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**K. K. RAVINDRAN**  
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*The opinions/views expressed in the Land Bank Journal are not necessarily the official views of the National Cooperative Agriculture & Rural Development Bank's Federation.*

## EDITORIAL

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The Zonal Seminars on Preparedness of ARDBs for Revival organized by the Federation in January-February 2011 principally considered actions that should be initiated by ARDBs to enhance their preparedness for revival to a managerially sound, organizationally efficient and operationally vibrant structure. The need and scope of deposit mobilization was one of the important topics discussed in the Seminar. It was observed that mobilization of members savings is an essential function of a credit cooperative and also an important tool for financial inclusion. ARDBs with their dominant presence in the rural sector for over 90 years and with its membership comprising of 132 lakh rural families have huge potential to mobilize rural savings. As credit cooperatives, ARDBs are entitled to take deposits from members as per deposit schemes approved by the Board of respective banks.

SCARDBs are also allowed to take deposits from public who are not members of the bank as per guidelines issued by NABARD in 1997 subject to certain conditions such as (i) total deposits outstanding at any point of time should not exceed the net worth of the SCARDB, (ii) the tenure of deposits should be more than one year and less than three years and (iii) PCARDBs can collect deposits only as agents of SCARDB. This scheme though facilitates deposit taking from individuals and institutions who are not members/not eligible to become members of the bank, failed to mobilize substantial deposits in any State due to these restrictions.

Based on the recommendations/recommendations of the Zonal Seminars on the subject, the Board of Management of the Federation recently approved detailed guidelines for accepting members deposits. Thrift/savings deposits has been recommended as the most suitable deposit scheme for members as well as the ARDB. It is envisaged that all members should open thrift deposit account with the PCARDBs or branches of SCARDBs. Member can make deposits into the account whenever he wants and withdraw any amount at any time he needs money, without restrictions. Guidelines also suggest SCARDBs to introduce a quarterly 'Lucky Draw Scheme' for members who keep a balance of Rs.5000 or more in the thrift account throughout the quarter, offering one bumper prize such as motorcar/tractor etc with a number of other prizes. The deposits collected shall be pooled at the apex level for proper management and deployment of funds. SCARDBs have been advised to use at least 50% of total deposits in short term credit products specially devised for the purpose, taking into account the needs of members. The balance can be invested in securities and bank deposits. Deposit mobilization is a significant initiative to enhance the preparedness of the structure for revival.

**K. K. Ravindran**  
**Managing Editor**



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# Repositioning Of Cooperative Agriculture And Rural Development Credit Structure Post Vaidyanathan Committee-II Package

P.V.A.Rama Rao\*

## 1. Historical Evolution of CARDBS

### 1.1

(a) Starting with agricultural credit, cooperatives have encompassed all economic activities in the rural areas - either through credit societies or through specific functional societies - graduating to become the single largest business model in the country. Keeping in view the imperatives of Cooperatives for agriculture & rural development, their role in dispensation of credit has been emphasized time and again and their relevance underlined by several Expert Committees, starting with the Royal Commission on Agriculture in India (1928):

**“Coops are the hope of Rural India. If they fail, there will fail the hopes of Rural India”**

(b) Recognizing the need for a separate set of institutions to cater for the long term credit requirements of farmers, the conference of the Registrars of

Cooperative Societies (1926) suggested organising such institutions in the Cooperative fold. The first cooperative Land Mortgage Bank (LMB) was set up in Punjab in 1920, followed by two more i.e. in Madras (1925) and Mysore (1929). Thereafter, the LMBs mushroomed, but unevenly and inadequately.

1.2. Subsequent Reviews and Recommendations on CARDBs by various High Level Committees further moulded the system, the more important developments being:

- *All India Rural Credit Survey Committee (AIRCSC) 1954* - Establishment of the Agricultural Refinance Corporation (ARC) in 1963 enabled the LT structure to expand rapidly and change from being land 'mortgage' banks to land 'development' banks (LDBs).
- *The All India Rural Credit Review Committee (AIRCRC) 1969* - Provision of loans from RBI to state governments for contribution to the share

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capital of Primary Land Development Banks (PLDBs), continued later by the National Bank for Agriculture and Rural Development (NABARD).

- ▶ *Madhava Das Committee (1974)* - Triggered diversification of lending operations of the LDBs to cover a broader range of productive activities in agriculture, leading to re-naming of the structure from LDBs to Agriculture and Rural Development Banks (ARDBs).
- ▶ *Hazari Committee (1975)* - In view of the dual considerations of competition from commercial banks and to enable farmers to have easy one-stop access to all their ST & LT credit requirements, the Committee suggested integration of both the ST & LT structures.
- ▶ *Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) 1981* - Establishment of NABARD in July 1982 by integrating some of the functions of Agricultural Credit Department (ACD), Rural Planning and Credit Cell (RPCC) and DBOD of the RBI and its wholly owned

subsidiary, the ARDC.

- ▶ *The Agriculture Credit and Review Committee (ACRC)* in 1985 - Highlighted the uneven growth and diversity of the LT structure and endorsed the AIRCSC recommendation that the system should eventually move towards a federal structure

1.3 The country has, at present, 3 different types of structures in CARDBS as shown in the Chart appended.

## **2. Pre-reforms : Performance of CARDBS (1996-2010)**

### **2.1 Operations**

- i. The performance of the CARDBS since inception has been moderate, often marked by stagnation and decline. Its position during 2009-10, vis-a-vis the preceding year, is given below in Table : 1;
- ii. The growth, though moderate, is uneven and inadequate, judged from its basic operational parameters ( eg. Resource mobilization, coverage of farmers, average loan size, etc ) uniformly in all types of the Structure as may be seen from the Annexures 1A, 1B and 1C

Table : 1

(Rs. Crore)

<b>Growth of Long Term Co operative Banks (As on 31st March)</b>				
<b>Particulars</b>	<b>SCARDB</b>		<b>PCARDB</b>	
	<b>2008</b>	<b>2009p</b>	<b>2008</b>	<b>2009p</b>
Number	19	19	697	697
Share Capital	1254	814	1025	1514
Reserves	2810	3158	3409	3444
Deposits	670	710	350	419
Borrowings	16293	15751	12406	12375
Loans Issued	2208	2585	1768	2045
Loans Outstanding	18392	16279	11770	11229
P: Data provisional. (Source : NABARD Annual Report 2009-2010)				

iii. A matter of serious concern is the continuous decline of the share of CARDBS in the total Ground Level Credit Flow for agriculture from different Rural Financial Institutions (RFIs) over the years the decline being sharp down from over 25% to about less than 1%- while its growth rate at 2.5% is way behind the growth rates registered by its counter parts as may be seen from the Table 2;

iv. While refinance support to SCARDBs from NABARD grew manifold during the period 1982 to 2010, other agencies (viz., Commercial Banks, Regional Rural Banks and State Cooperative Banks) were fast expanding their operations. Consequently, the share of NABARD refinance to SCARDBs to its total refinance declined from 47% in 1981 to 22% in 2010, outstanding

support being Rs.16,000 crore as at end March 2010.)

## 2.2. Working Results :

Working results over a period, region wise, for both the SCARDBs and the PCARDBs given in Annexures 2A and B indicate the uneven performance and their basic financial and operational weaknesses.

### i. Profits

In the LT structure, the number of loss-making SCARDBs declined from 10 to 8 during the year 2009-10 and reduced their losses by 65 % over the previous year. However, the number of profit-making PCARDBs declined from 412 in 2007-08 to 369 in 2009-10. At aggregate level, SCARDBs earned profit of ₹255 crore and PCARDBs incurred a loss of ₹154 crore during 2008-09



Table : 2

Credit flow by all agencies vis-a-vis credit flow by ARDBs			
Year	Credit flow by all agencies	Credit flow by ARDBs	% share of ARDBs
1992-93	5,078	1,212	24.0
1993-94	5,223	1,375	26.0
1994-95	5,806	1,645	28.0
1995-96	7,507	2,030	27.0
1996-97	9,413	2,468	26.0
1997-98	11,316	2,682	24.0
1998-99	12,957	2,811	22.0
1999-2000	17,303	2,864	17.0
2000-01	19,513	2,898	15.0
2001-02	21,536	2,938	14.0
2002-03	23,974	3,143	13.0
2005-06	180,486	NA	NA
2006-07	229,400	2436	1.1
2007-08	254,658	2208	0.8
2008-09	301,908	2586*	0.8
2009-10	366,919	3393*	0.9

\*Provisional

( Source : Vaidyanathan Task Force 2 and NABARD)

## ii. Costs and Margins

During the year 2008-09, out of 19 SCARDBs, 13 had positive net margins while the remaining 6 had negative margins. Out of reporting PCARDBs in 12 States, only four states had positive net margins.

## iii. NPAs

The percentage of NPAs to total outstanding loans and advances of SCARDBs and PCARDBs decreased to 30.3% and 39.1% as on 31 March 2009 from 35.0% and 43.5% respectively as at 31 March 2008. The total NPAs of SCARDBs and PCARDBs were estimated to be ₹5,000 crore and ₹4,400 crore as at the end of March 2009.

The composition of the NPAs is given in Table 3;

## iv. Recovery

The average loan recovery of SCARDBs and PCARDBs, as on 30 June 2009, declined to 40.00 and 40.30 % from 49.94 and 42.15 %, respectively as on 30 June 2008. In absolute terms, loan recovery of SCARDBs and PCARDBs declined to ₹3,860.44 crore and ₹2,842.47 crore, as on 30 June 2009, from ₹5,367.81 crore and ₹3,190.10 crore, as on 30 June 2008.

State wise recovery analysis is presented in **ANNEXURE-3**.

## Governance

NABARD, as a matter of policy, emphasises the need for Cooperative Banks to be managed by duly elected Boards of Management. Despite this, the

**Table 3**  
**Composition of NPAs (As at end March 2009)**

<b>Assets Classification</b>	<b>SCARDBs</b>	<b>PCARDBs</b>
Sub Standard	2937.45 (59.4)	2574.16 (59.1)
Doubtful	1965.28 (39.5)	1793.13 (40.8)
Loss Assets	35.00 (0.1)	25.67 (0.1)
Total NPA	4937.73 (100.0)	4392.96 (100.0)
Provisions Required	1217.68	790.13
Provisions made	1536.02	892.45

P : Data Provisional

( ) : figures in brackets are percentage to total

(Source : NABARD Annual Report 2009-2010)

practice of superseding the Boards continued in several States. As on 31 March 2009, duly elected Boards were superseded in 9 SCARDBs and 265 PCARDBs in the LT structure. (i.e., 45% and 38% of total, respectively).

### **3. Impairment In CARDBs**

The Cooperatives are poorly equipped to face the challenges and deliver the expected results due, mainly, to their structural limitations and inherent operational constraints, briefly as under:

#### **a) Structural Constraints**

► The important reason for poor governance lies in the very character of the structure which is purely borrower-oriented with no counter-balancing mechanism in the form of depositors. Physical distances, especially in the

unitary structure, also lead to poor member participation in governance.

- The fact that lower tiers of the federal structure have to depend on the apex body for resources reduces their capacity to govern the upper tier.
- These deficiencies are aggravated by State intrusion in financial and administrative matters like supersession of boards, directives on interest rates and loan policies, and posting of government staff in the banks
- The dependence of the structure on a single agency, viz., NABARD, for its resources has not only induced a feeling of comfort and complacency but has eroded its capacity to work in an increasingly competitive environment.

- While NABARD has been supervising and inspecting institutions in the structure, it lacks the authority to enforce financial discipline. Its interest in doing so has also been weakened by the fact that its loans to the CARDBs are covered by State Government guarantees.

#### **b) Organisational/ Operational Constraints**

- High transaction costs, resulting from issue of smaller / widely spread out loans (clientele being, mainly, SFs/MFs)
- Absence of cross-subsidization due to lack of diversification in the loan portfolio
- Resource constraints etc., (resulting in excessive dependence on borrowings).
- Greater risk threats, both natural and man-made, associated with agriculture, the main livelihood occupation and vulnerability of its clientele.

#### **4. Goals for restructuring and revitalisation of cardbs need to revisit**

##### **4.1 Imperatives**

In the emerging scenario i.e. post financial sector reforms and

market orientation - the cooperatives are required to become more efficient, vibrant and cost-effective, leveraging technology to reinvent themselves, and up-scale their business levels substantially for growth with sustainability. But, growth to secure institutional sustainability is a formidable goal in their present passive dispensation.

Further, they must emerge as professional and prudent as any private business entities and graduate to stand-alone mode in the competitive market. While, CARDBS needs no mainstreaming with the other market players as it has to keep its distinct pro-poor identity, they will need to offer more than the very basic/ standard credit products they currently provide. This calls for a revisit to the Governance, Professional Management and Vibrancy in policies and operations in the RCCs, which are pivotal for the whole cooperative business mode.

##### **4.2 Governance**

- i) The CARDBS has not been able to maintain, over the years, either the ethical values of coop. principles (i.e., autonomy, democracy and member-centric tenets) or the standards of corporate governance, ( i.e.,

prudence, transparency and accountability). While the coop. values are beyond compromise, the values of corporate governance also need to be inculcated in conducting the business and Cooperative Leadership should carry responsibilities of the corporates and accountability of trusteeship. Despite the awareness building, training exposure to the members of the Boards of CARDBs extended by NABARD as also NCUI, the LEADERSHIP qualities are still conspicuous by absence, except by exception.

The Boards lack in professionalism as, unlike in the Corporates, no rigid “fit and proper” standards were fixed. Further, as the number of professional directors is limited to just 2 (for now, only in ST structure), that too leaving scope for compromise in the parameters of professionalism, contrary to the corporate rigors prescribing a minimum strength of 30% - 50% with stipulated fit and proper conditions. This resulted in the lack of or dilution in proper direction for the management of coops with required vibrancy and innovation. A paradigm shift in the Coop. Leadership for adoption of corporate governance, without sacrificing the Coop. principles and values, is a pre-condition for their sustainable growth with financial

inclusion. If past experience is any guide, it is time to provide constitutional safeguards for the healthy growth of the cooperative movement, uninterrupted by the political activism - as in the case of the Panchayat Raj Institutions (PRIs), whose autonomy is guaranteed by the 73rd Constitutional Amendment.

### **4.3 HRD**

**a.** In the post reforms scenario, the key to success of any enterprise lies in improving its productivity and efficiency responsive to competitive environment and professionalism. The new brand managers have to be market-driven. But, HRD in co-ops is proving to be a stupendous task compared to any other sector; yet, at this juncture, professional management is an urgent imperative and priority. Training in RCCs failed to build-up empowerment through knowledge.

**b.** In this context, Business Revitalisation and Managing Human Aspirations (BRAMHA), a recast of Organisation Development Initiative (ODI) for co-operatives was launched in 2007-08 by NABARD to facilitate changes in the organisational structure, staff composition, skills, strategic planning and shared values, vis-à-

vis the wider external environment to enable the organisation to fulfill its mission. It is expected to significantly improve the HRD in Coops, provided the package is implemented in right earnest and the management teams accept the role of professional leadership for competitive functioning.

#### **4.4 Technology**

**i.** Technology is playing a key role in Banks' strategy for gaining a competitive edge through improved efficiency and economy. Many Commercial Banks and RRBs have put in place the Core Banking Solutions and the computerization has been receiving high importance in these banks. Another major development witnessed in the CBs is the growth in multiple delivery channels to customers such as Internet banking, mobile banking (ATMs) and anywhere banking. While customers now have a wide variety of options to choose from, banks have been able to reduce costs, which have had a positive impact on their profitability. The CARDBS have to graduate to fall in line lest they may lose their ground, let alone level-playing-field.

**ii.** Secondly, as Indian banking gets increasingly integrated with global banking and as Indian economy throws up newer

opportunities coupled with newer challenges to the Indian banking sector, there would be a requirement of newer skills and newer competencies. With increase in the use of high technology, coop. banking sector needs to go in search of hybrid professionals well versed both in banking and technology, besides coop. ethos.

**iii.** With the support and assistance available from NABARD, both under Revival Package as also its CDF, banks should leverage technology for securing improved efficiency and economy in Management as well as operations by graduating to operate from a strong technology platform.

#### **5. Reforms Package Under The Vaidyanathan Committee-II (Task Force)**

**5.1** GoI's concern at the decline in the share of cooperatives in the dispensation of rural credit and the serious impairment of RCC structure on Financial, Governance and other fronts prompted the setting up of a Task Force, viz., the Vaidyanathan Committee-II (VC-2) in 2005 with the task of suggesting an implementable action plan for reviving the structure. Based on its recommendations, GoI has finalized a package for revival of the CARDBs. The package will help



revitalize the SCARDBs and the PCARDBs and trigger higher levels of credit flow for LT investments to around 16 million members of the CARDBs. The VC-2 Package which is now central to the exercise of Restructuring and Revitalisation of the CARDBs, responding to the tenets of Financial Sector Reforms, envisages :

- a) provision of liberal financial assistance to bring the system to an acceptable level of health, both financial and organizational as well as managerial.
- b) introduction of legal and institutional reforms essential for their autonomous, democratic, member-centric self-reliant and efficient functioning and
- c) initiating measures to improve the quality of management.

The operative part of the Vaidyanathan Committee-2 package is given in Annexure-4.

5.2 In tune with the recommendations of the Task Force on the STCCS, the package for the CARDBs should also be viewed as an integrated package and implemented as such to revamp all departments of their functioning. It needs to be re-emphasized that the revival of the CARDBs cannot be achieved only through a financial

one-time package which is liberal in accommodating the existing financial impairment of the structure. The one-time package needs to be accompanied by institutional, legal and regulatory reforms that could enable the structure to function in a sustainable manner and prevent it from falling back into impairment.

## **6. Business Model Imperatives for Paradigm Shift**

### **6.1 Imperatives**

Post Reforms, under the VC-2 package, all the units in the CARDBS are required to graduate to a financially strong, viable and sustainable growth model to operate in the competitive market on a stand-alone mode.

To achieve the inevitable, the Banks have to deepen and widen their business quantitatively as well as qualitatively. While the perceived new business model largely will be institution / area specific, the broad outlines for the same are indicated below:

Alongside, they have to improve their resource base to the required levels and institute sound systems and practices to ensure the new business model responds adequately to the imperatives and market demands.

**Table 4**

<b>Performance Bench Marks</b>	
Start up Bench Marks	Competitive Market Levels
CRAR 7%	→ 12% - 15%
NPA 20%	
Recovery (50%)	→ 3% - 5% (80%-90%)
Operating Expenses 50% (% of gross income)	→ 2% of W.C / equal to income from non-fund business.

## **6.2 Business- Development : Road Map**

### **6.2.1 Present Status of Business**

i. The main purpose for which the LTCCS was established was land development (e.g. land leveling, minor irrigation, etc.), but it no longer forms a major purpose in the loan mix of these institutions and loans issued for such purposes form an insignificant component.

Data on purpose-wise loans issued by the LTCCS during the period from 1999-2000 to 2003-04 in eight states, for which data was available are indicated below.

ii. It is evident from the above Table that there has been considerable diversification in the loan portfolio of the LTCCS, away from agricultural purposes. Again, within agriculture, while the proportion of loans issued for traditional purposes like minor irrigation, has remained almost constant, the proportion of loans issued for plantation / horticulture and animal husbandry has declined. At the same time, loans for “other” purposes like non farm sector and housing, have increased significantly. In other words, the diversification in the loan portfolio of the LTCCS has seen a marked

**Table 5**

Rs. Crore

<b>Purpose-wise loans issued by LTCCS in select States</b>						
<b>Year</b>	<b>MI</b>	<b>FM</b>	<b>PH</b>	<b>AH</b>	<b>Fisheries</b>	<b>Other agricultural and non agricultural purposes</b>
1999-2000	151.46	265.85	120.76	252.12	5.94	285.19
% share	14	25	11	23	1	26
2000-01	213.75	372.69	107.97	252.37	5.25	279.38
% share	17	30	9	20	0	23
2001-02	221.93	425.99	107.73	291.39	9.56	375.53
% share	15	30	8	20	1	26
2002-03	233.84	499.12	90.40	170.00	9.40	607.57
% share	15	31	6	11	1	38
2003-04	288.41	469.98	100.38	133.13	10.93	765.75
% share	16	27	6	8	1	43

(Source : VC Report -2 &amp; NABARD)

shift from its traditional activities to loans for such purposes, which are also being given by other rural financial institutions. There are considerable inter-state variations in these sectoral credit flows. For instance, while there is significant loan disbursement for the plantation sector in Karnataka and Kerala, in the case of the LTCCS in the States of Haryana, Himachal Pradesh and Punjab, loans are predominantly for other purposes. In the case of MP, loans for farm mechanization occupy the major share.

### **6.2.2 Need for Diversification**

- (a) The basic weakness of the structure is that it offers only a single product, viz., long term loans. To graduate to Demand-Driven, One-Stop Credit Dispensation, the LTCCS should be enabled to provide working capital and investment loans in both farm and non farm sectors as well as loans for other purposes like consumption, housing, etc.
- (b) The VC-2, while recognizing that the ST and LT structures catered for different rural credit needs, emphasized the need for coordination between them. Significantly, the Committee even suggested that while maintaining their separate

legal status, the two structures should consider having a common pool of administrative staff, common building wherever feasible, a common board, or at least boards with overlapping membership.

- (c) In order to establish bridges and facilitate greater interaction between the two structures, the VC-2 suggested that LTCCS leverage on the outreach of PACS and also that the apex institutions in both structures join hands in providing support services like technical manpower, audit and supervision, etc., required by the federal units in both the structures.
- (d) **Rural non-farm incomes and employment**
  - i) While "India lives in her villages", 60% of the rural population live on agriculture, and the rest have to survive on non-land based activities. However, it is getting increasingly difficult for agriculture to retain the work force with reasonable livelihood. At the same time, they cannot be allowed to migrate to urban areas in view of fragile urban infrastructure and environmental threats,

besides shrinking absorption capacity in industry (post-reforms) because of its near jobless growth.

- ii) The sustainable development of rural non-farm sector provides incomes and employment to the rural unemployed and under-employed in the traditional artisans / craftsman groups and it has now assumed greater importance and urgency. Traditionally, a major role has been taken by the sector-specific (functional) coops, particularly the weavers sector besides village traditional arts and crafts. Unfortunately, the credit support ( Financial Inclusion ) from institutional sources is highly inadequate and ineffective in as much as sustainable livelihood is not taken care in a holistic manner.

### **(e) Rural Housing**

Providing Housing for the rural poor has emerged as one of the top priorities of the GoI, and RFIs are required to take the call for designing appropriate loan products targeting the low income groups. While targeting the rural poor for housing has traditionally been out of the formal RFIs due, mainly to high investment outlays and inhibiting repayment

capabilities, microfinance (ie.SHG route) has become an innovative and sustainable channel to provide low income groups with access to housing finance.

GoI is coming with low-cost Eco-Friendly housing designs while development finance institutions (NABARD, NHB, HDFC, LIC and HUDCO etc ) are opening up funds and technical support to the RFIs to encourage covering rural poor with housing finance . Keeping in view the Rural Housing as a national priority and with the technical and financial support lined up by the GoI and various other agencies on the one hand and the high demand from the target group on the other, RFIs , particularly the RCCs, have to design location specific and need based products to help the poor with a shelter more aggressively and facilitate FI in a tangible way. As experience has proved, SHG will be the best delivery channel for the purpose.

- (f) Keeping in view the common aspirations, as above, an illustrative gist of products suggested are given in the table 6.

### **6.2.3 Business Innovation**

- i. At present, Primaries as well as the apex units in the CARDBS are equipped to handle only

**Table 6**  
**Gist of the suggested Products**

<b>Product name</b>		<b>Remarks</b>
<b>A</b>	<b>SUPPORTED BY Special Development Debentures</b>	
1.	Fruits/Food Processing units engaged in exports. Including working capital and marketing	Long term food / fruit preservation, transportation, convenient marketing processing of Agro-products is a must. SME activity under RNFS, encouraged by NABARD. Requires large outlays, All types of Fruit processing/ canning, Rice/ dal mills, coconut fibre processing units, ground nut decorticator units, etc.
2	Loans for seeds/ pest control / other package of practices and other farm inputs etc.	All developmental activities oriented towards better crop production, Since implemented KCC Scheme to include for other farm inputs also
<b>B</b>	<b>SUPPORTED BY DEPOSITS</b>	
3	Produce / Pledge Loans	To insulate farmers against adverse markets all banks provide this facility. Now that crop loans may be given, Bank must introduce this facility on the pledge of harvested crops.
4	Against Jewels	Fully secured, safe, less procedural wrangle, needed to tide over sudden unforeseen events, popular in rural banks, Many ARDBs that in Kerala, Tamil Nadu provide these loans
5	Valuable Security	Loans against NSC/KVP /LIC policies etc. as in other banks
6	Consumer durable Loans	Rural affluence is steadily growing. Many items like Television, Refrigerator, once a luxury, are a necessity now. Loans to members to purchase such durable utility articles be allowed.
7	Other purpose loans	Providing good education to children is a priority. Conscious members may avail this facility.
8	Consumption loans	Farmers get money after harvest. In between for expenses for emergencies like health of self and family cannot wait, provision should be there to extend help up to some stipulated level; some members can be saved from going to usurious money lenders.

small loans which do not fetch adequate profit. Big proposals find their way to other banks. Many MNCs and Corporates are into Agri. Business and SLDBs may exploit these big

ticket opportunities to secure cross subsidisation.

- ii. Financing the farmers linked to agro export units under floriculture, fruit processing and sea foods exports etc., may



be undertaken by the SCARDBs having the requisite expertise with legal and technically qualified personnel.

- Financing of SHGs / JLGs has established itself as a successful model, both for providing access to banking products for hitherto unreached as also for meeting the objectives of financial inclusion, which is a national priority. The loan products with in-built group dynamics and ethical standards ensuring 95% recovery under this segment have proved to be successful to the banks as also to the beneficiaries who could put themselves on the path for securing sustainable livelihood with women/social empowerment. NABARD has also been providing incentives for encouraging the SHG / JLG model with the promotional and financial support to the banks. Many cooperative banks have taken up this programme for mutual advantage. It is, therefore, suggested, strongly, that the SHG / JLG model for financing of the rural clientele may be taken up by the SCARDBs.
- It may be added that the RBI has stipulated necessary policy frame for cooperatives to take

up this financing including keeping deposit accounts of the SHG groups (including their individual members and their federations or other support agencies). Further, NGOs supporting larger number of SHG groups require substantial funding and would like to deal with a Bank having its headquarters in metros / cities / towns with branches spread across rural areas. This precisely fits into and could be the unique selling proposition to capture new business.

Some states have specifically provided for an opportunity to the poor rural households to organize themselves as SHGs and federate into Self Help Coops and further federate into formal coop. banking institutes (like District / state level higher financing tiers).

The broader framework of Inclusive Growth focusing on rural poverty alleviation calls for a wider canvas for Financial Inclusion. The participation of Coops in the program of Financial Inclusion has not been significant and they should involve to get giant share in it as it belongs mainly to Coop. segment and not commercial one. They should draw the lessons from the successful model of Orissa.

“The financial exclusion is most severe in certain regions and among certain economic and social groups, mainly backward rural areas.

Early implementation of Vaidyanathan Committee revival package, strengthening the involvement of Cooperative Banks in SHG Bank linkage with enabling legislation for admitting SHGs as members of the PACS, use of PACS and other primary cooperatives as business correspondents of Commercial Banks/RRBs are to be seriously considered.

*Dr. C Rangarajan Committee on  
Financial Inclusion*

#### **iv) Urgent imperatives of national priorities**

New and non-traditional business products have to be carefully designed, keeping in view the national priority areas and local requirements. Some of the more important areas the banks are required to take a call for credit dispensation **ON A MISSION MODE** in the promotion of Inclusive Growth are illustrated below:

a) A second **Green Revolution** is a national priority to establish food security to the nation and sustainable livelihoods to the individual rural households (food production has to be stepped up

from the present level of about 220 m mts to 250 m mts) with focus for better management of irrigation facilities and bringing dry lands into cultivation .

b) **Climate change and Environment protection** is a serious global concern and a national compulsion which calls for improving clean environment thro' conservation of natural resources like water, land and air and protection against their degradation. Waste lands Development, Watershed Development and Energy Security thro' Renewable Energy sources (eg. Bio Gas / mass), Bio Diversity besides arresting carbon emissions and massive expansion of green cover are a few areas for which GoI as well as NABARD are giving lot of encouragement (incentives, resource support etc) besides providing guidelines and skill imparting. Banks have to aggressively participate in this activity.

NABARD would do well to subsidise establishing TME cells in all the SCARDBs with grants from its CDF and make them accountable for performance with rigid targets fixed for expansion and innovation, keeping in view the imperatives of IG thro' FI.

### 6.2.4 Non- Fund Business Opportunities

- i. The VC-2 suggested permitting and encouraging the LT units to provide fee based services like issue of guarantees, collection of out station bills, money transfers, lockers, and agency business. Innovative and enterprising units can also venture into e-products like payment of utility bills, railway / air travel ticketing and information centres, etc.
- ii. Under a package deal with insurance companies the Bank can also cover their entire group of borrowers, for life and accident risk at a reasonable premium. This has twin advantages
  - In the event of an unfortunate death of a borrower the outstanding balance is secured by the Insurance, and
  - Get the benefit of cross selling of the said product.
- iv. A new concept in Banking called “Business correspondence and the Facilitator model” was introduced by RBI in 2005. Taking advantage, the Banks and its Primaries may tie up with an indigenous corpo-

rate, a multinational or CBs, who need such out-sourcing support for appraising, supervising and monitoring of their portfolios. Some PACS are undertaking this type of activity. As the activities at the Primary are seasonal, the existing staff can be utilised for the purpose, which will augment their income as also improve their field contacts. During the visits they can monitor and carry out their recovery drive also.

### 6.2.5 Coop. Social Responsibility

PPPP (Public, Private and Panchayat Partnership) for Inclusive Growth thro' Inclusive Governance is emerging as a vibrant delivery mode for rural investments as rural economic growth requires a robust service enterprise framework with public and private stake-holders,.

Referring to India's grappling with endemic backwardness in over 200 districts ( about 40 % of total ) and related issues of agricultural productivity and value addition, PPPP model was advocated by the IMF, Delhi office in its Report “Creating Vibrant PPPP for IG thro' Inclusive Governance “to be implemented thro' a SPV like NGO/ Village Cooperative. RCCs should

move on to an aggressive role to participate in this SPV for mutual benefit at the participants level and Growth with Equity at national level.

### 6.3 Resources Mobilisation

- i. The capacity of a structure to include multiple products in its portfolio would depend largely on its ability to raise resources at competitive rates from a variety of institutions. The VC-2, therefore, recommended that any unit in the LTCCS should be free to borrow from other FIs also, without the inevitability of having to deal only with its upper tier. It was also in favour of the structure being permitted to raise funds from the market, through appropriate instruments depending on the strength of its financials.

*"The continued dependence on single agency for funds is detrimental to the growth and long term interest. It can be overcome only when alternative avenues are explored in addition to the NABARD. Any unit in the LTCC structure should be free to borrow from other Financial Institutions directly from the market through appropriate instruments, depending on the strength of the financials"*

- Vaidyanathan Committee - 2

- ii. Since NABARD remains a major source of funds for both the short-term and long-term structures, it is necessary to

amend the NABARD Act also to allow NABARD to provide its resources either directly to PCARDBs or indirectly through other FIs to SCARDBs.

- iii. It is essential for the Bank to look to other alternate sources, though limited due to strength of its financials. To meet the minimum levels of business suggested above and for financing new schemes suggested, it is imperative for the Bank to explore other possible sources as well. In the given situation, the following sources are suggested for exploration:

- a) Improve owned funds (Capital + Reserves) position
- b) Strengthen the existing public deposit route
- c) Continue to raise funds through SDD route as hitherto.

### 6.4 Systems / Procedures / Controls :

#### 6.4.1

- i. Above stated products, businesses and services can be introduced in the existing frame work and available financial, human and other physical resources. Simultaneously, the selection of borrowers, good

appraisal of proposals, internal control, supervision and monitoring have to be streamlined.

- ii. While this may seem a positive factor from the point of portfolio diversification and asset liability management, the flip side is that these banks could diversify into new business areas only after adequately preparing their human resources by way of training in the required skills.

#### **6.4.2 Loans appraisal & simplification in systems & procedures**

Timely and hassle free disbursement of loans is the test of good business. There was inordinate delay in sanctioning and loan disbursements. Non-availability of funds with the Primaries besides inadequate delegation of powers were some of the reasons for such delays. Such time consuming processes do not attract good customers. Only those having no avenues could wait so long to avail facilities - mostly unseasonal, leading to diversion of funds, non implementation of projects and finally loan delinquency.

#### **6.4.3 Supervision over end use of funds & Recovery Practices**

- i. Continuous watch and supervision over advances is essential for quality assets. Effective supervision and monitoring was lacking for want of technically qualified personnel, transport facilities for Field Officers, absence of codified instructions on procedures. Insufficient recording system and absence of regular planned visits resulted in poor borrower contact, ultimately affecting recovery.

- ii. A strategic plan for recovery of loans and reduction of NPAs should be drawn up enlisting the support and cooperation of the Directors, followed by an objective and constructive review by the Board at each of its meetings. Such reviews should be based on loan defaults (area-wise / sector-wise) and case-by-case analysis of chronic defaulters. Expeditious settlements under OTS, incentives to good payers and education of borrowers on timely repayments are some of the strategies the Banks may adopt to improve recovery.

### **6.5 Risk management and Capital Adequacy**

#### **6.5.1 Risk Management**



- i) Risk management/ mitigation is one of the serious limitations, as the Agriculture sector is highly prone to many risks, both natural( eg climate risks , price risks , technology risk , etc for farmers ) and man-made (i.e. poor recovery syndrome and consequent losses to bankers). A host of risk management devices have been developed and propagated thro' regular training, which should skillfully be put in practice.( eg. setting up Asset Management Systems and appointing Recovery Managers , etc)
- ii) While Insurance provides only relief , the most effective tools are prevention of risks thro' insulating the operations from external interferences and improving the systems management. In Agricultural sector , unfortunately, “Credit “ is made the Villain in all calamities more for political advantage and Govts. rush out with loan waivers , across the board, instead of evolving need-based holistic solutions to farmers problems.
- iii) Yet another important tool, particularly to mitigate losses arising out of inadequate incomes of the poor clientele is to enrich the quality of living of vulnerable groups with additional income from complementary / supplementary activities in livestock / fisheries and non-farm sectors. Better rural health education and natural resources management besides better rural infrastructure will go a long way to raise the standards of living of vulnerable groups which is essential for inclusive growth with equity.
- iv. Having credit dispensation as the main activity, the banks primarily face Credit risk, Liquidity risk, Operational and Exposure risk. Prudential norms ensure Credit risk mitigation. Liquidity risk arises on account of poor recovery and consequent inability of the Primaries to repay the Bank loans. The Issue of imbalances also exposes the Bank to the same risk. Improving internal control/supervision with processes, Operational risk is to be addressed, while the Exposure risk needs to be talked, through a long term credit policy, risk pricing and stipulated sector wise exposure.

### 6.5.2 Capital Adequacy

I. With a view to strengthening the capital base of the ARDBs the Vaidyanathan committee Task Force has suggested maintaining a minimum CRAR of 7% to be raised to 12% in five years. The issue of stable capital with increasing risks assumes importance. To meet this,

- Minimum share amount for the Primaries be increased to at least ₹10 thousand per share.
- The Apex Banks may float unsecured debentures which may be subscribed to by the Primaries, particularly those doing good business.
- Redemption of such debentures may be permitted only if CRAR of the apex bank is above the minimum stipulated.
- Cooperation being a peoples' movement, having derived the benefit from the Bank, the borrowers may be educated to support the Bank in their relatively good times; instead of adjusting the share capital to the last installment of loans, they may be persuaded to further keep

it in fixed deposit for at least for 3-5 year with applicable rate of interest.

- If some members are willing, the same amount could be converted as unsecured debenture of 5-7 years term, carrying a coupon rate little higher (say 0.25% or 0.5%) than that payable on Deposits.
- Such borrowers availing subsequent loans, additional share should not be insisted upon if the debenture covers up to 5% of the new loan disbursed. If the maturity term of the deposit is insufficient to cover the new loan, the borrower should agree to re-invest on redemption date for a further period suitably to cover the loan maturity / repayment.

II) Primaries should endeavour to widen their membership base and encourage them to avail of the financial facilities. To encourage more share holding say above five shares, incentives by way of suitable discounts on purchases from their retail stores could be offered as the Unique Selling Proposition.

## **6.6 Business Development Process**

- I) All the credit cooperatives under the ST as well as the LT structures are presently preparing their Annual Action Plans (AAP) for business development under the MOUs executed by them with NABARD. Post VCR-2, such AAPs should graduated to enable the institutions to become self reliant , financially vibrant, organizationally efficient and managerially prudent. The plans should be institution specific, mapping for sustainable growth in the prescribed time period of 3 to 5 years.
- II) The Plans should be implemented under the guidance and supervision of an empowered committee of experts with a dedicated team of executives of the institutions concerned and under the guidance and support of NABARD.
- III) The performing entities will remain in the system while the others have to exit.

## **7. Restructuring of CARDBS**

### **7.1 Federal Structure**

The existing federal structure

with the Bank at the Apex level and Primary banks at the ground level will be more suited for local involvement of members, building up of local leadership in tune with cooperative values and ensuring umbrella support from the Apex level.

### **7.2 Restructure of PCARDBs**

- i. The present status of the functioning of the Primary banks vis-a-vis the required standards of sustainable viability to graduate to stand-alone mode in the competitive environment point to the imperative that these units with low business levels and poor working results cannot achieve the goals i.e. provision of timely, adequate and right credit for meeting the investment credit needs of their members on the one hand and on the other, securing for themselves sustainable viability-in their present organizational form.
- ii. Broadly any re-designing and re-engineering exercise should address, among other things, the stipulated prudential standards prescribed by RBI / NABARD and bench-mark performance laid down in the VC-2.

- iii. Revisiting the above background in great detail, it is strongly suggested that the Primary banks could be restructured into district level banks with the existing taluka level primary banks converting themselves as branches of the District Primary Bank (DLPB), operating at taluka level. The Primary banks in the District will merge with it and become its branches at the taluka level. With this, the DLPB will have better prospects of emerging, effectively, responsive to the needs of its members and realizing sustainable viability because of aggregation of Primary banks, as evidenced by empirical data.
- iv. If the DLPB is viable or potentially viable, it can - except in extreme cases take care of its non-viable branches as it will have the advantage of cross-subsidisation of losses. Since the staff of the existing taluk level primary banks will become staff of DLPB, re-location or re-deployment of staff could be effected to the advantage of the new structure. The staff mobility will improve and they will have better career prospects than in a taluk level Primary bank. There will not be

boards at the taluk level branches of the reconstituted district level Primary bank and thus it is possible to save on management costs too.

### **7.3 Reorganization of Branches of the SCARDB**

In the above restructured model, the present district level offices of the Apex Bank will be found to be redundant. However, in order to carry out responsibilities of the Bank in the matter of supervision and control over the Primary banks, there could be 3 or 4 Divisional or Zonal Offices of the Apex Bank covering 6 to 8 DLPBs. Such offices could be located at the Apex Bank HQs or at the level of revenue divisions as decided by the Board of the Apex Bank, keeping in view the financial prudence and functional efficacy requirements. They exercise decentralized powers for effectively supervising the Primary banks, besides carrying out such other functions which are presently handled by the District Offices. Loans exceeding certain prescribed limits will be processed by such zonal offices and sanctioned to the DLPBs concerned for disbursement through the branches of the respective district level DLPBs. The position of surplus staff arising from this exercise could suitably be dealt

with in the restructured DLPBs as suggested above or at the Head Office of the Apex Bank.

## **8. Real Sector Issues Precondition for CARDBS Growth**

### **8.1 Development Deficit in Agriculture and Rural Development**

Credit is necessary but not sufficient in securing production and productivity improvements expected inclusive growth with equity - unless all other inputs together with backward and forward linkages are effectively put in place by the respective players

Presently, Indian agriculture is going through a very critical phase, and is subjected to serious challenges. It is, therefore, necessary to put in place an enabling environment in the real sector so that the coops could deliver the expected results.

**8.2** Making good the above deficits calls for an effective action plan. The policy prescriptions and public announcements need to be translated into the actions urgently and fully with zero tolerance to achieve the intended growth. Once policy initiatives are put in place, RCCs have to take logical further steps for facilitating

food security and sustainable livelihood thro' FI and IG, paving the way for setting the RCCs on strong growth process.

## **9. Development of Cooperatives - Policy Environment**

### **9.1 Imperatives of Supportive Policy Environment**

- i In our country, political leadership has gradually taken over the coop. leadership and political expediency has marginalized the coop. principles of democratic values and functional autonomy, resulting in the prudence in business management giving way to narrow political gains. This strong malady has led to the severe impairment managerial, organizational and operational - in the movement.
- ii Successive expert Committees have suggested for restoration of coop. values in the movement and finally a ray of hope has emerged from the revival package under way following the recommendations of the Vaidyanathan Task Force (2006). The packages, separately framed for the ST and LT structures of rural credit coops envisaged full financial support to cleanse the



balance sheets of the individual institutions by the Governments at the centre and the concerned states to make the structures.

## **9.2 Relief to Farmers under stressed conditions**

- I. Governments at the Centre as well as at the States roll out relief by way of interest concessions and repayment waivers in the cases of natural calamities damaging the crops / yields. While the intentions of such packages are pious, in practice, they are implemented across the - board and often not reaching the genuine and the needy, either wholly or in part, thus defeating the well meant purpose of relief measures. This has also caused severe damage to the recovery climate, resulting in erosion in the financial strength of the institutions
- II. In this context, it is reiterated that the standard prudent suggestions for ameliorating the farmers distress in the right way and spending the exchequer's scarce resources with expedience need urgent consideration by the policy makers as well as the other stake-holders for introduction without any further delay.

## **9.3 Special Status to Rural Credit Cooperatives**

Keeping in view the critical importance of a strong rural credit cooperatives set-up for the growth of the rural segment of the national economy, it is highly important to sustain their vibrant functioning. As, of late, institutional interests are subordinated to political expedience, it is worth graduating the Cooperatives as constitutional entities like Panchayat Raj Institutions (PRIs) through appropriate amendments to our Constitution

## **9.4 Cooperative Education**

All efforts should be made for building up coop leadership for the posterity from the youth, just as building up national leadership. Accordingly, for this purpose, as in the case of national freedom movement, lessons on the glorious past, inspiring success stories and mighty contribution of the coop. movement and its illustrious leaders should be made part of the curriculum of primary and secondary school education.

## **10. Epilogue**

- i. It needs to be reiterated that a managerially sound, organizationally efficient and operationally vibrant ARDB

structure is an urgent and strong imperative for re-orienting the growth trajectory of the agricultural sector through robust capital formation in the sector. And cooperatives, and none else, are the tested vehicles to reach this goal.

- ii. With the last opportunity for availing the onetime financial assistance from VC-2, (or alternatively from the State Government) now available to cleanse the balance sheets on

the one hand and the imperatives of taking the LTCCS (particularly the Primary banks) through need-based and result-oriented DAP implementation to operate from a position of strength on a stand alone-mode in the competitive environment on the other, all the stake-holders should join hands in the prime task of structural re-engineering of the system with shared commitment and full sense of urgency and priority.

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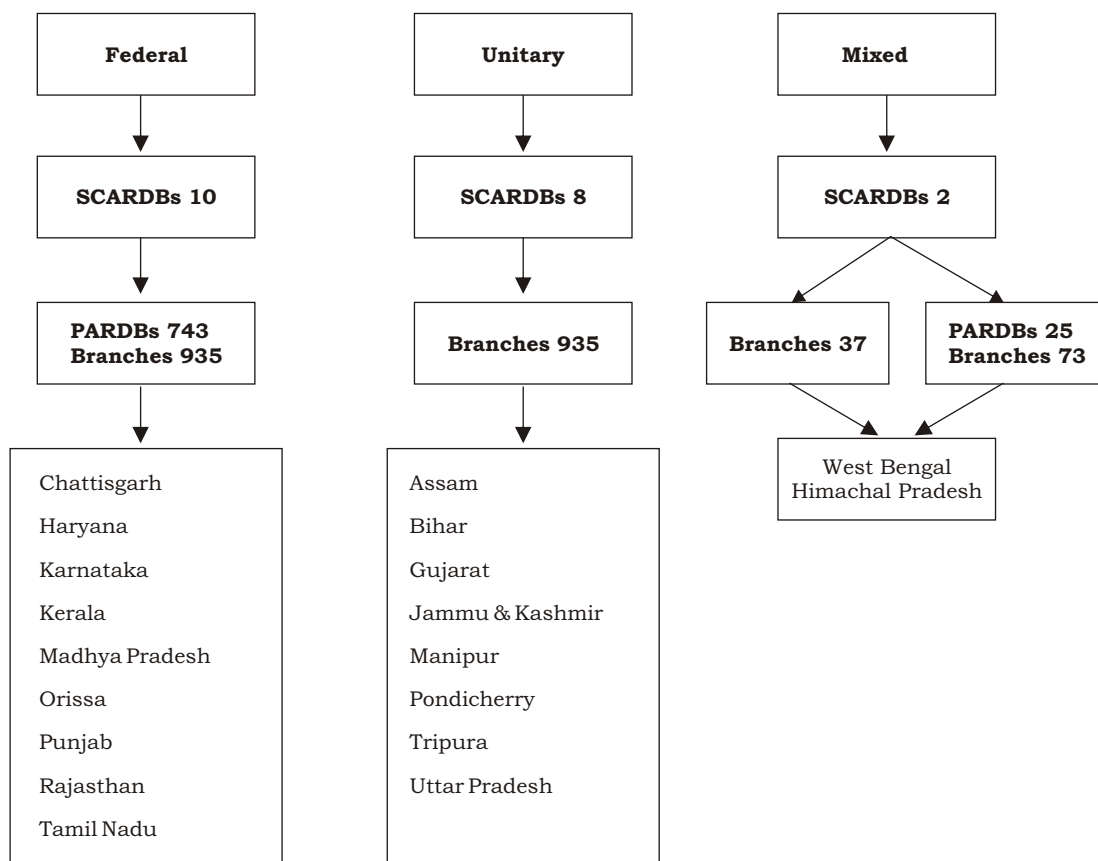
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### Chart

#### RESTRUCTURING AND REVITALISATION OF THE COOPERATIVE AGRICULTURE AND RURAL DEVELOPMENT CREDIT STRUCTURE (CARDBS)

##### Structural Features of LT Cooperatives Credit Structure (as on 31 March 2004)



1. LTCCS outlets in the States of Uttarakhand and Jharkhand included in UP & Bihar respectively.
2. In the North Eastern States of Meghalaya, Nagaland, Mizoram, Arunachal Pradesh, Sikkim and in the States of Andhra Pradesh, Delhi, Goa, Andaman & Nicobar there is no separate LTCCS. The SCB in these states purvey both ST and LT credit.

( Source: VC-2 Report )

**Annexure-1****RESTRUCTURING AND REVITALISATION OF THE COOPERATIVE AGRICULTURE  
AND RURAL DEVELOPMENT CREDIT STRUCTURE(CARDBS)****Annexure 1.A : Penetration of LTCCS in the Federal Structure**

State	No. Of outlets	Operational land holdings ('000)	Operational land holdings per outlet ('000)	Borrowing membership (no. In '000)	Borrowing members per outlet ('000)	Loan outstanding as on 31.3.2003 (Rs. crore)	Average loan outstanding per outlet (Rs.crore)	Average loan outstanding per borrower (Rs)	Loans issued during the year (Rs. crore)	Loans issued per outlet (Rs. crore)	Average loan issued per borrower (Rs. crore)
Chattisgarh	95	N.A	-	49	0.5	151	1.6	30,816	43	0.5	8,776
Haryana	86	1,728	20.1	513	6	1,616	18.8	31,501	407	4.7	7,934
Karnataka	177	6,221	35.1	701	4	1,191	6.7	16,990	176	1	2,511
Kerala	105	6,299	60	787	7.5	1,483	14.1	18,844	294	2.8	3,736
Madhya Pradesh	405	9,603	23.7	363	0.9	988	2.4	27,218	278	0.7	7,658
Maharashtra	328	10,653	32.5	1,007	3.1	686	2.1	6,812	-	0	0
Orissa	53	3,966	74.8	171	3.2	72	1.4	4,211	11	0.2	643
Punjab	87	1,093	12.6	667	7.7	1,680	19.3	25,187	334	3.8	5,007
Rajasthan	162	5,364	33.1	664	4.1	1,222	7.5	18,404	207	1.3	3,117
Tamil Nadu	181	8,012	44.3	488	2.7	1,251	6.9	25,635	286	1.6	5,861
Total	1,679	52,939	31.5	5,410	3.2	10,340	6.2	19,113	2,036	1.2	3,763

( Source : Vaidyanathan Task Force -2 )

**Annexure 1.B : Penetration of the LTCCS in the Unitary Structure**

State	No. Of outlets	Operational land holdings ('000)	Operational land holdings per outlet ('000)	Borrowing membership (no. In '000)	Borrowing members per outlet ('000)	Loan outstanding as on 31.3.2003 (Rs. crore)	Average loan outstanding per outlet (Rs.crore)	Average loan outstanding per borrower (Rs)	Loans issued during the year (Rs. crore)	Loans issued per outlet (Rs. crore)	Average loan issued per borrower (Rs. crore)
Assam	33	2683	81.3	N.A	N.A	17	0.5	N.A	0.2	0.0	-
Bihar	151	14155	93.7	564	3.7	128	0.8	2270	10.0	0.1	-
Gujarat	176	3781	21.5	686	3.9	687	3.9	10015	60.0	0.3	-
J & K	38	1336	35.2	64	1.7	28	0.7	4375	1.0	0.0	-
Manipur	1	143	143.0	0.2	0.2	1	1.0	50000	0.0	0.0	-
Pondicherry	2	34	17.0	2	1.0	9	4.5	45000	4.0	2.0	-
Tripura	5	301	60.2	15.0	3.0	12	2.4	8000	4.0	0.8	-
Uttar Pradesh	334	21529	64.5	3799	11.4	2997	9.0	7889	711.0	2.1	-
Total	740	43962	59.4	5130.2	6.9	3879	5.2	7561	790.2	1.1	-

( Source : Vaidyanathan Task Force -2 )

**Annexure 1.B : Penetration of the LTCCS in the Mixed Structure**

State	No. Of outlets	Operational land holdings ('000)	Operational land holdings per outlet ('000)	Borrowing membership (no. In '000)	Borrowing members per outlet ('000)	Loan outstanding as on 31.3.2003 (Rs. crore)	Average loan outstanding per outlet (Rs.crore)	Average loan outstanding per borrower (Rs)	Loans issued during the year (Rs. crore)	Loans issued per outlet (Rs. crore)	Average loan issued per borrower (Rs. crore)
Himachal Pradesh	50	863	17.3	48	1.0	249	5.0	51875	61	1.2	12708
West Bengal	84	6547	77.9	180	2.1	878	10.5	48778	220	2.6	12222
Total	134	7410	55.3	228	1.7	1127	8.4	49430	281	2.1	12325

( Source : Vaidyanathan Task Force -2 )

**Annexure-2****RESTRUCTURING AND REVITALISATION OF THE COOPERATIVE  
AGRICULTURE AND RURAL DEVELOPMENT CREDIT STRUCTURE (CARDBS)****Annexure : 2A Region wise Working Results of SCARDBs as on 31st March**

(Amount in Rs. Crore)

Regions	No of Branches 2009	Profit /Loss		Impaired Assets		NPA%		Recovery % to demand	
		2008	2009	2008	2009	2008	2009	2008	2009
Central	349	-171.11	207.89	2754.76	1724.69	47.86	39.20	69.48	35.31
Eastern	138	-26.20	0.32	444.67	359.00	45.71	39.17	33.70	28.31
North Eastern	35	-1.04	-2.58	18.21	6.34	58.61	51.96	70.98	53.41
Northern	85	48.88	68.84	723.64	759.77	12.99	13.86	58.47	64.92
Southern	56	57.05	-41.41	924.31	696.12	22.53	18.97	47.55	51.27
Western	181	-183.51	-22.19	1569.08	1381.81	80.08	77.57	9.97	20.06
All India Total	844	-275.93	255.25	6434.67	4937.73	34.99	30.33	49.94	40.00

Manipur SCARDB is defunct

( Source : NABARD Annual Report 2009-2010)

**Annexure : 2B - Region wise Working Results of PCARDB As on 31st March**

Regions	2008				2009*				Impaired Assets		NPA% to Loans Outstanding		Recovery % to demand	
	Profit		Loss		Profit		Loss							
	No	Amt	No	Amt	No	Amt	No	Amt	2008	2009	2008	2009	2008	2009
Central	17	0.97	33	120.11	23	24.06	27	69.02	744.21	561.08	53.39	47.55	56.81	37.64
Eastern	8	1.99	60	38.28	39	33.57	29	22.44	201.19	129.91	26.97	19.75	75.19	73.72
Northern	95	132.66	50	56.87	98	72.37	47	76.23	2163.82	1849.88	40.20	34.73	41.19	39.14
Southern	162	72.14	241	102.69	162	69.95	237	60.65	1239.49	1237.88	37.08	36.14	46.84	50.15
Western	1	2.02	28	269.79	4	6.08	25	131.88	767.93	614.21	84.90	95.91	4.10	7.79
All India	283	209.78	412	587.73	326	206.20	365	360.20	5116.64	4392.95	43.47	39.12	42.15	40.3

\*: Data for 2009 provisional.

(Source : NABARD Annual Report 2009- 2010)

**Annexure 2C - Working Results of Co-Operative Banks**

Agency Year	SCB		DCCB		SCARDB \$		PCARDB #	
	2007-08	2008-09	2007-08*	2008-09**	2007-08	2008-09@	2007-08	2008-09
Total ( No )	31	31	370	370	20	20	697	697
In Profit (No)	26	26	261	320	9	11	283	326
Profit Amount	286	395	868	1611	150	405	210	206
In Loss ( No )	5	5	108	50	10	8	412	365
Loss Amount	49	71	926	337	426	150	588	360
* DCCB in Gujarat was neither in profit nor in loss for the year 2007-08.								
** The data for SCB & DCCB in Bihar in Jharkhand repeated from 2007-08.								
\$ Data for Manipur SCARDB is not available as the same is under orders of liquidation.								
# The data for 4 PCARDBs in Kerala & 2 in West Bengal for 2008-09 & 2007-08 is not available.								

Source: NABARD Annual Report 2009-10

**Annexure-3****RESTRUCTURING AND REVITALISATION OF THE COOPERATIVE AGRICULTURE AND  
RURAL DEVELOPMENT CREDIT STRUCTURE (CARDs)****Frequency Distribution of States/U.Ts According to Levels of  
Loan Recovery of SCARDBs and PCARDBs**

( as On 30 June 2009)

Recovery	SCARDBs	PCARDBs
< 40 %	Madhya Pradesh, Uttar Pradesh, Bihar, West Bengal, Assam, Jammu & Kashmir, Karnataka, Tamil Nadu, Gujarat and Maharashtra. (10)	Haryana (16), Punjab (26) Rajasthan (12), Orissa (2), West Bengal (14), Chhattisgarh (3), Madhya Pradesh (24), Maharashtra (29), Karnataka (41) and Tamil Nadu (170) (337)
>40 % and < 60%	Chhattisgarh, Orissa, < 60% Himachal Pradesh and Rajasthan(4)	Haryana (3), Himachal Pradesh (1) Punjab (38), Rajasthan (22), Orissa (2), West Bengal (6), Chhattisgarh (6), Madhya Pradesh (13), Karnataka (96), Kerala (10) and Tamil Nadu (8) (205)
>60% and < 80%	Haryana, Punjab, Kerala and Tripura(4)	Punjab (20), Rajasthan (2), Orissa (14), West Bengal (3), Chhattisgarh (3), Madhya Pradesh (1), Karnataka (38), Kerala (30) (113)
>80%	Puducherry (1)	Punjab (5), Orissa (28), West Bengal (1), Karnataka (2) and Kerala (6) (42)
Total	19*	697
(Source : NABARD Annual Report 2009-2010)		



**Annexure 4****RESTRUCTURING AND REVITALISATION OF THE COOPERATIVE AGRICULTURE AND RURAL DEVELOPMENT CREDIT STRUCTURE (CARDBS)****Vaidyanathan Committee-2 Main Recommendation (Package)****1. The Financial Package**

In tune with the recommendations of the revival of the STCCS, the financial package for the LTCCS would cover accumulated losses and technical assistance including installation of a computerised standard accounting internal control, monitoring and information system, and training and capacity building of the staff and elected representatives. As the PCARDBs are expected to provide a wider range of financial services after restructuring it is all the more necessary for them to have aggregate capital. Any amount required for reaching a CRAR of 7% may also be included in the package.

**2. Criteria for Eligibility to Receive Assistance under the package**

Although loans provided by the LTCCS are secured through collateral, the structure has found it difficult to enforce the same. Also, the percentage of recovery of a long term loan at any point of time is not the true indicator of the recovery performance of the LTCCS because future instalments of the same loan are still due. The criteria for eligibility to receive assistance under the package, therefore, need to be more stringent for the LTCCS than it is for the STCCS.

The Task force therefore, recommends that only that PCARDB/ unitary branch

- a) whose gross interest margin is equal or greater than 50% of its operating expenses, &
- b) whose recovery is equal to or more than 50% of the demand may be considered eligible to receive financial assistance under the package directly.

**3. Accumulated losses and sharing pattern**

- a. In tune with the conditions for the STCCS, the GOI may bear all losses arising out of LT loans for agricultural and related activities estimated at Rs.2291 crores. State Governments may pay upfront existing dues from them estimated Rs.80 crores. Losses arising from non-agricultural loans by the structure may be borne equally by the concerned State Government and the LTCCS.
- b. The GOI may also bear the entire cost of special audits technical assistance including HRD efforts, and implementation costs estimated at Rs.164 crore. As NABARD has all along been the sole source of resources for the structure and therefore responsible for maintaining lender's discipline, it is recommended that NABARD may share the cost of HRD efforts with the GOI on a 50:50 basis.
- c. It is reiterated that recapitalization of the LTCCS is not equivalent to writing off of such loans and all efforts must be made to recover such loans from the borrowers specially as all these loans are secured through collateral and the State governments need to facilitate such recovery through due legal process.
- d. The aggregate financial package including a contingency amount of Rs.1,500 crores is estimated at Rs.4837 crores.

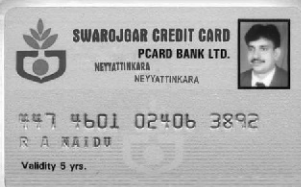
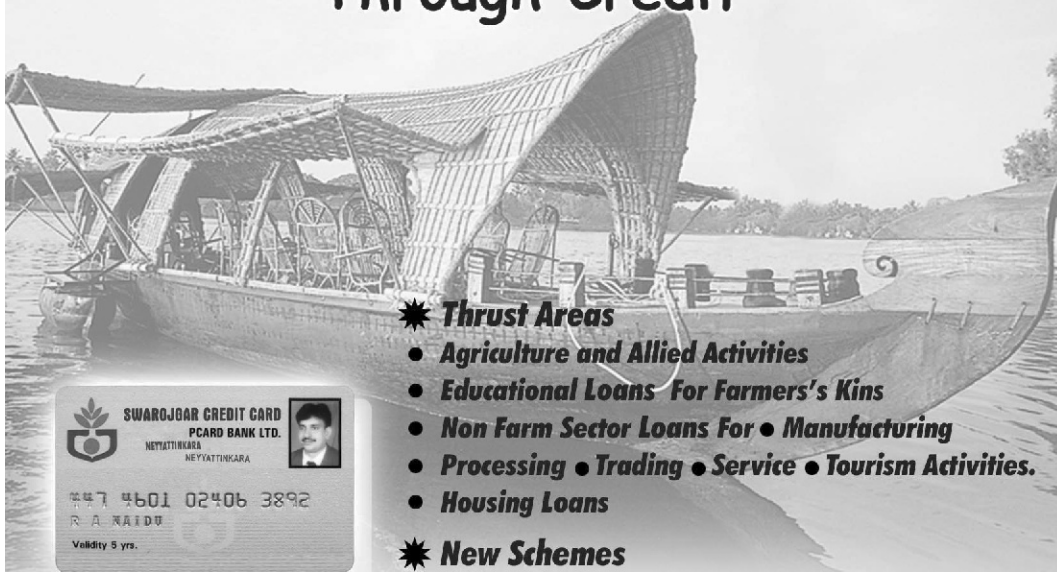
**4. Legal Reforms**

- i. Amendments to the Cooperative Societies Acts, as envisaged in the Task Force report for the STCCS, will be applicable to the LTCCS also. These amendments will make the PCARDBs fully autonomous and allow them flexibility in borrowing and making investments.
- ii. NABARD Act may be amended to allow it to lend directly to any unit of the LTCCS or through any FI on the basis of the financial strength of the ARDBs and without necessarily taking State government guarantees. Necessary provisions will have to be made to allow SCARDBs to access public deposits under suitable regulatory and supervisory arrangements.

**5. Implementation Mechanism**

NABARD will be the principal implementing and pass through agency. Implementation and monitoring committees will be constituted at the National State and District levels. Once the GOI announces the package, states may be given up to two years to accept participation and complete implementation within a period of three years from the date of signing of the initial MoU with the GOI.

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## Kerala PACS-Leader in the Rural Savings

A.K. Zakir Hussain\*

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The rural credit societies occupy a dominant place in Kerala due to their wide coverage and diversification of activities. The cooperative credit structure in Kerala comprises of 2 parts viz. short and medium term credit structure and long term credit structure. The short and medium credit requirements are met by a three tier system consisting of Kerala State Cooperative Bank at the apex level, 14 District Cooperative Banks at the middle level and 1555 Primary Agricultural Credit Societies at the base level at the end of March 2008.

The Primary Agriculture Cooperative Society (PACS), known as Service Cooperative Banks (SCBs) in Kerala play a vital role in disbursing agricultural credit to the needy people for the overall rural development with the accent on agricultural and allied activities. In addition, the PACS in Kerala disburse credit for non-agricultural purposes, promote thrift among

members, provide technical guidance to agriculture and allied activities, distribute consumer goods, arrange for storage, marketing and processing of surplus agricultural produce and thus safeguarding the interest of the members.

PACS in Kerala is doing business like a bank by accepting various kinds of deposits viz., savings bank, current account, fixed deposit, recurring deposit, etc., and diversified lending operations by including gold loan, personal loan, housing loan, business loan, overdraft facility, vehicle loan, education loan, etc. apart from its core area of agriculture lending. At present, most of the PACS in many States are totally dependant on the finance provided by DCCBs, thus starving of finance. The PACS in Kerala have been successful in mobilizing their own resources and is unique example of hidden saving potentials in rural area. As the investment in fixed deposits are

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\* Faculty Member, ICM, Kannur, Kerala

comparatively higher in Kerala, the PACS in Kerala utilized the potential available and march towards newer heights day by day. With the better scope of financial inclusion in the village and backward areas and availability of TDS exemption for PACS, they have enough scope for improving further the deposits mobilization capacity.

### **Deposit Position - A Comparative Analysis**

It is well-known that the progress of the PACS in Kerala has registered phenomenal growth in terms of various parameters viz., share capital, reserves, working capital, loans, etc., with deposits being far superior when compared to other states in India continuously for many decades. The encouraging fact is that, PACS in Kerala, even under the competitive environment is getting tremendous deposits to its fold. There are many PACS having deposits of more than ₹100 crores which are better than average rated urban cooperative banks. For instance, Madai Cooperative Rural Bank, Kannur and Paravllor Regional Cooperative Bank, Kollam have deposit outstanding of ₹238

crores and ₹218 crores respectively at the end of March 2009.

### **Share of deposits in DCCBs by Primaries**

As a special feature in the District Central Cooperative Banks (DCCBs) of Kerala, Primary Cooperatives contribute a major share in the overall deposits of DCCBs. Unlike, in other States where the PACS are mainly depending on the borrowings from DCCBs, it is reverse with respect to Kerala. The DCCBs could easily mobilize more than 50% of deposits from primary cooperatives, which comprises of PACS to a major extent. The deposits of Thrissur DCCB, Kottayam DCCB, Malappuram DCCB and Kannur DCCB comprises of 69.30%, 67.94%, 66.31 % and 61.93% of deposits of primaries at the end of March 2008. The average share of deposits of primaries to the total deposits of 14 DCCBs in Kerala stood at 55.52% during the same period.

### **State-wise percentage of Deposits to Total Deposits**

At the beginning, PACS were collecting only thrift deposits from

the members. In Tamilnadu, thrift deposit was collected compulsorily from the members at the time of repayment of loans. Majority of them were depending on borrowings from district central cooperative banks. On the other hand, some States like Kerala, Tamilnadu, Andhra Pradesh, Maharashtra and Karnataka concentrated in collecting various types of deposits like savings deposit, fixed deposit, etc. due to the diversification of lending operation. During 2007-08, Kerala stood first in the deposit and loan positions amounting to ₹ 13,160.55 crores and ₹11717.85 crores accounting for 51.71% and 17.84% of all India's position.

### **Support of the Government**

During the period of emergency, all the credit societies joined together to tap the internal resources from the State itself by initiating a Special Deposit Mobilization Campaign, which commenced in the year 1976 as a novel idea to stabilize the Co-operative Sector. The cooperative department was also involved to

support the deposit mobilization scheme of PACS of Kerala. The entire mechanism supported the scheme and it was a grand success. Thereafter the Deposit Mobilization Campaign is organized every year with a view to increase resources position of credit cooperatives in Kerala. Sensing the financial crisis world over, the Kerala government presently, insisting the PACS to go for deposit mobilization twice in a year viz., October and March.

### **Conclusion**

The enhanced role of the banking sector in Indian economy and the increasing levels of competition have placed numerous demands on banks. To withstand the global competition, enhanced productivity and sustainability of the credit cooperatives have become imperative. The Kerala experience regarding the cooperative credit is reported to have shown as to how cooperative societies at the primary level in the rural areas of country could function successfully and establish intimate support with the local population for raising deposit.

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Phone : (0413) 2357985  
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- Additional Interest for Senior Citizens.
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Email : wbscardb@gmail.com, wbscardb@dataone.in

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Chairman

**Gurupada Chowdhury**

Vice-Chairman

**Ashish Kumar Bhowmik**

Managing Director

## Final Authority in Housing Cooperative

Dr. M. L. Khurana\*

A housing cooperative is a legal entity that is owned and controlled by its members for the primary purpose of improving their living conditions. Democratic control by residents, open and voluntary membership, limited return on membership investment, the expansion of services towards community services, and a strong emphasis on self-help and cooperative action are the basic characteristics of housing cooperatives. These democratic organizations are controlled by their members who actively participate in setting-up their policies and making decisions.

The final authority, unlike in other cooperatives, is the General Body comprising of only members. The cooperative must hold an annual general meeting each year after its fiscal year end within the period specified in the Cooperative Statute. The annual general meeting deals with the regular and normal affairs of cooperatives whereas the special general meetings which are recommended

to consider special subjects. Further general meetings are essential element of the member education process and require free discussions and expression of opinions.

The general body of a housing cooperative, which is the ultimate authority, consists of its shareholder members. It can decide on any matter brought before it by the Managing Committee or Board of Directors. The general body is required by law to assemble at a given time and place to transact the business of the housing cooperative. Every member of the housing cooperative is entitled to attend the general body meeting and holds one vote irrespective of number of shares held by him. On one hand, the Cooperative Laws provide for holding of general body meetings and on the other, State Cooperative Laws deal with the regular affairs of the housing cooperative and special general body meeting which is convened by the Registrar of Cooperative Societies or Managing Committee

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\* Managing Director, National Cooperative Housing Federation of India, New Delhi.

or at the instance of required number of members for transacting specific business.

There are three types of general body meetings.

- (i) First General Body Meeting
- (ii) Annual General Body Meeting
- (iii) Special General Body Meeting

### **First General Body Meeting**

State Cooperative Societies' Acts state that the first or preliminary general body meeting of the housing cooperative should be convened within 3 months after its registration.

The First General Body Meeting transacts the following business:

- (i) Election of a President/Chairman for the Meeting.
- (ii) Receipt of statement of accounts of all transactions entered into by the housing cooperative up to 14 days (provided in most of the State Cooperative Societies' Acts) prior to the date of the meeting.
- (iii) Constitution of a provisional Committee which shall have the same powers and functions as the Committee elected in

accordance with the bye-laws.

- (iv) Fixing the limits up to which the funds may be borrowed.
- (v) Admission of new members.
- (vi) Any other subject or agenda specifically mentioned in the bye-laws.

In some States, model bye-laws of housing cooperatives (tenant co-partnership) provide for placing the following points on the agenda of the first general body meeting:

- ▶ The first general body meeting should be convened by the chief promoter.
- ▶ Cases where the chief promoter fails to convene the meeting; it shall be convened by the Registrar of Cooperative Societies or person authorized by him.

### **Annual General Meeting**

All the State Cooperative Laws provide for calling of annual general meeting of its members by every housing cooperative. The bye-laws provide the procedure for convening the meeting and business to be transacted at the annual general meeting. Many of State Cooperative Societies' Acts

have laid down a provision that the annual general meeting should be held within a period of three months after the date fixed for finalizing the accounts for the year. It is obligatory on the part of every cooperative to call the annual general meeting to transact statutory business; failing which a penalty is levied as specified in the Acts and Rules.

The notice of the annual general meeting should be issued by the Secretary of the housing cooperative. The date, time and venue along with the nature of the business must be specified in the notice.

Normally the following agenda are taken up by the annual general body meeting:

- (i) To approve the proceedings of the last meeting.
- (ii) To consider and approve audit report including Balance Sheet and Profit and Loss accounts.
- (iii) To consider the annual report of the last year.
- (iv) Utilization of funds i.e. to declare dividend and appropriate profits and to create 'Development Fund' and 'Building

Fund' or any other fund for the benefit of the housing cooperative.

- (v) Election of members of Managing Committee, in addition to those nominated.
- (vi) Work Calendar of ensuing year
- (vii) Deciding the maximum credit limit.
- (ix) Appointment of Auditor or Auditors.
- (ix) Expulsion of members subject to the approval of Registrar of Cooperative Societies.
- (x) Amendment to the Bye-laws subject to the approval of Registrar of Cooperative Societies.
- (xi) Any other matter to be brought before it in accordance with the bye-laws.

Summarizing, the annual general meeting is to review the entire 'working of the housing cooperative and to lay down policies and agendas for the forthcoming year. The Managing Committee should, therefore, lay before it all such matters on which the general body alone can take a decision.

### **Special General Meeting**

Besides the regular general meeting, there is also a provision in State Cooperative Societies' Acts to call special general meetings under following conditions:

- (i) On a requisition, in writing, of sufficient number of members (as specified in the bye-laws; for e.g. in certain States it is 1/5th of the total strength).
- (ii) At the instance of the Registrar of Cooperative Societies.
- (iii) In some States, the special general meeting can be convened on requisition from the Federal Society/ financing institution.

The requisition should state the subject to be discussed, time and date of the meeting. The Managing Committee of the cooperative or person authorized calls the special meeting after receiving the requisition. In case a requisitioned meeting could not be held for want of quorum, the requisition shall lapse. Normally the expenditure on such meetings is incurred by the housing cooperative.

The following are the powers and functions of special general meeting:

- (i) Amendment of the bye-laws.
- (ii) Amalgamation of society with any other society.
- (iii) Reconstruction of the society.
- (iv) Expulsion of members.
- (v) Report of inspection and enquiry of the housing cooperative conducted under the provisions of the Act and Rules.
- (vi) Change of name of the housing cooperative.

The special general meeting normally has the powers of an ordinary general meeting. The procedures of the special general meeting are quite same as that of an ordinary meeting.

### **Formalities for Convening General Meeting**

The following should be taken into consideration while calling the general meetings:

- (i) Due notice (which must specify meeting date, venue and time) of convening the meeting as provided in the bye-laws, should be sent to the members along with agenda under UPC.
- (ii) The notice should be signed by the Secretary or person

authorized in this behalf.

- (iii) The general meeting should be presided over by the Chairman and the Vice Chairman, in the absence of the Chairman. In case of absence of both, any member elected by the members present is to preside.
- (iv) Members should be allowed to speak freely on the functioning of the housing cooperative.
- (v) The minutes of the meeting should be recorded in the proceedings book by the competent officer properly in a manner prescribed in the bye-laws and should be circulated to members after the approval of the Chairman of the meeting.
- (vi) In the event of equality of votes, the Chairman of the meeting is entitled to cast one additional vote.
- (vii) Signatures of the members present in the meeting should be obtained on the proceedings register.
- (viii) Unless the number of members required to form the quorum as specified in the bye-laws are present, no business should be transacted.
- (ix) If there is no quorum, the

meeting should be adjourned as per the provisions of the bye-laws. No quorum is necessary for adjourning the meeting.

- (x) If any member wants to include any item in the agenda of the meeting, he should write to Chairman/ Secretary well in advance.
- (xi) The Secretary of the cooperative must read out the notice and agenda to be discussed before the start of the meeting.
- (xii) If any member demands, the Chairman should put the resolution to vote.

It is before the general meeting of the members that the conduct of committee or the directors can be discussed questioned and the explanations tendered. All powers of the Directors, Managing Committee are ultimately derived from the General Body meeting and also under the bye-laws of the society. But the powers are subject to the scrutiny of the General Body meeting. The General Body of members of the society has overriding power over the action of the Managing Committee of the society.

**Cancellation of Share of Members:** If a member of the housing society fails to pay his dues



to the society because of which society cancels his share, such member, would cease to be member of the society. He loses the right to live in the house as the bye-laws of the society states that a person whose shares had been transferred, repaid, forfeited or cancelled would cease to be a member of the society.

**Amendment of Bye-Laws:** An important power given to the General Body is about the amendment of bye-laws. Bye-laws are very important internal rules for the smooth conduct of the business/affairs of cooperatives. Though it does not have the force of law but are important for each cooperative as they are in conformity with the Act and Rules.

In order to amend the bye-laws, the cooperative should have the approval of the general body. Normally 2/3rd members should be present in the general body. Further no amendment is valid until it is registered under the Cooperative Act by the Registrar. The registering authority cannot modify the proposals and register the amendments directing to adopt the modification in the next 'general

meeting. The original bye-laws hold good - till the amendments are registered.

**Penalty for non-conveying the**

**General Body:** The registrar will not be entitled to interfere in the authority of the general body except in case where fraud has been played or where there is violation of the Act, Rules and Bye-laws.

The General Body has power to remove the Managing Committee. The General Body is supreme authority and is free to do what is not prohibited by the Act, Rules, Bye-laws and the general law of the land. The newly enacted Delhi State Cooperative Act, 2003 provides that beside one annual general body meeting, housing cooperatives during construction period has to convene, at least, two special general body meetings every year to give progress report to the members. It further entails that no escalation in cost of the project, time fixed for the execution thereof shall be extended. Also, the size of the flats cannot be changed by the managing committee without the prior approval of the general body.



## THE KARNATAKA STATE CO-OPERATIVE AGRICULTURE AND RURAL DEVELOPMENT BANK LTD.

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|---|------------------------|
| ● Advances (From inception to 31-03-2011)                 | Over Rs.3764.66 Crores |
| ● No. of loan cases sanctioned                            | 16.92 Lakhs            |
| ● Share of Weaker Section in Bank's financial assistance. | 70.17%                 |

### **STRIKINGLY INNOVATIVE PROGRAMMES INTRODUCED BY THE BANK**

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|--|---|

### **BANK ACCEPTS FIXED DEPOSITS WITH THE FOLLOWING ATTRACTIVE RATES OF INTEREST**

1. One year – 8.50%, One to two years - 8.75%, Above two years - 9%
2. 0.50% of additional Interest will be given to Senior Citizens
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President

**Y. H. Gopalakrishna**  
Secretary

**M. Venkatarreddy, K.C.S.,**  
Managing Director



## THE HARYANA STATE COOPERATIVE AGRICULTURE AND RURAL DEVELOPMENT BANK LTD.

Sahakarita Bhawan, Bay No. 31-34, Sector - 2, Panchkula

The Haryana State Cooperative Agriculture and Rural Development Bank Ltd., is the specialised institution in the State, which caters to the Long Term credit needs of the farmers for the upliftment of the economic position of the agriculturists and allied fields.

The bank advances Long Term loans to the farmers for the following purposes :-

### Scale of finance and periodicity of Major Sectors

#### Farm Sector

Sr.No.	Name of the Scheme	Period	Scale of finance
1.	Minor Irrigation	9 years	Rs. 36,000 to 1,50,000
	i. WCS/UGPL	-do-	90% of the project cost
2.	Farm Mechanisation	5-9 Years	85% of the cost of the Machinery
3.	Purchase of Agriculture Land	10 Years	Upto Rs. 10.00 Lacs
4.	Horticulture/Plantation	5-9 Years	Rs. 40,000 to 1,55,000 per Acre
	i. Medicinal & Aromatic Plants	-do-	90% of the project cost
5.	Animal Husbandry	5-7 Years	90% of the project cost
6.	Rural Godowns	Upto 10 Years	75% of the project cost

#### Non Farm Sector

Sr.No.	Name of the Scheme	Period	Scale of finance
1.	Rural Housing	Upto 10 Years	Upto Rs. 5.00 Lacs
2.	Marriage Palaces	Upto 10 Years	90% of the Project Cost
3.	Community Halls	Upto 10 Years	90% of the Project Cost
4.	Village Cottage Industry	Upto 10 Years	90% of the Project Cost
5.	Public Transport Vehicles	Upto 10 Years	85% of the Project Cost
6.	Rural Educational Infrastructure	Upto 10 Years	90% of the Project Cost
7.	Other SSI Units	Upto 10 Years	90% of the Project Cost

#### Rate of Interest

The Bank has revised the rate of interest and fixed it at 10.50% p.a. to be charged from the ultimate borrowers on all types of loans w.e.f. 15.12.09 and a rebate of 5% w.e.f. 1.1.2010 to 31.12.2010 is allowed on all slabs to regular paymasters.

#### Note:-

For further details, kindly contact The Haryana State Coop. Agri. & Rural Dev. Bank Ltd., Panchkula or the District Co-op. Agri. and Rural Dev. Banks at District level and its branches at Tehsil & Sub-Tehsil level in the State.

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## **Agricultural Insurance in India Needs More Penetration**

D. Muthamizh Vendan Murugavel\*

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Agriculture is the mainstay of the Indian economy. Allied sectors along with Agriculture, contribute nearly 22 % of GDP of India, while about 65-70 % of the population is dependent on agriculture for their livelihood. Agriculture production and farm incomes in India are frequently affected by natural disasters such as droughts, floods, cyclones, storms, landslides and earthquakes. With global warming now becoming a permanent fixture in the Indian agriculture landscape, state governments and insurance firms are rushing to provide crop insurance for farmers. All the agriculture plans, projects and schemes are subject to yield risks. As these are highly dependable to weather, monsoon, rainfall and other natural calamities, the amount of risk is unpredictable. In India most of the agriculturists do not have the awareness about the agricultural insurance plans and schemes provided by the Government in mitigating losses arising out of agriculture. If there is any loss due to natural calamities, they demand only the writing off the agriculture credit availed. They do

not avail the mitigating mechanisms, which are readily available to protect them from unexpected losses.

Agricultural insurance is considered an important mechanism to effectively address the risk to output and income resulting from various natural and man-made events. Agricultural Insurance is a way of protecting the agriculturist against financial losses due to uncertainties that may cause agricultural losses arising from named or all unforeseen perils beyond their control. Unfortunately, agricultural insurance in the country has covered merely around one fifth of the total farm holdings, even though the need to protect Indian farmers from agriculture variability has been a continuing concern of agriculture policy.

**Agriculture Insurance Company of India Ltd. (AICI)** is the largest agri-insurance company in India providing insurance cover to millions of farmers in the country. Popularly known as AIC, this company was set up in 1st April, 2003 by the Government of India.

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AIC offers area-based and weather-based crop insurance programs in about 500 districts of India and covers almost 20 million farmers, making it one of the biggest crop insurers in the world.

### **National Agricultural Insurance Scheme (NAIS)**

In India, an all-risk Comprehensive Crop Insurance Scheme (CCIS) for major crops was introduced in 1985. It was subsequently replaced by the National Agricultural Insurance Scheme (NAIS) with effect from 1999-2000. AIC has taken over the implementation of the National Agricultural Insurance Scheme which was previously being implemented by General Insurance Corporation of India. NAIS is one of the largest insurance plans for farmers in the world. The object of the scheme is to provide insurance coverage and financial support to the farmers in the event of failure of any of the notified crop as a result of natural calamities, pests and diseases, to encourage the farmers to adopt progressive farming practices, high value inputs and higher technology in agriculture and to help stabilize farm incomes, particularly in disaster years.

The scheme continued to provide insurance coverage against crop failure due to natural calamities,

pests and diseases. Introduced in the Rabi season of 1999-00, the NAIS has covered 13.46 crore farmers till Rabi 2008-09, of which just over 25%, or 3.60 crore farmers have benefited. During this period, claims to the tune of ₹1 1,607 crore have been settled benefiting a total of 302 lakh farmers (end-31 March 2008). It has covered 25 million farmers in 2009-10 and the total sum insured is ₹ 42,000 crore.

### **Modified National Agricultural Insurance Scheme**

After several proposals, the Planning Commission has approved the union agriculture ministry's modified national agricultural insurance scheme. The previous farm insurance schemes, including the NAIS which is now sought to be modified, had serious limitations. The payable claims invariably turned out to be several fold higher than the premium charged from the farmers and the subsidy paid by the government. It made it difficult for insurance companies to honour the claims. Moreover, these schemes assumed state governments would share the subsidy burden with the Centre, and most states failed to do so.

Though it has been claimed that the proposed modified NAIS has addressed some of these issues, its success cannot be taken for

granted. For, the new scheme stipulates extension of insurance cover to more number of crops and calculation of premium on actual basis, meaning higher premium for riskier crops. Though this, coupled with subsidy, may make agricultural insurance attractive as a business for the insurance companies, it is unlikely to go down well with the farmers. In particular, the resource-poor small and marginal farmers, who need the insurance most, may find it unappealing because their crops, grown largely on rainfed lands, run higher risk of damage due to natural and other hazards. Also, the state governments, which will again be required to share subsidy burden, may find it difficult to do so.

### **Crop Insurance in India**

The agricultural insurance cover for farmers taking crop loans is significantly low in India, even though it is compulsory for banks to extend the cover to loanee farmers under the National Agriculture Insurance Scheme. One reason, for the low coverage of loanee farmers, is the exclusion of certain crops from the scheme. However, that exclusion of crops cannot be the sole reason for the limited coverage. The lack of awareness about the scheme is also a reason for its low

penetration. According to the findings of National Sample Survey, less than 10% of the country's farmers are aware of the crop insurance policy.

<b>Farmers taking crop Insurance under NAIS</b>		
<b>Year</b>	<b>No. of farmers (million)</b>	<b>As % of total Indian Farmers</b>
2003-04	12.4	10
2004-05	16.2	13
2005-06	16.5	13
2006-07	17.1	14
2007-08	19.1	15

Source: AIC, Annual Report

According to data from the AIC, the implementing agency for the central scheme, only about 40-50 per cent of the loanee farmers get the crop insurance cover from banks. While the insurance coverage by private sector banks is negligible, that by public sector banks is also significantly low at 10-15 %. The rate of coverage is however higher at 70 % in case of cooperative banks and regional rural banks. Only about 30 % of the farmers in India receive institutional credit while about 20% of the total farmer population is covered under agriculture insurance scheme.

Close to 50% of the total claims lodged in the 2008-09 crop year amounting to ₹ 3,609 crore are yet to be settled by the Agricultural Insurance Company of India, which



operates the NAIS. Of the ₹3,500 crore outlay for the NAIS in the 11<sup>th</sup> Plan, actual expenditure according to the AICI was ₹718 crore in 2007-08, ₹694 crore in 2008-09 and ₹644 crore in 2009-10 up to November 11, 2009. Last crop year, the total subsidy on premium paid was ₹103.04 crore while the premium paid was ₹801.54 crore against a sum insured of ₹26,671.65 crore. Against the total premium of ₹609 crore in the crop year 2006-07, ₹2,300 crore of claims were settled by the NAIS. Only 15% of the country's farm holdings (in terms of area) were covered under the NAIS in the 2007-08 crop year although the scheme was launched in 1999-2000.

### **Shortcomings of NAIS**

► **Outdated model:** NAIS mandates to perform crop cutting experiments (for deciding claim payout) which is quite laborious and time-consuming. Also, these experiments are no longer valid as farmers cultivate multitude of crop varieties within unit area of insurance coverage having varying degree of productivity completely unrelated to the yields from crop cutting experiments.

► **Delay in claim payout:** Claim payout to the farmers often takes more than a year to reach the

farmers or to the banks from whom they have taken crop loans.

### ► **Huge burden on exchequer:**

Since the 1999 to 2007-08 rabi seasons, the total paid and payable claims were about Rs 11,607 crore against a collected premium of Rs 3,626 crore rendering it unsustainable.

### ► **Lack of historical weather data:**

Indian Meteorological Department is the central body controlling the weather stations and the captured data do not have a pan India network to give historical weather data.

Lack of dedicated weather station network. IMD does not work exclusively on agro-meteorological services. It has other functions to take care of such as aviation, weather forecasting etc. So a focussed weather station network for agriculture at mandal/tehsil level is much needed for capturing the true losses incurred by farmers.

### **Weather-Based Crop Insurance**

The weather based crop insurance scheme (WBCIS) to protect farmers against adverse conditions of weather parameters like rainfall, temperature, frost, humidity, etc., was first implemented during kharif 2007 in Karnataka and then extended to 12 states during rabi 2007-08. The scheme was continued during 2008-09. Insurance cover is now

also available to farmers growing horticultural crops. According to the government-run Agriculture Insurance Company, 1.2 million farmers in the country have opted for weather-based crop insurance. Of these, one million farmers from 12 states have opted for the government's weather-based crop insurance scheme launched two years ago. These farmers have so far paid ₹60 crore in premiums. The government paid another ₹125 crore as subsidy. The total claims under the scheme for kharif 2007 and Rabi 2007-08 amounted to ₹140 crore.

### **Growth in Demand for Crop Insurance Products**

- ▶ Evidence is accumulating of connections between climate change, and the increasing incidence of crop damaging weather events of extreme severity.
  - ▶ Farming is becoming steadily more commercialized, with greater levels of financial investment. Farmer/investors and their banks will frequently examine the feasibility of using a financial mechanism i.e. insurance, in order to address part of the risk to their financial investment. As a part of this trend to commercialisation greater use is now being made
- of contract farming arrangements, where insurance is one of many services provided, along with inputs, to growers. In summary, there is a trend to formalise risk management in farming, with insurance being one obvious mechanism which can be harnessed for this task.
- ▶ The World Trade Organization (WTO) regulations generally forbid governments from subsidizing agriculture directly; however, they permit the subsidization of agricultural insurance premiums. For those countries wanting and able to effect transfer payments into their farming sectors, insurance provides a convenient channel for doing so. In the face of this WTO regulation, it is clear that demand for crop insurance will increase in those economies that wish to implement a policy of permitted subsidization of their farmers.
  - ▶ The dynamism of the farming sector, and its environment, is reflected in developments in the design of new insurance products. In the last decade two types of new products have been introduced. In some cases these have partially displaced existing covers; in others they have resulted in demand from new clients. The products are

firstly, Crop Revenue products, secondly, Index or Derivative products.

- ▶ Accidental introduction of exotic pests/diseases is something which concerns all countries where agriculture is an important part of the economy. Insurance can address the risk of a breakdown of these measures.
- ▶ Insurance can also assist in managing the on-farm production risks consequent to changes in pest management practices. Such changes are increasingly required in order to address environmental protection and food safety concerns.

Many of these apparently diverse influences have a major common theme. This is that any insurance arrangement will involve not only the farmer and the insurer, but also important third parties. Consideration is now given to these changes to the business of farming, and to how they have increased demand for crop insurance, or might be expected to do so in the future.

### **Conclusion**

Since government support is crucial for the viability of the farm

insurance business novel ways must be found to provide this. Apart from the direct subsidy on the premium, the state support could be in the form of reimbursement of administrative costs, provision of reinsurance support for more hazardous crops and incorporation of other forms of profitable rural businesses in the insurance products to cross-subsidise crop insurance. Besides, since many banks use insurance as collateral for agricultural loans, they adjust the compensation against the farmers' outstanding dues, and, in reality, benefit from it, they may also be roped in to share part of the premium burden.

An in-depth study of the various crops (horticultural and agricultural) grown in the country and the Associated weather risks is the need of the hour, inviting global tenders for installation and maintenance of weather stations in PPP (Public Private Partnership) model, Satellite imagery of Normalized Difference Vegetation Index (NDVI) can be used to assess crop growth stages, amount of loss in harvest etc., and effective management of the crop and price risks may also be very helpful to increase the spread of insurance cover.



# THE MEGHALAYA CO-OPERATIVE APEX BANK LTD.

**HEAD OFFICE : SHILLONG**  
**(Government of Meghalaya Sponsored Bank)**  
**Estd. 16th February, 1971**

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**Website : [www.mcab.gov.in](http://www.mcab.gov.in)**

A premier State Cooperative Bank in the North-Eastern Region having democratically elected Board of Directors since inception and managed by professionals.

## FINANCIAL HIGHLIGHTS

(As on 31.03.2008)

(As on 31.03.2009)

• Paid up Share Capital & Reserves	: Rs. 6615.30 Lakhs	Rs. 8425.65 Lakhs
• Deposits	: Rs. 71947.65 Lakhs	Rs. 79279.24 Lakhs
• Loans & Advance	: Rs. 19388.52 Lakhs	Rs. 20549.81 Lakhs
• Investments	: Rs. 22613.15 Lakhs	Rs. 27804.26 Lakhs
• Net Profit	: Rs. 202.77 Lakhs	Rs. 352.00 Lakhs
• Working Capital	: Rs. 86408.26 Lakhs	Rs. 97942.73 Lakhs

## Our Banking Products & Services

- *Current Deposits*
- *Savings Bank Deposits*
- *No Frills Savings Deposits*
- *Fixed Deposits*
- *Recurring Deposits*
- *Monthly Income Deposits*
- *Double Benefit Scheme*
- *Cash Certificates*
- *Fixed Deposit linked with Recurring Deposits*
- *Housing Loan Linked Deposits*
- *Children Education Deposits*
- *Crop Loans for Agriculture through KCC / SHG / Cooperatives*
- *Term Loans for Agril. & Allied Agriculture*
- *Aquaculture Development One Thousand Ponds Scheme*
- *Loans for Housing / Housing Complex*
- *Loan for SRT0*
- *Consumer Durables Loans*
- *Loans to Technocrats & Professionals*
- *Loans to educated unemployed youths*
- *Cash Credit & Overdraft Facilities*
- *Loans for Children Education*
- *Integrated Village Development Scheme*
- *Term Loan for Tourism Development*
- *Personal loan to salary earners*
- *Bank Guarantee*
- *Safe Deposit Lockers & Other Ancillary Services*
- *Loans to Tribals under NSTFDC Schemes*

## BRANCHES ALL OVER MEGHALAYA

THE BANK WITH A MISSION

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**Managing Director**

**Mr. Mukul Das**  
**Ex-MLA**  
**Vice-Chairman**

**Mrs. R. Warjri**  
**Ex-MLA & Former Minister**  
**Chairperson**



## THE GUJARAT STATE COOP. AGRICULTURE AND RURAL DEVELOPMENT BANK LTD.

489, ASHRAM ROAD, AHMEDABAD 380 009. Email: gscardb@gmail.com

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**Fax: 2658-1282/8269**

**Gram: "KHETI BANK"**

The Bank was established in 1951 to extend long term and medium term loans to farmers for agriculture and allied agricultural activities through 176 branches and 17 district offices located at each taluka places and district places respectively in the State of Gujarat. The Bank has significantly contributed towards rural development of Gujarat since inception by advancing Rs. 2647 crores long term loans to 7,49,746 farmers for agriculture and allied agricultural activities up to 31.03.10.

### The Bank finances for :

<b>Farm Mechanisation:</b>	Tractor, Thresher set and other implements etc.
<b>Horticulture / Plantation:</b>	Mango, Chickoo Plantation etc.
<b>Animal Husbandry :</b>	Dairy development, Cattle rearing, Cattle sheds, Bullock cart, Sheep & Goat rearing, Poultry, Sericulture, Fisheries etc.
<b>Land Development :</b>	Land levelling, Land reclamation etc.
<b>Non Farm Sector:</b>	Small scale industries, Cottage industries including service sector, Rural housing, SRTOs, Rural godowns, APMCs, Cold storage etc.
<b>Minor Irrigation:</b>	Construction/repairs of irrigation well, Shallow tube well, Deep tube well, Installation of pumpsets, Pipelines, Lift irrigation, Drip irrigation, Check dams, Sprinkler irrigation etc.
<b>Kissan Credit Card:</b>	KCC for Purchase of Fertilizers, pesticides, equipments and maintenance, and payment of electricity bills etc. It is a medium term credit requirement of its borrowers who are regular in their repayment obligation to the Bank.

#### Bank accepts FD for 1 year and above at following rate of interest.

1 year 9% p. a    2 year and above 9.25% p. a.    Double 94 months

For Senior Citizens:- 0.5% more interest. Double 89 months

### Salient Features :

1. Interest payable: Quarterly / half yearly and yearly as per demand.
2. Monthly Income Scheme is available.
3. TDS is not deducted on maturity of FDs.
4. FD outstanding as on 31.3.10 is within the own fund limit.
5. All the loans issued by the Bank are theoretically recoverable since they are secured by registered mortgage of land and as such FDs mobilized by the Bank are fully secure.
6. Loan against FD to the extent of 75% of FD is available.

Dividend on share is regularly paid to share holders.

**FOR FURTHER DETAILS PLEASE CONTACT US OR OUR BRANCHES OF THE BANK IN THE STATE**

**Shri Kanubhai M. Patel**  
Chairman

**Shri Gorabhai H. Desai**  
Vice Chairman

**Shri V. M. Chaudhari**  
MD (Incharge)

## NEWS & NOTES

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### **NABARD to set up common core banking infrastructure for rural banks**

National Bank for Agriculture & Rural Development, (Nabard), has decided to create a common core banking infrastructure for rural co-operative banks, which have been losing out heavily in competition to commercial banks in the absence of modern banking facilities in their bouquet. The development bank, which regulates rural credit cooperative banks, is even contemplating floating a subsidiary or a separate division to carry this endeavour forward. The country has a multi-tier rural co-operative credit structure with 31 state co-operative banks at the top across states and some 370 central co-operative banks below them. They are active in small towns and the interiors and cater mostly to the

poorer section of the population. These banks control around 85% of the co-operative credit in the country. But as they fail to retain old depositors due to the lack of modern banking facilities, it becomes difficult for them to sustain the growing farm loan demand. This has prompted Nabard to step in.

Under this initiative, Nabard will engage a common service provider for CBS implementation in participating banks and build a common data centre and a disaster recovery centre for them. Banks willing to participate will have to cough up ₹10,000 per branch as earnest deposits and they would need to pay for using the new CBS platform later on.

### **80% households will be linked to banking network in 5 years: CII**

The financial inclusion drive initiated by the government will bring in 80% of households into formal banking network in the next five years from the existing level of 47%. It is expected that formal financial penetration will increase

from the current 47% to 80 % in five years. The financial service providers would be able to unlock a hitherto untapped profit opportunity of ₹3,500 crore per annum by the fifth year. The current level of financial inclusion



at 47 % of the total households is an improvement over the statistic of 35% five years ago. It expressed concern that more than half of Indian households do not have access to products such as remittances, savings and credit. During this year, banks will cover 20,000 villages & the remaining will be covered during 2011-12. With

the inclusion of vast population into formal banking system, the government will be able to reduce leakages and corruption in the delivery of payments. The report opined that financial inclusion is poised to happen, not because it is politically correct, but because it will soon be economically correct as well.

### **Redressal of Customer Grievances**

The complainant, an ex-employee of the bank, alleged that the saving bank account was unilaterally put on hold by the bank without citing any reason for the same. As a result, a cheque issued by him bounced. The bank submitted that the complainant's account had since been 'de-frozen' and the charges in respect of the cheque return would be reversed. The bank, however, could not give a convincing reply for freezing the account and did not furnish any documentary evidence as to under whose orders the account was frozen and for what purpose. Banking Ombudsman (BO) observed that the bank's action of not issuing a notice to the complainant for freezing the account and subsequently dishonouring the cheques issued by him, was not fair and not in accordance with the practice of banking. It tantamount to high

handedness and the deficiency in service was thus established. The bank was directed to pay ₹5,000 as compensation.

Loss of cheque from cheque drop box: Complainant X, an SB account holder with bank A, had dropped a cheque for ₹50,000 drawn on bank B in the cheque drop box of the bank A as advised by the staff. The proceeds of the cheque in question was collected through clearing by bank C after opening an account purportedly in the name of X which was subsequently withdrawn. Bank A submitted that the list of instruments deposited on the relevant date did not contain the details of the disputed instrument. The collecting bank C stated that it had collected the proceeds of the instrument to the account of its customer through clearing and the account of the customer was opened by adhering to KYC norms

prescribed by RBI and also according to the bank's internal guidelines. After considering the submissions made by all the parties, the BO observed that bank A had contributed to the negligence in so far as not displaying mandatory instructions issued by the RBI on the cheque drop box with regard to the option of dropping the cheque in the box or tendering the instrument at the counter for obtaining acknowledgement. Further, the collecting banker C had not followed the KYC norms in opening the account in the name of the new customer and allowing withdrawal soon after collecting the high value cheque for ₹50,000, particularly when the account was opened with initial deposit of ₹200 only 3 days before depositing the cheque. BO, therefore directed both the banks to share the loss suffered by the complainant equally and pay a compensation of ₹6,000.

**Wrong credit of cheques sent for collection:** The complainant alleged that five cheques amounting to ₹46,100 deposited

with the bank for collection were wrongly credited to a Government account. In spite of repeated assurance given by the bank, the amount was not re-credited for almost 20 months. The bank was directed to credit the amount together with interest at the term deposit rate to the complainant's account for the period he was out of funds.

**RTGS issues:** One complainant had initiated two RTGS remittances from one bank to his loan account with another bank. The debit status was successful but the credit status was 'returned / unpaid'. Due to technical problem at RBI level, the originating bank transferred the funds on the next working day only and as such, the destination bank charged penal interest in his loan account for the delay in credit to his loan account. As per the terms and conditions applicable to RTGS members, the liability of RTGS operator (RBI) is excluded for system failure. The complaint was closed accordingly.

### **Bank management has discretion to reject VRS for officer: Supreme Court**

The management of a nationalised bank has the discretion either to accept or reject an employee's request for voluntary

retirement under the Voluntary Retirement Scheme (VRS) and he cannot claim a mandatory right that his request should be

accepted, the Supreme Court has held. The court said: "The object of the Scheme was not to reward the good officers or to punish the bad ones. Even though depending upon personal circumstances, VRS might have appeared to some individual officers as personally beneficial, it was not envisaged by the bank as a means to give personal rewards or to punish individual employees by granting or refusing to grant VRS to them."

The Bench set aside an Allahabad High Court judgment quashing the decision of the Indian Overseas Bank not to accept the VRS request of respondent-officer Tribhuwan Nath Srivastava holding that the bank had no absolute discretion to reject the request under the IOB Officers/Employees Voluntary Retirement Scheme 2000, which remained in operation for five weeks from December 15, 2000 to January 19, 2001. Writing the judgment, Justice Alam said: "The objective of the scheme as stated in the circular issued by the bank was to adopt measures to have optimum human resources at various levels in keeping with the business strategies, skill profile to achieve balanced age and requirement of the bank." On the respondent's contention that the bank had considered the request of even ineligible employees but not

his, though he had an exemplary record, the Bench said, "The grant of voluntary retirement to an employee who may not be strictly eligible under the scheme may not improve the claim of another applicant who might not only be eligible but with highly superior credentials."

"Other things being equal between two applicants, the bank would like to let go the one with the inferior service record and lower potential and, consequently, it would accept the application of the officer with the lower merit and may not accept the request of the officer with superior merit. This is for the simple reason that in the process of shedding surplus manpower no organisation would like to lose its best people. "We are not unconscious that the denial of request for voluntary retirement to an officer in practice may result in souring of relationship between the concerned officer and the bank [as it actually happened in this case] and as a consequence the concerned officer in future may not show the same competence and efficiency in the discharge of his duties for which he was sought to be retained in service. "But that is a matter of personnel management and the competent authority is expected to factor in such considerations while taking a

decision on individual applications. Such considerations would certainly not be a ground for the court to interfere with the decision of the competent authority. From a purely subjective point of view, the decision of the competent authority may appear to be 'unfair' or even a 'punishment' to the officer with the superior merit. Nevertheless, it would be the proper and reasonable exercise of discretion in view of the basic objective of the scheme. Such

considerations would certainly not be a ground for the court to interfere with the decision of the competent authority." The Bench held that in this case the bank had properly appraised the respondent's claim for voluntary retirement and its decision not to accept the request was within the legitimate exercise of discretion that did not warrant any interference by the High Court.

### **Real Interest Rate**

Real interest rates are interest rates adjusted to the rate of inflation to an economy. Real interest rate shares are inversely proportional with the rate of inflation. Higher the inflation, lower will be the real interest rate and vice-versa. Due to high head inflation in India, the gap between nominal and real interest rate is wide, and a negative or very low

interest rate is detrimental to an economy. For example, if one is earning 6% interest per year on the savings in one's bank account and inflation is currently 4% per year, then the real interest rate one is receiving is 2% ( $6\% - 4\% = 2\%$ ). The real value of her savings will only increase by 2% per year, when the purchasing powers is taken into consideration.

### **25 paise to be withdrawn from circulation**

Finance Ministry will be withdrawing from circulation coins of denomination of 25 paise and below, with effect from June 30, 2011. From June 2011, these coins shall cease to be legal tender for payments as well as on account. The procedure for call in shall be notified separately by RBI. The minimum denomination coin acceptable for transaction will be

50 paise from that date. The coins will be exchanged at the branches of these banks as also the offices of the Reserve Bank till the close of business on June 30, 2011. Also, in accounting, i.e. the entries in books of accounts, pricing of products/services/taxes shall also be rounded off to 50 paise or whole rupee from that date.

## **Asset Liability Management**

It is about managing and balancing the risks arising out of a bank's assets - loans and liabilities - deposits. Various kinds of risks that banks have to manage include credit risks, market risks - which include interest rates - and liquidity risk management. Banks have to follow the guidelines prescribed by the Reserve Bank of India. The RBI rules, in turn, are based on the norms followed globally as prescribed by the Bank for International Settlements, a body of central banks from across the world. Three pillars of Asset Liability Management (ALM) involve information systems, the organisation and ALM processes. The problem of ALM is addressed by analysing the behaviour of asset and liability products in top branches accounting for significant businesses and then, making calculated assumptions about the way in which assets and liabilities would behave in other branches.

The RBI mandates that the bank board concerned should have the

overall responsibility for management of risks and should decide on the risk management policy of the bank and set limits for liquidity, interest rate, foreign exchange and equity price risks. The Asset Liability Committee (ALCO), including the chief executive of the bank, should ensure adherence to the limits set by the board. ALCO is a decision-making unit responsible for balance sheet planning from risks - return perspective, including the strategic management of interest rate and liquidity risks. The business issues that an ALCO considers, among other things, include product pricing for both deposits and advances, desired maturity profile of the incremental assets and liabilities. ALCO is mandated to articulate the current interest rate view of the bank and bases its decisions for future business strategy on this view. In respect of the funding policy, for instance, its responsibility would be to decide on source and mix of liabilities or sale of assets.

### **Classification of Assets**

In any banking system, loans or assets created by lenders are divided into several qualitative categories. In simple language, the categories reflect how good or bad

an asset is in terms of the possibility of default in repayment of loan from a borrower. This practice is known as classification of assets, which helps banks to

know the strength of its credit portfolio. If there is a risk of non-payment of loans or defaults, banks would start focusing on their credit monitoring act and take corrective measures. According to classifications, banks make provisions to take care of the fallout of a default.

The central bank has classified assets into four broad categories viz. standard assets, sub-standard assets, doubtful assets and loss assets.

**Standard asset** - Asset where borrowers pay their interests on the loan as per the schedule is a standard asset. Such an asset is not an NPA (Non Performing Asset).

**Sub-standard asset** - A sub-standard asset is one which has remained an NPA for a period less than or equal to 12 months. An NPA or a nonperforming asset is one where a borrower fails to pay the interest on the loan for three consecutive months.

### **Taylor's rule - Balancing rate with inflation**

Taylor's rule is essentially a monetary policy rule for central banks. It prescribes the degree of change in interest rate by a central bank in response to the change in inflation and a country's gross

**Doubtful asset** - An asset would be classified as doubtful if it has remained in the sub-standard category for a period of 12 months.

**Loss asset** - When banks see little possibility of recovering the loan, it becomes a loss asset for the bank. Banks or auditors consider this as a loss for the bank.

Provisioning requirements for these assets - For loss assets, if kept in the book of banks, 100% of the outstanding has to be provided for. For secured doubtful assets, if the loan asset has remained in the 'doubtful' category for 1 year, then the provision requirement is 20%. If it has stayed there for a period of 1-3 years, it calls for a provision requirement of 30% & beyond 3 years, provision requirement is 50%. The unsecured portion of doubtful assets needs full provisioning (100%). For sub-standard asset, the provision requirements is 10%.

domestic product from their expected levels. In 1993, John Taylor, an economist at Stanford University in the United States, spent some time observing the behavior of the Federal Reserve



Bank of America's Federal Open Market Committee (FOMC). Taylor's observations led him to put forward what has become known as the Taylor Rule.

The rule recommends a relatively high interest rate or a "tight" monetary policy when inflation is above its target or when output is above its full-employment level, in order to reduce inflationary pressure. It recommends a relatively low interest rate "easy" monetary policy in the opposite situation, to stimulate output. Taylor explained the rule in simple terms using three variables: inflation rate, GDP growth and the interest rate. If inflation were to rise by 1%, the proper response would be to raise the interest rate by 1.5% (it doesn't always need to be exactly 1.5%, but being larger than 1% is essential). If GDP falls by 1%

relative to its growth target, the proper response is to cut the interest rate by 0.5%. It suggests that the Federal Fund should raise federal funds rate to one-half per cent over the extent to which inflation has exceeded the target, and to lower the rates to one-half of the percentage over the level so that real output falls below its potential. It is widely believed that central banks have paid close attention to this formula.

A lot of analysts find there is a correlation between economies that align their monetary policies according to the rule and how they kept their inflation under control. In reality, decision makers could not stick rigidly to such a rule because sometimes circumstances might dictate the need to apply discretion as was the case.

### **Electronic Clearing**

Months after the Reserve Bank of India (RBI) introduced the new guidelines for the Cheque Truncation System (CTS) in the National Capital Region (NCR), some customers have had a nasty surprise. Many cheques started returning to issuers, due to alterations and over-writing in them. The CTS is an online image-based cheque clearing system where cheque images and Magnetic

Ink Character Recognition (MICR) data are captured at the collecting bank branch and transmitted electronically. In this process, the existing system of settlement of payment on the basis of physical cheque movement is eliminated. The technology was introduced in the NCR and will be subsequently implemented in Chennai and in other places like Mumbai. This will minimise the scope for frauds and

provide benefits to both banks and the customers. As a result, any cheque which has over-writing or other corrections will be returned to the issuer of the cheque. However, changes or correction can be done on dates and for any other changes, one needs to issue a fresh cheque. The cheque images captured at the presenting bank in the NCR are transmitted to the clearing house for onward transmission to the payee or drawee bank. It is the responsibility of the drawee bank to capture the inward data and images and generate the return file for unpaid instruments.

CTS reduces the scope for clearing-related frauds and minimises the cost of collection of cheque. Globally, CTS is being practised across many countries for faster clearing of cheques. The RBI has given a directive to banks prohibiting alterations/corrections on cheques cleared under the image-based CTS. The central bank has also clarified that rule does not apply to cheques cleared under other clearing arrangements such as MICR clearing, non-MICR clearing, over-the-counter collection (for cash payment), or even for direct collection of cheques outside the Clearing House arrangement. Realisation of proceeds of cheques can be done the same day itself and not 3-4 days

which is currently the case across the country. For inter-city cheques, it takes two days for the clearance. CTS is more secure and is protected by a comprehensive Public Key Infrastructure-based security architecture which incorporates basis security and authentication checks such as dual access control. It is more secure a system and does not create any delay or inconvenience to the customer in case the cheque is lost in transit.

Bankers say customers should use a dark-colour black ink pen while drawing the instruments and utmost care must be taken while using the rubber stamp and it should not be used on the printed code of the instruments. "People usually sign near the correction as that is what has been done for many years. But with CTS, a cheque which has an alteration, even with a signature beside the alteration the bank will not accept the cheque and instead return it to the customer," says a banker. Customers will have to be careful while issuing cheques for credit card payments, utility payments, insurance and investments, as most of them are linked to late payment fees. To avoid any late payment charges, they must pay well before time so that in case the cheque is returned, the customer will have enough time to issue a fresh cheque.

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## **MADHYA PRADESH STATE COOPERATIVE AGRICULTURE & RURAL DEVELOPMENT BANK LTD.**

**8, Arera Hills, Old Jail Road, Bhopal - 462 004.**

- The MPSCARDB provides long term loans to agriculturists through its affiliated Distt. ARDBs in the State for various agricultural and rural development activities like Minor Irrigation Schemes, Dry Land Farming, Land Development, Wasteland Development, SGSY, Organic Farming, Horticulture Development, Aromatic & Medicinal Plants, Farm Mechanisation, Dairy Development, Fisheries, Poultry, Bio-gas Plants etc.
- The Bank also disburses long term loans under Non-Farm Sector mainly for setting up of Cottage and Village Industries, SRTTO, Establishment of Milk Chilling Plant, various service sector activities in rural areas, for Clinic, Nursing Home and Pathology, Radiology etc.
- To facilitate availability of loans to farmers at nearby place, the affiliated 38 Distt. ARDBs have opened 352 Branches in the State.
- The Bank has, so far disbursed long term loans of Rs. 2828.08 crores to 9,48,010 farmers from its inception in 1961.
- The Bank also accepts Term Deposits from Individuals & Institutions for the period of one year & above. All Distt. ARDBs in the State accept FD on behalf of MPSCARDB in various Schemes i.e. Fixed Deposit, Double Deposit, Recurring Deposit etc.
- Under Agriculture Debt Waiver & Debt Relief (ADWDR) Scheme 2008 the waiver amount of Rs. 338.19 crores for 1,16,491 small & marginal farmers have been waived and relief to 43,294 farmers of Rs. 66.61 crores.

### **Financial Particulars of the Bank as on 31<sup>st</sup> March 2010**

(Rs.in crores)

1. Paid up Share Capital	:	Rs. 48.98
2. Reserve and other funds	:	Rs. 258.05
3. Debentures in circulation	:	Rs. 1139.44
4. Fixed Deposit	:	Rs. 123.37
5. Loan Disbursed During the year	:	Rs. 70.45
6. Loan Outstanding	:	Rs. 1211.94
7. Investment	:	Rs. 60.89
8. Working Capital	:	Rs. 1583.79

**Prakash Khare**  
Managing Director

**Kishan Singh Bhatol**  
Chairman

## AGRICULTURAL NEWS

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### **Eradicating a Serious Pest in Brinjal**

In spite of being popular as a poor man's vegetable, brinjal often gets affected by the shoot and fruit borer that are common pests affecting all brinjal growing areas in the country and continue to pose a serious problem to the farmers," says Mr. P. David Raja Beula, Assistant Director of Horticulture, Kadayam, Tirunelveli, Tamil Nadu.

The larvae bore into the tender shoots and fruits, affecting plant growth and make the fruits unfit for marketing. Farmers repeatedly spray several chemicals, or in case of organic methods use the required bio applications on the crop. "But complete control or eradication does not seem possible as the larvae hide in the shoots and fruits and escape the sprays. Naturally farmers tend to over-spray thinking that more spraying effectively controls the pest," explains Mr. David. Repeated spraying burns a big hole in the already poor farmers' pocket. In addition to the financial cost incurred for buying the chemicals, excessive application creates a negative impact on the environment, in the harvested vegetables, and poses serious risk to consumers. "During one of my usual field visits I happened to see

the normal light traps in the fields for attracting and destroying the insect pests and thought of using the same technology for the brinjal problem." Accordingly, after a little modification Mr. David installed two wireless light traps as an experiment in a farmer's field and found that the pests (larvae) got attracted to the bright light and fell into the trap.

"He then needed to demonstrate this to farmers lacking previous experience of using a light trap to kill the pest. They knew that convincing them in a single interaction would prove difficult. He decided to first demonstrate this technology in a farmer's field and then make him talk to others. Accordingly a farmer from a nearby village got the traps installed in his field. The farmer grew a local variety of brinjal. The collection of the pest, which started from three moths gradually (the moths fly into the field during night to lay its eggs on the plant) increased to 500 moths, reducing the pesticide spray from once in seven days to once in 15 days and finally once in 30 days. "This reduced the cost of pesticide consumption from ₹10, 000 per

acre to ₹7,000 per acre. The wireless light trap costs only ₹ 500 per piece, and two traps are sufficient for an acre. The farmer is able to save ₹3, 000 on the cost of pesticide by this,” he says. After

erecting the light traps the farmer harvested about 10 tonnes from an acre. The wireless light traps can also be used to control pest in other crops in our country, according to Mr. David.

### **Kalam Lauds 9% Growth of Gujarat's Farm Sector**

The agricultural growth rate of over 9 % a year in Gujarat, more than three times the national average, has attracted special praise from former President, Mr. A.P.J. Abdul Kalam, who said the example should be emulated by other States. “Recently, I was in IIM-Ahmedabad where specialists from the Centre for Management (CMA) in Agriculture presented to me the reasons for high growth rate of agriculture GDP attained by the State (Gujarat) during the past few years. I am sure the experience could be useful to many other States. They highlighted how the agriculture of the State has been consistently growing over 9% a year, more than three times the national average,” the noted scientist said.

Mr.Kalam said the CMA experts attributed Gujarat's success story to rural electrification reforms, as exemplified by the establishment of a dedicated grid for agricultural applications, which has also helped reducing losses due to pilferage of power. In addition, the State has

embarked on an integrated water management scheme for irrigation purposes, which involves the creation of more than 2.4 lakh farm ponds and ensuring their sustainability through desilting and recharging. Furthermore, the Gujarat government has started an annual Krishi Rath Yatra to educate farmers on seeds, irrigation, crop patterns and technology. In 2010, the month-long yatra travelled through 26 districts of the state. Of course, at all stages, with the increase in agricultural produce, stability of the price is managed by opening export of agricultural produce.

The former President also pitched for a second Green Revolution to meet the country's growing food needs and asked farm scientists to work alongside farmers for increasing the nation's agricultural output. Farm scientists shall work hand-in-hand with the farmers by developing farmer-friendly technologies to help them multiply agri-produce many times.

## **Systematic Investment in Agriculture Key to Poverty Alleviation**

The correlation between agricultural investment, agricultural growth and poverty alleviation has been well researched, not just in India but across the world. Growth originating from primary agricultural activities is at least twice as effective in poverty alleviation as growth from non-agriculture sectors. This is not surprising since 75% of the poor in developing countries live in rural areas and their incomes are directly or indirectly linked to agriculture. However, the annual increment to gross capital formation in agriculture in India is now lower than in the early 1980s. This situation calls for an urgent need to increase investments in development of agriculture so as to augment social equity and stability.

The FAO-estimates indicate that global agricultural production needs to grow 70% (majority in developing countries) by 2050 in order to meet projected food demand. This calls for developing countries to increase annual gross investment in agriculture by a whopping 50% from \$142 billion invested annually in the last decade to \$209 billion. Ironically, global trends indicate that investment in agriculture has been steadily

declining since the 1970's. This is reflected in the fact that the rate of growth of Agricultural Capital Stock (ACS) in the world fell from 1.1 % in 1975-1990 to 0.50 % in 1991-2007.

Agriculture in India is facing a crisis on multiple dimensions and is impeding rapid economic growth and equity distribution. Public investment in agriculture, in real terms, had witnessed a steady decline from the Sixth Five-Year Plan onwards. With the exception of the Tenth Plan, public investment has consistently declined in real terms (at 1999-2000 prices) from ₹64,012 crore during the Sixth Plan (1980-85) to ₹52,107 crore during the Seventh Plan (1985-90) , ₹45,565 crore during the Eighth Plan (1992-97) and ₹42,226 crore during Ninth Plan (1997-2002). Private sector investments in any sector are primarily drawn by the prospective returns in manageable risk environments. Given this scenario the agricultural sector should have attracted higher private investments since the terms of trade have favoured agriculture over manufacturing consistently since 1995. However, while private investment in Indian agriculture has grown at a greater rate than



public investment, existing levels of private investment is not enough to fill the gap due to decreased public investment. Further, decreased public spending in creation of supporting infrastructure in rural areas has discouraged private investment in this sector.

In addition, factors such as frequent regulatory changes, absence of a free market system in agriculture and trade distorting regulations have bred inefficiencies in the sector deterring private investment. Further, in areas within the agricultural sector where private investments have been active, lack of accompanied investments by the public sector has restricted growth. Given the fact that the country's social and economic stability is largely dependent on robust agricultural activity, and investment in agriculture is an effective means of poverty alleviation, there is an urgent need to direct agricultural investment into strategic focus areas that would catalyze growth in capital formation and thus foster overall development of the sector. Some of the key action steps in this direction include:

- ▶ Investment in General Services: - The investment in "General Services" is sector wide and covers institutional services like research and development, education, inspection, marketing and rural infrastructure.
- ▶ Increased investment in Rain-fed Areas:- A major share of agricultural investment in the past has been in well endowed irrigated areas. There is a need to realign investment into rain-fed areas. About two-thirds of farming in India takes place in rain-fed areas and it is essential that the next "Green Revolution" is taken to this front.
- ▶ Private Sector Participation: - In order to generate efficiencies and for commercialization of farming, the participation of the private sector is an absolute requirement. Private investment should be encouraged across all section of the agricultural value chain through creation of an enabling environment.

### **Two Pest-Resistant Groundnut Varieties**

The Junagadh Krushi (Agricultural) University, 100 km from Rajkot, has come up with two varieties of groundnut that are pest

resistant and have higher yield. According to Dr K.L. Dobariya, Research Scientist, one of the varieties (GJG-9) can be sown as a

kharif crop, while the other (GJG-3) as summer kharif. (Summer kharif planting takes place towards January-end and harvest is done in May). Both the varieties can yield on an average 3,400 kg a hectare and with shelling being 29%.

Dwelling on lower groundnut output in the last couple of years, Prof Dobariya said the main problem is groundnut is cultivated more during kharif. The main drawback is that in kharif, 80 % of the area

under groundnut is rain-fed. Due to this, the production gets affected. Adding, summer kharif is the ideal one for growing groundnut, particularly in irrigated areas. The research station so far released 20 high yielding varieties suitable for different agro-climatical conditions such as in Rajasthan, Punjab, Haryana, Uttar Pradesh, Tamil Nadu, Karnataka, Maharashtra, Madhya Pradesh and Andhra Pradesh.

### **New Norms for Maharashtra Micro Irrigation Scheme**

Farmers in Maharashtra will be able to get their grant directly, for setting up micro irrigation systems in their farms. With the new guidelines, State Government would disburse the grant only to farmers and not to the companies supplying drip and other micro irrigation equipment. Under the existing guidelines, the State Government transfers money to the companies upon installing drip irrigation equipment in the farms. But this practice has led to corruption and inflated equipment cost, which the government has been bearing for years. The new guidelines will empower the farmers, price discovery would be transparent and they (farmers) could even beat down the price. The scheme covers farmers having farm size up to 12.5 acres.

All categories of farmers are covered under this scheme and about 25% of the beneficiaries are small and marginal farmers.

Under the new guideline, the farmer should be given the grant through an Electronic Clearing Service or an account payee cheque. A government servant is not eligible for the scheme. In this scheme, about 40% of the total cost is borne by the Central Government, 10% by the State Government and the remaining 50 per cent by the beneficiary farmer either through his own resources or soft loan from financial institutions. At present, companies commence the process of laying the equipment in the farms, usually by September but the money is not

claimed immediately. A number of claims are bunched together and submitted to the local government office just before the closing of the financial year, "As the government officers are most keen to spend all their funds at the year-end, the claims made by the companies

escape scrutiny," he said. At times companies design and install larger drippers where actual need is half of the designed capacity, thus hiking the price of their product. With the new guidelines the farmer would be in a better position to spend his grant.

### **Chickpea Cultivation holds Promise**

Chickpea (*Cicer arietinum*), the third most important food legume of the world is commonly known as 'chana' and Garbanzo beans. It contains 25% proteins, which is the maximum among pulses and 60% carbohydrates along with significant amounts of molybdenum, zinc, folate, manganese and dietary fibre. Chickpea is used as an edible seed and is also used for making flour throughout the globe. This crop, mainly cultivated in rabi season, has the capacity to withstand drought conditions. Two types of chickpea are produced namely 'Desi' and 'Kabuli', which are classified on the basis of the seed size, colour and taste. About 20-25 % of the chickpea production in the world is Kabuli and the remainder is Desi. Chickpeas are also used as a vegetable and in preparing a wide variety of snack foods, soups, sweets, and condiments. Smaller size Kabuli chickpeas are used whole, de-hulled and split to produce dal, or ground into

fine flour called besan. In West Asia, consumption is based on a popular dish known as "hummus" which is produced from mashed chickpeas. In many regions, young plants and green pods are eaten like spinach.

With an estimated global production of 9.7 million tonnes in 2008-09, chickpea is grown in about 50 countries around the world covering an area of 11 million ha with an average global productivity of 881 kg per hectare. India is the leading producer of chickpea contributing to about 70 % of the world's chickpea production, followed by Pakistan (8 %) and Turkey (6 %). Yield levels are significantly higher for countries such as Yemen (2.7 tonnes/ha), Bosnia (2.6 tonnes/ha) and China (2.4 tonnes/ha).

During 2008-09, the chickpea production was about seven million tonnes, with average productivity of 894 kg per hectare. Chickpea is

produced in the semi-arid tracks including Madhya Pradesh, Rajasthan, Maharashtra, Uttar Pradesh, Karnataka and Andhra Pradesh. Madhya Pradesh is the leading producer of chickpea in India with the production of about 2.8 mt, contributing 39 % of the total production in India. Chickpea production in Rajasthan stands at 0.98 mt (14 %) and Andhra Pradesh at 0.86 mt (12 %). About 34 % of the total area under chickpea is covered under irrigation in India, with the highest irrigated fields in Madhya Pradesh (53 %) and the least irrigated in the state of Andhra Pradesh (1.5%).

Chickpea is harvested mainly in March-April. Processing of chickpea is carried out at small and medium level units or dal mills, with the end products being split chickpea (chana dal), flour (besan), puffed chickpea (phutana) and roasted dal. More than 75 % of chickpea is consumed as dal and flour in India. With a huge domestic demand, India is a net importer of chickpea and has a share of about 28 % in world chickpea import

market. India imports chickpea mainly from Australia (70 %), Canada (4 %), Myanmar (4 %), Tanzania (10 %) and the US (3 %). However, there is also a significant share of India in global chickpea exports. India exported 95,264 tonnes of chickpea in 2009-10, which included dried and shelled chickpea. Major export destinations for chickpea from India are Pakistan, Sri Lanka, Algeria, Turkey and the UAE. Although there is no direct government regulation in chickpea marketing in India following deregulation of the chickpea market, the Government continues to intervene in chickpea marketing by way of MSP (Minimum Support Price) and regulation of import policy. The MSP of chickpea for 2010-11 was raised to ₹2,100 a quintal, from ₹ 1,760 last year with a view to promote increase in area under this pulse crop, which accounts for nearly half of the total pulse production in India. State Governments have discretion to impose trade tax on the dal mills, thereby, affecting the processing of chickpea.

### **Integrated Management of Rice Leaf Folder**

Rice leaf folders are widespread and often cause significant yield loss. Outbreaks occur after prolonged drought or heavy use of

insecticides. There are four species of leaf folders occurring in Asia which are closely related to moths and can be distinguished by wing

markings. To form a protective feeding chamber, the larva folds a leaf blade together by attaching the leaf margins by silk strands that shrink upon drying. The adult moth is yellow brown in colour. When resting, it is in the shape of an equal sided triangle.

Adults hide among paddy and grass weeds during the day to escape predation by birds and only take short flights when disturbed. Adults are attracted to light at night but are seldom caught in light traps. Heavily damaged leaves become dry and exhibit scorched appearance and the grain yield and quality deteriorates.

#### Integrated management

→ Use resistant varieties such as

TNAU LFR 831311, Cauveri and Akashi.

- Keep the bunds clear by trimming them and remove the grassy weeds.
- Avoid use of excessive nitrogenous fertilizers. Set up light traps to attract and kill the moths.
- Release *Trichogramma chilonis* on 37, 44 and 51 days after transplanting (DAT) thrice followed by three sprays of monocrotophos 1000 ml / ha on 58, 65 and 72 DAT.
- Spray Neem seed extract 5 per cent at 25 Kg or fenitrothion 50EC 1.0 L or Phasolone 35 EC 1.5 L or Chlorpyrifos 20 EC 1.25 L/ha.

### **Intercropping Onion in Cabbage**

Generally farmers grow cabbage and onion separately. But Mr. Davinder Singh from Punjab intercropped cabbage with onion. In this practice, cabbage was transplanted in December and onion was transplanted in the 2nd week of January. Seed rate for cabbage was 375 gms/ha and for onion it was 2 kg/ha. The cabbage was transplanted on both sides of beds of size 2 feet. The difference between consecutive beds was also

2 feet. The onion was transplanted in lines 15 cm apart in between the cabbage lines. He used only 30 kg/ha urea in two split doses of 15 kg each through the drip lines. Only two manual weedings were done in the field. The farmer obtained about 300 tonnes/ha of cabbage and onion crop yield was additional.

For more details contact Mr. Davinder Singh, V. P. O. Nakodar, District Jalandhar, Punjab, Mobile: 098724-40130.

## **Acute Food Scarcity in India by 2020**

With the Indian Council of Agricultural Research (ICAR) projecting that India will require 30 per cent growth in rice and cereal production, 140% in pulses and 243% growth in oilseeds to feed the burgeoning population in the next 10 years, a two-day India International Crop Summit organised by the Indian Chamber of Commerce discussed food insecurity threadbare. "India needs to prepare itself in advance as acute foodgrain scarcity is likely by 2020," said Swapan K Dutta, deputy director general (crop), ICAR. The summit looked at India's position in the global crop production market and the need to meet the demands of a rapidly changing global crop production industry against the background of a world demanding 50% more food, 30% more water, and 50 per cent more energy by 2030. Dutta said though the country in 2009 produced 100 million tonnes of rice, it would require about 130 million tonnes of rice in 2020 while the requirement of wheat would reach 110 million tonnes in 2020 against production of only 80 million tonnes in 2009.

While there was demand for more foodgrain by 2020, rice yields could fall by 15 % to 42 %, wheat by 34% due to possible drought,

salinity and submergence, an ICAR report said, adding that the net agriculture revenue would decline by 12.3% if temperature changes by 2 degrees Celsius and rainfall by just 7 %. Incidentally, for the past few decades, the total cultivable land is fixed at 140 million hectares in the country. Dutta said efforts should be made to increase productivity through promotion of hybrid seeds, which are tolerant to flood, drought and salinity and take up need-based crop which are suited to local soil.

An important part of the summit was the release of ICC-YES Bank report on sustainable agriculture in India. The report showed that India is required to raise foodgrain production by more than 2 % a year to keep pace with the demand. Growth rate required in milk and milk products towards the end of 11th Five Year Plan is 3.18 %.

Achieving a four % growth in agriculture in the 11th Plan vis-a-vis the present level of two % has become critical to avert any crisis in agrarian sector and fulfill the needs of growing economy, the report stated. The report which examined whether the second green revolution aimed at eastern states as well as the north-eastern states can be



materialised if due emphasis is given to dry land agriculture. But the report cautioned against exten-

sive cropping as it could cause harm to soil and water.

### **Agri-reform to Tame Food Inflation**

Food inflation, which had touched double digits, is playing a spoiler in the otherwise robust overall GDP growth of more than 8.5%. For the poor, it is the worst form of taxation - no wonder an average person who spends roughly half of her expenditure on food feels cheated. The government realises that double-digit rate of food inflation can be economically and politically very damaging. Here are five policy steps that may help in the process of reining in food inflation.

- Deflate the stimulus package- There seems to be excess liquidity in the system, both globally and in India, as a result of the fiscal stimulus given over the last two years to ensure recovery of growth. It has delivered high growth but has also lead to commodity price inflation almost worldwide. In India, during the last two years, money supply has been growing at almost 20% per annum while agricultural production has grown by only about 3% on average. Too much money chasing too few agri-goods.

- Augment supplies of agri-products- In the short run, it can be done by releasing stocks of wheat, rice and sugar - luckily, the government has much more stocks than warranted by buffer stock norms - and reducing import duties to less than 10% on fruit and vegetables, milk and milk products, etc, where inflation rates are very high. This will give immediate relief to consumers.
- Reform the archaic mandi system- Our agri-mandi's are in a mess. The APMC has made the value chains long, fragmented and inefficient by blocking competition. The current system rewards middlemen, or commission agents, but does not benefit the farmer or the consumer. The government should invite and incentivise private sector (both domestic and foreign), cooperatives and NGOs to come up with business models that directly link the growers with processors and retailers. This needs to be combined with rationalis-

ation of taxes and fees in the mandi system. In principle, all food products should be exempt from taxes or fees at the first stage of marketing - these go up to more than 10% in the case of wheat in Punjab and Haryana. This need to be replaced by value added tax (VAT) and the states losing revenue will need to be directly compensated by the Centre. The commissions in the mandi system, especially for fruit and vegetables, need to be restricted to less than 1% compared to 6-8% in Azadpur and Vashi markets, which feed Delhi and Mumbai. Unofficially, the commissions go even higher up to 14%. This crisis of food prices should be converted into an opportunity to reform the mandi system that will go a long way in making the country's value chains efficient and, thereby, benefit both the producer and consumer.

- Set up a commercial intelligence unit for sensitive commodities- This proposed unit needs to combine information on the production status of key crops from crop forecasting division, on market price status from the marketing division, on stocks, tariffs and trade, and

global market situation, and then analyse all these to recommend policy action well in time. This should be done on a monthly basis, if not fortnightly. The rise in onion prices is a classic example of this failure in coordination despite the fact that we knew that unseasonal rains have damaged almost 70% of the onion crop in Maharashtra. We need to anticipate and act well in time, and good commercial intelligence is a pre-condition for a good policy choice.

- Bring the agriculture reform agenda on priority- The country has had two decades of reforms in industry and services sectors, but agriculture has been waiting for long for a serious package of reforms. Piecemeal efforts will not deliver. The country's agri-GDP growth is stuck at less than 3% per annum, and extremely volatile in nature. With the challenge of climate change looming large, sustainable agricultural growth will require higher investment in agri-R&D and extension, water and soil management, and also in logistics, processing, packing, and organised retailing.

The strength of the private sector that has done so well in other

sectors need to be exploited to invest in efficient food supply chains. Reforming archaic laws that restrict private sector participation need a change in the policy thinking. It is an opportunity for

policymakers to rise to this challenge and bring out a comprehensive reforms agenda for agriculture, somewhat akin to the industrial reform package of 1991.

### **Management of Charcoal Rot in Rabi Sorghum**

Rabi sorghum occupies significance importance as a staple cereal food crop for many poor families. Apart from moisture stress, diseases and pests also pose additional threat during the crop's growth period. Among the diseases, charcoal rot is the most destructive one. The disease is prevalent in both red and black soils and causes grain yield losses from 30% to 90%. The infestation is caused by a fungus. Infected plants fall on the ground due to weakened stalk. The fungus has a very wide host range like maize, soybean and several other crops and survives during off-season in the form of sclerotia

Sclerotia germinate under high soil temperature conditions of 30 degree Celsius and lower soil

moisture. High soil moisture stress and high temperature is conducive for development of the disease.

#### Disease management

- Grow drought tolerant, lodging resistant, and non-senescent types of sorghum like CSV 17, SPV 462 etc.
- Soil fumigation with methyl bromide reduces the pathogen load.
- Seed treatment with *Trichoderma harizianum* or *T. viride* at 4gm/kg seed were effective in reducing percent incidence.
- Application of neem cake, safflower cake and mulching with wheat straw reduces the disease.

### **Save Water, include Millets in PDS**

With water-friendly millets slowly going out of food chain, Millet Network of India (MNI), an association of non-governmental organizations and intellectuals across the country, has called for their inclusion in the public

distribution system (PDS) to encourage farmers grow those crops. A group of Millet Network associates met in Medak in Andhra Pradesh to discuss ways to promote these crops. The group has come out with a Medak Declaration

urging the Centre to introduce millets in the PDS system in all millet growing areas by 2015 to start with. It cites the recommendations of the National Advisory Council. The group says the programme could be expanded to the rest of the country by 2025. Millets should be encouraged as they consume less water and provide nutritious food to people.

"We need to introduce them in all anganwadi centres and mid-day meal programmes in Government

schools. Farmers growing millets should also get financial support. Besides giving them remunerative minimum support price, they should be given a bonus of ₹10,000 a hectare as they conserve water and the biodiversity. Asking for a multi-pronged support to millet farmers", MNI said agricultural operations on millet land such as ploughing, weeding and harvesting must be included in the National Rural Employment Guarantee scheme.

### **Rajarajan 1000 Method Helps Double Paddy Yield**

Rajarajan 1000, a method of cultivation that was earlier known as System of Rice Intensification (SRI), has proved to be a great success in Tamil Nadu with its use almost doubling the average yield. "The farmers receive good yield of about 8 tonnes of paddy from one

hectare against four tonnes of paddy from any other technique. The yield also comes about 15 days ahead of the usual period. The RR 1000 method had been used to raise paddy on 25,984 hectares against a target of 26,000 hectares.

### **Vietnam Model of Pepper Cultivation**

The Karnataka Planters' Association (KPA) is planning to adopt the Vietnamese method exclusive monocrop of pepper cultivation. "Pepper is grown exclusively as a monocrop in Vietnam with very high density planting on wooden poles, concrete pillars or brick pillars. A 25-member KPA delegation led by Mr Sahadev Balakrishna, Mr Marvin Rodrigues (vice-chairman) and Mr

Nishant Gurjer (convener, scientific committee) visited the exclusive pepper growing area of Vietnam as part of their field visits to the coffee and pepper growing regions. Vietnam grows more than 1.20 lakh tonnes of pepper and (Chu Se) region alone grows more than one lakh tonnes of pepper, whereas India grows a total of about 70,000 tonnes of pepper. Talking about cultivation method, Mr Marvin

Rodrigues said “Pepper is grown at a spacing of 2 metres by 2 metres which results in 1,000 pepper vines per acre. So even if a single pepper vine yields about three kg, the productivity per acre is incredibly high.” Just like in coffee, each and every pepper vine has got a basin system around the root for continuous irrigation during the

dry season and heavy application of fertilisers. Rich volcanic soil coupled with highly intensive farming which primarily focuses on continuous irrigation and heavy application of fertilisers has resulted in the success story of coffee and pepper productivity in Vietnam.

### **Management of coffee berry borer**

Coffee berry borer attack in Arabica and Robusta plantations starts from the field on developing berries and the infestation is carried over to storage with drying beans. Black coloured female beetles bore into the berries and lay about 15 eggs each. The larvae feed on the beans making small tunnels. A typical pin hole at the tip of the berries (navel region) indicates the presence of the pest. Young as well as ripe berries are attacked by this insect. Infested tender berries may fall due to injury or secondary infection by fungi. In case of severe infestations, 30-80% of berries may be affected resulting in heavy yield loss. Under storage infestations, the beetles eat away the bean content and make the produce a powdery mass.

Adult beetles are dark brown in colour. About 10-15 eggs are laid in the chambers made inside a coffee bean. Each female can lay around 50 eggs over a period of 3-7 weeks.

Larval period ranges from 15-18 days and pupal for about a week. The males are incapable of flight as they are wingless. Females leave the berries and after mating continue to infest on healthy berries. The infestation is carried over between peak of fruiting by breeding in overripe berries left on the tree or fallen on the ground.

#### Management practices

- Harvest the crop on time. Collect and destroy the left over berries. Spread gunny cloth or polythene sheets as picking mats on the ground to minimize gleanings.
- Soak the infested beans in boiling water for 1-2 minutes to kill insect stages. Heavily infested and fallen berries should be collected and destroyed.
- Regulate optimum shade by lopping the shade trees.

- Use bio control agents such as white muscardine fungus, under high humid conditions.
- Spray Endosulfan at 340ml/200 ml of water or quinalphos 0.02 % along with 200 ml of wetting agent when most of the beetles are still in the pulp before entering into the beans.
- Use only fumigated gunny bags to avoid cross infestation. Red coloured multi-funnel traps with red berry effluvia as attractant have been found to attract adults of coffee berry borer.

### **Twin challenges in agriculture**

The major challenge in the agriculture and food sector is to increase production and productivity (yield per hectare) so as to provide all citizens with food security and to contain domestic food inflation. The food subsidy now stands at about ₹82,000 crore, including the ₹12,000 crore “carried forward” from the previous year. This is expected to go up substantially, if wheat and rice are to be made available to Public Distribution System beneficiaries at ₹2 and ₹3 a kg. There is no official word yet on the number of beneficiaries, but the government will have to make a much higher food subsidy allocation. As per one assessment, about ₹4, 000 crore is required for creating the storage capacity needed to store grain under the food security bill. At the same time, money would have to be set aside for the proposed vegetable clusters. This will be in addition to

the demand for farmers' markets that sell perishables directly to consumers without the licensee or the 'cartelised system' of artiyas in mandis set up under the Agriculture Produce Marketing Committee Act. The onion crisis exposed the role of the middlemen as never before. Even when prices have fallen to ₹4 to ₹8 a kg at the traditional growing centres in Nashik in Maharashtra, the consumers are still paying up to ₹25 a kg.

In this final year of the 11th Plan, the government is expected work towards consolidation of the Agriculture Ministry's flagship programmes for enhancing farm growth. The Rashtriya Krishi Vikas Yojna, the National Food Security Mission, the National Horticulture Mission, the Integrated Scheme of Pulses, Oilseeds and Maize and the Technology Mission for Integrated Development of Horticulture in



North-East and Himalayan States have started showing results: the farm growth expected to increase from 0.2 % last year to 5.6 % this year. However, much of it is projected to come from the dairy, fishery and horticulture sector rather than from foodgrains.

With 60% farming centred in rain-fed areas that dependent on monsoon, it is imperative that higher investment be made to bring more areas under irrigation. Linked to this is the crop insurance scheme, which, even after several

years, remains at the experimental stage in a few districts and covering a few crops. This needs to be strengthened to adequately compensate rain-fed farmers for losses from the vagaries of weather. There should be higher investment in improved assessment of weather and crop conditions for timely action and management of markets. At the same time, the allocation for agriculture research and development has to be enhanced to increase grain productivity and tackle the challenges of climate change.

### **Turmeric as Intercrop Boosts Mango Yield**

Among the various diseases that attack mango crop, gummosis is of great economic importance since the trees die within a very short time. The fungus responsible for mango decline is a common soil-borne saprophyte or wound parasite, distributed throughout the tropics and subtropics. The trees show abundant gum secretion from branches and main trunk right from the tree base to tree top, wilting, dieback, vascular browning and death of several trees.

The observed gummosis in mango trees was often accompanied by damage caused by a new species of trunk borers. The grubs cause severe damage by feeding on the bark inside the trunk, boring upward, making

tunnels, thus weakening and causing hindrance to transport of water and nutrients from roots to shoots resulting in wilting and drying of the shoots.

Acting as a wounding agent and vector, the trunk borers probably assist in rapid spread of the disease in the orchard. Several chemicals tried to control mango decline show little or no success. Turmeric plantation as intercrop in mango has been found not only to assist in suppressing the population of trunk borers, termites and gummosis causing pathogens in the soil, but also provided additional income from the harvest of the rhizomes, 9 months after planting.

Turmeric root exudates or curcumin in rhizomes present in soil probably assisted in disease suppression by reducing the activity and population of trunk borer larvae and soil-borne fungus. The orchard was also found to be

free from termite attack after planting turmeric as intercrop in mango. Turmeric plantation as intercrop can find application in organic farming systems, to control various soil borne pests and diseases in several fruit orchards.

### **Ancient Inca Grain is the New Health Food**

Grown high in the Andes for Millennia, a grain the Incas so prized they deemed it sacred has become a global star and is now being touted as the health food of the future. Quinoa, a good crop for harsher climes as it prospers in semi-arid conditions and high altitudes, where rivals struggle, has nutrition experts salivating as it is chock full of protein and essential amino acids.

Quinoa was originally scorned by Spanish colonisers. At one point its cultivation was banned due to its use in what Spaniards saw as “pagan” ceremonies and the Incas were forced to grow wheat instead. Known as *chisaya mama* or “mother of all grains”, it was so revered by the Incas that the emperor would traditionally sow the first seeds of the season with special tools made out of gold. But in the past 10-15 years, quinoa (*Chenopodium quinoa*) has made major inroads in Western cuisine and is often used as a substitute for

pastas, risottos, gratins and taboules. Ever looking for healthier options, chefs and nutritionists are beginning to take notice of the ancient grain, which has a light fluffy texture and a mild, slightly nutty flavour. NASA scientists have called it exceptionally balanced and complete, and highly useful for astronauts.

Ruben Ramiro Miranda, a researcher at the University of Oruro, also sang the praises of the grain which is related to highly nutritional amaranth. Quinoa can prevent inflammation and hypertension and helps “in the development of neurons, as well as healthy breast milk”. Bolivia, South America's poorest country with around 10 % arable land, was the world's top producer of quinoa in 2009 with 30,000 tonnes or 46 % of global supply. Cotimora, at 3,700 meters, is the heart of quinoa country. It is followed by Peru, with 42 % of production and the US, with 6 %.

## **INM for Maximizing Sugarcane Yield**

In many sugarcane growing areas, the productivity of the soils has declined due to intensive cropping and lack of proper soil fertility management practices. The soil productivity can be restored through rationalized Integrated Nutrient Management (INM) involving organic manures, fertilisers and biofertilisers. Some of the INM practices recommended are Bulky organic manures like farmyard manure, compost and pressmud must be incorporated into the soil at the rate of 15 to 25 t/ha before planting. Sunnhemp green manure can be grown as intercrop and incorporated into the soil around 30 to 45 days after planting.

Soil-test based fertiliser schedules are advisable. When this is not possible, a blanket schedule of 275-65-115 kg of N, P and K can be adopted. Phosphatic fertilisers, preferably super phosphates can be applied basally or at the time of first hoeing and weeding during 30 to 45 days after planting. Nitrogenous and potassic fertilisers must be applied in four splits, first split during 30-45 days, second split during 60-75 days, third split during 90-105 days and fourth split during 120-135 days after planting.

The efficiency of urea can be enhanced by blending it with neem cake powder in 4:1 ratio, a day before application. It is advisable to apply the mixture of urea and potash fertiliser in holes of 10 cm depth at intervals of 15 cm spacing on the sides of the plant rows. 50 kg of micronutrient mixture/ha made up of 20 kg of ferrous sulphate, 10 kg of manganous sulphate, 10 kg of zinc sulphate, 5 kg of copper sulphate and 5 kg of borax may be applied basally in the planting furrows.

When the chlorotic symptoms due to deficiency of iron or zinc are observed on the leaves of the crop, 5 kg of ferrous sulphate, 2.5 kg of zinc sulphate and 5 kg of urea per hectare may be dissolved in 500 litres of water and sprayed over the foliage. If necessary, one or two more sprayings can be given at intervals of 15 days. Azospirillum and phosphobacteria biofertilisers at 10 kg each/ha may be mixed with 10 kg of compost and applied basally in the planting furrows or at the time of first hoeing and weeding during 30-45 days after planting. The soil pH must be maintained in the neutral range of 6.5 to 7.5 for the crop.

## Cardamom Need for higher productivity

Cardamom (*Elettaria cardamomum* Maton) is a perennial tropical herb and is referred to as the 'queen of spices'. It belongs to the ginger family and is considered the third most priced spice after saffron and vanilla. Cardamom is a native of India. It is used as a flavouring agent in various processed food, tonics and perfumes. It is also popularly used as a therapeutic agent. India was a leading producer of cardamom till Guatemala took over in 2002. Guatemala, with a production of 20,000 million tonnes (mt) in 2010, is the largest producer accounting for about 60 % of global production. The other major producers are India, Tanzania, Sri Lanka and Vietnam. India is second in global production with 15,500 mt in the year 2008-09, in an area of 92,000 hectares. While there has been a notable increase in the productivity in India which is around 168 kg/hectare from 53 kg/hectare in 1989-90, it still lags behind Guatemala which yields 350 kg/hectare.

There are two types of cardamom small cardamom and large cardamom. The major States growing small cardamom are Kerala, Karnataka and Tamil Nadu. Kerala accounts to 76 % of small

cardamom production with only 56% of the total area. Idukki, in Kerala is the major cardamom producing district with the prominent centres of production being Udumbanchola, Peermedu and Devikulam. Karnataka accounts for 15% of the total production with Shimoga the major area for cardamom cultivation. Large cardamom (*Amomum subulatum* Roxb) is cultivated in the sub-Himalayan region of north east India in cold, humid conditions.

The two major States in the production of large cardamom are Sikkim (89%) and West Bengal (11%). Indian cardamom is sold in the international markets in different grades such as 'Alleppey green extra bold' (AGEB), 'Alleppey green bold' (AGB) and 'Alleppey green superior' (AGS), which have an appeal worldwide. Important centres for cardamom trade in the country are Kochi and Thodupuzha in Kerala, Sakleshpur, Mercara, Madikeri and Mangalore in Karnataka, Mumbai, Delhi, Kanpur and Kolkata. India exported 12-15% of its total cardamom production. The export volume in 2009-10 stood at 2,975 mt valued at about ₹185 crore. The major export destinations included Saudi Arabia, UAE, Kuwait, Pakistan and

the UK. India imports around 5,000-6,500 mt of cardamom annually to stabilise domestic prices. India is the second largest consumer after Saudi Arabia for small cardamom. Approximately 45% of cardamom is used for industrial consumption especially in pharmaceutical, ayurvedic and cosmetics industry. India being a traditional cardamom growing country needs to draw clear

strategy to regain its leadership position in the international market. There is an urgent need to improve and sustain production by increasing the average productivity. Capacity building programmes for better post-harvest practices and development of disease-free tissue culture planting with improved genetic material needs to be undertaken.

### **New tech could boost rice output by 5 million tone**

Through adoption of technique such as System of Rice Intensification (SRI), the country's rice production could be increased by more than 5 million tonne annually which would help the country in meeting the food security requirement in coming years. In addition to the fertiliser and price subsidies, electricity subsidies on rice have reached untenable level and it is estimated that on a per hectare basis SRI could reduce about 3,151 kwh of electricity and about ₹12,607 on subsidies. "SRI may help substantially in reducing the embedded subsidies in every grain of rice and result in yield increase of 15% to 40%," B C Barah, Nabard chair professor of Indian Agricultural Research Institute (IARI).

SRI focuses on planting single seedlings instead of multiple seedlings in a clump and not keeping irrigated paddy fields flooded during the rice plants' vegetative growth stage. This results in reduction in the irrigation water application by about 30% to 50% and reduction in chemical fertilisers and pesticides application. At present, about 42 countries have adopted SRI and about 1.5 lakh farmers have adopted the technique in 12,000 hectare across 160 districts. Tamil Nadu and Tripura are leading states adopting SRI. Under the National Food Security Mission (NFSM), a target for increasing rice production by more than 10 million tonne by 2012 has been set in the food secure districts. An allocation of ₹5,000 crore under NFSM specifically targets 133 SRI districts

out of 534 rice producing districts have been made. "SRI is not a technology but has potential to increase yield both for hybrid and local varieties of rice," Norman Uphoff, SRI international network and resources center, Cornell University, New York. SRI is a

bankable technology approved by Nabard, it can enhance farmers' incomes and improve soil health and has potential to become leader in agroecological innovations. India is the world's second largest rice producer accounting for more than 20% of global production.

### **Changes in ARDBs**

- i) Shri Sadanand N. Borkar, has assumed charge as Managing Director I/C of the Goa State Cooperative Bank Ltd., w.e.f. 1st January 2011.
- ii) Shri Abhijit Dev Laskar, ACS has assumed charge Chief Executive Director of the Assam State Cooperative Agri. & Rural Dev. Bank Ltd., w.e.f. 11th January 2011.
- iii) Shri Kanubhai M. Patel, has assumed charge Chairman of the Gujarat State Cooperative Agri. & Rural Dev. Bank Ltd., w.e.f. 17th January 2011.
- iv) Shri Satbir Sharma, has assumed charge as Managing Director of the Haryana State Cooperative Agr. & Rural Dev. Bank Ltd., w.e.f. 16th February 2011.
- v) Shri Beer Singh Thakur (HPAS), has assumed charge as Managing Director of the Himachal Pradesh State Cooperative Agri. & Rural Dev. Bank Ltd., w.e.f. 7th March 2011.





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## The Himachal Pradesh State Co-op. Agriculture & Rural Development Bank Ltd;

H.O.: KASUMPTI, SHIMLA-171009

*The Bank was established in 1961 to extend long term and medium term loans to farmers for agriculture and allied agriculture activities and Non Farm Sector, presently through 49 branches respectively in the State of Himachal Pradesh.*

### THE BANK FINANCES FOR:

<b>Farm Mechanisation</b>	:	Tractor, Thresher set and other implements etc.
<b>Horticulture/Plantation</b>	:	Apple, Stone, Citrus and other plantation
<b>Animal Husbandry</b>	:	Dairy development, Cattle Sheds, Sheep & Goat rearing Poultry, Sericulture, Floriculture, Fisheries, Mushroom, Piggery, Rabbit rearing, Packing & Grading House etc.
<b>Land Development</b>	:	Land leveling, Land reclamation etc.
<b>Non Farm Sector</b>	:	Small Scale Industries, Cottage Industries including Service Sector, Rural Housing, SRTOs' Rural Godowns, etc.
<b>Minor Irrigation</b>	:	Construction/repairs of irrigation well, Tubes Well, Deep Tube well, Installation of pumpsets, pipelines, lift irrigation etc.

### Bank accepts FD for 1 year and above at following rate for Senior Citizens

1 Year 7.25%    2 Years above 7.50%    0.5% more interest for Senior Citizens.

### SALIENT FEATURES

- |   |   |
|---|---|
| <ol style="list-style-type: none"> <li>1. Interest payable: Quarterly/half yearly and yearly as per demand</li> <li>2. Monthly income schedule is available.</li> <li>3. TDS is not deducted on maturity of FDs.</li> <li>4. FD outstanding as on 31-03-2010 is within the own fund limit.</li> </ol> | <ol style="list-style-type: none"> <li>5. All the loans issued by the Bank are theoretically recoverable since they are secured by registered mortgage of land.</li> <li>6. Loan against FD to the extent of 75% of FD amount.</li> </ol> |
|---|---|

Bank provides 1% p.a. rebate of interest on loans to the regular loanees.

**FOR FURTHER DETAILS PLEASE CONTACT US OR  
OUR BRANCHES OF THE BANK IN THE STATE.**

**Dr. Ajay Sharma (HPAS)**  
Managing Director

**Mohar Singh Thakur**  
Vice Chairman

**Sher Singh Chauhan**  
Chairman