CHAPTER-SEVEN

GUIDELINES AND PROVISION REGARDING C D RATIO

In view of the significance of C D Ratio in the process of growth in general and balanced regional development in particular, several steps has been taken by the monetary authority as well government of India.

To reduce the inter-regional imbalances in credit delivery and to persuade the banks to lend in the same areas where they mobilized deposit, RBI first advised PSBs in 1980, to achieve a CDR of 60 percent in their rural and semi urban branches on a continuing basis.

In both, in concept and origin this target was provided as an ‘advisory’ to banks in order to correct the ‘known ignorance’ in their lending practices. The C D ratio is not meant as a yardstick to evaluate the performance of PSBs at the regional, state, or district levels. But, to all intent and purposes, the credit deposit ratio is now quoted as a yardstick to assess the commitment of PSBs.

Although, RBI has advised PSBs to maintained stipulated level of C D ratio in all the regions of the country only in 1980, but the importance of balanced credit deployment on
region and sector basis was one of the important agenda for it since its nationalization in 1949. Even, before the major nationalization of the private banks in 1969 government has also taken consideration of the credit deployment in various productive sectors of the economy which exhibits in its various actions.

After the nationalization of major private commercial banks in 1969 and 1980, introduction of lead bank scheme, provision of SLBC, and establishment of regional rural banks (RRBs) in 1975. The Service Area Approach (SAA), introduced in April 1989 to bring about a planned development of rural and semi-urban areas. The bank branches are allotted specific villages, usually geographical contiguous areas, for credit planning and lending.

An Expert Group headed by Shri Y.S.P. Thorat has identified some problems caused low C D ratio. The committee has also provided some guidelines to overcome the problem across the districts and states. The Group has further recommended that:

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40. Dr. Y. S. P. Thorat served as the Managing Director of National Bank for Agriculture and Rural Development since 2004. Dr. Thorat served as the Chairman of National Bank for Agriculture and Rural Development until November 30, 2007. He had been with Reserve Bank of India from 1972 to 2003 and served in various capacities including as its Executive Director. He was associated at the policy level with Vaidyanathan Committees on the Short Term & Long Term Cooperative Credit.

1. Districts having CDR between 40 and 60, will be monitored under the existing system by DLCC,

2. In the districts having CDR less than 40, Special Sub-Committees (SSCs) of DLCC may be set up to monitor the CDR, and

3. The district with CDR of less than 20 needs to be treated on a special footing.

In view of the above suggestions, it has been decided to set up Special Sub-Committee (SSCs) of DLCC in the districts having CDR less than 40, in order to monitor the CDR and to draw up Monitor able Action Plans (MAPs) to increase the CDR. The Lead District Manager (LDM) of the Lead Bank will be designated as the convenor of the SSC, which in addition to District co-coordinators of banks functioning in the area, will comprise of DDM, NABARD, LDO, RBI, District Planning Officer or a representative of the Collector duly empowered to take decisions on behalf of the district administration.
The functions of the Special Sub-Committee will be as under:

1. The Special Sub-Committee (SSCs) will draw up Monitorable Action Plans (MAPs) for improving the CDR in their districts on a self-set graduated basis.

2. For this purpose the SSC will hold a special meeting immediately after its constitution and on the basis of the various ground level parameters, set for itself a target for increasing the CDR initially for the current year, i.e. up to March 2006. It will also, at the same meeting, set a definite time frame for the CDR beyond 60 in annual increments.

3. Consequent on the completion of this process, the target and time frame self set by the SSC will be placed before the DLCC for approval.

4. Take up the plans for implementation and monitor the same assiduously once in two months.

5. Report the progress to the DLCC on quarterly basis and through them to the convenor of SLBC.

6. On the basis of the feedback received from the DLCC regarding the progress in the implementation of the Monitorable Action Plans (MAPs), consolidated report will be
prepared and tabled at all SLBC meetings for discussion / information.

As regards the districts with CDR less than 20 they are generally located in hilly, desert, inaccessible terrains and/or those dependent solely on the primary sector and / or characterized by a breakdown of the law and order machinery. In such areas, conventional methods are not likely to work unless the banking system and the State Government come together in an especially meaningful way. While the framework for implementation for raising the CDR in these districts will be the same as in the case of districts with CDR below 40 (i.e. setting up of SSC etc.), the focus of attention and the level of efforts should be of a much higher scale. For this, the Group has recommended that:

1. All such districts should first be placed in a special category.
2. The responsibility for increasing their CDR should be taken by banks and State Governments and the districts should be "adopted" by the District Administration and the Lead Bank jointly.
3. While banks would be responsible for credit disbursement, the State Government would be required to give an
upfront commitment regarding its responsibilities for creation of identified rural infrastructure together with support in creating an enabling environment for banks to lend and to recover their dues. Given a collaborative framework as outlined above, the Group is of the view that meaningful increase in CDR is possible.

4. Progress in the special category districts will be monitored at the district level and reported to the corporate offices of the concerned banks.

5. CMDs of banks would give special attention to the CDR in such districts.

In recent move increasing disparity in credit deployment by banks has also pressurized state governments to bring amendments in their land laws and policies to protect the lend money so that C D Ratio could be increased. Many states of the country have enacted Securitization and Reconstruction of Financial Assets and Enforcement of Security Interests (SARFAESI) Act, to cut down the burgeoning NPAs of the banks working for the state.

42. The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, allow banks and financial institutions to auction properties (residential and commercial) when borrowers fail to repay their loans. It enables banks to reduce their non-performing assets (NPAs) by adopting measures for recovery or reconstruction.
Thus the RBI together with parliament and state legislatives has tried to ensure to improve credit deposit ratio measured at various level. However still it needs special attention and efforts of involved agencies especially in case of Bihar where all the 38 districts of the state are, in the category of 100 backward districts of the India identified by planning commission.

To improve the low C D Ratio in the state the business community of the state has also taken serious initiatives. During the visit of RBI governor in Bihar in 1997, the Bihar Chambers of Commerce has submitted an 18 point charter of demands to the RBI governor. Demanding the reconstitution of a task force constituted by RBI to augment the C D Ratio in the state, for sanctioning the need-based working capital, implementation of the Nayak committee report, removal of regional imbalance, uniformity in the rates of interest for the borrowers, creation of a venture capital fund with 10 per cent of the total deposits for Bihar, implementation of the state credit plan, doing away with the system of collateral security for small enterprises, disposal of loan application within a time frame, constitution of a working group to monitor the bankers as well as the problems of the borrowers.

43. The Committee was constituted by Reserve Bank of India in December 1991 under the Chairmanship of Shri P. R. Nayak; Lending to Micro, Small & Medium Enterprises (MSME) Sector
The state government has also taken some major steps to boost up the demand for credit by eligible borrowers. Stamp duty exemption on agricultural loans up to Rs 3 lakh and simplify the process of issuing land possession certificate besides, amending several laws to create an atmosphere conducive for improving the CD ratio.