

## **Credit through Co-Operatives : Some Thoughts\***

Let me at the outset thank the Chairman and other Executives of the National Co-operative Agricultural & Rural Development Banks' Federation Ltd. for having invited me here today. The Federation has played a very important role in providing the members a forum for joint consultations and inputs for policy formulation since its inception in 1960. It has also been instrumental in facilitating a series of initiatives for beefing up the co-operative structure by bringing together forces within and outside the system.

As a significant part of the multi-agency approach to credit delivery in India, co-operative banks - both in the short-term and long-term structure - hold an important position especially in the rural credit scenario and have played a pivotal role in the development of rural credit over the years. The geographical spread of the entire co-operative credit system covers over 74 per cent of rural credit outlets and it has a market share of about 46 per cent of total rural credit in the country. As you are aware, in conformity with the broad philosophy and strategy for reforms initiated in our country in 1991, banking sector reforms, as an important component thereof, have focused on (i) policy framework, (ii) improvement in financial health of banks through introduction of prudential regulations and (iii) institutional strengthening. It is especially in the context of the third element, viz. the need for building a strong institutional framework in the co-operative sector, that the role of the National Co-operative Agriculture & Rural Development Banks' Federation assumes particular significance in playing a catalytic role in putting together the financial and other operational inputs required for restoring the momentum of growth in this sector in the new millennium.

Over the years the long-term co-operative credit structure has grown tremendously with changes envisaged in its role from time to time. The path traversed has been from being a provider of loans merely for redemption of debt to meeting the investment credit requirements of the entire activities in rural areas. The structure now has a membership of 1.3 crores, net owned funds of Rs. 3191 crores and loans and advances outstanding of Rs. 17261 crores respectively. The structure has however not developed uniformly and there are states where it has started showing palpable signs of infirmity. The gross net performing assets (NPAs) of the State Co-operative Agriculture & Rural Development Banks (SCARDBs) and Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) have also been fairly high at 19.19 per cent and 16.05 per cent respectively. Needless to say, such loan defaults have led to clogging of the co-operative credit pipeline with the consequence that even in states where the co-operative system has developed to some extent it had not always functioned in the manner it was expected. Indeed, accumulated losses, provision for NPAs, etc. have affected both deposits and borrowings of the co-operative banks to a considerable extent.

In retrospect, the development of the financial sector in independent India can be divided into three broad phases: (a) the first two decades representing a foundation phase, (b) the next two decades after bank nationalization in 1969 which was marked by rapid expansion and (c) the last decade that has been characterized by consolidation, diversification and liberalization. The Indian financial system has over the years undergone a remarkable transformation and now comprises an impressive network of financial institutions, financial markets and a wide range of financial instruments. As mentioned above, the co-operative credit structure has also grown to massive proportions and land development banking too has gathered slow but steady momentum in the last few decades. In fact it has become a major instrument of capital formation in the private sector in rural areas. Despite this overall progress made by the financial system, reforms had become overdue as operational efficiency of the co-operative credit system, like many other players in this sector, has as indicated above been characterised by low profitability, high and growing NPAs and low capital base.

An overriding problem plaguing the long-term co-operative credit structure in India has been the incidence of high NPAs/overdues. The recently-introduced NABARD guidelines for one-time settlement (OTS) of chronic NPAs/overdues indeed afford a very good opportunity for the co-operative banks to get around this long-standing problem. While the banks will have to put in place effective measures to strengthen their credit appraisal and supervision mechanism for arresting incidence of fresh overdues/NPAs, they should implement the OTS scheme as early as possible and take maximum advantage of its provisions.

Given this background, any observer of the co-operative credit scenario in India today is confronted with a host of issues concerning the vulnerabilities that have weakened the system vis-à-vis the need for co-operative reforms to achieve the twin objectives of effective credit delivery and financial sustainability. These include organisational and managerial, financial and operational issues.

(i) **Member-driven Co-operatives :** The high visibility of the State apparatus has distanced the people from their day to day management and contributed to lack of involvement and ownership in their functioning. All-out efforts are required for empowering the co-operative banks by turning them into member-driven enterprises. This requires initiation of policies that give genuine character to Cooperatives, make the federal organizations more responsive and responsible towards their members, develop self-reliance and self-confidence and decentralise power of decision-making. The adoption of the essential features of the Model Co-operative Societies Act as recommended by the Choudhary Brahm Prakash Committee and bringing in necessary amendments in the State Co-operative Societies Acts so as to reflect the spirit of democratisation and self-reliance will be a step in the right direction.

(ii) **Duality of Control:** There is a need for doing away with the duality of control between the State Governments and the central bank. Removing the overlapping of controls will go a long way in imparting functional autonomy and operational leeway to co-operatives.

(iii) **Focus on Development of the base Tier:** The PCARDBs need support in infrastructure development, strengthening resource base, improving connectivity and effective management with professionalization for inspiring the confidence of the people and muster their active participation.

(iv) **Professionalization of Management:** It is necessary to induct professionals like bankers, accountants, economists and rural credit experts in the co-operative bank boards who can guide in running the banks on sound business lines. In fact, appointment of Chief Executive Officers (CEOs) in these banks should be made on professional lines by considering all relevant factors like qualifications, age, previous banking sector experience, etc.

(v) **Human Resource Development :** Co-operative banks have to evolve a systematic approach towards Human Resource Development in many areas like manpower planning, recruitment, placement and leadership development for motivating staff and increasing productivity. A second line of effective management is necessary to support the CEO in operational matters and to provide the CEO adequate time to concentrate on policy issues. Training and management development efforts in specific work areas and appropriate programmes should be designed and initiated in co-operatives to bring internal empowerment of employees of these banks.

(vi) **Integration of Short-Term and Long-Term Structures:** The need for having two structures, viz. the short-term and the long-term, needs to be examined particularly in the context of institutional viability and convenience to members. A number of committees/ fora have called

for integration of the short-term and long-term structures, as a possible solution, by taking advantage of the diversified services.

(vii) **Revitalisation of Co-operative Banks:** The revitalisation package for co-operative banks should take into account the financial, operational, organisational and systemic aspects. Any revamping process will of course need to have financial support for cleansing the balance sheets of co-operative credit institutions with institution-specific conditionalities as a corollary.

(viii) **Deployment of Resources :** The co-operative banks have to be allowed greater freedom to deploy their funds on purely business considerations. This would enhance the profitability of the banks. Another emerging area of business is the recently-deregulated insurance sector which may need to be tapped by co-operatives in a big way. The National Co-operative Federation I am sure will effectively help out its member institutions in such diversification of their business operations.

(ix) **Improved external and internal checks & balances :** Whereas the core principles of supervision in relation to co-operative banks have to be formulated and implemented by the NABARD, the cooperatives should also beef up their internal checks and balances through adequate training and technical backstopping like a thorough overhaul of their weak management information system (MIS) and tardy mechanisation as well as awarding of their audit work to Chartered Accountant firms and constitution of state level independent audit bureau(s).

Recognising the continued relevance and catalytic role of co-operative banks in the development of agricultural and non-agricultural sectors of Indian rural economy in general and the need for their revitalization, a Task Force was set up by the Government of India in May 1999 under the chairmanship of Shri Jagdish Capoor, the then Deputy Governor of Reserve Bank of India to study the co-operative credit system in India and suggest measures for its strengthening. This Task Force has also focused on the above issues and its recommendations are now under consideration of the Government of India.

Rural poverty in India does not wear a uniform face. Some of the poor manage to provide a steady subsistence level of income for themselves and their families. Others, truly destitute, are often without any means of livelihood. Most gain their low socio-economic status as inheritance and remain prisoners of it because they own little or no land and few productive assets. According to a 1998 study by T. Hague, P. Lanjouw and M. Ravallion, while 72.9 per cent Indians live in rural areas, 76.3 per cent of the country's poor consist of the rural poor. Viewed in this context, the building up of the rural financial infrastructure for pro-poor growth has constituted and will surely constitute a major dimension of our developmental policy in the foreseeable future.

The institutionalisation of savings with wide geographical and functional coverage of institutional credit as its counterpart have been central to Reserve Bank of India's credit planning all these years. Indeed, our Bank has over the years put its faith in the co-operative credit agencies for bearing the major share of the task of widening institutional agricultural credit if for no other reason than that its retail outlets are so much more widespread and far flung that it will take a long time before any other type of institutional credit agency can percolate to all corners of our country. I am confident that co-operative banks will prepare themselves to grapple with the aforesaid challenges and convert them into opportunities. I congratulate the award-winning SCARDBs for their impressive performance during the year 2000-01 and wish the Federation and all its member-institutions all the very best in their future endeavours.

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\* Address delivered by Shri Vepa Kamesam, Deputy Governor, Reserve Bank of India at the National Awards Presentation function for State Co-operative Agriculture & Rural Development Banks organized by National Co-operative Agriculture & Rural Development Banks' Federation Ltd. at New Delhi on July 20, 2001.