# Report of the Task Force to Study the Cooperative Credit System and Suggest Measures for its Strengthening

## CONTENTS

## CHAPTER I

## INTRODUCTION

### Financial Sector Reforms and After

**1.01** The economic and financial sector reforms in India were initiated in 1991, as a step towards a broader process of international economic integration and globalisation of financial markets. A healthy financial system being the principal pre-requisite for the globalisation process, the banking sector being an important component thereof came into sharper focus. The banking sector was required to strengthen its resilience and capabilities to intermediate in an economy integrated with the rest of the world. The need for transparent functioning and observing norms on the lines and at par with international banking institutions, led to introduction of prudential regulations relating to capital adequacy, income recognition and provisioning. Progressive deregulation of interest rates and downscaling of statutory reserve requirements and infusion of additional capital followed as essential features of the process.

**1.02** The prudential norms were recommended by the Basle Committee on Bank Supervision (BCBS) as a measure for assessment of the financial soundness through a set of common denominators and operational parameters for banks having trans-national operations. Though the cooperative banks operate at the district level and the state level, the prudential regulations have been extended to them with a view to emphasising the need for them to function on sound lines at par with other banking institutions. While the functioning of the commercial banking sector has been subjected to an intensive review as part of the application of prudential norms, no such systematic study was so far undertaken in respect of the cooperative credit institutions functioning at village, district and state levels as components of a broader cooperative credit system, which looks at credit needs primarily of the rural sector. Cooperative banking sector has for long been recognized as principal institutional agency for providing agricultural credit in India. Therefore, a review of the financial sector could be treated as complete only if it covers the important segment comprising the cooperatives. The overall picture of the cooperative sector is none-too-healthy. Its continued fragility does not augur well for the flow of credit to the rural sector. It is, therefore, necessary to assess the financial and other operational inputs required to restore the momentum of their growth on sound lines.

**1.03** Taking cognisance of the need to revamp cooperative banks on an urgent basis, the National Federation of State Cooperative Banks (NAFSCOB) and National Cooperative Agriculture and Rural Development Banks Federation (NCARDBF) have been urging the Government of India to strengthen the cooperative banks by infusion of additional capital as had been done for the weak nationalised commercial banks while making prudential norms applicable to them and regional rural banks at the time of restructuring. The measures suggested by the Cooperative Banks' Federations included, inter alia, infusion of sufficient capital, exemption from Income Tax on interest earned on investments in Government Securities, amendments to the Banking Regulation Act (As Applicable to Cooperative Societies) to facilitate universal banking by State Cooperative Agriculture and Rural Development Banks (SCARDBs), bringing the cooperative banks under the exclusive purview of Banking Regulation Act, 1949 and exemption from payment of guarantee fee to State Governments, etc. There have been persistent demands for recapitalisation of cooperative banks on the lines of nationalised commercial banks and regional rural banks. This basically raises the issue of ownership. While the ownership in the case of commercial banks vests with the Central Government, in the case of cooperative banks, members at various levels including cooperative institutions and individuals are their owners. This qualitative difference has eluded for long the resolution of recapitalisation in cooperative banks. While the agency to infuse capital could be a matter for deliberations, the need for recapitalisation of weak banks in view of their systemic and structural weaknesses is a settled issue. For the revitalisation effort to be effective and sustainable, there is a need to evolve a package of operational and functional measures which could be associated with the recapitalisation effort and sustain the same in the long run. A systematic and comprehensive study for the purpose was thus necessary.

**Constitution of the Task Force**

**1.04** Having recognised the cooperatives as an appropriate agency for purveyance of agricultural credit to the vast rural population including those in remote areas, studies that seek to strengthen the cooperative credit system have become a national priority. The cooperative credit structure in India is yet to adequately and appropriately transform itself into a viable and self-sustaining system. Cooperative banks have yet to tackle the basic issues of profitability and viability. Vulnerabilities that have debilitated the system continue to abound. Instead of moving forward and stabilising, the financial strength of the cooperative banking system has displayed signs of deterioration. Such a scenario is highly inconsistent with the objective of enabling the cooperative banks to be effective partners in the emerging economic scenario and marching together with other financial institutions. This has highlighted the need for a thorough and comprehensive examination of some of the vital causes for their continued weakness and need for suggesting appropriate measures required to revitalise them without much loss of time.

**1.05** In recognition of the continued relevance and catalytic role of cooperative banks in the development of agricultural and non agricultural sectors of Indian rural economy in general and the need for their revitalisation, the Government of India appointed a Task Force on Revival/Restructuring Package for Cooperative Banks on 9 April 1999. Composition of the Task Force was as under :

| | | |
|---|---|---|
| 1. | Shri Jagdish Capoor<br>Deputy Governor, Reserve Bank of India | Chairman |
| 2. | Shri Shekhar Agarwal<br>Joint Secretary (Priority Sector), Banking Division<br>Ministry of Finance, Government of India | Member |
| 3. | Shri Govindan Nair<br>Joint Secretary, Ministry of Agriculture & Cooperation, Government of India | Member |
| 4. | Shri Yogesh Nanda<br>Managing Director,<br>National Bank for Agriculture And<br>Rural Development | Member |

**Terms of Reference**

**1.06** The terms of reference as conveyed by the Ministry of Finance, Banking Division, Government of India in its letter dated May 17, 1999 were as under:

i. To review the functioning of the cooperative credit structure and suggest measures which would make them member- driven professional business enterprises.

ii. To study aspects relating to the costs, spreads and effectiveness at various tiers of cooperative credit structure and make suitable recommendations for their rationalisation and improvement.

iii. To study the financial performance of the cooperative bodies and make recommendations for improving their financial health so that they can become efficient and cost effective instruments for delivery of rural credit.

iv. To review the existing supervisory and regulatory mechanism for cooperative credit institutions and suggest measures for strengthening the arrangements.

**1.07** The Task Force was required to submit its report by end-June 1999. This was subsequently extended to December 31, 1999. However, due to enormity of the task involved which needed feedback from as large a sample as possible, non-availability of some of the members for a period due to general elections in 1999 and certain other constraints, the work of the Task Force faced several interruptions. As a result, the time schedule unfortunately could not be adhered to.

**1.08** Terms of reference were comprehensive enough to cover the whole gamut of critical issues pertaining to both the Short-term (ST) and Long-term (LT) cooperative credit structures. With a view to ensuring a participative approach, the views of the CEOs of cooperative banks, Secretaries of the Cooperation Departments and Registrars of Cooperative Societies as well as the Cooperative Credit Federations were solicited through detailed questionnaires covering several quantitative and qualitative aspects. The key data and information as also the views furnished by the respondents were critically analysed and deliberated upon by the Task Force in a series of meetings. The questionnaires are given in the Annexures 1.1 to 1.3.

**Meetings and Interactions**

**1.09** In addition to the extensive deliberations on each of the terms of reference in the light of the preliminary notes prepared by NABARD and the feed-back and suggestions received from the respondents, field level perceptions were shared through field visits to Rajasthan in the north and Karnataka in the south. Wide-ranging discussions held with the Secretaries, Cooperation and Registrars of Cooperative Societies and some of the top functionaries of these state governments, officials of the Apex and District level cooperative institutions and senior cooperators in these States. Discussions were also held with the office-bearers of both NAFSCOB and NCARDB Federation. These discussions and the responses received against the questionnaires have helped considerably the deliberations of the Task Force.

**1.10** The Task Force also studied the system of credit cooperatives prevailing in Germany. The mechanism evolved there has freed the cooperatives from government control and made them function as vibrant and autonomous institutions. There is arrangement in place to effectively supervise the cooperative banking activities. The audits are conducted by professionals and gives confidence to the system. Also, planned mergers are a part of restructuring process which incidentally reduced the number of cooperatives and has led to creation of larger number of viable institutions. The areas that impressed the Task Force most related mainly to their member driven character, autonomous decentralised structure and business thrust with competitive professionalism. Lessons in some of these areas were drawn, to the extent relevant to the Indian context, while making recommendations.

**Pattern of the Report**

**1.11** The backdrop necessitating the constitution of the Task Force and broad contours of the cooperative banking sector are outlined in the Introductory chapter. Chapter-II presents an overview of the cooperative credit structures, a brief outline of their present problems and the analysis and measures required to make them member-driven business enterprises. Chapter-III discusses vital issues relating to the available interest spread, lending costs and margins and funds management, etc. which have a critical bearing on the viability and sustainability of cooperative banks. The effectiveness of the cooperative credit system in terms of the roles and responsibilities played by each of the cooperative credit institutions are also examined. The financial performance of cooperative banks in the context of parameters required to make them efficient and cost effective institutions of rural credit delivery system are covered in Chapter-IV. Chapter-V traces the existing supervisory and regulatory framework in cooperative banks and measures required to strengthen them in the emerging context of stringent prudential and capital adequacy norms. Chapter-VI outlines the essential features of the revitalization package covering the roles and responsibilities of various agencies and players to ensure its success. The Summary of Recommendations of the Task Force is presented in Chapter VII.

**Acknowledgements**

**1.12** The Study of this nature and magnitude covering a wide spectrum of issues necessarily involves active interaction with several players and practitioners of cooperative banking system.

At the very outset, the Task Force places on record its gratitude to the Hon'ble Union Minister of State for Finance Shri Balasaheb Vikhe Patil who took keen interest in the progress of deliberations of the Task Force and shared his own perception and vision of cooperatives in the country. This was of great benefit to the Task Force.

The Task Force has also drawn heavily on the views, insights and field-level perceptions willingly shared by the CEOs of cooperative banks, Secretaries of Cooperation Department, Registrars of Cooperative Societies of various States and the office-bearers of the National Federation of State Cooperative Banks (NAFSCOB) and the National Cooperative Agriculture and Rural Development Banks Federation (NCARDBF) which proved to be of great help. The Task Force has benefitted greatly from the views and insights shared through the questionnaires and personal interactions. Field visits to Jaipur and Bangalore and discussions with the officials and non-officials of the Rajasthan and Karnataka SCBs, Ajmer, Bidar, Mandya, Mysore, Kolar and Sourth Canara DCCBs and Bhatkal and Mysore PCARDBs provided a closer view of the functioning of the cooperative banks. The Task Force places on record its thankful appreciation to these agencies and individuals concerned. The In-charges of the Regional Offices of the Reserve Bank of India (RBI) and the National Bank for Agriculture and Rural Development (NABARD) at Jaipur and Bangalore deserve appreciation for organising effective interaction with the cooperators in these states and also the field visits.

**1.13** The Report of the Task Force is primarily the product of the highly motivated and dedicated efforts of the team of Officers comprising Sarvashri B.R. Verma, Chief

General Manager , A.V. Sardesai, Chief General Manager and M.G. Warrier, Deputy General Manager of the Rural Planning and Credit Department of Reserve Bank of India and Sarvashri S.B. Sharma, Executive Director, K.P. Agrawal, Chief General Manager, K.V. Raghavulu, Chief General Manager and R. Nityanandan, Assistant General Manager of Institutional Development Department of NABARD. They have rendered valuable services in the preparation of background papers, agenda notes and questionnaires, minutes of deliberations, compilation and analysis of responses and the final draft report. The officers and other staff concerned of these departments also deserve high appreciation.

# CHAPTER II
# COOPERATIVES IN INDIA - AN OVERVIEW
## Cooperative Credit Structure Revisited

**2.01** The cooperative credit structure in India is almost a century old. The cooperatives were the only institutions providing institutional credit to agriculture till the commercial banks emerged on the scene in a big way, particularly, after their nationalisation in 1969 and social banking became their major thrust. Until the late sixties, farmers and the rural borrowers could look to only one institutional credit agency in the cooperative sector to meet all their credit needs whether it related to seasonal agricultural operations, investment in land or redemption of debts. For historical reasons, two parallel wings of cooperative credit institutions have come into existence and developed, one for purveying short-term and medium term credit to the cultivators and the other for dispensing long-term credit at first for debt redemption and subsequently for investment in agriculture. Cooperative credit institutions have been accredited with playing a significant role in the deployment of credit for agriculture and rural sector. The synoptic view of the organisational framework of the credit cooperatives is presented in Annexure 2.1. Credit cooperatives today cover 69 per cent of the rural credit outlets and their share in rural credit works out to about 45 per cent of the total credit for rural sector in the country. In purveying production and investment credit, it accounts for 57 per cent and 29 per cent, respectively. A comparative picture of credit dissemination of various rural financial institutions (RFIs) is depicted in Annexure 2.2.

**Role of Apex Cooperative Banks**

**2.02** The apex level cooperative credit institutions both in ST and LT structures are expected to play a leading role in the development of the respective cooperative credit structure. However, the Task Force observes that professionalisation and development of sound management system of the requisite level continue to take a back seat in these banks. Also, inadequate role space and autonomy for decision making have led to slow pace of changes in cooperatives incapacitating them to face the competition and challenges from the emerging financial sector reforms. This highlights the need for the apex level banks to play an important role in the development of different tiers in the system and necessarily achieve and inject into their human resources, the managerial, organizational and financial capabilities to face the future challenges. They have also to bestow greater attention on specialization and diversification in loan business, non-fund business, efficient financial intermediation, risk management and reduction in NPAs at each tier in the structure. They should play a very important role as supervisors of the lower tiers. They should also ensure that effective internal control system in each tier is in place and the quality and timeliness in the internal inspections and external audit are maintained. In the short-term cooperative credit structure, the DCCBs are expected to play a similar role so far as PACS are concerned.

**2.03** The ST credit structure obtaining in most parts of the country has been a federal one with a three tier system. As on 31st March 1999, ST structure had more than 92000 Primary Agricultural Credit Societies (PACS) at the village level, 367 District Central Cooperative Banks (DCCBs) at intermediary district level and 29 State Cooperative Banks (SCBs) at state level including newly formed Sikkim State Cooperative Bank, meeting all types of credit needs of the rural sector whose coverage extend to the remotest parts of the country. In smaller states and Union Territories having two-tier structure, the credit requirements of the PACS are being directly met by the SCBs.

**2.04** The LT cooperative credit structure has only two tiers, one at the state level and the other at the taluka/tehsil level. Some states have unitary structure with the state level banks operating through their own branches. As at the end of March 1999, the long term credit structure consisted of 19 State Cooperative Agriculture and Rural Development Banks (SCARDBs) with 745 Primary Cooperative Agriculture and Rural Development Banks (PCARDBs) in respect of federal structure and around 1500 branches in the unitary structure in eight states. Three SCARDBs had, however, a mixed structure incorporating both the unitary and federal systems (Assam, Himachal Pradesh and West Bengal). An integrated structure providing all types of agricultural credit (both short term and long term) under 'single window' credit system is obtaining in Andhra Pradesh. In the North-Eastern Region, only three states (Assam, Manipur and Tripura) are served by the LT structure. Generally, in the states not having the LT structure, separate sections of the State Cooperative Banks look after long term credit needs together with other Rural Financial Institutions (RFIs) i.e. branches of Regional Rural Banks and rural/semi-urban branches of Commercial Banks.

**Membership and Coverage**

**2.05** Under ST structure, the borrowing membership at PACS level as on 31 March 99 was around 440 lakh with outstanding credit of Rs.19586 crore and constituted around 41 per cent of the total membership. The membership of the ST structure has largely remained at the same level during the last three years. The ground level borrowing membership of the LT structure was comparatively higher in percentage terms at around 71 per cent of the total membership. The outstanding credit by end March 1999 was around Rs.17261 crore. Village-wise coverage by PACS has been almost 100 per cent. Cooperatives accounted for 31 per cent of the rural deposits and about 45 per cent of the loans and advances outstanding. Important financial parameters are presented in Annexures 2.3 and 2.4 for ST and LT cooperative credit structure respectively.

**2.06** Cooperative Credit movement in India has not been able to keep pace with contemporary RFIs despite sound principles and long existence. The cooperatives have neither remained `member-driven' enterprises nor their leadership in quite a large number of cases had proved to be professional, transparent, accountable and functionally effective. The vital link in the ST cooperative credit system viz. the PACS at the grassroots level had generally been very weak. Most of them have been small in size to be economical and viable, and a large number of them dormant, but existed on paper. They suffered from infrastructural weaknesses, operational inefficiencies and structural flaws. They didn't generally give a look of a real financial institution to inspire confidence in their existing and potential members, depositors and borrowers.

**2.07** Other major factors responsible for the deterioration in the performance of cooperative credit institutions are low volume of business/low resource base, low borrowing membership, lack of democratisation and professionalisation, high incidence of overdues and almost stagnated recovery performance. They also suffer from the fall-out of dual control, i.e. by the state government through the Registrar of Cooperative Societies and by the RBI/NABARD since most of the states have not yet adopted the Model Act or enacted suitable amendments in the State Cooperative Societies Acts and bye-laws to tackle this problem.

**2.08** Borrowing membership has direct correlation with the level of recovery performance. It was observed that the percentage of borrowing members to total members in ST structure during 1997-98, was substantially below the All India percentage of 41 in eight states viz. Andhra Pradesh (29 per cent), Assam (2 per cent), Himachal Pradesh (26 per cent), Karnataka (16 per cent), Meghalaya (23 per cent), Rajasthan (33 per cent), Uttar Pradesh (27 per cent) and Pondicherry (23 per cent). The high level of overdues in these states had drastically reduced the eligibility of a large number of cooperative members for fresh borrowings and this had evidently hampered growth in the borrowing membership. It was also substantiated by the fact that the states having better recovery performance had higher percentage of borrowing membership, viz. Haryana (66 per cent), Punjab (63 per cent), Madhya Pradesh (56 per cent), Tamilnadu (55 per cent), and Gujarat (54 per cent).

**Low Volume of Business and Resource Base**

**2.09** The main sources of funds of PACS at the ground level had been quite fragile comprising share capital, reserves, deposits and borrowings. Details about resource base of different cooperative institutions are given in the Table below.

Resource Base of Cooperative Banks
(Position as on 31.03.1999)

(Rs. Crore)

| Agency | Owned Funds | Deposits | Borrowings | Total |
|---|---|---|---|---|
| SCBs | 3618<br>(9) | 25786<br>(66) | 9849<br>(25) | 39253<br>(100) |
| DCCBs | 7285<br>(11) | 45609<br>(69) | 12796<br>(20) | 65690<br>(100) |
| PACS * | 3329<br>(15) | 5255<br>(24) | 13299<br>(61) | 21883<br>(100) |
| ST-Total | 14232<br>(11) | 76650<br>(61) | 35944<br>(28) | 126826<br>(100) |
| SCARDBs | 2022<br>(15) | 240<br>(2) | 11093<br>(83) | 13355<br>(100) |
| PCARDBs | 1169<br>(14) | 152<br>(2) | 6849<br>(84) | 8170<br>(100) |
| LT Total | 3191<br>(15) | 392<br>(2) | 17942<br>(83) | 21525<br>(100) |
| Grand Total | 17423<br>(12) | 77042<br>(52) | 53886<br>(36) | 148351<br>(100) |

* Position as on 31 March 1998

**2.10** More than 60 per cent of the resources of PACS were in the form of borrowings from higher financing agencies and have rather remained fragile. The deposits mobilised by these cooperatives were very small and even these were partly kept with DCCBs/ higher tiers. Poor recovery performance and incidence of high overdues had drastically reduced the eligibility of new members to borrow and had resulted in low paid-up share capital which in turn directly determined their borrowing capacity. The limited resources had resulted into low business levels, though the demand for credit had been continuously increasing. Need for strengthening resources, especially the capital base of cooperatives has been emphasised by all the responding cooperators and bankers. Task Force also recognises it as an essential step in facilitating upshooting the performance of cooperatives through increasing volume of business.

**2.11** The total loans issued by SCARDBs and PCARDBs increased from Rs.2,151 crore and Rs.1,455 crore, respectively during 1996-97 to Rs.2,296 crore and Rs.1,594 crore during 1998-99, registering an increase of 7 per cent and 10 per cent, respectively. The data on loans issued by different states show that Uttar Pradesh, Tamil Nadu, Punjab, Kerala and Haryana accounted for nearly 67 per cent of the total loans issued by SCARDBs. The share of SCARDBs in Rajasthan, Gujarat and Karnataka ranged from 7 per cent to 8 per cent in the total disbursements. There was a sharp decline in the amount of loans issued by SCARDBs of Maharashtra and Orissa during 1997-98 as these cooperatives were not eligible for refinance from NABARD due to poor recovery performance and defaults.

**2.12** The long term structure has negligible resource base of its own as it raises term resources for its operations through borrowings supplemented by their owned funds comprising share capital, reserves and very little of deposits. The SCARDBs have been permitted to mobilize fixed deposits since 1997 for periods not less than 12 months subject to aggregate deposits accepted and outstanding, at any point of time, not exceeding the net owned funds of the SCARDBs as revealed in the previous year's balance sheet. The scheme, however, had remained a non-starter in a number of states signifying an urgent need for policy intervention to relax certain conditionalities such as period of deposits, source and quantum of deposits, type of business they do, etc. to enable ARDBs to mobilize sufficient resources. In addition, poor recovery performance had affected the ability of these institutions, particularly at primary level to cater to the credit needs of new and non-defaulting members and had resulted in low paid-up share capital which in turn directly determined their borrowing capacity. The limited resources had inevitably led to low business levels, notwithstanding the continuously increasing demand for credit. In this context, the need for strengthening the resource base, especially the capital, for increasing their levels of business hardly requires any emphasis. Task Force recognises increasing borrowing membership and volume of business as essential steps for improving the performance of cooperatives. The Task Force would even suggest that in areas having potential for setting up of more than one society, state governments may not object to registration of more than one PACS, provided the government is satisfied about the viability of both the existing and new society to be registered and that it would increase the overall borrowing membership of cooperatives in that area.

**Cooperatives as Member-driven Business Enterprises**

**2.13** One of the major factors affecting cooperatives to function as member-driven organisations is lack of their democratic management in letter as also in spirit. As the cooperatives are essentially peoples' movement, there is a need to restore the democratic character of cooperatives both in management and business process and to suggest ways to improve their borrowing membership, at the same time reducing the state's interference in the management and business processes of cooperatives. Despite the persuasive efforts to ensure democratisation in cooperatives, the boards of as many as 10 SCBs (36 per cent), 99 DCCBs (27 per cent), 6 SCARDBs (32 per cent) and 104 PCARDBs (14 per cent) stood superseded, as on 31 March 1999. It is a matter of serious concern that a substantial number of institutions in each tier were deprived of the guidance and direction of democratically elected boards.

**2.14** The Committee to Review Arrangements For Institutional Credit for Agriculture and Rural Development (CRAFICARD) in their report had recommended that an appropriate provision be incorporated in the Banking Regulation Act, 1949 (AACS) to make it obligatory on the part of the state governments to seek prior consultation with RBI when it proposed to supersede the Board of Management of the cooperative banking institutions. In the case of SCARDBs also which are not yet covered under the BR Act, 1949 (AACS), the RBI/NABARD should make it a condition for providing financial assistance that supersession of the Boards of Management of these banks should be done only by prior consultation with NABARD.

**2.15** Many of the cooperative banks in their responses had suggested that restoration of undisrupted democratic management with the involvement of the elected members with full authority and freedom would facilitate cooperatives to function effectively. These banks had further suggested that the system of nomination of government representatives on the board needs to be dispensed with and they should be allowed to elect their directors from amongst their members. Some of the state governments have initiated steps to amend their State Cooperative Societies Act/Laws to ensure regular conduct of elections. The Government of Rajasthan, for instance, has initiated action to amend the Cooperative Societies Act to give appropriate representation to PACS and to various groups as also to continue the elected boards till subsequent elections are held. The Government of Karnataka has come out with a new Cooperative Law, which among other things, ensures conduct of elections on time by the existing board as otherwise, the existing board members would be disqualified to contest next elections. The Task Force, therefore, feels that the empowerment process of the credit cooperatives would require a continuous review of the approach of all concerned viz. the state governments, central government, RBI and NABARD to facilitate making cooperatives 'member-driven' organisations and to ensure that they are not subjected to excessive control and regulation.

**2.16** Task Force upholds the view that there is an urgent need for the state governments to review and relax their control over the cooperatives. The power of supersession of the board of directors should not vest in the state government. However, in the existing scenario, if at all it is to be used in public interest, it may be done by the state government very sparingly in consultation with NABARD.

**2.17** The Task Force further feels the need to have frequent dialogue with the state government by a Standing Committee comprising of representatives of GOI, RBI, NABARD and Federation of the concerned cooperative banks to sensitise the state governments on various issues relating to cooperatives, one of which could be on steps to make them 'member driven', drawing a definite plan of action with a time-frame for necessary amendments in the state acts and bye-laws, etc.

**Implementation of Model Act**

**2.18** Implementation of Model Act in cooperatives has been advocated in the past to, inter alia, ensure democratic functioning of cooperatives with autonomy and flexibility in functioning and at the same time reducing the state/RCS interference to the minimum. The approach of Model law by Choudhary Brahm Perkash Committee was to give a genuine character to cooperatives to facilitate building of an integrated cooperative structure with the federal organisations at various levels more responsive and accountable to their members. It will also minimise government control and interference with decision making and help eliminate politicisation. This law advocates removal of the colonial approach and character of existing laws and it truly meets the norms of governance of a democratic autonomous enterprise. It is necessary to enact new laws which truly meet the norms of governance of a democratic, autonomous enterprise deeply committed to democratic values.

**2.19** The governments of Andhra Pradesh, Bihar, Jammu & Kashmir and Karnataka had brought out modified Cooperative Acts somewhat on the lines of Model Act. However, its impact was not yet very much visible as they were not registering the old societies under the new Act. The new Acts were applicable only to new societies and the existing societies continued under the old Acts. Refund of share capital of state government is one of the pre-conditions for the existing societies to move over to the new Act. However, the informal feedback shows that some of the state governments are reluctant to accept refund of their share capital. The Task Force recommends adoption of the essential features of Model Cooperative Societies Act by all the state governments or bringing in necessary amendments in the State Cooperative Societies Acts so as to reflect the spirit of democratisation and self-reliance enshrined in the Model Act.

**2.20** Task Force emphasises that there was a need to develop local leadership which would evince keen interest in the affairs of the cooperatives leading ultimately to democratisation of cooperative institutions. For tapping new sources of leadership, specific programmes in cooperative development should be organised. The leadership development programme should form an integral part of HRD strategy. As responsive and participative membership was essential for leadership growth and development, it may be necessary to intensify cooperative education programme further. There could be a number of institutions involved in this. NABARD may take a lead in the matter.

**Human Resources Development (HRD) in Cooperatives**

**2.21** Human Resources Development is an important component for the success of any organization. It has, however, not been accorded the importance it deserves in the cooperative institutions. The existing organisational design of most of the cooperative banks does not conform to the basic principles of management of a sound financial institution. The cooperative banks are generally headed by a committee of elected members, who are not necessarily professionals. The committee takes crucial business decisions including sanction of loans, investments, interest rate fixation, etc. which require a minimum degree of skill and expertise. The role of Chief Executive Officer is minimal or negligible in all these functions. The Task Force, therefore, is of the opinion that the cooperative banks will have to evolve sound personnel policies encompassing proper manpower planning and assessment. It is necessary to evolve scientific staffing norms. There should also be a conscious policy for developing the second line of management in all key functional areas of the bank.

**2.22** Conscious and well specified HRD principles in crucial areas like recruitment, placement, training, career progression, managerial grooming, etc., are lacking in most of the cooperative banks. While many of the SCBs had a semblance of a systematic approach, the same could not be said of the DCCBs, which were the basic cooperative banking institutions at the district level. Most of the recruitments were done on adhoc basis instead of on any objective and systematic manpower assessment. There was no evidence of an objective system involving professional guidance for recruitment in cooperative banks in several states. The absence of proper manpower planning and assessment and above board selection methodology, more often than not, resulted in inappropriate staff strength. Over staffing was particularly a prominent phenomenon in regard to the lower grades of staff. This could perhaps be the result of the management succumbing to external interference and pressures. All these inevitably contributed to inefficiency and lower productivity. The Task Force suggests that the banks should have objective and transparent policy for recruitment of staff . For this purpose, cooperative banks may consider utilising the services of the Regional Banking Services Recruitment Boards.

**2.23** Only in four out of 29 SCBs, the banks had their own CEOs. The CEOs and other senior officers were often taken on deputation from the state governments, particularly from the Department of Cooperation. Generally, the senior positions were occupied by the deputationists at the apex as well as at the DCCB levels. The lower positions were, however, manned by banks' own staff. Professionalisation warrants that the staff develop organizational loyalty and have a sense of oneness with the aims, objectives and prosperity of their organization. With a large number of deputationists at the helm of affairs of cooperative banks, this spirit is conspicuous by its absence. In the absence of professional management, accountability and uncertain tenures, they cannot be expected to provide dynamic leadership to the organization. The Task Force, therefore, feels strongly that normally the government should not appoint its officers as CEOs. In the event of unavoidable supersession of board of directors, CEO should preferably be a person with suitable banking background and the elected boards should be restored at the earliest opportunity.

**Professionalism in Cooperative Banks**

**2.24** Professionalism reflects the coexistence of high level of skills and standards in performing duties entrusted to an individual. This has not developed to the desired extent among the cooperatives and has proved to be the weakest and a neglected area in their evolution. This was primarily due to the evolution of cooperatives as peoples' organisations rather than business enterprises adopting professional managerial systems.

**2.25** The absence of a proper system of placement and skill upgradation inputs are other lacunae constraining the professional management in cooperative banks. Though there is a system of training in place in many of the cooperative banks, attempts are seldom made to match them with the current and future staff requirements. It is desirable that the training programmes encompass skill upgradation and aptitude development in full measure. It is also necessary to keep the staff sufficiently motivated through periodic job rotation, job enrichment and recognition of performance.

**2.26** The cooperative banks should work like professional organizations on sound managerial systems in tune with the needs of the time, taking care of future projections of requirements, to retain and improve their market share and identity in the long run. The Task Force suggests that the banks' boards should be professional and accountable ones. In case professionals in the field of banking, accountancy, funds management, information technology, etc. are not elected to the board, NABARD may nominate such professionals to the boards. It is further suggested that appropriate steps should be taken for the development of HRD in cooperative banks through training at various levels.

**2.27** The introduction of cadre system in cooperatives was primarily recommended to help providing professional management to the primary societies and to increase the efficiency of the management and integration of the movement. However, it was observed by the Task Force that the scheme had neither helped in professionalisation of the management services to PACS nor had brought about integration or propagation of the cooperative spirit in true sense. In fact, it had in several states led to large-scale indiscipline, lack of commitment to the management, deterioration in the business of cooperatives and had thus defeated the objectives of its introduction. The scheme was disbanded in some states or was functioning under various limitations.

**2.28** The Task Force, therefore, feels that caderisation within the cooperatives, as a pool, has virtually outlived its utility in many states and there is a need to consider disbanding the system wherever it is not working effectively. In the interregnum, pending disbanding of the cadre system, it will help if frequent transfers of CEOs and key personnel across the banks are not resorted to and a minimum period of their posting in a particular bank is ensured. The Task Force advocates that DCCBs with good deposit base should have their own staff. For the purpose, it is necessary to evolve a sound personnel policy and appropriate training modules for the staff in different categories on a continuing basis.

**2.29** Given the overall aim of institution building and making cooperatives self-directed decentralised institutions, there is a need for giving as much autonomy as possible as advocated elsewhere in the Report to facilitate their proper growth and progress. If cooperative banking institutions are to function on professional lines, genuine cooperative leaders will have to be groomed through developing appropriate training modules providing specialised knowledge, information and skills, and giving guidelines on do's and don'ts. This calls for measures towards education programmes for members and office bearers. The National Federations of the cooperative banks and the higher tiers should come forward to help these banks in these matters.

**Duality of Control**

**2.30** 'Cooperation' is a state subject under the Constitution governed by the respective State Cooperative Societies Acts. The cooperatives are at present under the control of state governments in all matters relating to registration, membership, election, financial assistance, loaning powers, business operations, loan recovery and audit. Some aspects relating to banking activities are regulated and supervised by Reserve Bank of India/NABARD under BR Act 1949 (AACS). There is thus no clear demarcation of regulatory powers, which at times has resulted into cross directives from the controlling agencies, affecting the working of cooperatives and has also led to undermining the performance of cooperative banks.

**2.31** On the issue of duality of control, responses from the cooperative banks and RCS/Secretary, Cooperation were mixed. All the bankers, however, supported a common view that duality of control should be done away with at the earliest. Some of the Registrars of Cooperative Societies expressed that duality did not necessarily amount to duplication of the same functions by more than one controlling authority, and that at times, duality helped in improving the efficiency of the structure. In the states where there was no interference on the part of the government/RCS, duality had not affected functioning of the cooperatives. Some of the cooperators suggested that the appointment of CEO and investment decisions should be left fully to the bank management concerned and the banking related functions namely investment decisions, fixing of interest rates and opening of branches by DCCBs, may be governed only through the provisions of the BR Act and should not be subjected to directions from any other source.

**2.32** The Task Force feels that to remove the overlapping controls and endowing functional autonomy and operational freedom to cooperatives, there is an urgent need to prepare specific action plans. These plans should redefine the relationships clearly, the roles and responsibilities and areas of regulation through delegation of powers in respect of all the players in the field viz. the state government, RBI, NABARD and apex bank/cooperative institutions. Banking functions should be brought completely under the BR Act to be regulated by the Reserve Bank of India.

**2.33** As stated earlier, duality of control between the state governments on the one hand and RBI/NABARD on the other, has resulted in cross-directives, adversely affecting the working of the cooperative banks. It is, therefore, necessary that bank-related functions of the cooperative banks be brought fully under the purview of Banking Regulation Act, 1949 in line with existing provisions of BR Act as applicable to banking companies i.e. commercial banks registered under the Companies Act. The provisions of BR Act should override the provisions of the State Acts/bye-laws/rules which run counter to it. This will lead to clear demarcation of the areas of activities of cooperative banks which will fall under the domain of Reserve Bank of India vis-à-vis the Registrar of Cooperative Societies. Some of the banking-related functions which will exclusively be under the domain of RBI/NABARD are :

a. Issues relating to interest rates, loan policies, investments, prudential norms, forms of financial statements, reserve requirements, appropriation of profits, etc.
b. Branch licensing, area of operation.
c. Acquisition of assets incidental to carrying on banking functions.
d. Policy regarding remission of debts.
e. Any other banking related functions to be notified/directed by RBI from time to time.

The responsibilities of the Registrar of Cooperative Societies will generally be in areas concerning registration of cooperative societies, approval and amendments to bye-laws, election to management committee and protection of members' rights.

**2.34** Presently, PACS and the LT structure in cooperatives have been kept outside the purview of the BR Act (AACS). Allowing ARDBs to function as full fledged banks would enable them to mop up rural savings effectively, build up strong resource base and reduce dependence on external financial support to help provide banking facilities in competition with other banking and financial institutions to have wider coverage and outreach for the cooperative sector, to increase their investment avenues and to utilise their experience and expertise in investment credit in the competitive market. This would also reduce structural weaknesses and constraints in the growth of ARDBs.

**2.35** The Task Force finds force in the argument for conversion of the SCARDBs into full fledged banks. However, such a conversion would need financial strength to withstand prudential stipulations. The Task Force is of the view that financially strong SCARDBs in the unitary structure may opt for conversion into full fledged universal banks. Since they would be neither like SCBs nor DCCBs, and by dint of their direct lendings to individuals will be more like state-wide urban co-operative banks. Therefore, separate criteria may be evolved by RBI for issue of licenses to them as banks. Notwithstanding their financial strength, these banks would require a lot of preparation in the areas of manpower development and training, infrastructural adjustments, etc. before embarking on the new frame of structure and activities. Some of the financially strong PCARDBs in the federal system may also be considered for above transformation into full-fledged universal banks like local area banks in the cooperative fold.

**2.36** The Task Force is conscious of the fact that a large majority of SCARDBs and PCARDBs will not fall in the above categories. Some of the strong SCARDBs in the federal structure may have to first convert into the unitary structure to be able to reap the advantages of conversion into universal banks. The weak SCARDBs and PCARDBs may have to keep striving to improve their financial strength and qualify for being treated as banks or merged with the short term structure.

**2.37** A large number of PACS have also been accepting sizeable deposits from non-members. In some of the states, they have been using the word ' bank/s' as a part of their name, giving an impression to public that keeping deposits with them was as safe as keeping deposits with other banks. The B.R. Act by an amendment should explicitly prohibit the PACS from using the word `bank' as a part of their name. Stringent penalties may be prescribed for violating these provisions.

**Business Diversification**

**2.38** It has been emphasised from time to time that the vitality and viability of the cooperative credit system should be preserved to enable the cooperatives to function as effective agencies for dispensation of rural credit. The cooperative credit institutions accounted for a significant share of about 45 per cent in the total direct institutional credit disbursed for agriculture and allied activities. The revitalisation and strengthening of cooperative institutions at all levels should, therefore, be considered not only desirable but also expedient to enable them to function as effective purveyors of rural credit. The low business levels, particularly at the level of primaries were one of the major reasons for a number of them being non-viable. The average business level of PACS as on 31 March 1998 was Rs.17 lakh as against the expected requirement of Rs.30 lakh to break-even. Even at DCCBs level, 178 out of 367 DCCBs had business levels of less than Rs.100 crore - a level which was essential for their viability. PACS were loaded with business like PDS which in many cases was stated to be unremunerative and unviable. The PACS should have the freedom to accept or not the PDS business depending on the remuneration available. They may, however, take up distribution of seeds, fertilizers etc. as also giving on hire the agricultural implements, tractors etc. to augment their income. The Task Force emphasises diversification of business products as the prime need at all levels in cooperative credit institutions. At the level of DCCBs, there is an imperative need for devising attractive banking products for mobilising savings in their areas of operation. For the purpose, a clear perception of their client-profile and thorough understanding of his needs will be a necessity. Simultaneously, the banks should win the confidence of clients through better customer service and credit delivery to improve business. They should upgrade their services and technology to provide instant, efficient and affordable services. Fostering a healthy banker-client relationship is essential for sustainability of banks through greater business volumes and improved productivity.

**2.39** It is imperative that the cooperative banks enhance their loaning progressively. Where there are genuine surplus of funds after meeting the traditional loaning activities, the cooperative banks should diversify their loan portfolio. The diversified avenues may include, inter alia, provision of housing loans, consumer loans, consortium financing, financing of services sector, distribution of insurance products, etc. It has come to the notice of the Task Force that cooperative banks are at times constrained by the provisions in their state cooperative societies acts/bye-laws for financing sectors outside the cooperative fold even if they had genuine surpluses after meeting their traditional commitments. The Task Force is of the view that such restrictions wherever they exist, need to be relaxed in order that such of the institutions which have large surpluses are able to deploy them profitably. There was a suggestion in this context that a portion of the outstanding credit of cooperative banks should be permitted to be deployed for commercial purposes outside the cooperative fold. While agreeing in principle to the need for permitting cooperatives to diversify into commercial lending, the Task Force is of the view that linking the same to a certain percentage of credit outstanding may not necessarily enhance the total volume of credit. Instead the proportion of credit for commercial purposes may be linked to a certain percentage of deposits. This measure in addition to helping the cooperative banks to diversify their loan business may also to a certain extent resolve the problem of surplus funds and provide incentive to mobilise more deposits and thus improve their profitability. The Task Force, therefore recommends that the cooperative banks may be permitted to lend up to 10 per cent of their deposits outstanding as at the end of the previous year, for commercial and other high tech projects outside cooperative fold.

**2.40** Recovery performance in cooperative banks, continued to be far from satisfactory. As at the end of June 1999, as many as 12 SCBs (42.8 percent), 164 DCCBs (44.7 percent) and 11 SCARDBs (57.9 percent) had recovery levels of less than 60 percent. As on 30 June 1999, chronic overdues at the level of SCBs and DCCBs at Rs.1095 crore and Rs.2074 crore constituted 41 percent and 24 percent, respectively of their total overdues. The chronic overdues at the level of SCARDBs and PCARDBs at Rs.459 crore and Rs.456 crore, constituted an alarmingly high level at 33 percent and 41 percent respectively of their total overdues. Given the fact that recoveries could have been much less but for the assistance and intervention of the state government concerned, the recovery performance of cooperative credit institutions was a matter of serious concern.

**2.41** The ever increasing incidence of overdues was not only affecting the capacity of the cooperative banking system to recycle the funds and accelerate the flow of credit at the grassroots/middle level but also its profitability and viability. Inadequate legal framework and government support in effecting recoveries, socio-political environment in which the cooperatives function, announcement of loan and interest waivers across the board have been some of the external factors which have adversely affected the recovery performance. Defective loan policies and procedures, poor quality of lending, inadequate and ineffective supervision over the end-use of credit, over-emphasis on target achievement and faulty selection of beneficiaries are some of the other factors adversely affecting the recoveries of cooperative banks.

**Institutional Mechanism to support farmers in case of natural calamities**

**2.42** Loan delinquencies and poor repayment are also caused on account of natural calamities such as droughts, floods, etc. Loan defaults on account of these factors are beyond the control of the farmers. It is generally the experience that in a cycle of 3 to 4 years the farmers get good yield in one or two years which enables them to meet their entire repayment obligations. It is, therefore, necessary to provide for an institutional mechanism to ensure uninterrupted credit flow to these farmers. The duration of the credit cycle in such cases would depend on the past experiences of the regions which are generally prone to natural calamities. NABARD had introduced a scheme known as the “Cyclical Credit”, for meeting the production credit needs of farmers, on a pilot basis in 1988-89, in seven selected watershed projects in Andhra Pradesh, Karnataka and Tamil Nadu. The objective of the scheme was to ensure that the farmer did not face any resource constraints and the financing agency stood by him in providing required crop loan irrespective of the repayment difficulties induced by the vagaries of nature. The scheme sought to break the vicious cycle of low productivity, low income, low surplus and low investment. The scheme was not continued after the pilot stage. In the light of the experience gained, NABARD may consider reviving the scheme.

## CHAPTER III

## COSTS, SPREADS AND EFFECTIVENESS OF COOPERATIVE CREDIT STRUCTURE

### Costs and Margins - Interest Spread

**3.01** Banking is primarily an intermediation of funds between the ‘savers’ in the form of deposits and the ‘users’ in the form of loans and advances. This intermediation to be successful on a continuing basis, calls for a profitable trade-off between returns to the savers and costs to the borrowers supplemented by an appropriate spread of margin adequate enough to sustain the operations of the intermediary viz. the bank. Given the keenness to offer maximum returns to depositors and on the other hand extending credit to the preferred clients at lower rates, the difference between the cost of raising deposits and borrowings and the returns on loans and advances, which constituted the interest spread/margin, was becoming increasingly narrower. Low margin was a problem afflicting the banking institutions both in the commercial as well as cooperative sectors.

**3.02** Transaction or management costs and growing risk costs were required to be met out of the interest spread available to the financing banks. To enable the credit institutions to be self-sustaining, it was necessary that the gross margin was adequate enough to cover the transaction and risk costs besides leaving adequate surplus to meet future eventualities and take care of the interest of the shareholders. There is again very little that the credit institutions, particularly cooperative credit institutions, can do to bring about reduction in transaction costs particularly due to high establishment expenses. It is only possible to scale it down as a proportion to total volume of business or transaction cost per unit of business, by increasing the level of business.

**3.03** Cross subsidisation through concessional refinance made available by higher financing agencies and fine-tuning of the internal efficiency were the only means available to the co-operative banks to optimise their interest spread. The maneuverability in this regard was limited particularly for cooperative banks given the smaller area of operation and the nature of credit retailing undertaken by them, combined with the fact that cooperatives traditionally offered slightly higher interest rates to their depositors. Also, with the increasing presence of commercial banks in the field of agricultural credit enjoying greater patronage of the bigger cultivators, cooperative banking was constrained further in the scope of increasing their volume of business. Absence of modern banking services and well trained professional staff were other constraints inhibiting their internal efficiency. As a result, the cooperative banking system at the grassroots level in particular was prima facie not financially sound. The Agricultural Credit Review Committee, 1989 (ACRC) had brought out that the net margins at the level of PCARDBs and PACS worked out to 1 percentage point and 3.21 percentage points, respectively below the margins required for viable operations. The ACRC further observed that the net margin could be even worse if the costs on overdues and bad debts were added.

**3.04** The ACRC had recommended that the credit system might regulate the interest rates in a manner that the institutions could pay for the costs of resources raised as well as for servicing of deposits and supervision of advances with an adequate cushion to ensure their growth and survival. The Narasimham Committee on Financial Sector Reforms(1991) found the administered structure of interest rates characterised an inverted yield pattern and recommended that ‘interest rates should increasingly be allowed to be determined by market forces’. Following these recommendations, there had been persistent demand from the cooperative credit institutions for greater freedom to set their own rates of interest so as to have better margins and thereby improve their profitability and viability.

**3.05** In response, the SCBs and DCCBs were given freedom from the interest rate regulations in regard to deposits and advances effective 18 October 1994 subject to the prescription of floor lending rate of 12 per cent. Likewise, the ARDBs were given freedom to decide their interest rates on advances to ultimate borrowers from 1 August 1995.

**3.06** A review of the position obtaining in regard to ST structure in eighteen states as on 31 March 1998 revealed that SCBs in only five states and DCCBs in only three states enjoyed interest margins recommended by the ACRC; in the case of LT structure, 4 SCARDBs each in federal and unitary structures and PCARDBs in 2 states enjoyed the margins recommended by ACRC (Annexure 3.1). As the interest rates offered on deposits were already high, there was hardly any scope for taking advantage of the freedom allowed to determine the rates of interest on loans and advances. This was further constrained by competitive rates offered by other rural financial institutions. At the level of PACS, on which rests the success of the entire cooperative credit structure, not much attention and consideration seem to have been bestowed upon their profitability and financial performance.

**3.07** The low interest spread had affected the overall net margin available to the cooperative credit institutions. The overall net margin available to SCBs ranged between 0.29 percent (Gujarat) and 2.03 percent (Andhra Pradesh). In the case of DCCBs, it ranged from 0.11 percent (Andhra Pradesh) to 2.28 percent (Himachal Pradesh). This margin was, however, exclusive of the risk costs. The position at the level of PACS was more disturbing with the available information indicating that the net margins ranged from (-)3.80 percent (Jammu and Kashmir) to 0.40 percent (Madhya Pradesh). At the level of PCARDBs, the same ranged from (-) 1.93 percent (Madhya Pradesh) to 1.53 percent (Tamilnadu). Particulars of net margins available to all the institutions in the ST and LT credit structures as on 31 March 1998 are given in Annexure 3.2.

**3.08** With the risk costs in SCBs and DCCBs constituting about 1 per cent and 1.5 per cent, respectively, the net margin in many of these institutions would be under severe strain especially at the level of DCCBs. Operating with such negligible or negative margins was inconceivable for any organisation which sought to function on a sustainable basis. The fact that cooperative banks continued to operate on such prima facie non-viable keel bears testimony to the absence of business-like approach in running these institutions and securing management of the required quality. As observed by the All India Rural Credit Review Committee (1969), “... cooperatives are getting so used to subsidies and protection of various types that cost considerations tend to be almost wholly ignored in the formulation of policies and programmes.... The most prominent example of this approach is reflected in the attitude of the cooperatives towards rates of interest charged to their borrower. There is a tendency to emphasise the need for low rates of interest to the relative neglect of other important considerations such as building-up reserves and employing staff of the right quality”.

**3.09** The rationale for interest sharing comes when there is refinance from higher financing agencies like NABARD. In the ST and LT structures, the refinance forms about 35 percent and 85 percent respectively of their working funds. Another factor which is relevant to costs is the type of structure viz. unitary or federal prevailing in the state. While the unitary structure is cost effective to an extent as it eliminates the middle tier, the federal structure is preferred for better supervision over dispensation of rural credit if the geographical coverage is large.

**3.10** The present scenario of interest rates and margins is indicative of the continued persistence of cooperative banks with the tendency to charge low rates of interest. Experience in India as well as in other countries has shown that borrowers consider adequacy and timeliness more important than the cost of credit. The cooperative banks need to realise that indifference to the need for viability is inconsistent with the goal of turning themselves essentially into business enterprises especially in the current competitive environment. Cooperative banks will have to necessarily charge such rates of interest on their loans and advances as will cover the cost of raising funds, transaction and risk costs.

**3.11** The activities of the primary societies hitherto have been of modest dimensions relying upon the services of minimal staff and they were also expected to operate on small margins. With the increasing complexity and volume of credit dispensation to the tune of at least Rs.25 to Rs.30 lakh as recommended by the ACRC, and provision of other diversified services expected of PACS, there is a need for adequate staff on its pay roll. The interest rate and margin to be available at the level of PACS should be adequate to cover the cost of raising funds and rendering services together with a reasonable surplus to meet future exigencies and eventualities. For this purpose, the DCCBs should take-up a suitable PACS-specific exercise in consultation with the PACS.

**3.12** In addition to their normal loaning business, PACS are required to undertake activities such as participation in Public Distribution System, etc. These non-credit business generally do not provide adequate margin on account of which PACS incur losses. The Task Force is of the view that no unremunerative business is thrust upon the PACS and that they should be allowed the discretion to accept or not to accept any non-credit business at the instance of the state government. The continuance or otherwise of any business especially non-credit business presently being undertaken by the PACS may also be left to their discretion.

**Funds Management**

**3.13** Funds management is important for maximisation of profit in the present day banking. An effective and efficient funds management strategy seeks to optimise the returns on every unit of resource of the bank through prudent use of funds, appropriate product pricing, planning of investment options, liquidity management and a proper matching of its assets and liabilities. In many of the cooperative banks, an efficient system of funds management has been rather conspicuous by its absence as a result of which, they are often stuck with high quantum of surplus funds mobilised at high cost.

**3.14** The problem in regard to funds management by cooperative banks was essentially two-fold. While the SLR funds give a lower yield, there are limited avenues for deployment of the surplus funds. These avenues are by and large, government securities, fixed deposits, approved bonds, US-64 units of UTI, certificate of deposits, call and short-term deposits. As much as fifty percent of these investments were concentrated in GOI/ state govenrnment securities and ‘approved’ bonds. In many of the cooperative banks, investments were more in the form of a one-time operation wherein the investments were redeemed or renewed on maturity. In the absence of a full-fledged Investment Cell with professional and skilled funds managers in cooperative banks, there was hardly any attempt to mid-term maneuvering of investments in the form of trading in government securities, swapping of instruments, etc.

**3.15** The money market instruments being available in Mumbai in the case of treasury bills and in the four metropolitan cities in the case of call money and certificate of deposits, and to certain major centres only in the case of inter bank deposits, the scope for maximising returns on investments was rather hampered for the cooperatives. The stipulations that required permission of RCS for investing in institutions outside the cooperative fold, and the need for obtaining prior approval of RBI to invest upto 10 percent of their deposits of the previous year in PSU bonds, have further restricted the scope for maximising yield on their investments.

**3.16** The position at the level of DCCBs was even worse with the virtual absence of money market instruments at the district level. Though a free remittance scheme by SBI is in existence, certain operational irritants which make it difficult for the banks to avail of this facility, have led to DCCBs being stuck up with cash balances much in excess of their own requirements. Further, lack of professional approach to investment activities, have resulted in cooperative banks maintaining liquidity far in excess of the required levels. It would, therefore, be necessary for the cooperative banks to devote adequate attention to maximise their returns on every unit of resources through an effective funds management strategy and mechanism. For the purpose, institution-specific investment policies need to be evolved taking into account, inter alia, composition of funds, maturity pattern of assets and liabilities, availability of money market instruments, exposure limits and efficient monitoring and control mechanism. This would, perforce, necessitate constitution of an Investment Cell with staff having requisite qualifications and skills to evaluate and select money market instruments available. The higher tier of the system should take the responsibility in this matter. The success of the Investment Cell will depend predominantly on the infrastructure and high quality MIS support made available. It is necessary to provide periodic skill upgradation programmes to CEOs and staff of Investment Cell to keep abreast of changes in the money market conditions.

**3.17** The surpluses have arisen essentially on account of the deposit mobilisation efforts of cooperative banks which have been traditionally offering slightly higher interest rates on their deposits. In the post liberalisation era, while other banking institutions have scaled down their interest rates on deposits, the cooperative banks have continued this practice without much regard to the prevalent market conditions. In the absence of proper investment planning and inability to exercise high yielding investment options, many cooperative banks were not able to earn adequate return even to meet the service cost on deposits. As revealed by a recent study on Funds Management by Cooperative Banks in one of the states undertaken by NABARD, the deposits mobilised at 15 percent by DCCBs were being invested by the concerned SCB in the money market at rates averaging 6 percent. Likewise, another SCB ended up earning an interest rate of 10 percent on deposits mobilised at 13 percent.

**3.18** A brief review of the growth of deposits and advances of co-operative banks since 1993-94 revealed that the growth rates in deposits far outstripped the growth rates in loans and advances. The average growth rates in deposits during the period from 1993-94 to 1997-98 in SCBs and DCCBs were 22.4 percent and 25.4 percent, respectively. As against this, the growth rates in loans and advances during the same period were 8.9 percent and 19.3 percent, respectively. The Study Team on Funds Management recently constituted by NABARD had observed, inter alia, that as on 31 March 1996, the surpluses at the levels of SCBs and DCCBs were of the order of Rs.3541.50 crore and Rs.5867.94 crore, respectively.

**3.19** Viewed in the context of the GOI policy of increasing agricultural credit three-fold during the IX Plan period so as to double the agricultural production in the country, the surpluses available with the co-operative banks need to be channelised to the loans and advances to agriculture in accordance with the national objectives and priorities. The demand for agricultural credit has yet to reach the saturation level.

**3.20** Much of the clientele of cooperative banks have very little interface with other banking institutions. This factor combined with the loyalty of members to their cooperative banks is likely to prevent any flight of deposits from the cooperative banking fold. Even if the interest rates are brought on par with those offered by commercial banks, deposits of cooperative banks are not likely to be affected very adversely. It was, therefore, necessary that the interest rates offered on their deposits are market-driven.

**3.21** There is a need to evolve necessary mechanism and money market instruments for the cooperative banks for enhancing their local level investment options. A separate group may be constituted to work out the modalities for investment of surplus funds of the cooperative banks. In addition, a system of electronic funds transfer utilising NICNET may also be designed. Such a system would obviate the need for physical movement of cash which may be placed in the custody of a Depository Chest managed by SBI or the lead bank in the district. All the banks in the district may share the management cost of the Depository proportionately or on the basis of any other mutually agreed formula.

**3.22** The Task Force feels the need of doing away with state level restrictions which entail seeking permission of the RCS for making investments so that the cooperative banks are not to forego better opportunities on account of delays involved in obtaining the permission. Cooperative banks may be afforded adequate freedom in regard to investment decisions subject only to a general exposure norm.

**Delayering of Cooperative Credit System**

**3.23** The cooperative credit system has been recognised as the major institutional agency for provision of agricultural credit – both for production and investment purposes. In the context of the views expressed by the Committee on Banking Sector Reforms (Narasimham Committee II) that "consideration be given to delayering of the cooperative credit system with a view to reducing the intermediation costs and providing the benefit of cheaper NABARD credit to the ultimate borrowers" and the subsequent discussion generated on the subject, the Task Force re-examined the issue.

**3.24** The appropriateness of the structure has been a necessary point of reference for the studies on cooperative institutions. All the major national level studies such as the All India Rural Credit Survey (1954), Committee on Cooperation (1960), All India Rural Credit Review Committee(1969), Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD, 1981) and the Agricultural Credit Review Committee(ACRC, 1989) had gone into this question.

**3.25** These Committees have examined the structure largely in terms of mutual utility and functional co-ordination and its efficacy as a system to purvey the rural credit. With increased consciousness as to the need for each tier to function as a self-sustaining financial institution and profit centre, the structure has come to be subjected to a closer scrutiny in terms of its costs and margins. The need for the existence of the tiers in terms of their cost and utility profile has assumed particular significance during the last decade or so. The Agricultural Credit Review Committee (ACRC - 1989), as part of its review of the whole gamut of issues confronting the cooperative credit system, had examined the specific view that the three-tier structure adds to the cost of purveying credit and, therefore, there might be a case for eliminating at least one tier. After examination of the suggestion, the ACRC did not favour the suggestion and observed that in the Indian context, the district was a viable unit for planning, implementation and monitoring. Given the large territorial and population size of the major states in the country, which are in fact larger than many countries in the world, the Committee expressed that supervision and guidance of the primary level units directly from the apex level may not prove to be a viable and practicable proposition. The Committee further observed that purely in terms of cost aspects, there was not much scope for saving since in the absence of secondary level organisation, the state organisation will have to depend on regional or zonal offices for discharging its role and functions for effective monitoring and supervision as also providing leadership. Study conducted by the Committee had revealed that saving consequent upon elimination of any of the tiers of the existing structure may not be more than 0.25 percent of the total cost incurred by the system. The Committee was, therefore, of the firm view that the intangible advantage that accrued to the system under the existing three-tier structure far outweighed this meagre saving and came to the conclusion that there was no advantage in abolishing any of the tiers. In fact, there were positive advantages in continuing with the three-tier structure as it existed.

**3.26** At present the three tier short-term credit structure is in existence in 15 states whereas a two-tier structure with SCBs directly lending to PACS is working in 12 states which are small states. The three-tier structure has evolved over a period of time and the cooperative banks at state and district level have been performing an important role in resource mobilisation and financing of both agricultural and non-agricultural cooperatives besides providing leadership to the cooperative institutions in the respective regions. Further, district is the basic administrative unit and the presence of a democratically created institution in the district to guide the cooperative development is desirable. It may not be possible for the State Cooperative Bank to perform such a role at village level. In the smaller states, the two-tier structure is already in position. As the individual cooperative banks (both SCBs and DCCBs) work as full-fledged banks in addition to their role as conduits for agricultural credit, there is wide variation in their profitability across the country depending on the size of business and quality of assets. If the tier at the middle level (DCCB) is to be removed and the SCB takes over all the functions now being performed by the DCCBs, it may have to set up its zonal/regional offices in different parts of the state in order to discharge this function effectively. This would hardly lead to any savings in costs.

**3.27** The Task Force is of the view that continuance of the existing three-tiers in the Short Term cooperative structure in bigger states as at present is necessary. The lower tier, however, has not been getting the deserved attention in regard to interest sharing, margin, recoveries and other parameters required to make them viable. It has to be recognised that different tiers are an integral part of the total system and the higher tiers of the structure can never be strong if the lower tiers are weak, for the simple reason that the bulk of their assets (loans and advances) are held by lower tiers. For the structure as a whole to work as a cohesive system, the organisational tiers have to be far stronger than they are at present. The responsibility in this regard rests on the higher tiers. It is imperative that the higher tiers nurse the lower tier from where they derive strength for their sustenance.

**3.28** The Task Force is not averse to reorganising and restructuring cooperatives, wherever necessary. It strongly recommends that measures should be taken for strengthening them, if necessary, by voluntary amalgamation/merger based on economies of scale particularly in areas where they are unviable and not in a position to ensure uninterrupted credit flow to agriculture. The higher tier in the system has to decide about the need for amalgamation/merger. Necessary realignment of the structure may be done for the purpose with necessary legislative support from state government concerned after a review of the position by the respective SCBs. Such realignment may be through merger between DCCBs or between PACS or even liquidation of some of these institutions wherever necessary. In the event of liquidation of a DCCB, the SCB may directly finance PACS if necessary, by opening branches as in the case of two-tier structure. Alternatively, the neighbouring DCCBs may finance PACS wherever existing unviable DCCBs are wound-up. Similarly, where PACS are wound up, the neighbouring PACS may finance individuals or in exceptional cases of this not happening, branches of DCCBs may directly finance individuals. The Task Force recognizes the universally acknowledged fact that no institution has a divine right to live if it is not adding any value to the system. However, the state government may have to take all possible steps to ensure that the process of liquidation is completed within a reasonable period of not more than one year.

**3.29** The Task Force has advocated in this report the need for bringing ARDBs under the Banking Regulation Act, 1949. In the context of the emerging need that credit institutions, to succeed, have to offer a multitude of credit and non-credit services, there is a growing consensus that the integration of ST and LT structures into a single window organisation may be an advantageous proposition. Task Force supports this proposition and suggests that the state level cooperative banks and state governments may give serious thought to the question of integration of both the ST and LT credit structures in their states taking into account the local conditions as recommended by the Hazari Committee. Such a preparatory action is necessary. NABARD should also be involved in this exercise. The modus operandi of the proposed merger/amalgamation shall be delineated in clear terms. To begin with, in some of the states where one of the structures is weak and the concerned state government had taken steps to integrate the two structures, the process of integration may be expedited.

**3.30** In the event of such an integration not fructifying in the short run, it may be necessary for the ARDBs to become resource-based institutions by raising deposits and broadbasing their credit operations offering a wide range of credit services including ST credit to supplement and complement their term credit. Similarly, SCBs and DCCBs also may cater to the medium and long-term credit requirements in their areas of operation through their PACS particularly as a complement to their ST credit. This would mean two parallel structures doing universal banking providing both ST and LT finances creating a competitive environment where the ultimate beneficiary would be the members at the base level.

**CHAPTER IV**

## COOPERATIVE BANKS AS FINANCIALLY EFFICIENT AND COST EFFECTIVE INSTITUTIONS OF RURAL CREDIT DELIVERY SYSTEM

### Financial Performance of Cooperative Banks

**4.01** The cooperative banking has made significant strides in the field of rural credit. From a meagre credit share of 2.7 percent during the early fifties, the share of agricultural credit purveyed by the cooperative banks has increased to as much as 45 per cent by 1999. Notwithstanding the massive expansion of rural branches by commercial banks since their nationalisation during 1969, the cooperative banking sector continued to have the largest network of rural credit institutions. Their significant role in increasing agricultural production through provision of both production and investment credit needs no emphasis. Of late, their role in supporting rural non-farm sector has also been growing.

Resource base of Cooperative Banks

(Rs. crore)

| **Agency** | Share Capital | | Reserves | | Deposits | | Borrowings | |
|---|---|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Amount | % | Amount | % |
| **SCBs** | 585 | 2 | 2,917 | 7 | 25,786 | 66 | 9,849 | 25 |
| **DCCBs** | 2,484 | 4 | 4,801 | 7 | 45,609 | 69 | 12,796 | 20 |
| **PACS** | 3329* | 15 | - | - | 5,255 | 24 | 13,299 | 61 |
| **SCARDBs** | 582 | 4 | 1,440 | 11 | 240 | 2 | 11,093 | 83 |
| **PCARDBs** | 610 | 7 | 559 | 7 | 152 | 2 | 6,849 | 84 |
| TOTAL | 7,590 | 5 | 9,717 | 7 | 77,042 | 52 | 53,886 | 36 |

**4.02** Despite impressive strides in mobilisation of deposits and channelisation of rural credit, a large number of cooperative credit institutions are far from being strong and self-sustaining business enterprises. Low resource base and consequent heavy dependence on higher tier and refinancing agencies, inadequate volume of business much below the break-even level, poor recovery management with attendant afflictions such as increasing non-performing assets and recurrent loss of assets have been some of the factors contributing to their financial and operational weaknesses. Absence of professional and business ethos and duality of control have been yet other important causes. Some of these issues are discussed below.

### Resource Base and Borrowings

**4.03** Low resource base has been a major constraint in the effective functioning of cooperative credit institutions, especially in the case of PACS in the ST structure and both SCARDBs and PCARDBs in the LT structure. The SCBs and DCCBs are in a comparatively better position as deposits constituted the major segment of their resource base. Agency-wise position of resources of cooperative banks, as at the end of March 1999, is given in Table below:

**4.04** In the long term cooperative credit system, the SCARDBs and PCARDBs had negligible resources of their own as traditionally they were not being permitted to accept deposits. The SCARDBs have since been allowed from 1997 to mobilise term deposits for periods not less than 12 months subject to the condition that aggregate deposits accepted and outstanding at any point of time are not to exceed their net owned funds. The scheme, however, had virtually been a non-starter in many of the states.

**4.05** The SCBs and DCCBs which have high level of deposits as part of their resource base, also have their own problems. These institutions continue to look to borrowings from higher financing agency like NABARD. As the finance provided by NABARD is at a concessional rate, borrowings from NABARD help these institutions to cross-subsidise their loaning operations. However, refinance by the higher tier is available only to current loans outstanding. Further, SCBs and DCCBs are required to commit a certain minimum prescribed percentage of their internal lendable resources for lending for ST (SAO) purposes to be eligible for drawing refinance at the concessional rate.

**Investment of SLR deposits of**
**Primary Cooperative Banks (PCBs)**

4.06 The primary cooperative banks, also known as urban cooperative banks (UCBs), submitted before the High Power Committee on UCBs headed by Shri K. Madhava Rao that at present their deposits with DCCBs and SCBs only are taken into account for compliance with SLR requirements. They requested that their deposits with commercial banks and scheduled urban cooperative banks also be reckoned for compliance with SLR requirements. The said Committee, in paragraph 9.15 of its report has recommended amendment to BR Act, 1949 to provide that urban banks may be permitted to invest their SLR funds in scheduled urban cooperative banks and if there is no head office or branch of such a scheduled urban cooperative bank in the place where the UCB is located, then in a commercial bank, till secondary market for government securities is improved and facility of UCBs keeping SLR funds with the DCCBs and SCBs is discontinued. The Committee has recognised that this may lead to flight of deposits from DCCBs and SCBs and has suggested that Reserve Bank of India may consider this issue in the light of the recommendations of this Task Force.

**4.07** The Task Force understands that one of the reasons behind the plea made by the urban banks before the High Power Committee was that they are paid lower rate of interest on the funds placed with the DCCBs and SCBs. According to a recent estimate made, such deposits may be of the order of Rs.10000 crore to Rs.12000 crore. With recent developments in the government securities market such as availability of more securities in the market and emergence of more primary dealers, the Task Force feels that progressively it would be possible for cooperative banks to access the government securities market for complying with SLR requirements. Since they do not actively trade in securities and hold them on a permanent basis, location of the bank/primary dealers selling the securities may not be a handicap. SCBs/ DCCBs also may provide assistance to PCBs in acquiring government securities of appropriate maturity and yield depending on the nature of resources available. While the Task Force agrees that market related interest should be paid by SCBs/ DCCBs on SLR deposits of PCBs, it recommends continuance of status quo as regards the provisions of Section 24 of the BR Act, 1949 (AACS) in the matter of eligibility of assets for the purpose of SLR.

**Deposits of PACS with DCCBs**

**4.08** As discussed in para 2.10, the PACS have meagre resources by way of deposits and reserves. More than 60 per cent of their resources are by way of borrowings from

DCCB. The PACS maintained statutory reserves created out of profits which are required to be kept as deposits with DCCB. Given the poor resource base of the PACs, the Task Force feels that the balance of advantage for PACS lies in utilizing the said reserves in their own business and that there should be no compulsion that these are invested outside the business as deposits with the DCCBs.

**Minimum Involvement**

**4.09** While looking into the financing of seasonal agricultural operations (SAO) by cooperatives, it was observed by the Task Force that the SCBs and DCCBs, which account for more than 55 percent of the total production credit for agriculture purveyed by the banking system in the country, continue to depend heavily on refinance support for the purpose from NABARD at concessional rate of interest, despite having high level of deposits as part of their resource base. This helps cooperative banks to cross-subsidise their short-term lending operations and also offset, to some extent, the mismatch between their average cost of funds and the average yield on such short term agricultural lending.

**4.10** The NAFSCOB and some of the representatives of SCBs and DCCBs indicated during the discussions which the Task Force had with them, that agricultural lending continued to be unremunerative even after deregulation of interest rates, owing to high cost of raising resources, higher transaction cost entailed by large number of borrower accounts with small loans, higher supervision cost, unstabilised agriculture, recovery problems, etc. According to them, provision of refinance by NABARD to a reasonable extent, was essential to augment credit flow for short term agriculture.

**4.11** Under the present minimum involvement (MI) policy in vogue since 1985-86, NABARD has been fixing annually the MI levels for SCBs and DCCBs at 25 percent and 40 percent, respectively of their Internal Lendable Resources (ILR), comprising mostly deposits. Cooperative banks are permitted to avail of refinance for SAO only after complying with these norms. In a given demand scenario, if there is a rise in the lendable resources of a cooperative bank it would tend to reduce, in percentage terms, its commitment to agriculture unless the demand for credit also rises in the same proportion. There is, thus, an inverse relationship between availability of NABARD refinance and the resources raised by the cooperative banks.

**4.12** The MI discipline has progressively reduced at macro-level the eligibility of SCBs and DCCBs for refinance from NABARD. The reduction has, however, not been uniform in respect of all SCBs and DCCBs. In states like Gujarat, Maharashtra and Kerala where the banks have recorded a higher growth in mobilisation of deposits compared to increase in SAO loaning, their access to refinance had become negligible or nil on account of the MI discipline. Having substantial involvement in SAO in absolute terms, these cooperative banks have represented that due to low or non-availability of refinance for SAO from NABARD on the one hand, and the high cost of their deposits, part of which is from the lower tiers, and uneconomic yield from SAO loans, on the other, their profitability was being eroded and they were in a disadvantageous position compared to the position obtaining in the cooperative banks in the states where the deposit growth had been relatively low. Therefore, the banks which are more active in deposit mobilisation perceive increasing involvement of their high cost deposit resources in SAO lending as unattractive and MI norm as a disincentive to resource mobilisation and expansion of agricultural lending. In this connection, it is noted by the Task Force that NABARD had examined the relevant issues and extended certain relaxation in MI norms on merit since 1998-99.

**4.13** Pleading, however, that the quantum of refinance made available even under the relaxed dispensation is meagre, the cooperative banks have suggested dispensing with MI norms and linking refinance to a percentage of actual SAO loans outstanding instead of Internal Lendable Resources (ILR) as at present. A suggestion was also made for reckoning banks' advances for medium-term agriculture, Public Distribution System, Rural Non-farm Sector, etc. towards their MI.

**4.14** Refinance from NABARD is supplementary in character. It is provided out of the RBI's General Line of Credit which needs to be contained. At the same time, the use of public savings need to be increased for ST(SAO) lendings. The Task Force, therefore, agrees with the principle behind the MI discipline and advocates that the overall refinance policy be so restructured so as to serve the above objective. There is, however, need for motivating cooperative banks towards increased lending for SAO and at the same time removing disincentives in their mobilisation of resources. The Task Force is, therefore, of the view that while continuing with the existing norms/relaxations in MI, such of those DCCBs which are not able to get any reasonable refinance support from NABARD thereunder, may be provided refinance to the full extent of their incremental lending for ST(SAO) over and above their base level lending. The base level lending may be fixed appropriately as a moving average of the ST(SAO) loans outstanding during the previous three years. This measure should provide them with the needed incentive for further stepping-up credit flow for ST agriculture without detracting from the supplementary character of NABARD's refinance for SAO. In cases where the scope for incremental agricultural lending is getting limited due to stagnating agricultural operations, a minimal refinance support as a percentage of agricultural lending may, on a selective basis, be considered by NABARD. Steps would also be required to be taken to ensure that the banks which have a high level of dependence on concessional refinance be encouraged to reduce the same over time. One of the steps could be to structure the rate of interest on refinance in a manner that the replacement of refinance by the real resources (savings of the community) becomes an attractive alternative.

**Profitability and Financial Strength**

**4.15** Notwithstanding the severe constraints of operating under state governments' regulatory mechanism, the co-operative banking system has made significant strides in the field of rural credit. For long, these cooperative banks have operated under considerable operational restrictions and in a regulated interest rate regime. As stated earlier, low resource-base, inadequate volume of business (below the break-even level), poor recovery levels with attendant afflictions such as increasing non-performing assets have been some of the factors contributing to their financial weakness. As on 31 March 1999, the aggregate NPAs at the level of SCBs and DCCBs constituted 12.5 per cent and 15.8 per cent of their total outstanding loans and advances, respectively. The NPAs at the level of SCARDBs and PCARDBs were at 18.3 per cent and 9.5 per cent, respectively. It was a matter of concern that the doubtful and loss assets constituted bulk of the NPAs. For instance, of the total NPAs of SCBs (Rs.2,747 crore) and DCCBs (Rs.5,812 crore), doubtful and loss assets constituted about 47 and 46 per cent, respectively. In the case of SCARDBs (Rs.1,879 crore) and PCARDBs (Rs.640 crore), doubtful and loss assets accounted for 35.4 per cent and 32.2 per cent, respectively.

**4.16** The tighter provisioning necessitated by application of prudential norms have brought to surface the strained profitability scenario of co-operative banks. As at the end of March 1999, 7 SCBs (24 percent), 98 DCCBs (26.7 percent), 9 SCARDBs (47 percent) and 451 PCARDBs (60.5 percent) were incurring losses. The accumulated losses of these institutions, as on 31 March 1999, aggregated as much as Rs.3587 crore. In regard to PACS, as many as 40126 societies (out of about 92,000) constituting 43.5 percent were incurring losses as on the same date. Further, as on 31 December 1999, as many as 136 DCCBs (36 percent) were not complying even with the provisions of Section 11(1) of the Banking Regulations Act, 1949 which requires minimum capital of Rs.1 lakh which itself is a very low figure. In addition, 3 SCBs namely Manipur, Assam and Nagaland were also not complying with the said provisions. The Task Force observed that erosion in the value of assets in most of these banks had wiped-out not only their owned funds but also a sizeable portion of their deposits. As on 31 December 1999, the amount of erosion in the assets of SCBs and DCCBs taken together was of the order of Rs.6552.08 crore affecting deposits to the extent Rs.169.50 crore.

**Capital Adequacy**

**4.17** The capital adequacy norms which have been made applicable to commercial banks in 1991-92 have not been introduced for cooperative banks. Being a major sector of the rural financial system, it is logical for the cooperative banks also to conform to the norms applicable to the commercial banks. There is hence a need to strengthen the capital base of cooperative banks. It would be ideal if the cooperative banks could comply with capital adequacy norms over a period of five to six years. The Task Force, however, recognises that the cooperative banks, as they exist now, do not have access to the capital market as in the case of commercial banks. The Task Force feels that these constraints notwithstanding, the cooperative banks may make a beginning to move in the direction of strengthening their capital base so that they could conform to the applicable norms over a period of time.

**Recovery Management**

**4.18** Loan recovery is one of the critical determinants of profitability and viability and crucial to the health of a credit institution. Poor recovery hampers the institution's capability to recycle funds and adversely affects effective management of its resources and ultimately its profitability. The incidence of overdues in the agricultural credit system has been increasing over the years and has turned out to be the single most major factor responsible for steady erosion of the financial soundness and fitness of the system. The problem has been particularly acute with PACS as they take direct exposure at the retail level.

**4.19** Efficient recovery management is of importance to the cooperative credit institutions, more particularly in view of the fact that substantial portion of their loaning activities are being conducted from out of borrowed funds. Poor recoveries for instance, not only hamper their capacity to recycle funds but at the same time reduce their eligibility to avail refinance which in turn affects their profitability. Further, provisioning requirements also go higher.

**4.20** The recovery climate has been further vitiated by across the board loan waivers announced in the past. It is increasingly being recognised that such loan waivers penalise the honest borrowers and reward defaulters. The state government often resort to announcing interest rate subsidies on loans taken from cooperative banks. This leads to a general tendency of delaying repayment in anticipation of such announcements. The Task Force feels that a decision needs to be taken at all levels that loan waiver/postponement of recoveries and granting of interest rate subsidies for populist reasons would not be made in future. This decision will have to be supplemented by active support of the state government to cooperative banks in effecting recoveries. The cooperative banks on their part should also focus on prudent selection of loan products and borrowers together with regular follow-up and monitoring.

**4.21** In almost all States, there are provisions in the State Cooperative Acts/Rules for expeditious procedures for recovery of cooperative dues by vesting powers in officials of cooperation/ revenue departments for grant of decrees and execution of these decrees against assets of borrowers. In some states, these powers are delegated to the officials of cooperative banks which helps them recover the dues more expeditiously. The Task Force is, therefore, of the view that these powers should invariably be delegated to and vested with the officials of cooperative credit institutions, preferably in higher tiers at the district and state levels.

**4.22** The Task Force observes that low volume of business, poor recoveries and diversion of a part of the meagre recoveries to fund cash losses has severely debilitated the health of PACS at the grassroot level. This has led to a situation where many of the PACS do not have enough loan assets to cover their liabilities to the DCCBs. This imbalance has adversely affected the long term viability of PACS. While the primary responsibility for recovering their dues from members rests with the PACS, it is expected that the higher tiers viz. SCBs and DCCBs play a more active role in guiding and helping PACS in recovering their dues. Representative bodies like NAFSCOB also should play a significant role in this direction. The position of PCARDBs in the long-term structure is no different. The Task Force, therefore, re-emphasises that improving recoveries at the level of PACS and PCARDBs is the key to the revitalisation process of the cooperative credit institutions.

**4.23** The persistence of overdues has choked the credit line and restricted recycling of funds. Task Force is of the opinion that unless the overdues are substantially brought down, the impact of various measures to improve viability of cooperative banks will not be visible. The foremost task before the cooperative banks, therefore, should be to take immediate steps to improve recovery levels through appropriate strategy. As recovery is the lifeline of the cooperatives, steps taken by successful cooperatives in maximising their recovery need to be emulated by others also. Steps such as spontaneous involvement of society, adoption of effective field supervision and recovery strategy by fixing responsibilities and targets for field staff and rewarding them for accomplishment and linking of recovery with marketing of the produce will ensure a better recovery performance.

**4.24** Debt Recovery Tribunals (DRT) were operationalised for recovery of commercial banks' dues where individual loans outstanding were above Rs. 10 lakh. DRT did not cover cooperatives mainly on account of comparatively smaller loan size. Task Force suggests that the provisions of the existing DRT may be made applicable to cooperative banks also where loan size is more than Rs.1 lakh so as to expedite recovery of chronic overdues.

**4.25** In regard to the overdues in the long-term structure, Task Force suggests that the SCARDBs/PCARDBs be allowed the right of foreclosure of mortgages in the case of willful defaulters. This would substantially improve recovery position of such institutions and pave the way for securitisation of their mortgage loans to raise resources from the market at reasonable rates. This may require some changes in the State Cooperative laws which need serious consideration with a sense of urgency.

**4.26** With a view to tackling the problem of overdues, the Task Force is also of the opinion that there is a need to evolve compromise/settlement procedure for closing of long pending overdue loans. For this purpose, a Committee may be constituted at the district level. This Committee may advise the base level units also. An authorised person from the base level unit may be invited at the DCCB level for taking decisions on write-off. Fresh eligibility to borrow in such cases should be considered only on merit and not as a matter of rule, provided the default is not willful. Lessons from the system operating in commercial banks may be suitably drawn by the cooperative banks.

## CHAPTER V

## STREAMLINING OF SUPERVISORY AND REGULATORY FRAMEWORK

**5.01** The rural financial sector in India has been influenced by the impact of financial sector reforms and gradual move towards liberalisation. In view of the banking sector's concern over NPAs and the need to tackle them effectively, strong supervision over the entire banking sector becomes a critical component in the development of these institutions and the cooperative sector is no exception. The major emphasis of supervision over cooperative banks has been on the critical examination of their loan portfolio and analysis of their financial position, the internal control systems and their compliance with the statutory norms and guidelines issued from time to time.

**Internal Checks and Control**

**5.02** While cooperative banks have had a rudimentary system of prudential norms (including capital infusion), their internal control systems have been a matter of increasing supervisory concern. The cooperative banks have their own internal checks and controls to conform to the cooperative framework. Apart from inspections by NABARD once every two years - statutory in the case of SCBs and DCCBs and voluntary in regard to SCARDBs and PCARDBs - their internal branch inspections and concurrent audit by their own staff or by Cooperation Department of the state government or by external auditors and statutory audit by the Cooperation Department / external auditors are also in place in these banks. In most cases, audit remains the responsibility of the Cooperation Departments only. The Task Force feels that these checks and controls need to be made more effective.

**Changes in the supervisory framework**

**5.03** The SCBs and DCCBs were brought under the purview of BR Act, 1949 in the year 1966 and consequently, the voluntary inspections undertaken till then by RBI, became statutory. With the setting up of NABARD in 1982, the responsibility of overseeing the functioning and supervision of cooperative banking structure other than urban cooperative banks has been shifted from RBI to NABARD under Section 35(6) of the BR Act, 1949. At present, NABARD exercises its statutory supervisory role over 29 SCBs and 367 DCCBs. Besides, it also exercises supervision over 19 SCARDBs and 745 PCARDBs on a voluntary basis by virtue of its refinancing and developmental role. These banks are generally inspected once every two years and compliance to inspection observations are followed-up with the concerned banks for rectification.

**5.04** NABARD has made efforts at streamlining and upgrading its supervision arrangements on the basis of recommendations of internal committees set up by it since 1991 towards improving the quality and content of bank inspections. The U.K. Sarma Committee was set up by NABARD in 1998 to review the entire range of supervisory activities of NABARD and suggest appropriate measures to streamline the supervisory mechanism. The Committee's recommendations included a suggestion to introduce off-site surveillance system aimed at continuous monitoring of the performance of banks. The Committee also recommended setting up of a separate Board of Supervision within NABARD. Most of the recommendations made by the Expert Committee have been implemented by NABARD.

**Application of prudential norms to cooperative banks**

**5.05** In order to bring about transparency in financial operations, prudential norms covering income recognition, asset classification and provisioning were made applicable to SCBs and DCCBs from the year 1996-97. In respect of SCARDBs and PCARDBs, the prudential norms were made applicable from the year 1997-98. To mitigate the hardships faced by these banks in making full provisioning, RBI permitted phasing of provisioning spread over a four-year period (upto 1999-2000) in the case of the ST structure and three years (upto 1999-2000) in the case of the LT structure. Implementation is being monitored by NABARD on an on-going basis through Special Cells created at regional levels.

**5.06** During its interaction with the cooperatives, it was represented to the Task Force that in the case of public sector commercial banks, prudential norms were introduced concurrently with financial strengthening by way of capital infusion while similar norms were introduced in cooperatives without such financial strengthening. The rigours of provisioning norms, according to them, had adversely affected the balance sheets of the cooperatives. The Task Force observes that the prudential norms have only brought about transparency and has in no way caused any outflow of resources. However, if the balance sheet position affects the borrowing power of cooperatives, some transitional arrangement to protect the existing refinance flows may be considered by the higher financing agencies for a limited period, provided this position has arisen purely on account of application of prudential norms.

**5.07** The Task Force observes that the lack of appropriate internal control systems like inspections, internal and concurrent audit and periodic branch visits by the higher tier officials in cooperative banks is a matter of increasing supervisory concern. This has led to poor MIS in these banks. The Task Force is of the view that these banks should strengthen their internal checks and controls and MIS so that supervision over these banks could be more effective.

**Audit in Cooperative Banks**

**5.08** Cooperation being a state subject, all cooperative institutions functioning in a state are governed by the Cooperative Societies Act and Rules of the concerned state. The audit of these institutions is vested with the state governments who are fully responsible for promotion, administration and control of cooperatives. They also have a stake in the ownership of a large number of cooperatives. In the context of the important role of cooperatives in mobilisation of rural savings and dispensation of agricultural credit which is a national priority and the facilities extended to cooperatives by way of equity, guarantees etc. by state governments, a strong and timely audit system is essential.

**5.09** The RBI had advised Registrars of Cooperative Societies of the state governments in June 1996 that the balance sheet and profit and loss account should be prepared based on prudential norms introduced as a sequel to Financial Sector Reforms and that the statutory / departmental auditors of SCBs and DCCBs should look into the compliance with these norms. Therefore, auditors are expected to be well versed with all aspects of the new guidelines issued by the RBI and ensure that profit & loss account and balance sheet of cooperative banks are prepared in a transparent manner and reflect the true state of affairs. Auditors should also ensure that other necessary statutory provisions and appropriations out of profits are made as required in terms of Cooperative Societies Act/ Rules of the state concerned and the bye-laws of the respective institutions.

**5.10** In most of the states, statutory and concurrent audit of the cooperative institutions is entrusted every year to the Cooperation Department or a separate department created for the purpose of audit. The state government departments which conduct audit of cooperative banks are generally inadequately staffed both in terms of number and quality. Arrears in audit of cooperative credit institutions particularly at middle and lower levels is the common problem in most of the states. The U.K.Sarma Committee had suggested entrusting the annual statutory audit to the Chartered Accountants (CAs), rationalisation of audit fee structure and constitution of State Level Audit Committees to monitor progress in audit. It was suggested by cooperative banks and Secretaries, Cooperation and Registrars of Cooperative Societies during the deliberations of the Task Force that the audit of apex banks and DCCBs could be entrusted to CAs. Some of the state governments also felt it necessary to bring about amendments in the State Cooperative Societies Acts to ensure audit of cooperative banks by CAs. However, some of the state governments felt that there was no need to entrust audit of cooperatives to CAs as the cooperative auditors were better equipped to conduct audit of cooperatives. Some other state governments suggested that a separate audit wing with adequate and trained staff may be set up in each District. This issue was deliberated by the Task Force at length. Task Force is of the view that audit at all levels be entrusted to the firms of Chartered Accountants only. The Task Force also endorses the recommendation of the U.K. Sarma Committee for constitution of State Level Audit Committees.

**5.11** During its interaction with representatives of cooperatives, the Task Force was informed that the audit fee charged by the Cooperation Departments is often very high. Since it has been recommended to entrust this responsibility to Chartered Accountants, suitable parameters for determining their fees may be drawn up by NABARD, if necessary in consultation with the Institute of Chartered Accountants and the RBI.

**5.12** The Task Force is of the opinion that audit of cooperative institutions should be conducted on a regular basis and the criteria for the audit classification should be uniform in all the states and be transparent. NABARD may formulate suitable guidelines for this purpose. Since the state governments are maintaining a large number of staff for audit, Task Force is of the opinion that audit of PACS may be entrusted to the Chartered Accountants in a phased manner. As regards the SCBs/SCARDBs and DCCBs/PCARDBs, the responsibility should be entrusted to Chartered Accountants straightaway. It should be the responsibility of the higher tier to ensure timely completion of audit of the lower tier by also ensuring that the accounts are prepared in time.

**5.13** The Task Force further suggests finalisation of the panel of Auditors by a State Level Committee consisting of representatives from RBI, NABARD and the concerned state government. Allocation of audits may also be done by the same Committee.

**Opening of Branches**

**5.14** In terms of Section 23 of the Banking Regulation Act, a State Cooperative Bank is required to obtain prior permission of Reserve Bank of India to open a new place of business or change the location of an existing place of business. DCCBs are, however, exempted from obtaining a licence to open a new place of business or change the location of an existing place of business within the district. This has often led to indiscriminate opening of branches by some of the DCCBs affecting their overall profitability. Branch licensing needs to be brought under the provisions of the Banking

Regulation Act,1949. In the interregnum, the Registrar of Cooperative Societies may obtain clearance from NABARD before giving his permission for opening new branches of DCCBs. There have been instances of bifurcation of DCCBs/PCARDBs into smaller units, not justified on the grounds of viability, merely on creation of new districts. Such bifurcation should not be attempted without prior approval of RBI.

**Scheduling of District Central Cooperative Banks**

**5.15** There have been suggestions from some quarters that inclusion of the district central cooperative banks in the second schedule to the Reserve Bank of India Act will confer better status to these banks in the eyes of the public and enable them to attract more deposits. It has been represented that scheduling is required for enabling DCCBs to accept deposits from government departments and other statutory bodies. They have therefore suggested that Reserve Bank should consider giving scheduled bank status to the DCCBs. The Task Force understands that some of the state governments have been removing the restrictions through appropriate notifications. Task Force recommends that other State Governments also may follow suit and not reckon scheduling as a precondition for allowing their departments to place their funds with cooperative banks provided the latter are not categorised 'weak'. The Task Force, therefore, feels that it is more important to improve the functioning and enhance the inherent strength of cooperative banks rather than giving them scheduled status. However, given the need to improve the image of cooperative banks, the Task Force is inclined to agree with the view that scheduling will help improving their status and facilitate in enlarging their resource base through greater deposit mobilization. The Reserve Bank of India may, therefore, examine the issue separately and take a view.

**5.16** In the context of deregulation of interest rates in India, market risk has emerged as an area of concern requiring immediate attention on the assets side of the Balance Sheet. In recognition of this, the RBI issued to commercial banks guidelines (operational from April 1, 1999) for a broad framework for asset-liability management in the banks. NABARD also issued guidelines in regard to assessment of risk in the areas of credit risk, interest rate risk, market risk, liquidity risk, etc. Supervisory authority should ensure that these guidelines are adhered to. The Task Force opines that to begin with, the SCBs may be advised suitably on the asset-liability management as was done in the case of commercial banks.

**Transparency and Disclosure Norms**

**5.17** Another area which requires focussed attention is greater transparency in the balance sheets of cooperative banks. The commercial banks in the country are now required to disclose accounting ratios relating to operating profit, return on assets, business per employee, profit per employee, NPAs, etc. as also maturity profile of loans, advances, investments, borrowings and deposits. Task Force, recommends that the apex cooperative banks and DCCBs may also be required to disclose certain critical information in their balance sheets like movements in NPAs, provisions, return on assets, business per employee, profit per employee, etc. These disclosures, suitably adapted, need to be captured in the audit reports of cooperative banks. Towards this end, RBI/NABARD may consider issuing guidelines for a Common Accounting System in SCBs and DCCBs.

**Credit rating system in cooperative banks**

**5.18** Presently, there is no practice of cooperative banks obtaining ratings from independent rating agencies. During the deliberations of the Task Force, suggestions emerged for having an independent Rating Agency especially for state level cooperatives. However, the general consensus was that in the absence of users, such ratings may not serve any purpose. In case any bank needs to get rated, any of the existing rating agencies may be approached.

**Core principles of effective banking supervision**

**5.19** The core principles of effective banking supervision (1997) evolved by the Basle Committee on Banking Supervision (BCBS) have been accepted for adoption by the RBI in relation to commercial banks. These principles, inter alia, seek to promote and enhance the standards of supervision. NABARD is making efforts to improve the quality of supervision and skills of supervisors to facilitate implementation of these core principles of banking supervision in cooperative banks. The Task Force suggests that NABARD may formulate an appropriate strategy in this regard to effectively implement the core principles of supervision in relation to cooperative banks, to the extent applicable.

## CHAPTER VI

## REVITALISATION PACKAGE FOR COOPERATIVE BANKS

**Rationale and Objective**

**6.01** The cooperative banks, together with the commercial and regional rural banks, form an integral part of the rural credit system. The cooperative banks continue to be the largest rural financial network and account for 31 per cent of rural deposits and 45 per cent of credit flow for agriculture. Cooperative credit institutions have their presence in almost all the villages in the country. As such, their utility in reaching credit to the remotest areas of the country could hardly be over-emphasised. Notwithstanding their numerical strength and geographic spread, cooperative banks suffer from various degrees of financial weaknesses.

**6.02** As many as 7 SCBs, 123 DCCBs, 9 SCARDBs and 517 PCARDBs incurred losses during 1998-99. The accumulated losses and unprovided for bad and doubtful debts of the cooperative banks as on 31 March 1999, aggregated Rs.6921.23 crore. Further, as on 31 December 1999, as many as 135 DCCBs and 3 SCBs were not complying with the provisions of the Section 11(1) of the BR Act, 1949 (AACS) relating to maintenance of minimum real and exchangeable value of share capital and reserves.

**6.03** The functioning of cooperative banks with serious financial weaknesses, is inconsistent with the objective of transforming them into strong, viable and self-sustaining institutions capable of channelising enhanced credit flow envisaged during the IX Plan period. Given the strong correlation between flow of credit and increased agricultural production and productivity and generation of gainful rural employment, health of rural financial institutions remains critical to the success of rural development efforts. The commercial banks and RRBs have since been strengthened with recapitalisation. The Task Force is convinced of the urgent need to initiate measures for the rehabilitation of cooperative banks also, which constitute the major segment of the rural financial system.

**Revitalisation Package**

**Requirement of funds**

**6.04** Rehabilitation package for financial institutions consist of a four-dimensional programme encompassing financial, operational, organisational and systemic aspects. The financial or recapitalisation requirement for cleansing the balance sheets of cooperative banks in the short term structure, based on the position during the year 1994-95, has been estimated at Rs.6600 crore by the Study Group on Strengthening of Rural Credit Structure (Chairman Shri J.N.L. Srivastava). The amount consisted of two components, viz.

(i) rectification of imbalances* at the DCCBs-PACS level (Rs.2800 crore); and

(ii) wiping out the existing unprovided for bad debts and accumulated losses of DCCBs (Rs.3800 crore). Besides, the requirement of the long term structure has been estimated at Rs.600 crore.

---

* The PACS not passing on the recoveries effected from the borrowing members to the DCCB cause a situation where the DCCBs' loan outstanding against PACS exceed the PACS loans outstanding against its members i.e. "imbalances". These imbalances

also arise on account of DCCB adjusting a part of Principal recovery made by PACS from members towards its interest due since recovery towards interest at PACS level is less than the interest demand of the DCCB levied on the PACS concerned.

**6.05** During the period since the earlier assessment, the financial position of cooperative banks has deteriorated further. In terms of the latest estimates available as on 31 March 1999, the total accumulated losses and unprovided for bad and doubtful debts in the value of assets of 28 SCBs and 367 DCCBs aggregated Rs.6921.23 crore. The accumulated losses of SCARDBs and PCARDBs as on 31 March 1999 constituted Rs.1252.83 crore.

**6.06** At least three issues are involved on the question of recapitalisation/cleansing of balance sheets of cooperative banks. The first one is as to who should contribute these resources, to what extent and in what form. Secondly, and equally important, is whether all the cooperative banks be taken up for financial assistance/rehabilitation or it should be a select group of cooperatives. In the case of the latter, what would be the criteria for selection, what conditionalities should be imposed and what should happen to the remaining ones. A third issue is how to ensure that requirement of this type does not recur in future, i.e. it remains a one-time measure. Task Force does not recommend across the board rehabilitation of all loss-making banks. This should be confined to potentially viable units only. The assessment of viability in each case will have to be done following the usual principles of expected volume of business over a period, level of income likely to be generated, whether a turnaround can be achieved in five to seven years beyond which rehabilitation assistance would not be available, etc. A time frame of five to seven years is essentially to be imposed since sops beyond reasonable period would end up propping up even inherently weak units which would not survive in the long run and be a strain on the system. Once this viability study is complete and amount of fresh infusion of funds estimated, further steps may have to be considered. Viability of member PACS would largely determine the viability of the central cooperative banks at the district level in which the PACS federate. The banks may be taken up for rehabilitation carefully on a selective basis even if the process of selection is time-consuming. Task Force, therefore, recommends that the revitalisation package for cooperative banks may be a four-dimensional programme encompassing financial, operational, organisational and systemic aspects.

**6.07** On all these issues, there have been wide differences of opinion between the cooperative leadership, state governments and even within the Government of India. The Srivastava Study group's view was that cooperative banks could be asked to mobilise 20 percent and the balance could be shared equally between the centre and the state governments. The group also recommended the package of assistance to be spread over 5 years. The democratic management and deregulation of interest rates were to be the two conditionalities. It was recommended that the central government could provide its assistance in the form of interest-free or low interest bearing loans. There could also be a provision for rewarding good performance and also for charging penal interest or reduction in the repayment period to penalise banks for poor performance. The repayment period of loans was recommended to be 10-12 years.

**6.08** Recapitalisation has proved to be a tricky proposition in the case of cooperative banks in view of their ownership pattern. There was a view that recapitalisation was generally undertaken by the owners - who in the case of cooperatives were the state government, cooperative institutions and members at large. There was also another perception that with the introduction of the concept of 'state partnership' the cooperative banks had been performing more as an extended arm of the state government in regard to the implementation of state sponsored programmes and priorities. Though the Task Force does not totally disagree with the view that such programmes were stated to be one of the contributing factors for the weakness of the cooperative banks, there are other factors like poor management, resource constraints, etc. which contributed to their present position. Therefore, there is an emerging view that given the priorities of the successive Five Year Plans to strengthen food security through increased agricultural production and enhanced credit flow for the purpose, the central and state governments should take the lead in the formulation of rehabilitation/revamping package for the cooperative credit institutions. Task Force fully supports this view.

**Sharing and Phasing**

**6.09** For the purpose of revamping, the base level institutions (viz. PACS) in the ST structure, would be kept at centre stage, because with a better performance of the PACS, the District/State Cooperative Banks would automatically be in good shape and do better, to a very large extent. However, the higher tiers would also need additional support depending upon the position of their other assets. A similar strategy may have to be followed in the federal LT structure starting with PCARDBs.

**6.10** Finding funds required for the purpose, in a single year will be a difficult proposition for the central as well as the state governments. Task Force is of the view that since revitalisation process is quite elaborate, a longer timeframe would be required for this purpose.

**Funding mechanism**

**6.11** Ideally, the entire financial assistance for ST structure should come from the owners including state governments. However, this might cast a very heavy strain on the resources of the members of cooperatives and the state governments particularly in the case of states where a large number of cooperative credit institutions are very weak. As such, the scheme may be a non-starter if excess reliance is placed on the members and the state governments. Further, in order to reduce the state governments' control over the cooperatives, it is necessary that the financial contribution by the state governments is restricted. The Task Force is of the view that the initiative should be taken only in those states which take appropriate legislative measures in order to ensure elimination of duality of control over cooperative banks and to place them fully under the purview of B.R.Act, 1949. Further, the state governments should also commit appropriate financial and administrative support. Once this is done, twenty percent of the aggregate requirement for rehabilitation of the cooperative banks is to be contributed by the members as additional share capital. Given the need to progressively reduce the state governments' control over the cooperatives, it is necessary that the financial assistance from the state governments should be by way of loans and not in the form of equity. Looking into the financial position of the state governments, the contribution by them should be restricted to 40 percent of the aggregate requirement. Forty percent may be contributed by GOI, also in the form of loan. The starting point for any rehabilitation will have to be contributions from the members as additional share capital to the extent of 20 percent of the aggregate requirement for rehabilitation. Members' contribution would thus be received by the PACS as also the DCCBs.

**6.12** The share of the Central and State Governments may be in the form of bonds issued in favour of the DCCB bearing a reasonable rate of interest. The bonds received by a DCCB would have to be notionally allocated to the targeted PACS in accordance with their respective shares as determined under the rehabilitation package. This will not involve large outflow of funds from Central/State Governments. Outflows would be restricted to periodical payment of interest on the bonds issued. Beneficiary cooperatives will only derive the benefit of interest income which will improve their profitability. The bonds will be extinguished over a period of five years (20 percent each year) with an initial moratorium of three years. As already stated, this loan will be on behalf of specified PACS identified for the purpose of rehabilitation, and therefore, the interest income should go to the credit of such PACS and appropriated towards clearing of dues of such PACS. The bonds would reflect in the balance sheets of the selected PACS, but would be maintained at the DCCB level. The members' contribution should be retained at PACS level to be used for its credit business and should not be deployed towards non-credit business or frittered away towards meeting cost of management, PDS, etc. It is imperative that these measures are put in place after an agreed rehabilitation plan is finalised, which should, inter alia, take care of rationalising expenditure on administration. During the course of deliberations of the Task Force, there was a suggestion to provide for infusion of rehabilitation funds by way of soft loans in cash which could be profitably deployed by the recipient to generate income. Task Force, however, considered issue of bonds a preferable route. This would provide an assured income to the cooperatives. In case the assisted cooperatives are provided cash funds under a soft loan scheme to be deployed in their lending business, they may perhaps be able to earn marginally higher income, but there is always a possibility of their picking up non-performing assets in this process which may land the repayment schedule of soft loan in jeopardy. Moreover, the strain on Government resources would be less and spread over a number of years if the bond issue route is followed.

**6.13** In the case of LT structure, the Task Force suggests that in the long run, the ARDBs have to work as full-fledged banks. It has been suggested elsewhere in the Report that the ARDBs should be fully brought under the BR Act, 1949 and where this is not possible, other options like merger with Short Term structure may have to be considered. The federal structure as a whole, viz. the PCARDBs and SCARDBs has to be taken together for the provision of rehabilitation assistance. In the case of LT structure also, the same criteria as followed for ST structure, may have to be adopted, except that the sharing pattern would change slightly. Here, the members may contribute 10 percent of the total requirements and the State and Central Governments may contribute 45 percent each. The lower share for members in LT structure has been suggested, because relatively a smaller number of members continue on a long term basis.

**Selection Criteria**

**6.14** Out of the 29 SCBs in the ST structure, 16 are having 3-tier structure and 12 have 2-tier structure and one state has a mixed structure. The SCBs with 2-tier structure will have to be treated on par with DCCBs and considered for rehabilitation alongwith weak DCCBs in the 3-tier structure. All the DCCBs may not get assistance for rehabilitation. Those banks which are viable or potentially viable only need be considered. Further, it may not be necessary to provide financial assistance to the full extent of accumulated losses of whichever banks are selected for rehabilitation. It would be sufficient if the quantum of assistance provided brings them to a take-off stage and enables them to stand on their own. This should be achievable within 5 to 7 years. It is reiterated that rehabilitation may be taken up only after a careful study of viability. Any plan of across the board funding for wiping out accumulated losses of all banks would not achieve the desired results.

**6.15** For evolving and working out modalities for selection of banks, a National Level Committee may be constituted by drawing members from GOI, RBI, NABARD and a select few state governments and an eminent cooperator. After the National Committee formulates the broad criteria for selection of banks, a State Level Committee may be constituted by drawing members from Regional Offices of RBI and NABARD and representatives from state government and SCB/SCARDB. Both, national level and state level committees, may be chaired by NABARD. The state level committee may study the financial position of banks in the state and select them for rehabilitation. Thereafter, a rehabilitation plan will have to be drawn up at which stage the respective DCCBs/PCARDBs may be involved. The actual rehabilitation process may have to be taken up in phases. The sequencing and priority may be decided by the state level committees.

**6.16** The scheme will be open to all state governments which expressly undertake to share the stipulated financial obligation and also fulfil conditionalities relating to organisational, operational and systemic aspects with regard to the functioning of cooperative banks. Enactment of Model Cooperative Societies Act (with suitable changes) will have to be the center stage of the conditionalities.

**Conditionalities**

**6.17** The success of the revamping process, in addition to financial support, would depend largely on evolving institution-specific action programmes encompassing conducive organisational, operational and systemic inputs. The broad conditionalities of the scheme may be as under:

i) Organisational inputs

State governments to commit to fulfill obligations relating to:

- initiating necessary measures to ensure complete autonomy and democratic governance;
- financial commitment to meet state govt's share of assistance;
- adoption of the essential features of the Model Cooperative Act including gradual withdrawal of state government participation in equity;
- clear demarcation of duties & responsibilities between elected cooperators and professional managers of the cooperatives;
- withdrawal of state government deputationists working as CEO/Secretaries in cooperatives;
- audit by firms of Chartered Accountants;
- commitment for no across-the-board loan waiver;
- HRD policies to ensure transparent system of recruitment, placement and promotions; and
- on-going training and skill upgradation programmes.

ii) Operational inputs

(a) Apex banks & DCCBs to :

- ensure viable functioning of themselves and each of their federating units;
- ensure timely completion of audit of their own unit as well as that of the federating units;
- ensure fair and equitable sharing of margins among various tiers;

- offer guidance on taking advantage of deregulation of interest rates so as to have adequate margins;
- offer guidance and assistance to establish Business Planning and Investment Cells in each bank;
- devote special attention on weak federating units;
- prepare PACS-specific business development plans; and
- provide infrastructural and other operational assistance to PACS.
- to make members contribute 20 percent of the required amount of assistance by way of additional share capital (for DCCBs only)

(b) PACS to

- ensure business development, high recovery and viable functioning; and
- make members contribute 20 percent of the required amount of assistance by way of additional share capital

iii) Systemic

- Rationalisation of procedures.
- Strengthening of Management Information System.
- Computerisation of operations.

**6.18** The above broad conditions may later be followed by strong institution-specific conditionalities once the institution is selected for revitalisation.

**Monitoring**

**6.19** In order to ensure effective implementation, a three-party agreement in the form of a MoU may be entered into by the state governments, apex banks concerned and NABARD. In regard to the DCCBs, the agreement will comprise four-parties including the DCCBs.

(i) The scheme implementing agency may be NABARD.

(ii) Release of funds may be authorised by NABARD on fulfillment of specific conditions by state government and SCB/ SCARDB concerned.

**6.20** The overall monitoring of the revamping process may be overseen by a High Power Committee consisting of Secretary, Ministry of Agriculture, GOI, Special Secretary, Department of Banking, GOI, Deputy Governor, RBI and Chairman, NABARD. Meetings of the Committee may be chaired by Chairman, NABARD.

**Establishment of Cooperative Rehabilitation and Development Fund in NABARD**

**6.21** While presenting the Union Budget for the year 2000-2001, the Hon'ble Finance Minister proposed to establish a Fund in NABARD, to promote two prerequisites, for a more vibrant rural cooperative credit system, viz.

(i) to eliminate excessive bureaucratisation and overlapping jurisdiction of state governments and NABARD; and

(ii) for clear delineation of supervisory role of RBI/ NABARD on banking matters. To quote the Finance Minister

"The cooperative system is a crucial channel for credit in rural areas, However, over time, problems have developed, mainly because of excessive bureaucratisation and the overlapping jurisdiction of state governments and NABARD. Some state governments have taken legislative action to promote genuine cooperative institutions. For rural credit, clear delineation of the supervisory role of RBI/ NABARD on banking matters is also essential. To promote these two prerequisites for a more vibrant rural cooperative credit system, I propose to establish a Fund in NABARD. The details will be worked out in the light of the forthcoming recommendations of the Capoor Committee earlier constituted by Government."

**6.22** The Task Force recommends that a Cooperative Rehabilitation and Development Fund may be established in NABARD. Government of India may consider making an initial contribution of Rs.500 crore to the Fund which could be augmented later depending on needs through additional contributions from GOI. The Fund may be administered by NABARD.

**6.23** The Fund may, inter alia, be used for the implementation of the rehabilitation plan in states which accept the necessary pre-conditions for such plans as indicated at paragraphs 6.17 and 6.18. The other purposes for which the fund could be used may include, inter alia:

(i) Providing soft loans for augmenting the Mutual Assistance Fund proposed in this Report to be established at state level.
(ii) Development of IT in cooperative banks.
(iii) Human Resource Development
(iv) Essential infrastructure development
(v) Conduct of Training, Seminars, Pilot Studies, etc.
(vi) Organisational restructuring of cooperative banks

Government of India may like to keep these suggestions in view while deciding on utilisation of the proposed fund.

**Mutual Assistance Fund**

**6.24** Given the integral relationship amongst the various tiers of the cooperative credit institutions, the need for an institutional arrangement for mutual assistance even after the revamping process gets completed, needs no emphasis. Task Force, therefore, suggests that for the purpose, a Mutual assistance Fund may be set up at the state level by contributions from cooperative credit institutions in the state. The SCBs and DCCBs, SCARDBs and PCARDBs will annually contribute one per cent of their profits or 0.25 percent of their management expenses, whichever is higher, towards this Fund.

**6.25** The Fund may be utilised for rendering assistance as well as providing soft loans to weak primary units in future to enable them to overcome temporary difficulties.

**6.26** The cooperatives contributing to the Fund may be given a reasonable return on their contributions depending on the income accruing to the Fund. The Fund may be managed by a committee consisting of the representatives of SCB, DCCBs and PACS, and SCARDB and PCARDBs, as the case may be .

**6.27** The Task Force suggests that NABARD may work out a simple scheme for setting up and management of the Fund and frame conditionalities and guidelines for the use of the Fund.

## CHAPTER VII
## SUMMARY OF RECOMMENDATIONS
### Resource Base and Business

**1**. The limited resources of cooperative banks had inevitably led to low business levels, notwithstanding the continuously increasing demand for credit. In this context, the need for strengthening the resource base, especially the capital, for increasing their levels of business hardly requires any emphasis. Task Force recognises increasing borrowing membership and volume of business as essential steps for improving the performance of cooperatives. The Task Force would even suggest that in areas having potential for setting up of more than one society, state governments may not object to registration of more than one PACS, provided the government is satisfied about the viability of both the existing and new society to be registered and that it would increase the overall borrowing membership of cooperatives in that area.(para.2.12).

### Cooperatives as 'member-driven' enterprises

2. The Task Force, therefore, feels that the empowerment process of the credit cooperatives would require a continuous review of the approach of all concerned viz. the state governments, central government, RBI and NABARD to facilitate making cooperatives 'member-driven' organisations and to ensure that they are not subjected to excessive control and regulation. (para 2.15).

**3.** The Task Force upholds the view that there is an urgent need for the state governments to review and relax their control over the cooperatives. The power of supersession of the board of directors should not vest in the state governments. However, in the existing scenario, if at all it is to be used in public interest, it may be done by the state government very sparingly in consultation with NABARD. (para 2.16)

**4**. The Task Force feels the need to have frequent dialogue with the state government by a Standing Committee comprising of representatives of GOI, RBI, NABARD and Federation of the concerned cooperative banks to sensitise the state governments on various issues relating to cooperatives one of which could be on steps to make them 'member-driven', drawing a definite plan of action with a time frame for necessary amendments in the state acts and by-laws, etc. (para 2.17)

### Implementation of Model Act

**5**. The Task Force recommends adoption of the essential features of the Model Cooperative Societies Act by all the state governments or bringing in necessary amendments in the State Cooperative Societies Acts so as to reflect the spirit of democratisation and self-reliance enshrined in the Model Act. (para 2.19)

### Human Resource Development (HRD) in Cooperatives

**6**. Human resource development which is an important component for the success of any organisation has not been accorded the importance it deserves in the cooperative institutions. The existing organizational design of most of the cooperative banks does not conform to the basic principles of management of a sound financial institution. The Task Force is of the opinion that the cooperative banks will have to evolve sound personnel policies encompassing proper manpower planning and assessment. It is necessary to evolve scientific staffing norms. There should also be a conscious policy for developing a second line of management in all key functional areas of a cooperative bank. (para 2.21)

7. Conscious and well specified HRD principles in crucial areas like recruitment, placement, training, career progression, managerial grooming, etc. are lacking in most of the cooperative banks. The Task Force suggests that the banks should have objective and transparent policy for recruitment of staff. For this purpose, cooperative banks may consider utilising the services of the Regional Banking Services Recruitment Boards. (para 2.22)

**8**. The Task Force feels strongly that normally the government should not appoint its officers as CEOs. In the event of unavoidable supersession of board of directors, CEO should preferably be a person with suitable banking background and the elected boards should be restored at the earliest opportunity. (para 2.23)

**Professionalism in Cooperative Banks**

**9**. The cooperative banks should work like professional organisations on sound managerial systems in tune with the needs of the time, taking care of future projections of requirements, to retain and improve their market share and identity in the long run. The Task Force suggests that the banks' boards should be professional and accountable ones. In case professionals in the field of banking, accountancy, funds management, information technology, etc. are not elected to the board, NABARD may nominate such professionals to the boards. It is further suggested that appropriate steps should be taken for the development of HRD in cooperative banks through training at various levels. (para 2.26)

**10**. The Task Force feels that caderisation within the cooperatives, as a pool, has virtually outlived its utility in many states and there is a need to consider disbanding the system wherever it is not working effectively. In the interregnum, pending disbanding of the cadre system, it will help if frequent transfers are not resorted to and a minimum period of posting in a particular bank is ensured. (para 2.28)

**11**. The Task Force advocates that DCCBs with good deposit base should have their own staff. For the purpose, it is necessary to evolve a sound personnel policy and appropriate training modules for the staff in different categories on a continuing basis. (para 2.28)

**12**. Given the overall aim of institution-building and making cooperatives self-directed decentralized institutions, there is a need for giving as much autonomy as possible to facilitate their proper growth and progress. If cooperative banking institutions are to function on professional lines, genuine cooperative leaders will have to be groomed through developing appropriate training modules providing specialised knowledge, information and skills, and giving guidelines on do's and don'ts. This calls for measures towards education programmes for members and office-bearers. The National Federations of the cooperative banks and higher tiers should come forward to help these banks in these matters. (para 2.29)

**Duality of Control**

**13**. The Task Force feels that to remove the overlapping of controls and endowing functional autonomy and operational freedom to cooperatives, there is an urgent need to prepare specific action plans. These plans should redefine the relationships clearly, the roles and responsibilities and areas of regulation through delegation of powers in respect of all the players in the field viz. the state government, RBI, NABARD and apex bank/cooperative institutions. Banking functions should be brought completely under the Banking Regulation Act to be regulated by the Reserve Bank of India . (para 2.32)

**14**. The Task Force is convinced that duality of control between the state governments on the one hand and RBI/NABARD on the other, had resulted in cross-directives, adversely affecting the working of the cooperative banks. The provisions of the BR Act, 1949 should override the provisions of the state Acts/bye-laws/rules which run counter to it. (para 2.33)

**15**. A large number of PACS have also been accepting sizeable deposits from non-members. In some of the states, they have been using the word ' bank/s' as a part of their name, giving an impression to public that keeping deposits with them was as safe as keeping deposits with other banks. The B.R. Act by an amendment should explicitly prohibit the PACS from using the word `bank' as a part of their name. Stringent penalties may be prescribed for violating these provisions. (para. 2.37)

**Business Diversification**

**16**. The Task Force emphasises diversification of business products as the prime need at all levels in cooperative credit institutions. At the level of DCCBs, there is an imperative need for devising attractive banking products for mobilising savings in their areas of operation. (para. 2.38)

**17**. Banks should upgrade their services and technology to provide instant, efficient and affordable services. Fostering a healthy banker-client relationship is essential for sustainability of banks through greater business volumes and improved productivity. (para. 2.38)

**18**. It is imperative that the cooperative banks enhance their loaning progressively. Where there are genuine surplus of funds after meeting their traditional loaning activities, the cooperative banks should diversify their loan portfolio. The diversified avenues, may include, inter alia, housing loans, consumer loans, consortium financing, financing of services sector, distribution of insurance products, etc. (para 2.39)

**19**. It has come to the notice of the Task Force that cooperative banks are at times constrained by the provisions in their state cooperative societies acts/bye-laws for financing sectors outside the cooperative fold even if they had genuine surpluses after meeting their traditional commitments. The Task Force is of the view that such restrictions wherever they exist, need to be relaxed in order that such of the institutions which have large surpluses are able to deploy them profitably.(para 2.39)

**20**. There was a suggestion in this context that a portion of the outstanding credit of cooperative banks should be permitted to be deployed for commercial purposes outside the cooperative fold. While agreeing in principle to the need for permitting cooperatives to diversify into commercial lending, the Task Force is of the view that linking the same to a certain percentage of credit outstanding may not necessarily enhance the total volume of credit. Instead the proportion of credit for commercial purposes may be linked to a certain percentage of deposits. This measure in addition to helping the cooperative banks to diversify their loan business may also to a certain extent resolve the problem of surplus funds and provide incentive to mobilise more deposits and thus improve their profitability. The Task Force, therefore recommends that the cooperative banks may be permitted to lend up to 10 per cent of their deposits outstanding as at the end of the previous year, for commercial and other high tech projects outside cooperative fold. (para 2.39)

**Institutional Mechanism to support farmers in case of natural calamities**

**21**. Loan delinquencies and poor repayment are also caused on account of natural calamities such as droughts, floods, etc. It is, therefore, necessary to provide for an institutional mechanism to ensure uninterrupted credit flow to these farmers. NABARD had introduced a scheme known as the "Cyclical Credit", for meeting the production credit needs of farmers on a pilot basis in 1988-89, to ensure that the farmer did not face any resource constraints and the financing agency stood by him in providing required crop loan irrespective of the repayment difficulties induced by the vagaries of nature. The scheme was not continued after the pilot stage. In the light of the experience gained, NABARD may consider reviving the scheme. (para 2.42)

**Costs and Margins**

**22**. The cooperative banks need to realise that indifference to the need for viability is inconsistent with the goal of turning themselves into essentially business enterprises especially in the current competitive environment. Cooperative banks will have to necessarily charge such rates of interest on their loans and advances as will cover the cost of raising funds, transaction and risk costs. (para. 3.10)

**23**. The interest rate and margin to be available at the level of PACS should be adequate enough to cover the cost of raising funds and rendering services together with a reasonable surplus to meet future exigencies and eventualities. For this purpose, the DCCBs should take-up a suitable PACS-specific exercise in consultation with the PACS . (para. 3.11)

**24**. In addition to their normal loaning business, PACS are required to undertake activities such as participation in Public Distribution System, etc. These non-credit business generally do not provide adequate margin on account of which PACS incur losses. The Task Force is of the view that no unremunerative business is thrust upon the PACS and that they should be allowed the discretion to accept or not to accept any non-credit business at the instance of the state government. The continuance or otherwise of any business especially non-credit business presently being undertaken by the PACS may also be left to their discretion. (para. 3.12)

**Funds Management**

**25**. The Task Force considers it necessary for the cooperative banks to devote adequate attention to maximising their returns on every unit of resources through an effective funds management strategy and mechanism. For the purpose, institution-specific investment policies need to be evolved taking into account, inter alia, composition of funds, maturity pattern of assets and liabilities, availability of money market instruments, exposure limits and efficient monitoring and control mechanism. This would necessitate constitution of an Investment Cell with staff having requisite qualifications and skills to evaluate money market instruments available. The higher tier of the system should take the responsibility in this matter. (para. 3.16)

**26**. The success of the Investment Cell will depend predominantly on the infrastructure and high quality MIS support made available. It is necessary to provide periodic skill upgradation programmes to the CEOs and staff of Investment Cell to keep abreast of changes in the money market conditions. (para. 3.16)

**27**. The Task Force observes that in the post liberalisation era, while other banking institutions have scaled down their interest rates on deposits, the cooperative banks have continued the practice of offering slightly higher rates without much regard to prevalent market conditions. It is necessary that the interest rates offered by cooperative banks on deposits are market driven. (para.3.17 & 3.20)

**28**. There is a need to evolve necessary mechanism and money market instruments for the cooperative banks for enhancing their local level investment options. A separate group may be constituted to work out the modalities for the investment of surplus funds of the cooperative banks. In addition, a system of electronic funds transfer utilising NICNET may also be developed. Such a system would obviate the need for physical movement of cash which may be placed in the custody of a Depository Chest managed by SBI or the lead bank in the district. All the banks in the district may share the management cost of the Depository proportionately or on the basis of any other mutually agreed formula. (para. 3.21)

**29**. The Task Force feels the need for doing away with state level restrictions which entail seeking the permission of the RCS for making investments so that banks are not to forego better opportunities on account of delays involved in obtaining the permission. (para. 3.22)

**30**. Cooperative banks may be afforded adequate freedom in regard to investment decisions subject only to a general exposure norm. (para. 3.22)

**Delayering in Cooperative Banks**

**31**. The Task Force is of the view that continuance of the existing three-tier structure in the short-term cooperative credit structure in bigger states as at present, is generally necessary. However, presently the lower tier of the structure has not been getting the deserved attention in regard to interest sharing, margin, recoveries and other parameters required to make them functionally viable. It has to be recognised that different tiers are an integral part of a total system. For the structure as a whole to work as a cohesive system, the organisational tiers have to be far stronger than they are at present. The responsibility in this regard rests on the higher tiers. (para. 3.27)

**32**. The Task Force is not averse to reorganising and restructuring cooperatives, wherever necessary and recommends that measures should be taken for strengthening cooperatives, if necessary by voluntary amalgamation/merger based on economies of scale, particularly in areas where DCCBs are unviable and are not in a position to ensure uninterrupted credit flow to agriculture. The higher tier in the system has to decide about the need for amalgamation/merger. The realignment of the structure may be done for the purpose with necessary legislative support from state government concerned after a review of the position by the respective SCBs. Such realignment may be through merger between DCCBs or even liquidation of these institutions wherever necessary. In the event of liquidation of DCCBs, the SCB may directly finance PACS by opening branches as in the case of two tier structure or alternatively the neighbouring DCCBs may finance PACS wherever existing unviable DCCBs are wound-up. (para. 3.28)

**33**. Where PACS are wound up, the neighbouring PACS may finance individuals or in exceptional cases of this not happening, branches of DCCBs may directly finance individuals. (para 3.28)

**34**. The Task Force recognizes the universally acknowledged fact that no institution has a divine right to live if it is not adding value to the system. However, the state government may have to take all possible steps to ensure that the process of liquidation is completed within a reasonable period of not more than one year. (para 3.28)

**35**. In the context of emerging need that all credit institutions, to succeed, have to offer a multitude of credit and non-credit services, there is a growing consensus that the integration of ST and LT structures into a 'single window' organisation may be an advantageous proposition. Task Force supports this proposition and suggests that the state level cooperative banks and state governments may give serious thought to the integration of both the ST and LT credit structures in their states taking into account the local conditions. (para. 3.29)

**36**. In the event of such an integration not fructifying in the short run, it may be necessary for the ARDBs to become resource-based institutions by raising deposits and broadbasing their credit operations offering a wide range of credit services including ST credit to supplement and complement their term credit. Similarly, SCBs and DCCBs also may cater to the medium and long-term credit requirements in their areas of operation. (para. 3.30)

**Investment of SLR deposits of Primary Cooperative Banks (PCBs)**

**37**. The High Power Committee on Urban Cooperative Banks in paragraph 9.15 of their report recommended amendment to BR Act, 1949 to provide that urban banks may be permitted to invest their SLR funds in scheduled urban cooperative banks and if there is no head office or branch of such a scheduled urban cooperative bank in the place where the UCB is located, then in a commercial bank, till secondary market for government securities is improved and facility of UCBs keeping SLR funds with the DCCBs and SCBs is discontinued. The Task Force understands that one of the reasons behind the plea made by the urban banks before the High Power Committee was that they are paid lower rate of interest on the funds placed with the DCCBs and SCBs. While the Task Force agrees that market related interest should be paid by SCBs/ DCCBs on SLR deposits of PCBs, it recommends continuance of status-quo as regards the provisions of Section 24 of the BR Act, 1949(AACS) in the matter of eligibility of assets for the purpose of SLR. (para 4.06 & 4.07)

**Deposits of PACS with DCCBs**

38. The PACS have meagre resources by way of deposits and reserves. More than 60 per cent of their resources are by way of borrowings from DCCB. The PACS maintained statutory reserves created out of profits which are required to be kept as deposits with DCCB. Given the poor resource base of the PACs, the Task Force feels that the balance of advantage for PACS lies in utilizing the said reserves in their own business and that there should be no compulsion that these are invested outside the business as deposits with the DCCBs. (para. 4.08)

**Minimum Involvement**

**39**. Keeping in view the supplementary character of NABARD refinance provided out of the RBI's General Line of Credit and the need for containment of the latter and increasing the use of public savings for ST(SAO) lendings, the Task Force agrees with the principle behind the MI discipline and advocates that the overall refinance policy be so structured so as to serve the above objectives. (para 4.14)

**40**. The Task Force is, therefore, of the view that while continuing with the existing norms/relaxations in MI, such of those DCCBs which are not able to get any reasonable refinance support from NABARD thereunder, may be provided refinance to the full extent of their incremental lending for ST(SAO) over and above their base level lending. The base level lending may be fixed appropriately as a moving average of the ST(SAO) loans outstanding during the previous three years. (para 4.14)

**41**. This measure should provide them with the needed incentive for further stepping-up credit flow for ST agriculture without detracting from the supplementary character of NABARD's refinance for SAO. In cases where the scope for incremental agricultural lending is getting limited due to stagnating agricultural operations, a minimal refinance support as a percentage of agricultural lending may, on a selective basis, be considered by NABARD. (para 4.14)

**42.** Steps would also be required to be taken to ensure that the banks which have a high level of dependence on concessional refinance be encouraged to reduce the same over time. One of the steps could be to structure the rate of interest on refinance in a manner that the replacement of refinance by the real resources (savings of the community) becomes an attractive alternative. (para 4.14)

**Capital Adequacy**

**43.** The capital adequacy norms which have been made applicable to commercial banks in 1991-92 have not been introduced for cooperative banks. Being a major sector of the rural financial system, it is logical for the cooperative banks also to conform to the norms applicable to the commercial banks. There is hence a need to strengthen the capital base of cooperative banks. It would be ideal if the cooperative banks could comply with capital adequacy norms over a period of five to six years. The Task Force, however, recognises that the cooperative banks, as they exist now, do not have access to the capital market as in the case of commercial banks. The Task Force feels that these constraints notwithstanding, the cooperative banks may make a beginning to move in the direction of strengthening their capital base so that they could conform to the applicable norms over a period of time (para 4.17).

**Recovery Management**

**44**. The recovery climate in cooperatives has been further vitiated by across the board loan waivers announced in the past. It is increasingly being recognised that such loan waivers penalise the honest borrowers and reward defaulters. The state governments often resort to announcing interest rate subsidies which leads to a general tendency of delaying repayment in anticipation of such announcements. The Task Force feels that a decision needs to be taken at all levels that loan waiver/postponement of recoveries and granting of interest rate subsidies for populist reasons would not be made in future. (para. 4.20)

**45**. The Task Force is of the view that powers for expediting procedures for recovery of cooperative dues should invariably be delegated to and vested in the officials of cooperative credit institutions themselves preferably in higher tiers at the district and state levels. (para 4.21)

**46**. Many of the PACS do not have enough loan assets to cover their liabilities to the DCCBs. This imbalance has adversely affected the long term viability of PACS. The Task Force re-emphasises that improving recoveries at the level of PACS and PCARDBs is the key for the revitalisation process of the cooperative credit institutions. (para. 4.22)

**47**. The Debt Recovery Tribunals (DRT) were operationalised for recovery of commercial banks' dues where individual loan outstanding were above Rs. 10 lakh. Task Force suggests that the provisions of the existing DRT may be made applicable to cooperative banks also where loan size is more than Rs.1 lakh so as to expedite recovery of chronic overdues. (para. 4.24).

**48**. In regard to the overdues in the long-term structure, Task Force suggests that the SCARDBs/PCARDBs be allowed the right of foreclosure of mortgages in the case of willful defaulters. This should substantially improve recovery position of such institutions and pave the way for securitisation of mortgage loans to raise resources from the market at reasonable rates. This may require some changes in the state cooperative laws which need serious consideration with a sense of urgency. (para. 4.25)

**49**. With a view to tackling the problem of overdues, the Task Force is of the opinion that there is a need to evolve compromise/settlement procedure for closing of long pending overdue loans. For this purpose, a committee may be constituted at the district level. This committee may advise the base level units also. An authorised person from the base level unit may be invited at the DCCB level for taking decisions on write-off. Fresh eligibility for such borrowers should be considered on merits and not as a matter of rule, provided the default is not willful. Lessons from the system operating in commercial banks may be suitably drawn by the cooperative banks. (para 4.26)

**Internal Checks and Control**

**50**. The lack of appropriate internal control systems like inspections, internal and concurrent audit and periodic branch visits by the higher tier officials in cooperative banks is a matter of increasing supervisory concern. This has led to poor MIS in these banks. The Task Force is of the view that these banks should strengthen their internal checks and controls and MIS so that supervision over these banks could be more effective. (para 5.07)

**Audit in Cooperative Banks**

**51**. Task Force is of the view that audit at all levels be entrusted to the firms of Chartered Accountants only. Since it has been recommended to entrust this responsibility to chartered accountants, suitable parameters for determining their fees may be drawn up by NABARD, if necessary in consultation with the Institute of Chartered Accountants and the RBI. The Task Force also endorses the recommendation for constitution of State Level Audit Committees. (para 5.10 & 5.11)

**52**. The Task Force is of the opinion that audit of cooperative institutions should be conducted on a regular basis and the criteria for the audit classification should be uniform in all the states and be transparent. NABARD may formulate suitable guidelines for this purpose. (para 5.12)

**53.** Since the state governments are maintaining a large number of staff for audit, Task Force is of the opinion that audit of PACS may be entrusted to the Chartered Accountants in a phased manner. As regards the SCBs/SCARDBs and DCCBs/PCARDBs, the responsibility should be entrusted to Chartered Accountants straightaway. It should be the responsibility of the higher tier to ensure timely completion of audit in the lower tier by also ensuring that the accounts are prepared in time. (para 5.12)

**54**. The Task Force further suggests finalisation of the panel of auditors by a State Level Committee consisting of representatives from RBI, NABARD and the concerned state government. Allocation of audits may also be done by the same committee. (para 5.13)

**Opening of branches by DCCBs/Bifurcation of DCCBs/PCARDBs**

**55**. The Task Force is of the view that branch licensing of DCCBs needs to be brought under the provisions of the Banking Regulation Act,1949. In the interregnum, the Registrar of Cooperative Societies may obtain clearance from NABARD before giving his permission for opening new branches of DCCBs. (para 5.14)

**56**. There have been instances of bifurcation of DCCBs/ PCARDBs into smaller units, not justified on the grounds of viability, merely on creation of new districts. Such bifurcation should not be attempted without prior approval of RBI. (para 5.14)

**Scheduling of District Central Cooperative Banks**

**57**. There have been suggestions from some quarters that inclusion of the district central cooperative banks in the second schedule to the Reserve Bank of India Act will confer better status to these banks in the eyes of the public and enable them to attract more deposits. It has been represented that scheduling is required for enabling DCCBs to accept deposits from government departments and other statutory bodies. They have therefore suggested that Reserve Bank should consider giving scheduled bank status to the DCCBs. The Task Force understands that some of the state governments have been removing the restrictions through appropriate notifications. Task Force recommends that other State Governments also may follow suit and not reckon scheduling as a precondition for allowing their departments to place their funds with cooperative banks provided the latter are not categorised 'weak'. The Task Force, therefore, feels that it is more important to improve the functioning and enhance the inherent strength of cooperative banks rather than giving them scheduled status. However, given the need to improve the image of cooperative banks, the Task Force is inclined to agree with the view that scheduling will help improving their status and facilitate in enlarging their resource base through greater deposit mobilization. The Reserve Bank of India may, therefore, examine the issue separately and take a view.( para 5.15)

**Risk Management System in Cooperatives**

**58**. The Task Force opines that the SCBs, to begin with, may be advised suitably on the asset-liability management as was done in the case of commercial banks. (para 5.16)

**Transparency and Disclosure Norms**

**59**. The Task Force recommends that the apex cooperative banks and DCCBs may be asked to disclose certain critical information in their balance sheets like movements in NPAs, provisions, return on assets, business per employee, profit per employee, etc. These disclosures, suitably adapted, need to be captured in the audit reports of cooperative banks. Towards this end, RBI/NABARD may consider issuing guidelines for a Common Accounting System in SCBs and DCCBs. (para 5.17)

**Core principles of effective banking supervision**

**60**. The Task Force suggests that NABARD may formulate an appropriate strategy to effectively implement the core principles of supervision in relation to cooperative banks, to the extent applicable. (para 5.19)

**Rationale and Need for Revitalisation of Cooperatives**

**61**. Given the strong correlation between flow of credit and increased agricultural production and productivity and generation of gainful rural employment, health of rural financial institutions remains critical to the success of rural development efforts. The commercial banks and the RRBs have since been strengthened with recapitalisation. The Task Force is convinced of the urgent need to initiate measures for the rehabilitation of cooperative banks also, which constitute the major segment of the rural financial system. (para 6.03)

**Revitalisation Package**

**Funding**

**62**. Task Force does not recommend across the board rehabilitation of all loss-making banks. This should be confined to potentially viable units only. The assessment of viability in each case will have to be done following the usual principles of expected volume of business over a period, level of income likely to be generated, whether a turnaround can be achieved in five to seven years beyond which rehabilitation assistance would not be available, etc. (para 6.06)

**63**. Viability of member PACS would largely determine the viability of the central cooperative banks at the district level in which the PACS federate. The banks may be taken up for rehabilitation carefully on a selective basis even if the process of selection is time-consuming. (para 6.06)

**64**. Task Force recommends that the revitalisation package for cooperative banks may be a four-dimensional programme encompassing financial, operational, organisational and systemic aspects. (para 6.06)

**65**. There is an emerging view that given the priorities of the successive Five Year Plans to strengthen food security through increased agricultural production and enhanced credit flow for the purpose, the central and state governments should take the lead in the formulation of rehabilitation/revamping package for the cooperative credit institutions. Task Force supports this view. (para 6.08)

**Sharing and Phasing**

**66**. For the purpose of revamping, the base level institutions (PACS) in the ST structure would be kept at centre stage, because with a better performance of the PACS, the District/State Cooperative Banks would automatically be in good shape and do better, to a very large extent. The higher tiers would also need additional support depending upon the position of their other assets. A similar strategy may have to be followed in the federal LT structure starting with the PCARDBs. (para 6.09)

**67.** Finding funds required for the purpose, in a single year will be a difficult proposition for the central as well as the state governments. Task Force is of the view that since revitalisation process is quite elaborate, a longer timeframe would be required for this purpose. (para 6.10)

**Funding Mechanism**

**68**. Ideally, the entire financial assistance for ST structure should come from the owners including state governments. However, given the need to progressively reduce the state government's control over the cooperatives, it is necessary that the financial contribution by the state government is restricted. (para 6.11)

**69**. The Task Force is of the view that the initiative should be taken only in those states which take appropriate legislative measures in order to ensure elimination of duality of control and to place them fully under the purview of B.R.Act, 1949. Further, the state governments should also commit appropriate financial and administrative support. (para 6.11)

**70**. Given the need to progressively reduce the state governments' control over the cooperatives, it is necessary that the financial assistance from the state governments should be by way of loans and not in the form of equity. Looking into the financial position of the state governments, the contribution by them should be restricted to 40 percent of the aggregate requirement. Forty percent may be contributed by GOI. The starting point for any rehabilitation will have to be contributions from the members as additional share capital to the extent of 20 percent of the aggregate requirement for rehabilitation. (para 6.11)

**71**. The share of the central and state governments may be in the form of bonds issued in favour of the DCCBs bearing a reasonable rate of interest. The bonds received by a DCCB would have to be notionally allocated to the targeted PACS in accordance with their respective shares as determined under the rehabilitation package. This will not involve large outgo of funds from central/state governments. Outflows would be restricted to periodical payment of interest on the bonds issued Beneficiary cooperatives will only derive the benefit of interest income which will improve their profitability. (para 6.12)

**72**. The bonds will be extinguished over a period of five years (20 percent each year) with an initial moratorium of three years. This loan will be on behalf of specified PACS identified for the purpose of rehabilitation, and therefore, interest income should go to the credit of such PACS and appropriated towards clearing the dues of such PACS. Bonds would be shown in the balance sheets of the selected PACS and they should be maintained at the DCCB level. (para 6.12)

**73**. The members' contribution should be retained at PACS level to be used for its credit business and should not be deployed towards non-credit business or frittered away towards meeting cost of management, PDS, etc. (para 6.12)

**74**. In the case of LT structure, the Task Force suggests that in the long run, the ARDBs have to work as full-fledged banks. Where this is not possible, other options like merger with ST structure may have to be considered. The federal structure as a whole viz. the PCARDBs and SCARDBs has to be taken together for provision of rehabilitation assistance. In the case of LT structure also, the same criteria as followed for ST structure, may have to be adopted, except that the sharing pattern would change slightly. Here, the members may contribute 10 percent of the total requirements and the State and Central Governments may contribute 45 percent each. The lower share for members in LT structure has been suggested, because relatively a smaller number of members continue on a long term basis. (para 6.13)

**Selection Criteria**

**75**. For evolving and working out modalities for selection of banks, a National Level Committee may be constituted by drawing members from GOI, RBI, NABARD and a select few state governments and an eminent cooperator. After the national level committee formulates the broad criteria for selection of banks, a State Level Committee may be constituted by drawing members from Regional Offices of RBI and NABARD and representatives from state government and SCB/SCARDB. Both, national level and state level committees, may be chaired by NABARD. (para 6.15)

**76**. The scheme will be open to all state governments who expressly undertake to share the stipulated financial obligation and also fulfill conditionalities relating to organisational, operational and systemic aspects with regard to the functioning of cooperative banks. Enactment of Model Cooperative Societies Act (with suitable changes) will have to be the centre stage of the conditionalities. (para 6.16)

**Conditionalities**

**77**. The success of the revamping process, in addition to financial support, would depend largely on evolving institution-specific action programme encompassing conducive organisational, operational and systemic inputs. The broad conditionalities of the scheme will later be followed by strong institution-specific conditionalities once the institution is selected for revitalisation (para 6.17 & 6.18)

**Monitoring**

**78**. In order to ensure effective implementation, a three-party agreement in the form of a MoU may be entered into by the state governments, apex banks concerned and NABARD. In regard to the DCCBs, the agreement will comprise four-parties including the DCCBs.

(i) The scheme implementing agency may be NABARD.

(ii) Release of funds may be authorised by NABARD on fulfillment of specific conditions by state government and SCB/ SCARDB concerned. (para. 6.19)

**79**. The overall monitoring of the revamping process may be overseen by a High Power Committee consisting of Secretary, Ministry of Agriculture, GOI, Special Secretary, Department of Banking, GOI, Deputy Governor, Reserve Bank of India and Chairman, NABARD. The meetings of the Committee may be chaired by Chairman, NABARD. (para 6.20)

**Establishment of a Cooperative Rehabilitation and Development Fund in NABARD**

**80.** While presenting the Union Budget for the year 2000-2001, the Hon'ble Finance Minister proposed to establish a Fund in NABARD, to promote two prerequisites for a more vibrant rural cooperative credit system viz. to eliminate excessive bureaucratisation and overlapping jurisdiction of state governments and NABARD; and for clear delineation of supervisory role of RBI/ NABARD on banking matters. The Task Force, therefore, recommends that a Cooperative Rehabilitation and Developmet Fund may be established in NABARD. Government of India may consider making an initial contribution Rs.500 crore which could be be augmented later depending on needs through additional contributions from GOI. The Fund may be administered by NABARD. (paras 6.21& 6.22)

**81**. The Fund may, inter alia, be used for the implementation of the rehabilitation plan in states which accept the necessary pre-conditions for such plans as indicated at paragraphs 6.17 and 6.18. The other purposes for which the fund could be used may include, inter alia:

(i) Providing soft loans for augmenting the Mutual Assistance Fund proposed in this Report to be established at state level.

(ii) Development of IT in cooperative banks.

(iii) Human Resources Development

(iv) Essential infrastructure development

(v) Conduct of Training, Seminars, Pilot Studies, etc.
(vi) Organisational restructuring of cooperative banks. (para 6.23)

**Mutual Assistance Fund**

**82.** Given the integral relationship amongst the various tiers of the cooperative credit institutions, the need for an institutional arrangement for mutual assistance even after the revamping process gets completed, needs no emphasis. Task Force, therefore, suggests that for the purpose, a Mutual assistance Fund may be set up at the state level by contributions from cooperative credit institutions in the state. The SCBs and DCCBs, SCARDBs and PCARDBs will annually contribute one per cent of their profits or 0.25 percent of their management expenses, whichever is higher, towards this Fund. ( para 6.24 )

**83.** The Fund may be utilised for rendering assistance as well as providing soft loans to weak primary units in future to enable them to overcome temporary difficulties.( para 6.25 )

**84.** The cooperatives contributing to the Fund may be given a reasonable return on their contributions depending on the income accruing to the Fund. The Fund may be managed by a committee consisting of the representatives of SCB, DCCBs and PACS, and SCARDB and PCARDBs, as the case may be.( para 6.26 )

**85.** The Task Force suggests that NABARD may work out a simple scheme for setting up and management of the Fund and frame conditionalities and guidelines for the use of the Fund. (para 6.27)

Jagdish Capoor
Chairman

Shekhar Agarwal
Member

Govindan Nair
Member

Yogesh Nanda
Member

**<u>Annexure 1.1</u>**

**Format to elicit information from**
**<u>CEOs/Chairmen of select SCBs</u>**

Name of the state : ____________________________

Name of the CEO/Chairman of the SCB :
_________________________________________
_____________________________________________________________________________

1. Please give in the enclosed formats data on certain financial parameters of the SCBs/ DCCBs.
2. Give information in brief on the Cooperative Credit Structure in the State.
3. Developmental role played by the SCBs in regard to DCCBs and in the State
4. How many DCCBs in the State have elected boards.

No. of DCCBs
No. having elected Boards

5. How to make the SCBs/DCCBs member driven professional business enterprises.
6. Please offer comments on the effectiveness or otherwise of layers in the cooperative credit structure.
7. In your opinion which structure - Unitary/Federal is more appropriate - give reasons/ recommendations.
8. Please furnish the following data for different tiers -

<u>SCBS DCCBS PACS</u>

1. Average Cost of funds
2. Average return on loans/investments (together)
3. Spread
4. Average transaction Cost
5. Net spread
6. Share in the interest margin

9. Do you think the spread and sharing of interest margin indicated above are appropriate? Yes/No
10. Give reasons for their appropriateness or other wise and offer suitable recommendations for their rationalisation and improvements.
11. Please indicate the amounts of imbalances between SCBs and DCCBs in you state during the last 3 years

(Rs. in lakh)

| Year | Imbalances | Loans Outstanding | | Deposits | |
|---|---|---|---|---|---|
| | | SCBs | DCCBs | SCBs | DCCBs |
| 1996-97 | | | | | |
| 1997-98 | | | | | |
| 1998-99 | | | | | |

-----------------------------------------------------------------------------------------

12. What is the impact of imbalances in loaning operations, recoveries, accumulated losses, profitability, etc. at each level in the structure.
13. Please offer comments on the factors responsible for erosion in the capital base of cooperative banks in the state.
14. Please suggest measures to strengthen capital base of the cooperative banks to reach prudential level over time.
15. What are the arrangement available in regard to internal checks and controls in the banks in the following areas :
(i) Internal inspections
(ii) Internal audit
(iii) Concurrent audit
(iv) Statutory audit
(v) Compliance on internal inspections, statutory audit and inspections conducted by NABARD.
16. You think the present arrangement in regard to internal checks and controls are adequate in the bank? Yes/No
17. If not adequate, please suggest measure to strengthen the internal checks and controls.
18. Please offer comments on the duality of control in the cooperatives (i.e. democratic bodies, bank executives and government officials).
19. Do you think the cooperative banks (ST structure) are working as per the B.R.Act 1949 AACS)?
20. If not, reasons therefor.
21. Is the state Cooperative Act/Bye-laws affecting the working of the cooperative banks in the state.
22. If yes, please indicate the areas which are affecting the working of cooperative banks in the state
23. Are the roles and responsibilities between the bank executives on the one hand and elected leaders and Govt. Officials on the other hand clearly defined and followed or not.
24. If not, please offer suggestions for clear demarcation of roles and responsibilities including matters relating to duality of control.
25. Any other comments/suggestions may be made on the revival/restructuring of the cooperative banks.

**Annexure 1.2**

**Format to elicit information from**
**CEOs/Chairmen of select SCARDBs**

Name of the state : ___________________________

Name of the CEO/Chairman of the SCARDB :
________________________________________
____________________________________________________________________________
______

1. Please give in the enclosed formats data on certain financial parameters of the SCARDBs/ PCARDBs.
2. Give information in brief on the Cooperative Credit Structure in the State.
3. Developmental role played by the SCARDBs in regard to PCARDBs and in the State
4. How many PCARDBs in the State have elected boards.
5. How to make the SCARDBs/PCARDBs member driven professional business enterprises.
6. Please offer comments on the effectiveness or otherwise of layers in the cooperative credit structure.
7. In your opinion which structure - Unitary/Federal is more appropriate - give reasons/ recommendations.
8. Please furnish the following data for different tiers -

| | SCARDBs | PCARDBs |
|---|---|---|
| 1. Average Cost of funds | | |
| 2. Average return on loans/investments (together) | | |
| 3. Spread | | |
| 4. Average transaction Cost | | |
| 5. Net spread | | |
| 6. Share in the interest margin | | |

9. Do you think the spread and sharing of interest margin indicated above are appropriate? Yes/No
10. Give reasons for their appropriateness or other wise and offer suitable recommendations for their rationalisation and improvements.
11. Please indicate the amounts of imbalances between SCARDBs and PCARDBs in you state during the last 3 years

(Rs. in lakh)

| Year | Imbalances | Loans Outstanding | | Deposits | |
|---|---|---|---|---|---|
| | | SCARDBs | PCARDBs | SCARDBs | PCARDBs |
| 1996-97 | | | | | |
| 1997-98 | | | | | |
| 1998-99 | | | | | |

12. What is the impact of imbalances in loaning operations, recoveries, accumulated losses, profitability, etc. at each level in the structure.
13. Please offer comments on the factors responsible for erosion in the capital base of cooperative banks in the state.
14. Please suggest measures to strengthen capital base of the cooperative banks to reach prudential level over time.
15. What are the arrangement available in regard to internal checks and controls in the banks in the following areas :
(i) Internal inspections
(ii) Internal audit
(iii) Concurrent audit

(iv) Statutory audit

(v) Compliance on internal inspections, statutory audit and inspections conducted by NABARD.

16. You think the present arrangement in regard to internal checks and controls are adequate in the bank? Yes/No
17. If not adequate, please suggest measure to strengthen the internal checks and controls.
18. Please offer comments on the duality of control in the cooperatives (i.e. democratic bodies, bank executives and government officials).
19. Do you think the cooperative banks (ST structure) are working as per the B.R.Act 1949 AACS)?
20. If not, reasons therefor.
21. Is the state Cooperative Act/Bye-laws affecting the working of the cooperative banks in the state.
22. If yes, please indicate the areas which are affecting the working of cooperative banks in the state
23. Are the roles and responsibilities between the bank executives on the one hand and elected leaders and Govt. Officials on the other hand clearly defined and followed or not.
24. If not, please offer suggestions for clear demarcation of roles and responsibilities including matters relating to duality of control.
25. Any other comments/suggestions may be made on the revival/restructuring of the cooperative banks.

**Annexure 1.3**

**Format for information from Secretary, Cooperation/RCS**

Name of the State:

Secretary, Cooperation/Registrar of Cooperative Societies

1. Briefly indicate the developmental role played by the SCB/SCARDB in the State

2. How to make the cooperative banks `member-driven' professional business enterprises ? Please mention specific action points relating to legislative, administrative and financial aspects.

3. In your opinion, which structure is more appropriate in the long term cooperative credit system - unitary or federal ? Give reasons/recommendations

4. Please indicate the rationale and appropriateness of sharing of interest margin among the tiers of the cooperative banks: Short term and long term cooperative credit system

5. Please suggest measures to strengthen the capital base of the cooperative banks to reach prudential level over time (ST and LT credit structure)

6. (a) What are the present arrangements for audit in the State ?
(b) Arrears, if any, in conducting the statutory audit at different levels?
(c) Please indicate the feasibility of entrusing the statutory audit to Chartered Accountants/professionals

7. Please indicate the major aspects which are affecting the working of cooperative banks in the State.

8. Please offer suggestions for clear demarcation of roles and responsibilities including matters relating to duality of control

9. What measures you suggest to make PACS strong and viable ? Do you feel that `exit route' will be desirable for non-performing/non-viable PACS ? If so, what arrangements at grass-root level you consider for providing financial services to the rural population ?

10. Please suggest if PACS can function as `mini banks' with appropriate incentives for deposits including linkage with borrowings, as also measures to ensure safety of members' deposits.

11. Any other comments/suggestions may be made on the revival/restructuring of the cooperative banks

ANNEXURI

**ORGANISATIONAL FRAMEWORK FOR PROVISION OF AGRICULTURE AND RURAL CREDIT***
**As on 31 March 1999**

**RBI** **GOI**

**URBAN COOP. BANKS (1936)** **NABARD**

**COOPERATIVE BANKS** **COMMERCIAL BANKS (106)** **REGIONA RURAL BA (196)**

**SHORT TERM STRUCTURE** **LONG TERM STRUCTURE** **METROPOLITAN BRANCHES (8144)** **METROPOLI BRANCHI (7)**

**29 SCBs (807 branches)** **19 SLDBs** **URBAN BRANCHES (9645)** **URBAN BRANCHI (326)**

**BRAN CHES (1158)** **PLDBs (745)** **SEMI URBAN BRANCHES (12283)** **SEMI URB BRANCHI (1857)**

**367DCCBS (12217 br.)** **BRANCHES (689)**

**PACS (92000)(approx.)** **RURAL BRANCHES (20571)** **RURAL BRANCHI (12285)**

**DEPOSITORS AND BORROWERS**

* Compiled by NABARD

ANNEXU

**PARTICULARS OF DISBURSEMENT OF AGRICULTURAL CREDIT BY VARIOUS AGENCIES - 1995-96 TO 1999-2000**

(RS. CI

| PARTICULARS/ AGENCY | 1995-96 | Share % | 1996-97 | Share % | 1997-98 # | Share % | 1998-99 $ | Share % | 1999-2000 * |
|---|---|---|---|---|---|---|---|---|---|
| **I. Production (ST) Credit** | | | | | | | | | |
| Co-operative Banks | 8331 | 57 | 9328 | 55 | 10740 | 55 | 12595 | 54 | 15619 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| RRBs | 849 | 6 | 1121 | 7 | 1395 | 7 | 1720 | 7 | 2025 |
| Commercial Banks | 5345 | 37 | 6549 | 38 | 7299 | 38 | 9262 | 39 | 9566 |
| **Sub Total (A)** | **14525** | **100** | **16998** | **100** | **19434** | **100** | **23577** | **100** | **27210** |
| **Growth Rate** | | | **(+17%)** | | **(+14%)** | | **(+ 21%)** | | |
| **<u>II. MT/LT Credit</u>** | | | | | | | | | |
| Co-operative Banks | 2148 | 29 | 2616 | 28 | 3227 | 26 | 4392 | 30 | 5046 |
| RRBs | 532 | 7 | 563 | 6 | 643 | 5 | 1269 | 9 | 1418 |
| Commercial Banks | 4827 | 64 | 6234 | 66 | 8394 | 69 | 8816 | 61 | 11001 |
| **Sub Total (B)** | **7507** | **100** | **9413** | **100** | **12264** | **100** | **14477** | **100** | **17465** |
| **Growth Rate** | | | **(+25%)** | | **(+ 30%)** | | **(+ 18%)** | | |
| **<u>ST + MT/LT CREDIT</u>** | | | | | | | | | |
| Co-operative Banks | 10479 | 48 | 11944 | 45 | 13967 | 44 | 16987 | 45 | 20665 |
| RRBs | 1381 | 6 | 1684 | 6 | 2038 | 6 | 2989 | 8 | 3443 |
| Commercial Banks | 10172 | 46 | 12783 | 49 | 15693 | 50 | 18078 | 47 | 20567 |
| **Grand Total (A+B)** | **22032** | **100** | **26411** | **100** | **31698 @** | **100** | **38054** | **100** | **44675** |
| **Growth Rate** | **(+18%)** | | **(+20%)** | | **(+20%)** | | **(+20%)** | | **(+17 %)** |

**$ Estimated**

**# Provisional**

*** Projections**

@ Includes disbursement of Rs.1113 crore by 30 private sector banks

Source: ROs in respect of Cooperative Banks and RRBs and RPCD, RBI in respect of Commercial Banks

## Annexure 2.3

### ST COOPERATIVE CREDIT STRUCTURE - IMPORTANT FINANCIAL PARAMETERS - 1994-95 TO 1998-99

(Rs.in cr

| Sr. No. | Particulars | | March 1995 | March 1996 | March 1997 | March 1998 | March 1999 |
|---|---|---|---|---|---|---|---|
| 1 | 2 | | 3 | 4 | 5 | 6 | 7 |
| 1 | <u>BASIC INFORMATION</u> | | | | | | |
| | (a) | PACS | | | | | |
| | (i) | Total membership (in lakhs) | 942 | 966 | 982 | 997 | 1016 |
| | (ii) | Borrowing membership (in lakhs) | 347 | 425 | 387 | 411 | 440 |
| | (iii) | % of borrowing members | 37 | 44 | 40 | 41 | 43 |
| | (b) | DCCBs | 362 | 363 | 364 | 367 | 29@ |
| | (c) | SCBs | 28 | 28 | 28 | 28 | 367 |
| 2 | OWNED FUNDS | | | | | | |
| | (a) | DCCBs | 3300 | 3948 | 5066 | 5761 | 3721 |
| | (b) | SCBs | 1949 | 2624 | 2947 | 3319 | 7296 |
| 3 | DEPOSITS | | | | | | |
| | (a) | DCCBs | 20829 | 24560 | 30381 | 36558 | 25786 |
| | (b) | SCBs | 11820 | 13433 | 17491 | 22201 | 45609 |
| 4 | BORROWINGS | | | | | | |
| | (a) | DCCBs | 8771 | 10160 | 10505 | 11805 | 9849 |
| | (b) | SCBs | 6805 | 7905 | 8033 | 8524 | 12783 |
| 5 | <u>LOANS & ADVANCES</u> OUTSTANDING | | | | | | |
| | (a) | DCCBs | 20699 | 24606 | 28373 | 31237 | 21902 |
| | | Share of borrowings (%) | 42.5 | 41.3 | 37.0 | 37.8 | 45.0 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | (b) | SCBs | 13211 | 16585 | 18312 | 19586 | 3690 |
| | | Share of borrowings (%) | 43.2 | 47.7 | 43.9 | 43.5 | 34.6 |
| 6 | PERCENTAGE OF OVERDUES TO DEMAND | | | | | | |
| | (a) | DCCBs | 30 | 31 | 30 | 32 | 2989 |
| | (b) | SCBs | 10 | 10 | 14 | 16 | 4009 |
| 7 | LOANS ISSUED | | | | | | |
| | (a) | DCCBs | 23869 | 26703 | 32311 | 31801 | 19 |
| | (b) | SCBs | 22286 | 27457 | 28665 | 27805 | 30 |
| 8 | NPA % Gross | | | | | | |
| | (a) SCBs | | | | 10.20 | 11.76 | 12.55 |
| | (b) DCCBs | | | | 17.36 | 18.05 | 17.81 |

**# Sikkim SCB commenced operation w.e.f. 12 December 1998.**

**Data for 1998-99 & 1997-98 in respect of SCB/DCCBs is provisional.**

**PACS data is provisional even for earlier years. Audit in some DCCBs is not complete even for the year 1997-**

**Annexur**

**LT COOPERATIVE CREDIT STRUCTURE - IMPORTANT**

**FINANCIAL PARAMETERS - 1994-95 TO 1998-99**

**(Rs.in c**

| Sr. No. | Particulars | | March 1995 | March 1996 | March 1997 | March 1998 | Ma 19 |
|---|---|---|---|---|---|---|---|
| 1 | 2 | | 3 | 4 | 5 | 6 | 7 |
| 1. | BASIC INFORMATION | | | | | | |
| | (a) | SCARDBs (No) | 20 | 19@ | 19@ | 19@ | 19 |
| | (i) | Total Ground level Membership (In Lakhs) | 118 | 119 | 128 | 131 | 13 |
| | (b) | PCARDBs(No) | 732 | 733 | 738 | 745 | 74 |
| 2. | OWNED FUNDS | | | | | | |
| | (a) | SCARDBs | 1047 | 1241 | 1429 | 1653 | 20 |
| | (b) | PCARDBs | 573 | 617 | 741 | 986 | 11 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **3. DEPOSITS** | | | | | | |
| **(a)** | **SCARDBs** | **122** | **158** | **163** | **200** | **24** |
| **(b)** | **PCARDBs** | **33** | **30** | **62** | **99** | **15** |
| **4. BORROWINGS** | | | | | | |
| **(a)** | **SCARDBs** | **6170** | **7202** | **8464** | **9786** | **110** |
| **(b)** | **PCARDBs** | **3480** | **4150** | **5010** | **5888** | **684** |
| **5. LOANS & ADVANCES OUTSTANDING** | | | | | | |
| **(a)** | **SCARDBs** | **5900** | **6857** | **8013** | **9182** | **104** |
| | **Share of borrowings (%)** | **104.58** | **105.03** | **105.62** | **106.58** | **106.** |
| **(b)** | **PCARDBs** | **3407** | **4098** | **4954** | **5840** | **681** |
| | **Share of borrowings (%)** | **102.14** | **101.27** | **101.13** | **100.82** | **100.** |
| **6. PERCENTAGE OF OVERDUES TO DEMAND** | | | | | | |
| **(a)** | **SCARDBs** | **38** | **39** | **38** | **39** | **38** |
| **(b)** | **PCARDBs** | **33** | **39** | **41** | **45** | **40** |
| **7. LOANS ISSUED** | | | | | | |
| **(a)** | **SCARDBs** | **1429** | **1798** | **2079** | **2295** | **243** |
| **(b)** | **PCARDBs** | **936** | **1219** | **1477** | **1594** | **169** |
| 8 **NPA % (Gross)** | | | | | | |
| **(a)** | **SCARDBs** | **-** | **-** | **-** | **19.44** | **19.** |
| **(b)** | **PCARDBs** | **-** | **-** | **-** | **16.78** | **16.** |

## ANNEXURE 3.1

**Comparative position of interest margins recommended by ACRC and obtained by cooperative banks**
**(as on 31.3.1998)**

| Name of agency | Interest margin recommended by ACRC | States with interest margins | |
|---|---|---|---|
| **SCBs** | **1.5** | **Less than 1.5** | **More than 1.5** |
| | | Haryana (0.75) | Assam (4.0-5.5) |
| | | Himachal Pradesh (1.0) | Tripura (3.5-7.0) |
| | | J & K (1.5) | Andaman & Nicobar (3.5-4.0) |
| | | Madhya Pradesh (0.5-1.0) | Goa (3.5) |
| | | Punjab (1.0-1.5) | Gujarat (2.0) |
| | | Rajasthan (0.75-1.7) | |

| | | | |
|---|---|---|---|
| | | Uttar Pradesh (nil) | |
| | | West Bengal (1-2) | |
| | | Maharashtra (0.5-3.0) | |
| | | Andhra Pradesh (1.2-1.5) | |
| | | Orissa (1.0) | |
| | | Karnataka (1.0-2.5) | |
| | | Tamil Nadu (0.25-2.75) | |
| **DCCBs** | **3.5** | **Less than 3.5** | **More than 3.5** |
| | | Haryana (3.25) | Punjab (3.5-6.5) |
| | | Himachal Pradesh (2.5) | MadhyaPradesh (3.5-6.0) |
| | | J & K (2.0) | Karnataka (4.5-8.5) |
| | | Rajasthan (2.0-5.4) | Orissa (4.0-4.5) |
| | | Uttar Pradesh (2.75-4.25) | |
| | | West Bengal (2-5) | |
| | | Gujarat (2-4.5) | |
| | | Maharashtra (2.5-5.5) | |
| | | Andhra Pradesh (2.5-5.5) | |
| | | Tamil Nadu (2.25-4.75) | |
| **PACS** | **6** | **Less than 6.0** | **More than 6.0** |
| | | Haryana (3.0) | |
| | | Himachal Pradesh (2.5) | |
| | | Punjab (3.5) | |
| | | Jammu & Kashmir (3.0) | |
| | | Orissa (3.0-4.5) | |
| | | Rajasthan (1.75-3.4) | |
| | | Uttar Pradesh (4.0-7.5) | |
| | | Assam (2.0-2.5) | |
| | | Tripura (2.0) | |
| | | West Bengal (2.0-3.5) | |
| | | Andaman & Nicobar (2.0-3.0) | |
| | | Madhya Pradesh (3.0-5.5) | |
| | | Maharashtra (2.5-6.5) | |
| | | Goa (2.0) | |
| | | Gujarat (1.0-2.0) | |
| | | Andhra Pradesh (2.0-3.5) | |
| | | Karnataka (2.0-4.0) | |
| | | Tamil Nadu (3.00-6.00) | |

| **Name of agency** | **Interest margin recommended by ACRC** | **States with interest margins** | |
|---|---|---|---|
| **SCARDBs (Federal)** | **2.0** | **Less than 2.0** | **More than 2.0** |
| | | Haryana (1.5) | Orissa (6.0-6.5) |
| | | Himachal (1.0) | West Bengal (2.0-2.5) |

| | | | |
|---|---|---|---|
| | | Punjab (0.75-2.0) | Karnataka (2.25-2.5) |
| | | Rajasthan (1.0) | Tamil Nadu (1.1-3.4) |
| | | MP (1.5-2.0) | |
| | | | |
| **SCARDBs (Unitary)** | **5.5** | **Less than 5.5** | **More than 5.5** |
| | | Bihar (2.0-2.5) | Tripura (6.0-6.5) |
| | | | UP (5.5-8.5) |
| | | | Gujarat (6.0-6.5) |
| | | | Maharashtra (5.5-9.0) |
| | | | |
| | | | |
| **PCARDBs** | **5.0** | **Less than 5.0** | **More than 5.0** |
| | | Haryana (4.0) | HP (3.0-7.0) |
| | | Punjab (3.25-3.5) | Orissa (4.0-6.0) |
| | | Rajasthan (3.5-4.5) | |
| | | Bihar (3.0-3.5) | |
| | | WB (3.0-3.5) | |
| | | MP (4.5-5.0) | |
| | | TN (1.10-3.40) | |
| | | | |

**Source : Responses received from Coop. Banks through Task Force Questionnaires**

## Annexure 3.2

## Net margins available to cooperative banks as on 31.3.1998

### SCBs

| <1 | 1 - 2 | >2 |
|---|---|---|
| 0.29 (Guj) | 1.25 (J&K) | 2.03 (AP) |
| 0.49 (WB) | 1.26 (KAR) | 2.35 (Assam) |
| 0.52 (MP) | 1.29 (HAR) | 2.77 (A&N) |
| 0.71 (TN) | 1.53 (UP) | |
| 0.79 (CHG) | 1.76 (HP) | |
| 0.80 (Tripura) | 1.88 (Goa) | |
| 0.86 (Punjab) | 1.95 (Raj) | |

### DCCBs

| (-) | <1 | 1 - 2 | >2 |
|---|---|---|---|
| (-) 2.51 (J&K) | 0.11 (AP) | 1.0 (KAR) | 2.28 (HP) |
| | 0.48 (TN) | 1.35 (PUN) | |
| | 0.50 (MP) | 1.45 (HAR) | |
| | 0.55 (HP) | | |
| | 0.65 (Goa) | | |
| | 0.70 (Raj) | | |
| | 0.84 (UP) | | |
| | 0.89 (Guj) | | |

### PACS

| (-) | 0 | >0 |
|---|---|---|
| (-) 3.80 (J&K) | 0 (PUN) | 0.40 (MP) |
| (-) 1.21 (WB) | | |
| (-) 0.72 (TRI) | | |
| (-) 0.21 (TN) | | |

### SCARDBs

| (-) | <1 | 1 - 2 | >2 |
|---|---|---|---|
| (-) 0.286 (HP) | 0.93 (Haryana) | 1.6 (Punjab) | 2.7 (UP) |
| (-) 0.41 (Maha.) | 0.47 (MP) | 1.5 (Rajasthan) | 2.1 (TN) |
| (-) 2.4 (Tripura) | | 1.04 (WB) | 2.3 (Kerala) |
| (-) 5.16 (Bihar) | | 1.93 (Gujarat) | |

### PCARDBs

| (-) | <1 | 1 - 2 |
|---|---|---|

| | | |
|---|---|---|
| (-) 0.05 (Orissa) | 0.03 (WB) | 1.09 (HP) |
| (-) 0.93 (MP) | | 1.52 (Punjab) |
| (-) 1.86 (Karnataka) | | 1.42 (Kerala) |
| | | 1.53 (TN) |