Chapter-3

Conceptual Framework of Co-Operative Banks
3.1 PRINCIPLES OF CO-OPERATIVE BANK:

The international co-operative alliance has in 1925 adopted the beautiful seven-colour pattern of the rainbow horizontal strips as its international flag, the flag of co-operation, progress and peace. The flag has seven colours. They are violet, indigo, blue, green, yellow, orange and red. Rainbow is regarded as an auspicious omen, Farmers see the rainbow and start ploughing their fields, They read in it the message about rains to come, It is thus a symbol of hope a harbinger peace.

Men see co-operation in its multi-colour patterned, each colour blending with the other to make one harmonious. Whole an ultimately all-pervading harmony & unity in diversity.

The seven hues of the rainbow when blended together reunite to present pure unstained white effulgence. Thus it stands for purity truth and righteousness.

It symbolizes the aims and idea of the co-operative movement like the rainbow co-operation brings hope to the depressed achieves harmony among diverse interest and offers the promise of an ultimate and universe peace.

Co-operative by their own efforts inspired by a sense of fraternity, equity and love of the past and creates a new economic system, a system in which capital plays the role of servant instead of master, the object of production is organized self-help instead of profit and human dignity is given the pride of place for achieving a more equitable and efficient
economy better social adjustment and a more balanced system of democracy.

Co-operatives are based on the values of self-responsibility, democracy, equality and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and carrying for others.

Unlike commercial banks, which are occupied in the helping, the industrial and commercial sectors of the economy, the co-operative Banks on the other hand provide credit and other associated facilities to the rural and agricultural sectors.

In World, Co-operative activity was stated in December 1844 in Britan. Social development is the sole aim of co-operative activity. Co-operative societies came in to begin when the co-operative societies Act-1904, was enacted. A co-operative society is the society of voluntary and organized group of individuals. The movement was started with the aim of providing farmer funds with low rate of interest. So that, exploitation by the village money lenders in hindered.

Under the Banking Regulation Act of 1904, co-operative banks have been brought under the control of Reserve Bank Of India (RBI).

In India, co-operative activity was started in 1889.the noble ideals like unity, similarity, honesty, loyalty and mutual co-operation etc. are the base of Co-operative activity.
In India, co-operative society Act was enacted in 1904. In 1909, Jambusar Urban co-operative Bank was first established under this act. Then in 1925, new co-operative society Act was come. Before then there was seven co-operative Banks in the Gujarat.

The activity of urban co-operative Banking was to extraordinary developed in the latter half 20th century. There is two reason of this. Banking regulation Act 1949 was apply to the co-operative Bank in 1966. At that time there was only 400 Urban co-operative Bank in the whole country. Then in 1969, nationalization of 14 large business banks was become in the country. Today in our country, there are about 1400 urban co-operative Bank providing service in area of villages and cities.

The basic principles of co-operation are as follows:

1) Voluntary and open Membership:

Co-operatives Banks are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2) Democratic Member Control:

Co-operative Banks are democratic organizations controlled by their members, who actively participate in setting their policies and making decision, men and women serving as elected. Member representatives are accountable to the membership. In primary co-operatives members
have equal voting right (one member, one vote) and co-operative at other levels are organized in a democratic manner.

3) Member Economic Participation:

Members Contribute equitably to and democratically control the capital of their co-operative. At least part of the capital is usually the common properly of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as condition of membership. Members allocated surpluses for any of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible, benefiting members in proportions to their transactions with the co-operative, and supporting other activities approved by the membership.

4) Autonomy and Independence:

Co-operatives Banks are autonomous, self-help organizations controlled by their members. If they either into agreements with other organizations, includes governments to raise capital from external sources, they do so in terms that ensure democratic control by their members and maintain their co-operative autonomy.

5) Education, Training and Information:

Co-operatives Banks provide Education and Training for their members, elected representatives, managers and employees so that they can contribute e4ffectively to the development of their Co-operatives. They
inform the general public— particularly young people and opinion leaders— about the nature and benefit of Co-operation.

6) Co-operation among Co-operatives:

Co-operatives Banks serve their members most effectively and strengthen the Co-operative movement by working together through local, national, regional and international structures.

7) Concern for community:

Co-operative works for the sustainable development of their communities through policies approved by their members.

3.2 COOPERATIVES IN INDIA - AN OVERVIEW

The economic and financial sector reforms in India were initiated in 1991, as a step towards a broader process of international economic integration and globalization of financial markets. A healthy financial system being the principal pre-requisite for the globalization 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.
Taking cognizance 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 nationalized 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 recapitalization of cooperative banks on the lines of nationalized 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 recapitalization in cooperative banks. While the agency to infuse capital could be a matter for deliberations, the need for recapitalization of weak banks in view of their systemic and structural weaknesses is a settled issue. For the revitalization 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 recapitalization effort and sustain the same in the long run. A systematic and comprehensive study for the purpose was thus necessary.

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 nationalization 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. 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.
3.3 ROLE OF APEX COOPERATIVE BANKS

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 professionalization 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.

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.
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.
3.4 HUMAN RESOURCES DEVELOPMENT (HRD) IN COOPERATIVES:

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 organizational 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.

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 utilizing the services of the Regional Banking Services Recruitment Boards.

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. Professionalization 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.
3.5 PROFESSIONALISM IN COOPERATIVE BANKS

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’ organizations rather than business enterprises adopting professional managerial systems.

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 up-gradation 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.

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.
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 professionalization 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.

**Institutional Mechanism to support**

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.

3.6 FINANCIAL PERFORMANCE OF COOPERATIVE BANKS

The cooperative banking has made significant strides in the field of rural credit. From a meager 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 per cent by 1999. Notwithstanding the massive expansion of rural branches by commercial banks since their nationalization 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. Despite impressive strides in mobilization of deposits and channelization 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

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. 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 mobilize 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.

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-subsidize 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.
3.7 STREAMLINING OF SUPERVISORY AND REGULATORY FRAMEWORK:

The rural financial sector in India has been influenced by the impact of financial sector reforms and gradual move towards liberalization. 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.

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.

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.

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.

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 (up to 1999-2000) in the case of the ST structure and three years (up to 1999-2000) in the case of the LT structure. Implementation is being monitored by NABARD on an ongoing basis through Special Cells created at regional levels.

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 rigors 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.

**Audit in Cooperative Banks**

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 mobilization 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. 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.

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), rationalization 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.

3.8 SCHEDULING OF DISTRICT CENTRAL COOPERATIVE BANKS:
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 categorized ‘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. 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

Another area which requires focused 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. 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**

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.

**3.9 ESTABLISHMENT OF COOPERATIVE REHABILITATION AND DEVELOPMENT FUND IN NABARD:**

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 bureaucratization 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 bureaucratization 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.”

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. The Fund may, inter alia, be used for the implementation of the rehabilitation plan in states which accept the necessary pre-conditions.

(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) Organizational restructuring of cooperative banks

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

**Mutual Assistance Fund**

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