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*National Bank
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**GRAMIN VIKAS -
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ग्रामीण समृद्धि का मार्ग प्रशस्त करने लिए, संबन्धित क्षेत्रों के दक्ष विशेषज्ञों और संस्थानों के सहयोग से गुणवत्तायुक्त प्रशिक्षण एवं अध्ययन, ज्ञान की ऑन-लाइन उपलब्धता एवं विचारों और अनुभवों के आदान प्रदान के माध्यम से हाई-टेक वातावरण में, अधिकारियों के सामर्थ्य को बढ़ाना।

From Editor-in-Chief's pen



This seventh issue of NBSC e-Journal is a compilation of the various studies conducted by the Regional Office (Punjab), and faculty members of NBSC. The issue covers the following (i) Effectiveness of Revival Package and Feasibility of Turn Around Plan for revamping the status of select Weak Rural Cooperative Banks in Uttar Pradesh (ii) Delivering improved Dairy Genetics through Sorted Semen and (iii) Farmer Producers Organisations and Agri-Marketing: Experiences in Selected States; Relevance and their Performance in Punjab.

The views expressed in the articles are those of contributors and neither NABARD nor NBSC is responsible for them.

I express my sincere thanks to Regional Office, Punjab and Faculty Members from NBSC for making contributions to the current issue and once again take this opportunity to request Faculty Members of Training Institutions of NABARD and Officers of NABARD to contribute articles, study briefs for subsequent issues of the journal and make this endeavour of NBSC a success.



S K. Dora

**Principal/Chief General Manager
National Bank Staff College
Lucknow**

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Effectiveness of Revival Package and Feasibility of Turn Around Plan for revamping the status of select Weak Rural Cooperative Banks in Uttar Pradesh

Shri Prabhat Keshava and Dr.Vivek Pathania ¹

1.0 Introduction

1. The Government of India (GoI), RBI, NABARD and State Governments have brought several reforms and revival schemes / packages to facilitate the cooperative banks in coping up with the supervisory requirements, regulatory compliances and technological challenges and competition from other banking and Non-Banking Financial institutions. These interventions have to some extent augmented the financial, governance and management capabilities of these banks differentially.
2. However, despite all facilitating efforts, 23 Central Cooperative Banks (DCCBs) in four states of Uttar Pradesh, Maharashtra, Jammu & Kashmir and West Bengal failed to obtain license as on 31 March 2012. RBI had therefore issued Directions under Section 35A of Banking Regulation Act (B.R.Act), 1949(AACS) prohibiting these banks to accept fresh deposits.
3. In order, to protect the interests of the depositors and cater to the credit needs of the small and marginal farmers, Government of India on 05 November 2014 announced an assistance package of Rs.2375.42 Crore under a special scheme viz., “Scheme for Revival of 23 unlicensed District Central Cooperative Banks (DCCBs)”.
4. Under the GoI package, Monitorable Action Plan (MAP) was prepared and performance of these 23 weak banks were reviewed by State Level Implementation Committee (SLIC). In addition, NABARD had instituted Turn

¹ Shri Prabhat Keshava and Dr. Vivek Pathania both are Deputy General Managers (Faculty Members), NBSC, Lucknow

Around Plan (TAP) for improving the supervisory rating of weak cooperative banks. These plans were prepared by banks indicating projections / feasible strategies for turnaround.

5. A study was conducted to review the MAP and TAP for DCCBs in UP.
6. Three weak DCCBs in Uttar Pradesh namely Allahabad, Varanasi and Sitapur DCCBs were selected for the study. These DCCBs had very high Non Performing Asset (NPA) level, Negative Operating margins and High Cost of Management (CoM). Further, select positive financial indicators, which were typical for each of these DCCBs were also used as tools for selection. The objectives of the study were to examine the effectiveness of the Revival Package and identify the emerging signs of weakness in the banks and to explore feasible measures to overcome weakness thereof.

2.0 Study findings

- a. Capital infusion of Rs. 146.05 crore (Allahabad), Rs. 117.38 crore (Varanasi) and Rs. 131.81 crore (Sitapur) were done under the package. Major amount of this package was invested in Fixed Deposits (FDs) and for CRR maintenance. The amount invested in FDs ranged from 49% (Sitapur DCCB) to 96% (Allahabad DCCB). In the Sitapur DCCB, the amount was also utilized towards repayment to the depositors.
- b. With capital infusion under the package, the CRAR in all the banks in 2015-16 increased to more than 9%. Thereafter, the CRAR started declining and as on 31.03.19, CRAR of the Allahabad and Varanasi DCCBs were negative. CRAR of Sitapur DCCB however stood at 21.1% as on 31 March 2019. No significant improvement in banks capital was observed on account of profit accumulation and strategies proposed in the MAP/TAP for capital augmentation and CRAR improvement.
- c. The efforts and strategies to improve the deposits and diversification of loan to reach breakeven level of business were not very effective.

- d. Deposits of the Allahabad and Varanasi DCCBs increased over the years due to offering of higher rates on term deposits but they could not achieve the MAP stipulated growth rate of 15% as on 31.03.2019. Deposits of the Sitapur DCCB decreased continuously over the years mainly due to negative impact of restrictions imposed on deposits withdrawal.
- e. Fresh lending was in the form of crop loan through societies and loan against pledge of FDs. Banks did not explore the avenues to diversify their loan portfolio through good quality PACS, ECCS and salary earners individuals.
- f. None of the DCCBs achieved the target of reducing NPAs by 50% as on 31.03.2019. The banks did not make any progress under OTS and in recovery of dues through sale of tangible assets. The recovery, if any, with the help of State Government or the District Administration / RCS was also very low.
- g. The Government of UP had initiated loan waiver scheme in 2016 wherein the waiver amount was to be transferred to loan account linked with Aadhar number. Since most of the customers of Cooperative Banks also had loan accounts with Commercial Banks, which were Aadhar seeded, the waiver amount in respect of these customers was settled with commercial banks.
- h. The banks could not reduce the cost of management below 2% and also could not increase the staff productivity so as to break even the cost of management. On recommendation of SLIC, the Allahabad DCCB, Varanasi DCCB and Sitapur DCCB identified and closed 5, 7 and 11 non-viable branches, respectively.
- i. Timely submission of concurrent audit reports and follow up of their compliance was not adhered to by the banks. All the banks had constituted important committees like ALCO Committee, Fraud

Prevention & Monitoring Committee, Investment Committee, Risk Management Committee, Audit committee, etc. However, the frequency and quality of discussions in the meetings was far below the desirable level.

- j. The banks had huge unreconciled items under various heads pending for long for which they had to make huge provisions.
- k. To execute the interventions the bank neither developed expertise nor had proper structure and manpower. CEOs of the banks fulfilled “Fit and Proper Criteria” specified by RBI. However, many of the CEOs did not complete their minimum tenure of three years as per the covenants of the MoU.

3.0 Weakness in MAP and TAP strategies

- a. The effort and focus of strategies lacked to mitigate or reverse the core cause of the declining CRAR position i.e. negative operating profit.
- b. Focus was on reducing cost of management through closure of branches rather than enhancing business productivity.
- c. Banks were operating in a competitive environment for mobilisation of deposits with other banks having intensive network and leveraging digital technology. Further, keeping in view limitation on withdrawals of deposits, closure of branches and staff quality/ attitude, the target fixed for growth in deposits @ 15% was not feasible.
- d. The target to reduce NPA of the banks by 50 % and strategies to reduce NPAs were not realistic. It was difficult to recover NPA in agriculture / crop loan sector from weak/ defunct/dormant PACS with high imbalance.
- e. The strategies formulated lacked focus on staff accountability for business growth, expanding clientele and recovery. There was no proper strategy in place for strengthening of PACS, increasing the number of

Salary Earners Societies and other societies as also providing direct loans to business units and individuals.

4.0 Policy Issues and Recommendations

- a. There is a need to apply analytical and enquiry tools like Problem Tree Analysis to understand the core issues of the banks' performance. The possible solutions, in consultation with various stake holders need, to be spelt out with time bound monitorable indicators. ODI can also be attempted.
- b. Capital infusion by Government should be linked to achievement of performance parameters such as achievement of net profit along with CRAR level.
- c. Regulator / supervisor needs to come out with objective indicators for prompt corrective actions for weak cooperative banks in line with UCB, RRB and commercial banks. The supervisory/regulatory action framework can be linked to trigger points related to early warning signals pertaining to weakening of banks. Regulatory action related to restriction on deposit mobilization should be the last resort.
- d. To protect the interest of small depositors there can be a provision to claim DICGC benefit once the regulator issues directions for restricting the bank to accept fresh deposits or extend fresh lending under Section 35A of BR act 1949.
- e. The banks need to revamp the system by exploring non fund based business, adopt digital technology and alternative banking channels, capacitate PACS as BCs for deposit mobilization using hand held devices and open ultra-small branches in remote areas of the closed branches.

Quick Study on delivering improved Dairy genetics through Sorted Semen

Dr. Vivek Pathania²

Ms. Kritika Garkhal³

1. Introduction

- i. Male calves from cattle have no value because of the decline in need for draft animals coupled with the socio-culturally driven ban on cattle slaughter. The stray male cattle along with unproductive females have become nuisance for a planned breeding intervention, disease transmission, damage and loss to farmer crops and put a significant pressure on feed resources. To mitigate these issues and for building a profitable dairy sector, sorted semen is used to boost production of crossbred heifers and reduce numbers of unwanted males.
- ii. The sperms are sorted by identifying sperm cells carrying ‘X’ or ‘Y’ chromosomes”. The X-chromosome (responsible for female calf) in sperm contains about 3.8% more DNA than the Y-chromosome sperms in cattle. During sorting process only viable sperms are retained and dead, dying or damaged sperm cells are eliminated. This helps to keep the concentration of sorted/sexed semen @ 2 million sperms/ straw.
- iii. UP RO has sanctioned three projects for providing sorted semen to farmers in Unnao, Prayagraj and Saharanpur districts. These projects are being implemented by BAIF Institute for Sustainable Livelihoods and Development (BISLD), which is subsidiary of BAIF Development and Research Foundation, Pune. Under the projects, cost of sorted semen straw is being subsidised @ 50%

² The Contributor is Deputy General Manager (faculty Member), National Bank Staff College, Lucknow.

³ The Contributor is Assistant Manager, currently posted at NABARD, Uttar Pradesh RO, Lucknow.

to facilitate the technology adoption by farmers. Study was undertaken to assess the need for further support from NABARD, orderliness of project duration of one year, adequacy of the components of expenditure & costing thereof and to suggest improvement in the project design and implementation.

2. Salient findings of the study

- 2.0 Sorted semen has been introduced by UP State Livestock Development Board (UPSLDB) in the State from November 2019. It has entered into an agreement with Genus Breeding India Pvt. Ltd. (ABS, India) Pune for production of sorted semen of indigenous breed of cattle. The production cost of sorted semen straw is Rs. 766/- and is being provided in the field @ Rs. 300/-. The agency has supplied 3.2 lakh doses of sorted semen in the State in last one year.
- 2.1 The confirmed pregnancies in completed project were 46% of the total AI undertaken using sorted semen and female progeny was 94% of the confirmed pregnancies. The results are above the available national parameters.
- 2.2 Greater preference for indigenous sorted semen has been observed in Prayagraj district, wherein 31% of the sorted semen was used on indigenous cattle.
- 2.3 Sorted semen has also been used in Buffaloes, which need to be avoided keeping in view the utility of males for meat purpose.
- 2.4 Animals beyond 3rd parity have been inseminated with sorted semen which is against the prescribed norms of its use.
- 2.5 Feeding of balanced concentrate feed is not practiced by the farmers. None of the farmer visited had KCC for meeting his crop as well as Dairy working capital requirements.
- 2.6 BISLD has well defined commission model to run its livestock development centre. On an average the inseminator does 220-250 AI per month and earns a net income in the range of Rs. 15000-17000 per month.
- 2.7 Use of sorted semen straw among farmers picked up during the project period as the straws were subsidised, but fall in use of sorted semen straws was observed after the completion of the project (Unnao). This is primarily

because after the completion of the project, BISLD has reverted back to the original cost of semen straw @ Rs. 1100/- per straw.

3. Recommendations

- 3.0 The project period need to be increased to 2 or 3 years to popularise the technology among the farmers, cover more number of farmers for demonstration effect of sorted semen, facilitating them to gradually migrate to market determined sorted semen Artificial Insemination (AI) charges. Further, increasing project period will also result more number of farmers covered, increase in no. of females in the project area resulting in more milk production within the available feed and fodder resources.
- 3.1 The project could also be sanctioned with specific objective for promotion of Indigenous cattle breeds (Sahiwal and Gir) which is in consonance with the breeding policy of the State of Uttar Pradesh. Indigenous breeds are more suitable for rearing by SF/MF keeping in view of the limited feed and fodder resources with them and fetch better milk price having higher fat content. Another benefit of promoting indigenous breed is to reap price advantage for A2 milk from these species.
- 3.2 In order to have higher genetic gain, it is advisable to use Pure HF/ Jersey sorted semen in non-descript cattle. Further, animals beyond 3rd parity need not to be covered under the project to prevent failure of conception in animals. In addition, buffalo sorted semen need not to be subsidised under the project.
- 3.3 Coverage of subsidised sorted semen should be limited to 2 animals per farmer per year for facilitating coverage of more number of farmers.
- 3.4 The basic rate for sorted semen is at par with that being sold by other agencies in different states. The cost of sorted semen straw can vary depending upon the royalty agreement of technology provider. At present BAIF charges @Rs. 1100/- per sorted semen straw. Of this, Rs. 200/- is the AI remuneration of the BISLD inseminator.
- 3.5 Use of camera AI gun can be explored under the project to have a better status of animal heat and accurate placement of semen for improved conception.

1.0 Introduction:

In recent years, Farmer Producer Organisations (FPOs) have emerged as important institutional mechanism for aggregation and improving returns of small holders. The concept of FPO was introduced in the early 2000 which defines Producers Organization as a legal entity formed by primary producers, viz. farmers, milk producers, fishermen, weavers, rural artisans, craftsmen. The ownership control is always with members and management is through the representatives of the members. Provisions were made in Part IXA of Companies Act 1956 in year 2003 for Producers group to register and create Farmers Producer Company. This provision has equipped group of small farmers to form an organisation & conduct business in a professional manner. At the level of Central government, SFAC and NABARD are promoting Farmers Producers Organizations (FPOs) in the country.

These FPOs are benefiting their members through bulk input procurement and distribution, aggregation and marketing of output, agro processing, and by helping their members take high paying activities like fruits and vegetable production, dairying, organic farming, seed production and marketing, and other allied activities. Some documented success stories provide convincing evidence of substantial increase in income of smallholders through FPOs. However, the penetration of FPOs in the country is quite low with miniscule coverage of farmers. An important hurdle in expansion of FPO is provision of credit to them by financial institutions. In order to achieve the required outcome from the initiative

⁴ The author is associated with Centre for Research in Rural & Industrial Development (CRRID), Chandigarh. The study is sponsored by NABARD, Punjab Regional Office.
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for creation of FPOs it is extremely important to learn from the experience of FPOs already created in the country. We need to identify the factors which sustain FPOs and which make successful FPOs. Also, it is equally important to identify reasons for poor performance or failure of some of the FPOs. Besides, there is a need for understanding functioning of FPOs and widespread dissemination of information related to various types of FPOs to motivate and attract farmers to come forward to join FPO and make them successful.

The author lists out pragmatic suggestions and preparing recommendations for sustainability of FPOs in Punjab based on actual experience in the field.

2.0 Study Methodology

The study precisely focuses on all such issues. The manuscript is based on field study of 19 FPOs; 16 in the state of Punjab and 3 in the state of Madhya Pradesh. It provides detailed account and in-depth analysis of various activities and functioning of selected FPOs and also documents response of members of FPOs on important parameters related to functioning and performance of sample FPOs. The author finds that milk FPOs are performing better than agri-business FPOs – a trend consistent with success of cooperatives in dairy sector.

3.0 Salient Findings:

An important inference that follows from this study is that despite the need and relevance of FPO model in the Indian context, their performance cannot be taken for granted. Among the sample FPOs, there are more cases of poor delivery as compared to the success. The roles of resource institute and CEO of FPO are found critical in success of FPO and in deriving benefits for the members. SFAC and NABARD invest a substantial amount in handholding, capacity building and nurturing each FPO in the initial years of their formation. This investment would go waste, if FPOs do not

serve the intended purpose. Thus, it is very important to ensure sustainability of FPOs.

The other findings are as follows:

(a) Marginal and small farmers are the major beneficiaries of the FPOs. They sold mostly a single crop through the FPO. Proportion of produce sold through the nascent and emerging FPOs (under PRODUCE) is meagre, and small in mature (10 per cent in Dhira Patra) FPOs in Punjab. The Narsingh in Madhya Pradesh handled sale of 42.67 per cent of the farmers' produce, largest in any of the selected ones.

(b) Farmer members have benefitted by way of reduced cost of production, price gains and higher net earnings from sales through FPO both in Punjab and Madhya Pradesh. A subtle trend seems to be taking place in diversification of produce basket of crops post FPO.

(c) A couple of FPOs sold farmers' produce to commission agents, which may be risky. Marketing, however, remains a challenge for the FPOs. Many farmers in nascent and emerging FPOs perceive individual marketing rather than the FPO channel as income enhancing.

(d) Improved access to quality seeds and other agri-inputs has accrued post FPO. Farmers have benefitted from dissemination and transfer of new production technology through FPO.

(e) No significant value addition in supply chain including in mature FPOs is taking place.

4.0 Recommendation:

1. FPOs should be promoted in a cluster mode such that centralized common services such as agricultural machinery bank, testing, processing, storage and packing facilities etc. are created with government support at a focal point in the cluster.

2. Meetings of the FPO institutions like that of General Body, Board of Directors, Project Monitoring Review Committee etc should be held regularly. The FPO should have at least one woman member in the BOD. Moreover, the FPO should develop good rapport with the village/block/state functionaries.

3. The FPOs should contain FIGs, each of 15-20 members. Avenues should be found to credit link members of these FIGs. Repayment should be the joint responsibility of the FIG as in case of the SHG, with FIG/FPO as the guarantor. Collateral requirements for such loans may be carefully worked out.

4. Role of POPI as well as the CEO is critical for success of the FPO. An incubation centre should be set up in the state for training and capacity building of young farmers and graduates in agriculture to run farmer collectives.

5. The FPOs should explore possibility of contract farming and tie-ups for bulk supplies.

6. The FPOs should concentrate on marketing from the nascent stage. In this context, some target be prescribed for sale of farmers' produce through the organization, say 10 per cent in nascent, 15 per cent in emerging, and by the time these complete three years, it should be a minimum of 25 per cent.

7. Following recommendations of the committee of MLAs (2018) constituted to examine the causes of economic distress leading to indebtedness and suicides by farmers/farm labourers in Punjab should be implemented;

(i) Farmer Producer Organizations (FPOs) should be integrated in the state agricultural policy. The agricultural policy should be implemented through the FPOs.

(ii) The Department of Agriculture should provide maximum information for setting up of Farmer Producer Organizations, and with appropriate leadership and the steps, should associate small farmers upto 5 acres of land with FPOs.

(iii) The FPOs be given license to sell their crops directly in the APMCs.

(iv) An umbrella organization of FPOs in Punjab on the lines of MBCFPCL in Madhya Pradesh should be setup that will nurture the FPO after the POPI exits. This should be called the Punjab Consortium of Farmer Producers' Company Limited (PCFPCL).

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