up needs to be created at grass root level. The Committee, therefore, recommends that banks may obtain the services of Utilisation Reporters-cum-Recovery Facilitators on contract basis. They

could be paid suitable commission for reporting maintenance of assets. Similarly, they may also be paid commission which could be a suitable percentage of recovery effected through them. Such Utilisation Reporter/Recovery Facilitator could cover a few villages and Panchayats. With this system, utilisation of loans and consequent recovery of bank dues are likely to be improved.

8.8 The Committee recommends that following steps may also be considered for improving the recovery position of banks.

- i) Rebate may be given for timely repayment of the loan by the borrower.
- ii) Defaulters may not be allowed to hold public offices
- iii) Group loans may be encouraged
- iv) Special recovery tribunals may be set up
- v) Rescheduling of loans may be considered where necessary
- vi) Provisions of R.R.Act may be more stringently enforced
- vii) Loan waivers may not be declared by Governments
- viii) Wilful defaulters should not be given assistance under any other scheme.
- ix) More attention may be devoted to appraisal of loans.
- x) Wherever required, adequate gestation period or moratorium should be allowed in such a way that the commencement of recovery coincides with accrual of incremental income from the project.
- xi) In case of projects where accrual of income is low in the beginning but goes up over a period of time, size of the loan instalments in the initial period should be suitably reduced.
- xii) With a view to enabling the borrower to utilise a higher percentage of incremental income for his own consumption, wherever possible, longer repayment period may be allowed subject to the economic life of the asset.
- xiii) With a view to monitoring the recovery position under IRDP on a quarterly basis, a separate committee under the Chairmanship of Chief Officer, Rural Planning and Credit Department, consisting of representatives of banks/ Governments /Voluntary Organisations/ SHGs may be constituted.

## Section IX

### Information, Education and Communication

9.1 Although the IRDP is being implemented in the entire country for the last 14 years there has not so far been any effective media or communication strategy for facilitating its effective implementation. Consequently, there is little or no awareness of this programme amongst the village opinion leaders and client groups. Vagueness about the programme has led to avoidable distortions. Dissemination of information through mass media, regarding the avowed objectives of IRDP, its benefits, as also the responsibilities cast on the borrowers should receive greater attention.

9.2 There is ample scope for involvement of voluntary agencies in the exercise. Audio visual tapes/ software packages could be prepared at regional level on the basis of programme contents / objectives, success stories and experience etc. for the benefit of the rural poor. The AIR / Doordarshan could also be effectively involved in spreading the message of IRDP. The Committee, therefore, suggests that a new dimension should be added to IRDP, through information, education and communication for which a separate budget should be provided.

## EXECUTIVE SUMMARY

1. The poor without skills and experience in handling assets should be segregated into a separate category by a committee comprising the representatives of blocks, Panchayats, lead banks, school masters, postmasters, prominent villagers and grass-root NGOs; such poor people should be initially provided wage employment under various schemes of State Governments and Jawahar Rozgar Yojana. They should also be supported by providing for greater social consumption expenditure. They would be provided with assistance under IRDP subject to their acquiring or upgrading their skills. The other segment of the poor i.e. families above the poorest of the poor which has reasonable measure of skills and experience may be provided assistance under IRDP straight away. The relatively new entrants to job market may be provided training under TRYSEM or other programmes followed by assistance under IRDP (vide 3.4 and 3.5)
2. For doing away with leakages and malpractices, the Committee recommends switch over from front-end to back-end system of subsidy. The benefit of subsidy should also be available to borrowers who prefer to avail themselves of working capital finance (vide para 7.3 and 7.4).
3. For improving recovery, Government of India may consider linking of certain percentage of subsidy allocation to recovery performance. Special recovery officers may be appointed by Governments. Enactment of Model Bill as recommended by Talwar Committee by remaining State Governments may be expedited. Loan waivers may not be declared. DRDAs, VOs and SHGs may help banks in recovery. <sup>4.11</sup>Utilisation-Reporter-cum-Recovery Facilitators may be appointed on commission basis. (vide <sup>4.11</sup>8.2, 8.4 and 8.7)
4. The work relating to identification of investment opportunities and preparation of project profiles may be undertaken by district level Technical Group to be set up by DRDAs (vide para 4.4).
5. DRDAs must prepare a perspective plan of infrastructure in consultation with DCC and BLBC. The limit of expenditure for setting up of infrastructure may be raised to 20% of budgetary allocation. At least one mini ITI or Rural Polytechnic may be set up in each block for imparting training to poor rural youth. Private sector may be associated with the task of setting up such institutions. Additional shifts for TRYSEM should be opened in all ITIs and other training institutions (vide para 5.7 and 5.9 and 5.13).
6. Democratic character of IRDP should be restored and strengthened by ensuring greater involvement of Panchayats and village population as also by imparting to the process of identification of beneficiaries a greater degree of transparency (vide para 3.3).
7. Banks may be authorised to finalise targets in respect of IRDP under service area plans on the basis of previous years' actual figures after adding 10% for cushioning, without waiting for targets from Government of India (vide para 4.5).
8. Banks should fix realistic repayment schedules and provide for gestation period where required. Working capital assistance in the form of cash credit limits may also be provided where necessary. The repayment period for IRDP loans should not be less than 5 years. Banks may encourage group loans for various activities under IRDP. The limit for non-obtention of mortgage may be fixed at Rs.25,000/- for all activities under IRDP. Collateral security may not be insisted for loans upto Rs.50,000/-. Banks may be given freedom to select the benefi-

aries from BPL list on a pilot basis (vide para 6.2, 6.3, 6.4 and 6.5).

9. The level of per family/enterprise investment under IRDP should be enlarged by providing larger credit as also higher amount of subsidy (vide para 4.8 and 4.9).

10. Non-farm, tiny/small enterprises and services sector may be further promoted under IRDP (vide para 4.12).

11. DRDAs must be reorganised into compact teams of professional and technical experts (vide para 6.8).

12. Voluntary organisations and Self-Help Groups may be associated with the implementation of IRDP. In the case of projects approved by CAPART a few V.O.s can be on pilot basis given list of BPL families for identification of borrowers, ensuring availability of backward/forward linkages, as also verifying end use of credit (vide para 6.12 and 6.13)

13. Banks should provide loans under IRDP for acquisition of land (vide para 4.6)

14. Cash disbursement under IRDP may be extended throughout the country. Family Credit Plan Scheme should be further encouraged (vide para 4.13).

15. Supplementary doses of assistance under IRDP may be provided to beneficiaries who have not crossed the poverty line with initial assistance (vide para 4.14).

16. Panchayati Raj Institutions at grass-root or middle levels should be involved in the implementation of IRDP(vide para 6.11).

17. A new dimension should be added to IRDP through Information Education and Communication for which a separate budget should be provided (vide para 9.2).

A N N E X U R E I

RESERVE BANK OF INDIA  
CENTRAL OFFICE  
BOMBAY 400 023

Memorandum in respect of formation of  
Expert Committee to review  
Integrated Rural Development Programme

It has been decided to appoint a Committee to review the progress of Integrated Rural Development Programme (IRDP) and recommend suitable measures for its improvement. Accordingly, Reserve Bank of India appoints the following persons to constitute the Committee for the said purpose.

1. Shri D.R.Mehta Chairman  
Deputy Governor  
Reserve Bank of India  
Central Office  
Bombay 400023
2. Shri B.N.Yugandhar Member  
Secretary  
Ministry of Rural Development  
Government of India  
Krishi Bhavan  
New Delhi 110 001
3. Shri R.V.Gupta Member  
Special Secretary  
Ministry of Finance  
(Department of Banking)  
Government of India  
New Delhi 110 001
4. Shri P.Kotaiah Member  
Chairman  
National Bank for Agriculture  
and Rural Development  
Sterling Centre  
Worli  
Bombay 400 018
5. Shri Rashid Jilani Member  
Chairman and Managing  
Director  
Punjab National Bank  
7, Bhikhaiji Cama Place  
Africa Avenue  
New Delhi 110 066

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|-----|---|---|
| 6.  | <b>Shri T.K.K.Bhagavat @<br/>Chairman and Managing<br/>Director<br/>Indian Overseas Bank<br/>H.O., P.B.No. 3765<br/>762 Anna Salai<br/>Madras 600 002</b> | <b>Member</b>   |
| 7.  | <b>Dr. Ram K.Vepa<br/>IAS (Retd)<br/>2058 Sector C-2<br/>Vasant Kunj<br/>New Delhi 110 070</b>  | <b>Member</b>   |
| 8.  | <b>Secretary<br/>Rural Development Department<br/>Government of Uttar Pradesh<br/>Government Secretariat<br/>Lucknow 226 001</b>                          | <b>Member</b>   |
| 9.  | <b>Shri S.N.Ghosh<br/>Secretary<br/>Rural Development Department<br/>Government of West Bengal<br/>Raj Bhavan<br/>Calcutta 700 001</b>                    | <b>Member</b>   |
| 10. | <b>Dr. T.C.A. Srinivasaramanujan<br/>Director General<br/>National Institute of<br/>Rural Development<br/>Rajendra Nagar<br/>Hyderabad 500 030</b>        | <b>Member</b>   |
| 11. | <b>Shri Mani Bhai Desai<br/>Bharatiya Agro Industries<br/>Foundation<br/>Urlikanchan, Dist. Pune<br/>Maharashtra</b>                                      | <b>Ceased to be member<br/>w.e.f. 14.11.1993<br/>on account of his<br/>demise</b> |
| 12. | <b>Ms. Nirmala Deshpande<br/>President<br/>Harijan Seva Sangh<br/>Guru Teg Bahadur Nagar<br/>Delhi 110 009</b>  | <b>Member</b>   |
| 13. | <b>Dr. A.K.Basu<br/>Society of Rural<br/>Industrialisation<br/>Bariatu<br/>Ranchi (Bihar) 834 009</b>   | <b>Member</b>   |



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| 14. | <b>Shri Aloysius P. Fernandez</b><br><b>Executive Director</b><br><b>Mysore Resettlement and</b><br><b>Development Agency</b><br><b>2, Service Road</b><br><b>Domlur Layout</b><br><b>Bangalore 560 071</b> | <b>Member</b>                     |
| 15. | <b>Prof. V.S.Vyas</b><br><b>Director</b><br><b>Institute of Development Studies</b><br><b>8-B, Jhalana Institutional Area</b><br><b>Jaipur 302 004</b>  | <b>Member</b>                     |
| 16. | <b>Chairman</b><br><b>Khadi Village Industries Commission</b><br><b>Irla Road</b><br><b>Vile Parle (West)</b><br><b>Bombay 400 056</b>  | <b>Member</b>                     |
| 17. | <b>Shri J.M.Chona *</b><br><b>Economic Adviser</b><br><b>Rural Planning and Credit</b><br><b>Department</b><br><b>Reserve Bank of India</b><br><b>Bombay</b>  | <b>Member</b><br><b>Secretary</b> |

@ Since retired from service.

Shri K. Kannan, Chairman and Managing Director, Dena Bank appointed vice shri Bhagvat.

\* Since retired from the service of the Reserve Bank of India, Shri K.K. Mudgil, Chief Officer, Rural Planning and Credit Department, Central Office, Reserve Bank of India, has been appointed as member secretary with effect from 25.07.1994.

The Committee may co-opt any other person as member as and when it deems necessary.

2. The terms of reference of the Committee are as follows:

- i. To review the present procedure for identification of beneficiaries under IRDP and suggest changes to ensure proper identification.
- ii. To review existing system of sponsoring of loan applications.
- iii. To examine the adequacy of forward and backward linkages, the role of Government Agencies in ensuring the availability of these linkages to the beneficiaries at the proper time and in adequate measure.

- iv. To examine procedures for sanction of loans by banks and suggest improvements to ensure timely and adequate credit being made available.
- v. To examine causes for poor recovery and suggest measures for improvement in recovery.
- vi. To examine the procedure for disbursement of subsidy under IRDP i.e. switchover from front-end subsidy to back-end subsidy.

**Sd/-**  
**(I.T.Vaz)**  
**Executive Director**  
**29 September 1993**

## ANNEXURE II

Terms of Reference-wise structured questionnaire forwarded to the banks,  
State Governments, Non-Governmental  
Organisations and individuals

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### Terms of Reference No.1

Under the present procedure the survey for preparation of the list of below poverty line families is conducted by village level workers. This list of families thus prepared is placed before Gram Sabha (Village Assembly) attended by local people, non-officials, block officers and prominent voluntary groups for approval. Poverty line is at income level of Rs.11,000 per year for a family and cut-off line is at Rs.8,500. While selecting the beneficiaries for a particular year, instructions are that families whose income is below Rs. 6000 should be selected first and after the list of such families is exhausted, then only families from 6000 - 8500 be selected.

### Question No.1

Are you satisfied about the present system of preparation of list of BPL families? If not, please give your suggestions in respect of improving the methodology and also making whole exercise more transparent.

### Question No.2

Do you feel that the present system of selecting families from the low bracket (0-6000) first should be changed because the normal preference of majority of them could be for wage employment? In that case whether selection should be from the families in the income bracket (0-8500) or it should be further extended to cover anybody from families below poverty line (0-11000). Do you feel that wider spectrum for selecting beneficiaries would help choosing beneficiaries with the right type of skill and aptitude? If yes, what are your suggestions for providing wage employment opportunities to the families, who are likely to be eliminated in the aforesaid selection process?

### Question No.3

How in your opinion the choice and willingness of the IRDP beneficiary in pursuing income generating activity can be made compatible with the viability and marketability? Under such circumstances, how can cluster approach in lending under IRDP be adopted meaningfully? What are your suggestions in respect of skill and entrepreneurship development for successful income generating activities?

### Terms of Reference No.2

Under the present procedure, the application forms of the beneficiaries families are prepared in a village camp attended by the beneficiaries, block functionaries, other concerned departments and bankers so as to save time and energy of beneficiaries in getting 'No Dues Certificate' and other requisite documents. For several reasons it happens that in these camps applications are got filled in by the beneficiaries in a hurry and banks also get little time to examine the proposals with reference to their viability and bankability. Moreover, handling of applications in large numbers particularly towards the end of the year also results in defective lending by the banks.

#### Question No.4

With a view to ensure that the proposals prepared for the beneficiaries are viable and bankable, and would generate sufficient income to lift them above poverty line, can you suggest any alternative method for completion of all formalities upto the stage of sanctioning IRDP loan applications by the banks?

#### Terms of Reference No.3

For the activity to be successful, it is essential that there are adequate forward and backward linkages. The forward linkage refer, more particularly, to the marketing support and the backward linkage refer to availability and supply of raw materials. The adoption of cluster approach in selection of beneficiaries and activities will facilitate the availability of these linkages. It has been the general experience that several activities undertaken by the beneficiaries have got stuck on account of non-availability of backward and forward linkages. Setting up of district and supply marketing societies was one step in this direction. It is yet to gain momentum.

#### Question No.5

Can you suggest effective mechanism for providing backward and forward linkages? In what way can we strengthen the existing mechanism and create a new one where adequate mechanism does not exist?

#### Question No.6

To remove the intermediaries and to give more freedom to the beneficiary in purchasing asset of his choice, purchase committees were abolished in 50% blocks in the country and cash given to the beneficiary to bargain and purchase quality assets at competitive prices. What is your opinion and experience about this? Can you suggest any other more workable proposition to ensure that the borrower is supplied with an asset of good quality at a competitive price?

#### Terms of Reference No.4

Under the present instructions banks are required to dispose of loan applications within a fortnight. It is noticed that generally there is a substantial delay in the disposal of loan applications. It has also been noticed that after sanctioning the loan, there is a delay in the disbursal of the loan. It has also been seen that because of the bunching of the applications banks are required to dispose of too large a number of applications within a short time which affects the quality of lending. It is also complained that banks reject the applications on flimsy grounds. In this background, please offer your comments/ suggestions in respect of the following.

#### Question No.7

(a) The unit cost of various schemes is periodically reviewed by NABARD in consultation with various other agencies. This cost is fixed for the state as a whole. Please give your suggestions as to how to fix the unit cost in a realistic manner taking into account the local variations.

(b) How the quantum of assistance under the scheme could be correlated to the necessary requirement for bridging the poverty gap with a view to ensuring that the family is brought above the poverty line?

### Question No.8

What suggestion do you have to offer to further streamline the procedures so that the beneficiary can get credit without delay and hassels?

### Question No.9

Target-oriented approach, rigidity about unit cost, lack of timely and adequate credit, unrealistic repayment schedule, absence of follow-up after the asset has been purchased by the borrower and diversion of assistance for consumption purposes by the borrower etc., are some of the inadequacies of the present system. How could these be removed for an efficient delivery system?

### Terms of Reference No.5

Recovery of loans is of great importance for the re-cycling of funds. Besides banks' own efforts, the State Governments have been advised to render all possible assistance to banks' officials in recovery of dues from the IRDP beneficiaries. The DRDAs are required to organise credit-cum-recovery camps periodically, where beneficiaries are impressed upon the importance of prompt repayment of their dues. The recovery performance is discussed in BLCC and DLCC and a programme of action is finalised by the banks' officials and district/block/tehsil officials to tackle difficult cases of recovery. In spite of all these measures, the recovery performance of banks under IRDP is generally very poor.

### Question No.10

What effective steps should be taken to motivate the borrowers to make timely repayments?

### Question No. 11

What are your suggestions for improving the coordination between banks and Government officials at village, block and district levels for better implementation of the programme especially in respect of recovery?

### Question No.12

What measures including the penal action should be taken against wilful defaulters?

### Question No.13

Borrowers are required to fill up a bond/ pronote for subsidy portion to avoid its misutilisation. This has, however, not been found effective and there are several instances of misutilisation of subsidy. Immediate selling of the assets or creating a fictitious record of purchasing the asset and repaying the loan with a view to usurp the subsidy portion are some of the instances of misutilisation. How can these malpractices be successfully countered? Could adjusting the subsidy after the full repayment of loan portion be one of the solutions? (since this will also ensure better recovery).

### Question No.14

How can the self-help (thrift and group credit) concept be integrated with IRDP?

### Question No.15

How Panchayat Raj institutions and voluntary organisations could be invloved in much larger measures in the implementation of this important poverty alleviation programme?