Chapter - II

Origin and Growth of Land Development
Banking in India
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ORIGIN AND GROWTH OF LAND DEVELOPMENT BANKING IN INDIA

In the preceding chapter a detailed account was furnished with regard to different dimensions of agricultural cooperative credit in India. A comprehensive light has been thrown on credit finance, agricultural credit viz. a viz. cooperation in India and cooperative agricultural credit structure. The present chapter deals with the origin and growth of Land Development Banking in India.

Land Development Banking in India:—

The first experiment in land mortgage banking in India was made as early as in the year 1863, when a company known as the Land Mortgage Bank of India Ltd., which was also called ‘Credit Foncier, India’ was established and incorporated in London on the model of Credit Foncier of France. Its objective was to advance loans to tea cultivators of India against the mortgage of land. It continued to work for about 20 years, when owing to various adverse circumstances, such as low value of land and inflationary conditions, it gradually lost ground for further existence and finally closed down.¹

¹ Khan, M. karamullah “Cooperation and Rural Reconstruction in India”, The Lakshami Printing Works, Hyderabad, 1936. p. 103
The first definite proposal to establish an institution of this kind was made by Sir Syed Ahmad Khan in his memorandum on agricultural banks in the year 1879. The first official step towards financing the Indian farmers for agricultural purposes, however, was the scheme of establishing an agricultural bank put forward by Sir William Wedderburn, the then District Judge of Poona, in the year 1882.²

The Government of India passed the Land Improvement Loan Act in 1883 and the Agriculturist Loans Act in 1984. Under these Acts, the provincial governments were authorised to disburse loans to farmers from State funds and to frame rules regarding them. But the provincial governments has no definite policy for promoting use of improved agricultural practices by the grant of such loans, which were known as ‘Takavi’ or ‘Tagave’ loans. The assistance given under these Acts was a small part of the finance required by agriculturists.³

Beside the paucity of funds, this system could not prove to be of much help on account of the ignorance of the agriculturists, dilatory Government procedures and also because loans for redemption of old debts were not permitted under the rules framed by the provinces.⁴

Therefore, the failure of various measures adopted and Acts passed led those interested in abolishing indebtedness to believe

² Ibid, p. 87.
that permanent remedy for the chronic disease lay in the cooperative movement. Moreover, the Famine Commission of 1881 and 1901 recommended the necessity of organizing credit associations on the lines of Western countries, where the problem of indebtedness was as acute as was experienced in India.

The indigenous type of cooperative societies for the purpose of thrift and mutual credit had existed in British India for ages which were known as “Kuttuchut” and “Nidhis”. But the European model of cooperative credit did not exist in India. In the meantime, towards the end of the nineteenth century the success of cooperative finance schemes, which had originated in Germany and Italy, attracted the minds of several provincial governments in India. The Government of Madras was the first to visualise the possibilities of cooperative movement in India, and in the year 1892 Lord Wenlock deputed Mr. (afterwards Sir) Frederick A. Nicholson on special duty to enquire into the possibility of implementing “a system of Agricultural or other Land Bank,” in the Madras Presidency.\(^{5}\)

After studying the credit system prevalent in Europe, Mr. Nicholson reached the conclusion that the kind of bank initiated by Schulze Delitzsch and Raiffaisen in Germany and by Luzzatti and Wollemberg in Italy were best suited for the Madras presidency. Therefore, he recommended the establishment of such banks in his reports issued in the year 1895 and 1897. His main recommendation was to organise rural credit societies on the lines of Raiffeisen societies of Germany for providing credit on suitable

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terms and conditions and for the promotion of thrift among the rural population.

While Sir Frederick Nicholson’s enquiries were in progress, Mr. H. Dupernex of the Indian Civil Services was deputed on special duty by the United Provinces Government to conduct local enquiries for assessing the suitability of establishing agricultural banks in selected localities. Mr. Duprenex’s conclusions were set forth in a famous book entitled “People’s Books for Northern India 1900”. He also recommended the organization of village credit societies, on the Raiffeisen principles.  

It was through F.A. Nicholson and H. Dupernex reports that the idea was first brought to public notice, and soon began to bear fruits. As a result, in several parts of Bengal, the United Provinces and the Punjab some district officers on their own initiative, organized some pioneer societies in 1901, which could only be registered under the ordinary Company Law. It was, however, soon realized that no real progress could take place without special legislation.

The government of India appointed a committee under the Chairmanship of Sir Edward Law, to make proposals for the formation of cooperative societies in the country. The committee included Sir Fredrick A. Nicholson and Mr. M. Dupernex as its members. The committee approved the idea of establishing both rural and urban cooperative societies, formulated a scheme and

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drafted a bill. This draft bill, after consideration by the local
governments was introduced in the Assembly and passed as “The
Cooperative Credit Societies Act of 1904”. Within two years of
its lasting, about 800 societies had been registered and the number
went on increasing from year to year. But a few years later it was
realized that the Co-operative Societies Act 1904 required some
amendments in certain important directions. Consequently, a new
Act was passed in the year 1912 as Cooperative Societies Act of
1912. It authorised the registration of cooperative associations for
purposes other than credit and also legalized the establishment of
Unions, Central Banks and other Federations.

The Government of India appointed a Committee in 1914,
under the president ship of Sir Edward Maclagan to enquire into
the progress of the Cooperative movement. The Committee
submitted its report in 1915 and made a number of useful
recommendations and suggestions. For example, it suggested that
extreme care should be taken in the formation of cooperative
societies and stressed the importance of the cooperative principles,
both before and after the registration of a society. This had a
salutary effect on the cooperative movement in India.
Cooperatives became a provincial subject after an introduction of
the Reforms Act of 1919, and were placed under the charge of a
Minister which gave an impetus to the progress of the movement.
Several provincial governments appointed Committees of Enquiry,
such as the King Committee in 1922 for Central Province and
Berar, the Oakden Committee in 1925, for United Province and the

8. Khan, M. Karmullah: op. cit. p. 89.
Townsend Committee in 1928 for Madras to review the progress of the movement.

In the year 1926, at the time of the appointment of the Royal Commission on Agriculture, the number of agricultural credit societies was about 65,101, out of the total 71,000 societies of all types in India. And out of nearly 25 crores of the people in rural areas of the country in 1928, only 22.5 lakh people had come within the fold of the cooperative movement, and the total working capital was about Rs.24 crores, while indebtedness in rural areas, stood at nearly Rs.600 crores. The growth of agricultural cooperative credit societies continued but simultaneously the rural indebtedness also increased in the country. According to report of the Provincial Banking Enquiry Committee the total agricultural indebtedness of the country in 1929-30 was nearly Rs.800 crores (United Provinces alone had Rs.124 crores) when the rural population was nearly 27 crores, out of which 25 lakh were members of 75,600 agricultural cooperative credit societies with nearly Rs.34 crores as their working capital.

The experience gathered from the working of rural cooperative societies revealed that the rural indebtedness had been a formidable obstacle to the improvement of economic conditions of the farmers.

Thus, liquidating the prior debts was deemed necessary so that the ryots could reap the benefit of cooperatives for improvement of their economic conditions in rural areas. This led to the idea of having some suitable agency to grant long-term

11. Ibid, pp. 15,16
credit to ryots to liquidate their prior debts and to invest in permanent improvements of lands. One feasible solution for this problem appeared to be the establishment of Cooperative Land Mortgage Banks in the country, which could grant long-term loans on the mortgage of lands.

In the beginning, an attempt was made by the Central and the District Cooperative banks to advance long-term credit to Indian farmers. This method of utilizing short-term credit resources for long-term credit needs involved serious risks. Then another scheme of separating long-term business from that of short-term by establishing two separate departments under the same institution was tried by the Vidharba Central Cooperative Bank. But this failed to work satisfactorily and therefore the scheme was discontinued within a very short time.

Mortgage lending was not so easy as it required proper knowledge of land laws and laws relating to transfers and inheritance to enable the financing agency to scrutinise the legal titles for the hypothecation, and this was not possible for these primary credit agencies which were dealing with short-term credit. Moreover, because of their location in the rural areas and meagre financial resources and incomes, it was difficult for them to enjoy the services of legal experts from towns. These institutions had neither any technical experience nor a technically qualified staff, for the valuation of land and other immovable properties offered for mortgage to grant long-term credit. Also, these institutions were not in a position to raise long-term funds by issuing debentures with their own efforts and to keep the important documents, deeds etc., in safe custody.
In fact, the combination of short-term credit and long-term credit was inconsistent because of their different natures and characteristics. This led to the failure even of short-term lending and so ultimately the two had to be separated.

Pre-Independence Development of Land Mortgage Banking in India:

Punjab was the first province in India where efforts were made to tackle this most ticklish problem by establishing a land Mortgage Bank on cooperative lines, at Jhang in the undivided Punjab (now in Pakistan), on June 30, 1920. This was followed by two other banks, in Meanwali and Sonepat, established in 1924. Members of these banks were mostly landowners and societies. These banks were not very successful largely due to the depression causing fall in land values and the existence of the "Land Alienation Act" in that province. Hence, these banks had to close down after a short period.\(^\text{12}\)

By the year 1926, sufficient knowledge had been gained in the country and the idea of a separate institution for providing long-term finance in the rural area, in the form of cooperative land mortgage banks was recognized. This question was also examined by the Royal Commission on Agriculture which suggested that a distinction between long-term and short-term credit be made in the Acts which regulate the grant of loans by the State. The Commission hoped that in future the cooperative movement would

be able to separate the two types of credit finance into land mortgage and village society business.\textsuperscript{13}

The need of separate institutions for short-term and long-term credits was also realized by all authorities including the Provincial and Central Banking Committees, and foreign experts associated with the Central Committee. They agreed that cooperative credit institutions could supply only short and medium-term loans to agriculturists with safety and success but not long-term credit. They further agreed that long-term credit could be supplied to the agriculturists with any degree of safety and success only through land mortgage banks which could obtain bulk of their resources by issuing debentures.\textsuperscript{14}

After some time, it was realised that the floating of a large number of different series of debentures through a number of independent banks not only militated against the success of the debentures issued and the whole scheme, but the issue of debentures at different rates of interest and on different dates with different maturity times caused much confusion and discouragement to the investors. The Royal Commission on Agriculture in India observed that, "the system of issue of debentures by separate mortgage banks would inevitably result in a number of small institutions flooding the market with competing issues; control would become difficult; the security offered would be low; the interest rate would be forced up in consequence of this and the competition from purchasers, and there would always be

\begin{itemize}
\item \textsuperscript{13} Report of Royal Commission on Agriculture, Government of India, 1928, p. 460.
\item \textsuperscript{14} Panadikar, S.G., op.cit, p. 74.
\end{itemize}
the danger that the whole system of debentures would be brought into disrepute by the mismanagement of a single institution.\textsuperscript{15}

In September 1927, the Madras Government appointed a Committee under the Chairmanship of Sir C.A.N. Townsend, I.C.S., to enquire into the cooperative movement. This committee also realized that the multiplicity of primary land mortgage banks with powers of floating debentures would create confusion to the investors. Therefore, it suggested that unless a Central agency such as Central Land Mortgage Bank was formed to provide finance to the primary land mortgage banks by issue of debentures, the success of long-term credit would be very slow.

In pursuance of the recommendation of the Townsend Committee on Cooperation (1927-28), and the Royal Commission on Agriculture in India, the Madras Cooperative Central Land Mortgage Bank was established in 1929 to finance the primary land mortgage banks. Regular and proper land mortgage banking could be said to have begun in the country with the organization of this bank.

Land Mortgage Banking received a great impetus during the period of depression in 1929 and more and more land mortgage banks were established in eight Indian provinces and 16 Indian States.\textsuperscript{16} But World War II retarded their growth rate. The overall position was that barring Madras, Mysore and Bombay, the pace of the establishment of cooperative land mortgage banks in India became slow.

\textsuperscript{15} Report of the Royal Commission, op, cit, p. 467.  
\textsuperscript{16} Panadikar, S.G., op. cit., p. 105.
By the year 1942-43, there were 120 Land Mortgage Banks in Madras, 18 in Bombay, 67 in Mysore, 21 in central Province and Berar, 10 in Punjab, 10 in Bengal, 4 in Assam, 5 in United Provinces and 1 in Orissa. All these Banks were registered under the Cooperative Societies Act but most of them were greatly interested in the redemption of old debts and less interested in the land and agricultural development or in the introduction of better methods of farming. In more than half of the states, not even a single Land Mortgage Bank was established for providing long-term credit to the farmers.

The Reserve Bank of India reviewed the working of the cooperative movement in India (1939-1946) and came out with the following state of affairs in respect of land mortgage banking:

"In spite of its vast agricultural population, India has not had a successful land mortgage banking structure. The land mortgage banking movement has failed in the place of its birth, namely, the Punjab. It has either failed or remained in a moribund condition in several other Provinces like Central provinces and Bihar, Ajmer, Orissa, the United Provinces and Bengal. The only province in India which had made a mark in land mortgage banking is Madras."

Thus, the growth of land mortgage banks in pre-independence period remained unplanned and neglected. There was no planned allocation of credit resources to meet the long-term agricultural credit requirements, almost in every province of India,

17. Review of the Cooperative Movement in India (1939-46), Reserve Bank of India, P, 11.
especially the United Provinces of Agra and Awadh (Now Uttar Pradesh).

Post-Independence Development of Land Mortgage Banking in India:

The country, after the attainment of Independence in 1947, took to planning for all-round development and set as its goal the elimination of poverty and raising the standard of living of the people. Since agriculture is the most important sector of Indian economy, much attention was paid to its development. A high priority to agricultural development was given in the First Five Year Plan, to achieve a growth of at least 5 per cent. Accordingly, policies and strategies were chalked out to achieve this pre-set goal and the provision of adequate productive capital and investment finance formed an important part of the strategies for agricultural development in addition to a number of other schemes.

In August 1951, the Reserve Bank of India appointed a Committee known as "All India Rural Credit Survey Committee." The Committee conducted the first comprehensive investigation of rural credit in India and also examined the working of cooperative movement. With the sample of 1,27,343 families from the selected 600 villages in 75 districts of the country, this Committee came out with general report in December 1954.18 It recommended the establishment of a Central Land Mortgage Bank in each of the States in India, and emphasized the need for these banks to

reorient their policies from refinancing of old debts to provision of finance for improvement of land and other productive purposes. It also suggested the simplification of the loan procedure and disbursement by the State Governments of all long-term Taccavi funds through Land Development Banks. It further recommended that the Reserve Bank of India and the Life Insurance Corporation should help these banks by subscribing to their debentures on an increasing scale.

As a result of these recommendations, land mortgage banks started playing an important role in the planned agricultural development. Over the years, these gradually expanded in number as well as in their financial operations. By the end of the First Five Year Plan (1955-56), nine States had their own central Land Mortgage Banks and advance loans worth Rs.8.3 crores to 90,000 members of these banks as compared to only Rs. 1.36 crores to nine thousand members in 1951-52, thus reflecting an increase in the volume of loans and the number of beneficiaries.19

In all, nineteen Central Land Mortgage Banks (now known as State Cooperative Agriculture and Rural Development Banks) and 6 State Cooperative Banks, each having a separate Land Development Banking section/Department, were established in the country, at the rate of one for each state and centrally administered territory, except Nagaland, Meghalaya, Manipur and Goa, with a network of 2,211 primary land development banks and branches of State Land Development Banks, having more than 93.07 lakhs individual members all over the country, and the loans

to the tune of Rs.3,003.99 crores had been disbursed through these institutions by the end of 1981.\(^\text{20}\)

**Present Status of Land/ Agriculture and Rural Development Banks:**

There is no uniformity in the organisational set-up in the Long Term co-operative credit structure. As on date, long term credit structure consists of 19 apex level State Land Development Banks /State Agriculture and Rural Development Banks (SLDBs/SARDBs) in the States/Union Territories operating through 2990 units. Of the 19 SLDBs/ARDBs, seven have unitary structure with branches, ten have federal structure while in the remaining two States viz., Himachal Pradesh and West Bengal, the structure is a combination of federal and unitary types. In seven states and six Union Territories, separate LT structure does not exist. The investment credit needs of farmers are met by the concerned State Cooperative Banks (SCBs) through their branches and Primary Agriculture Credit Societies (PACSs). In the federal structure too, the unit size and the area covered by it differs from state to state. Thus, in Madhya Pradesh and Rajasthan, the Primary Land Development Banks (PLDBs) are located at the district level with their branches at the lower levels. In other States with federal structure, the PLDBs/PARDBs are mostly at the subdivision/Taluka/Tehsil level with branches at the lower levels. In Andhra Pradesh, an integrated structure has been created by merger of Short Term and Long Term structures, which operates

\(^{20}\) Ibid.
through the District Central Cooperative Banks (DCCBs) and PACSs.

The total current membership of ARDBs is about 150 lakhs, of which borrowing membership is 70 per cent constituting about 15 per cent of the country's rural families. The low coverage apparently is due to loan business allowed to only limited purposes, like redemption of old debts till the end of 50s and emphasis on security oriented lending.

The aggregate amount of advances by ARDBs since inception till 1999-2000 was Rs.30,000 crore, 90 per cent of which going to farm sector 7 per cent to non farm sector and 3 per cent to rural housing. The banks were able to achieve the lending targets except during 4th, 5th, 6th and 7th plans, when the target shortfalls ranged between 7.67 per cent in 6th plan and 7.92 per cent in 7th Plan.²¹

Though minor irrigation continues to be the single largest purpose financed by the ARDBs, the proportion of such loan to the total advances declined from 50 per cent in 1978-79 to 23 per cent in 1999-2000 due to efforts at diversification especially to farm mechanisation, animal husbandry and non farm sector. The share of farm mechanisation increased from 8 per cent in 1978-79 to 20 per cent in 1999-2000. The advance for dairy, poultry, fishery etc. which constituted just 1.2 per cent of the advances in 1978-79 reached 15 per cent of the total advances during 1999-2000. Banks, in recent years, started financing activities like wasteland development, rural godowns, cold storage, market yards etc. The

²¹. Background Papers, 14th Indian Cooperative Congress, National Cooperative Union of India, New Delhi, P. 78.
share of non farm advances was 12 per cent of the total advances in 1999-2000 as against 2.3 per cent in 1998-99. Non farm sector financing started in 1977, today has became an important line of lending in most States with cumulative disbursements crossing Rs. 1500 crore and annual disbursements over Rs. 300 crore, accounting for about 65 per cent of the total refinance support for non farm sector by NABARD to all banks. Rural housing is another area into which ARDBs have diversified their operations in recent years. At present half a dozen ARDBs are implementing this programme with refinance support of National Housing Bank. The cumulative advances under rural housing have exceeded Rs. 825 crore by 1999-2000. The ARDBs could also maintain high quality of lending along with quantitative growth. Expansion and diversification of loans portfolio into all sectors and activities in the rural economy was an important achievement of ARDBs contributing substantially to the incomes and quality of life of rural people.22

The average annual loan recoveries of ARDBs during the decade ending 2000 worked out to 55 per cent with wide variation from State to State. Deficiencies in loan appraisal system, inadequate follow-up and supervision and external factors like natural calamities, Government political interference in the recovery efforts are some of the reasons for poor recoveries in certain States.

22. Revindran, K.K, Background Papers, 14th I.C.C.
Performance Appraisal and Revamping:

In spite of their impressive performance in the credit delivery, ARDBs in some States have development weaknesses mainly due to externally imposed pressures and restrictions. These weaknesses have reflections in mounting overdues and high Non Performing Assets (NPA) levels, deterioration in working results and accumulated losses. The aggregate ground level recovery has been stagnating at around 60 per cent during the last five years with substantial increase in the quantum of ground level overdues. The ground level overdues in the structure has increased by 76 per cent from Rs. 1350.88 crore in 1996-97 to Rs. 2373.09 crore in 1999-2000. Eight out of 19 SCARDBs and 383 out of 745 PACARDBs have incurred losses in 1997-98. As on 31.3.1998, the accumulated losses of SCARDBs and PCARDBs were Rs. 391.77 crore and Rs. 534.64 crore respectively. Huge provisioning requirements on account of application of prudential norms is the main reason for accumulated losses in most of the banks.\(^{23}\)

A major portion of the losses incurred by Agriculture and Rural Development Banks are the results of certain Government policies. Following are some of the policies of Government and RBI that contributed to the financial weaknesses of ARDBs in many States:

(i) **Regulated Interest Rates:**

The ARDBs until 1995 were carrying out their lending operations under administered rate of interest both in respect of the borrowings and lending. Against the interest margin of 6-7 per

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\(^{23}\) Ibid, P. 78.
cent recommended by ACRC and generally accepted as the minimum required spread to meet the transaction cost to leave sufficient surplus to provide for the risk costs, the actual average margin allowed was only 4 per cent. The actual spread available was grossly inadequate taking into account the high transaction cost in credit dispensation among highly scattered beneficiaries in rural areas, high transaction costs including guarantee fee charged by governments on borrowings from NABARD and other agencies.

(ii) **Losses From Relief Scheme of 1990:**

The Agriculture Rural Debt Relief (ARDR) Scheme of 1990 envisaged writing off of overdues upto Rs. 10,000 in individual loan accounts in respect of rural beneficiaries. The banks were asked to prepare the list of eligible cases which were jointly verified and certified by the representative of NABARD and Dept. of Cooperation in each State within a time frame. The amount certified by NABARD/ Dept. of Cooperation. In the State was written off from the loan accounts of individual borrowers concerned with effect from 31.3.1991 on the understanding that banks would be reimbursed the entire amount written off by the Government through NABARD. However, there was lot of delay in reimbursing the amount to the banks. The reimbursement claims of banks remained unsettled until 1995 in some cases. The banks incurred huge losses by way of interest losses during this period. Moreover, when the amount was reimbursed, Government effected 5 per cent cut on the actual amount written off by banks. The
losses incurred by ARDBs due to implementation of ARDR Scheme 1990 aggregates to Rs 202 crore. The adverse impact of ARDR Scheme of probably the recovery climate of banks was probably the biggest blow to their financial health. The average recovery of the structure, which used to be about 65 per cent before ARDR, suddenly declined to about 45 per cent. Even after a decade of concerted efforts, the average recoveries have not reached the pre ARDR level. A considerable portion of the chronic willful defaults of ARDBs is the direct result of the wrong signals given by the Government, through ARDR scheme.

(iii) Bad Debts and Losses under Direct Credit Programme:

ARDBs were set up in most States as per the recommendations of Rural Credit Survey Committee 1954. These banks have been considered as extended arms of Government and have been used to implement credit directed programmes in the agriculture and rural sectors from the very beginning. Most part of the irrecoverable overdues of ARDBs fall under various types of Central and State Governments sponsored schemes. These programmes have been formulated by the Government agencies for target groups identified by them without considering the bankability of the projects or credit worthiness of the borrowers. The irrecoverable overdues under credit linked programmes of Governments account for major portion of the NPAs in ARDBs. The losses incurred by 15 banks for which data are available, bad.

24 Ibid, P 79
debts under the directed credit programme have been worked out to Rs.220 crore.

RBI has deregulated interest rates on lending in 1995. However, even with revision of interest rates on lending after deregulation, the banks could not make any provision for meeting risk costs. Inspite of adequate security in the form of mortgage of landed property, the safety of agriculture loans depends on weather conditions and yield of crops from year to year. Recovery is affected due to crop failures which takes place frequently. There is no provision to provide adequate relief to borrowers of investment credit in the event of natural calamities. In fact agricultural lending proved to be highly risky for commercial banks and RRBs who are the late entrants in the field. The commercial banks, most of whom started agricultural lending only after nationalisation in 1969, have incurred substantial losses out of agricultural lending during the short period thereafter. The government, however, has compensated most part of the losses incurred by the public sector banks and RRBs by recapitalisation. Recapitalisation should be the first stage of revamping the cooperative credit structure including the ARDBs. There has been a lot of debate on the subject, especially on the question of who should bear the burden. It has been argued that recapitalisation should be done by the owners of the banks.

The Task Force appointed by Government of India under the Chairmanship of Shri Jagdish Capoor, Dy. Governor of RBI in its report states that it is convinced of the urgent need to rehabilitate cooperative credit structure and recommended a financial package for the same. The Task Force has recommended issuing
Government bonds favouring the banks to the extent of 90 per cent of the support required by State and Central Governments on equal basis and mobilising the balance 10 per cent by way of additional share capital from members. The banks will receive yearly interest on the bonds for the period during which they are held. These bonds will reflect in the balance sheet of receiving banks and will wipe off their accumulated losses to that extent. Yearly returns on the bonds will help them to improve their financial position in subsequent years. It is envisaged that these banks will achieve turn around and reach a position of standing on their own, by the time the bonds are taken back by the Government. The bond scheme is preferred by the Task Force to avoid huge financial commitments on the part of State and Central Governments which would be difficult to meet, considering the precarious financial position of State Government and the compulsions of GOI to avoid further increase of fiscal deficits. The Task Force considers the bond scheme as the only practical measure to help the cooperative credit structure in the above circumstance.

The underlying assumption of the bond scheme is that the end use of external support would be investments in income yielding avenues. Instead of getting an interest free loan which would be ultimately invested in income yielding securities and repaying that loan out of surplus generated after attaining long term viability. The Task Force has recommended straightaway issuing income yielding securities in the form of special Government bonds and taking these bonds back once the financial position is improved. The scheme is as good as a soft loan for
most of the SCARDBs and PCARDBs whose accumulated losses have not exceeded their own funds and resulted in outstanding dues to higher tiers, refinancing agencies or other financial institutions Rehabilitation scheme recommended by the Task Force therefore needs modification in the case of a few SCRDBs like Maharashtra, Assam, Bihar, Orissa etc and many PARDBs in different States whose accumulated losses have resulted in outstanding dues to other institutions The prime purpose of external support for these banks would be to clear such outstanding dues rather than investing in income yielding securities Rehabilitation assistance for these banks should therefore necessarily come as cash inflows with a long repayment period till they attain sustainable viability

Legislative and Legal Reforms:

Cooperatives are regulated by State Acts The restrictive provisions in the Act as well as stringent administrative controls exercised by the institution of RCS deprive cooperative of autonomy and operational freedom Power to supersede elected boards, compulsory amendment to byelaws are some of the overriding statutory powers given to RCS which are used very frequently undermining the autonomy and democratic character of cooperative institutions Democratic management is absent in a substantial number of institutions at the State and primary levels As on March 1998, eight out of 19 SCARDBs and 104 out of 745 PCARDBs do not have elected boards

25 Ibid p 81
The legal and legislative reforms should aim at removing unnecessary restrictions and to give autonomy and operational freedom to the banks.

It is suggested that the relations with Government and cooperative should be redefined. ARDBs and Government should collaborate as equal partners to implement programmes of the mutual concern and interest. The Cooperative Societies Acts in various State should be amended to remove restrictions on autonomy and operational freedom of ARDBs. The role of Registrars should be restricted only to registration, supervisory role to ensure cooperative identity, democratic management and settlement of disputes. Government of India should take initiative to set up a national forum of State Governments to speed up the process of legislative reforms in cooperatives by evolving a common approach and a time bound action plan for legislations.

I am of the opinion that the Multi State Cooperative Societies Act should be amended expeditiously to act as a model and example for State Government. The ideal pattern with regard to cooperative legislation is to have a comprehensive National Act for all States. Cooperation should be brought in the concurrent list in order to facilitate this. This may be set as a long-term objective regarding legislative reforms. The legislative reforms already introduced in some of the State have not considered the issue of autonomy and independence of main stream cooperatives and relate only to new cooperative being registered under the new Acts. The above deficiencies in the legislative reforms should be rectified. The democratic management in cooperatives should be strengthened by making appropriate provision for holding
periodical elections to the Board compulsory as per law without any provision for extending the tenure of Board beyond the stipulated period under any circumstance.

**Structural Pattern and Network Adequacy:**

The 20 apex institutions in the structure operate through 2985 base level units with an average coverage of 195 village. There is wide variation in actual coverage ranging from 10-15 village in Kerala and 80 villages in Haryana compared to 361 in Bihar, 260 in West Bengal and 392 in Uttar Pradesh. In the federal structure PADBs are constituted mainly talukwise but are also districtwise and blockwise PADBs in some States.

Both unitary and federal structures have its own distinct advantages. There are examples of efficient and successful banks under these structures.

The total membership of ARDBs is 23 million out of which borrowing membership constitutes 15 million which works out to be 10 per cent of rural household. Though ARDBs could achieve an annual growth rate in their advances of about 15 per cent in the last 5 years there has not been commensurate growth in borrowing membership.²⁶

There is need and scope of network expansion to improve service and outreach. Banks which satisfy viability norms should be given freedom for network expansion according to requirement. Similarly, banks should be encouraged to experiment alternative

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²⁶ Information provided by the officials of N.C.U.I.
models for rural credit delivery such as linkage banking especially in areas where fullfledged branches/primaries are not feasible.

The Task force under the Chairmanship of Shri Jagdish Capoor has favoured unitary structure as the ideal pattern for ARDBs in the context of universal banking. Under unitary structure issuing banking licence to the SCARDBs will facilitate coverage of the entire State for extending universal banking by ARDBs, whereas in the federal structure, universal banking will involve separate licences to each of the PCARDBs which may not be practical. Conversion of federal SCADBs in to unitary pattern is therefore one of the pre-conditions for conversion of the ARDBs into fullfledged banks as recommended by the Task Force.  

Business Expansion and Diversification:

ARDBs provide investment credit for agriculture and rural development. Minor irrigation, farm mechanisation, plantation and horticulture development, diversified purpose like dairy, poultry, fisheries etc. under farm sector, village, cottage and small scale industries and rural transportation etc. under rural non farm sector are the main areas of lending. About half a dozen banks are also financing rural housing consisting of construction of new houses and renovation/extension of old houses with refinance support from National Housing Bank.

The cumulative disbursements of ARDBs since inception till 1999-2000 are Rs. 27,536 crore. Out of this, about Rs. 22,675 crore were disbursed during the last 15 years. The broad

27. Ravindran K.K, Revitalisation of Long-Term Credit Structure, background papers, 14th I.C.C., N.C.U.I, p. 82.
purposewise classification with relative share of each purpose in the total advances during the last 15 years is furnished in Table 2.1.

**Table 2.1**

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Purpose</th>
<th>Amount (Rs.in Crs.)</th>
<th>Relative share in per cent of the total</th>
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<tr>
<td>1.</td>
<td>Minor irrigation</td>
<td>7142.02</td>
<td>31.50</td>
</tr>
<tr>
<td>2.</td>
<td>Farm mechanisation</td>
<td>5668.47</td>
<td>25.00</td>
</tr>
<tr>
<td>3.</td>
<td>Plantation &amp; Horticulture</td>
<td>973.56</td>
<td>4.29</td>
</tr>
<tr>
<td>4.</td>
<td>Diversified purpose</td>
<td>3948.61</td>
<td>17.41</td>
</tr>
<tr>
<td>5.</td>
<td>Land development</td>
<td>447.90</td>
<td>1.98</td>
</tr>
<tr>
<td>6.</td>
<td>Non-Farm Sector</td>
<td>2045.09</td>
<td>9.02</td>
</tr>
<tr>
<td>7.</td>
<td>Rural Housing</td>
<td>567.62</td>
<td>2.50</td>
</tr>
<tr>
<td>8.</td>
<td>Other purposes</td>
<td>1881.81</td>
<td>8.30</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>22675.08</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

*Source: Background Papers 14th I.C.C., N.C.U.I, New Delhi*

Farm sector advances which accounted for 90 per cent of the total advances during the last 15 years has come down to about 75 per cent in 1999-2000 with corresponding increase in the share of other purposes including rural housing. Another notable feature is high proportion of loans to small and marginal farmers, which is maintained at a level of about 65 per cent. More purposeful diversification and change of direction as well as dispensation in
the flow of credit on the following lines is required to make it an effective catalyst of bringing rural development.

Thrust should be given on diversifying the loan portfolio of ARDBs into agri business, commercial agriculture, agro processing and services sector. NABARD should provide resources for meeting incremental working capital needs of such till ARDBs become resource based. I am of the opinion that the Banks should be allowed and given support to provide a package of credit services to supplement investment credit for reasons of:

- Convenience of single window,
- Better asset utilisation,
- Enhancing credit effectiveness by minimising chances of misutilisation,
- Higher business levels to attain viability, and
- For level playing field to compete with other players who provide all kinds of credit.

I feel, ARDBs should be extended a line of credit for meeting the SAO requirement of their long-term borrowers. Studies have revealed that inadequacy / non availability of working capital – ST loans for the long term borrowers of ARDBs from the institutional sources result in under – utilisation of assets and problems in recovery.

The Task Force also holds that integration of ST and LT structure as recommended by the Hazare Committee would be ideal but rightly recognises the difficulties in integration and states that if integration is not possible, both the structure should provide both LT and ST loans. It is further stated that integration
should be done early in some of the States where one of the structures is weak and the concerned State Governments has taken steps to integrate the two structures.

Hazare Committee recommended integration of the system almost 25 years back. No State except Andhra Pradesh has attempted integration so far. Integration in Andhra Pradesh which took place after 20 years since Hazare Committee report came, was not for any reason suggested by the Committee. Andhra Pradesh experience has also given hard lessons about the practical problems in integration two exiting institutions which could not be visualised by Hazare Committee. Rather than integrating the ST and LT structures, what is required is integrating ST and LT agriculture loan facilitating both the structures to provide both kinds of loans.

**Augmentation of Resources:**

ARDBs are non resource based institutions. They depend heavily on borrowed funds. Total borrowings outstanding almost same as total loan outstandings of Rs. 11500 crs. NABARD contributes 85 per cent of total borrowings, Central and State Government together 7 per cent and the balance by other institutional agencies like LIC, Commercial Bank, and also NHB.

The total owned funds of SCARDBs were about Rs. 1650 crs in March 1998 and that of PCARDBs about Rs. 1000crs.
The proportion of owned funds to borrowing works about 16 per cent in the case of SLDBs and about 9 per cent in the case of PCARDBs.\(^{28}\)

Equity constitutes about two third of the owned funds and surpluses and reserves account for the balance.

About 15 per cent of the equity contributed by the Government. The balance comes mainly by way of share linking with credit facility extended to members which generally at the rate of 5 per cent. Bulk of the owned funds is locked up in overdues in majority of the Banks. Banks started deposit mobilisation only recently. Deposits constitute only about 3 per cent of the total working capital.\(^{29}\)

ARDBs are allowed to mobilise term deposits of one year and above from individuals and institutions since 1977. Most of the banks have launched deposit mobilisation programme as per the revised guideline issued by NABARD based on the recommendations of the Study Group headed by Dr. M.C. Bhandari. However, the deposit mobilisation programme of ARDBs is not effective in building up its resources. Only high cost term deposits are allowed to be mobilised depriving competitive edge in deploying funds and generating reasonable margin. In the absence of other banking facilities the scheme does not evoke much response from potential depositors. Similarly, the condition that only State ARDBs can accept deposits prevents

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29. Ibid.
penetration of the scheme in the rural areas in the federal structure.

Deposits are not likely to be a reliable source of resources until ARDBs are allowed to mobilise all types of deposits like other banks and provide facilities to depositors as available to their counterparts in commercial banks.

For augmentation of resources, the following steps are called for:

The system of linking share capital with the credit facility generally at the rate of 5 per cent which contributes major portion of the equity should be continued. Major portion of the share capital collected at the primary level should be passed on to the apex in order to improve leverage. Members may be encouraged and motivated to make additional equity over and above the minimum requirement. This, however will be possible only if the banks maintain a consistent record of declaring dividends without ceiling. The present restrictions in declaring dividend including ceiling therefore, should be removed.

Government accounts for about 15 per cent of the total equity of ARDBs. Equity contributions by Government is the main source of interference in the working of the banks. The system of Government participation in the equity of cooperatives should be discontinued in the long term interest of these institutions. Instead of participating in the equity, Government may contribute to the resources of cooperative as investment or as its share in the resource needs to undertake programmes. The Government want the banks to implement as equity partners on mutually agreed
terms. ARDBs may be allowed to issue tax free bonds/debentures as recommended by Bhandari Committee.

Depositors of ARDBs should be given tax incentives as per section 88 of Income Tax Act as recommended by ACRC. Such tax incentives are justified on the grounds that entire proceeds of these bonds/debentures and deposits are used for rural capital formation in high priority sectors. Bringing ARDBs under Banking Regulation Act:

Most of the problems in resource mobilisation and business expansion faced by the ARDBs at present can be solved by bringing ARDBs under banking Regulation Act. ARDBs may be allowed to function as full fledged banks for the following reasons:

(1) To mop up rural saving effectively the present deposit mobilisation scheme is not effective because of high cost of term deposits and inability to provide other banking facilities to the depositors.

(2) To become resource based institutions and to reduce dependence on refinance agencies.

(3) To meet the entire credit needs of the borrowers.

(4) To supplement investment credit with production credit to enhance effectiveness.

(5) ARDBs are the only rural credit institutions not able to provide personal banking facilities and a package of credit services to their borrowers putting them in a highly disadvantageous position in a competitive market environment.
(6) Conversion of ARDBs as full fledged banks will facilitate healthy competition within the cooperative sector with short structure who at present is providing all kinds of banking and credit services to their members including investment credit. This will facilitate better customer service and wider coverage and outreach.

(7) Maintaining the separate identity of ARDBs with full fledged banking functions will help them to retain their comparative advantage and expertise in investment credit.

(8) Bringing ARDBs under Banking Regulation Act also pave way for making RBI/NABARD the statutory regulatory authority for ARDBs.

(9) The fullfledged banking functions will also help ARDBs to become resource based institutions by effectively tapping the vast potential for mopping up rural savings as deposits with the advantage of insurance of DICGC.

The Task Force recommends that financially strong SCARDBs in the unitary structure may opt for conversion into fullfledged banks which will work as statewide urban cooperative banks.

It is also suggested that financially strong SCARDBs in the federal structure should first convert itself into unitary system to take advantage of conversion into universal banks. The weak SCARDBs and PCARDBs have to keep striving to improve their financial strength and qualify for being converted banks. The Task Force has recommended RBI to evolve separate criteria for issuing banking licences to SCARDBs in the unitary structure and suggests that not withstanding their financial strength, these
banks would require a lot of preparations in the areas of manpower development and training and infrastructure adjustments before embarking on the new frame of structure and activities.

**Recovery Strategy and Non Performing Assets (NPA) Management:**

The recovery position of the loan and advances granted by the cooperative institutions has not been satisfactory. In most of the Indian States the pay backs have been less than 50 per cent. This state of affairs has resulted in giving rise to NPAs, which have mounted over the course of years. The following table present the state of recovery in all the states of the union of India as well as the all India average.

**Table 2.2**

Recovery at Ultimate Borrowers' Level for Three Year Period i.e. from 1997-98 to 1999-2000

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Name of the Bank</th>
<th>Recovery (per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Andhra Pradesh</td>
<td>63.26</td>
</tr>
<tr>
<td>2.</td>
<td>Assam</td>
<td>16.95</td>
</tr>
<tr>
<td>3.</td>
<td>Bihar</td>
<td>38.28</td>
</tr>
<tr>
<td>4.</td>
<td>Gujarat</td>
<td>65.88</td>
</tr>
<tr>
<td>5.</td>
<td>Haryana</td>
<td>64.85</td>
</tr>
<tr>
<td>6.</td>
<td>Himachal Pradesh</td>
<td>66.95</td>
</tr>
<tr>
<td>7.</td>
<td>Jammu &amp; Kashmir</td>
<td>33.32</td>
</tr>
<tr>
<td>8.</td>
<td>Karnataka</td>
<td>33.76</td>
</tr>
<tr>
<td>9.</td>
<td>Kerala</td>
<td>72.46</td>
</tr>
<tr>
<td>10.</td>
<td>Madhya Pradesh</td>
<td>48.20</td>
</tr>
<tr>
<td>11.</td>
<td>Maharashtra</td>
<td>43.88</td>
</tr>
<tr>
<td>12.</td>
<td>Manipur</td>
<td>NA</td>
</tr>
<tr>
<td>No.</td>
<td>State</td>
<td>Range 1</td>
</tr>
<tr>
<td>-----</td>
<td>----------------</td>
<td>---------</td>
</tr>
<tr>
<td>13</td>
<td>Orissa</td>
<td>24.97</td>
</tr>
<tr>
<td>14</td>
<td>Pondicherry</td>
<td>35.61</td>
</tr>
<tr>
<td>15</td>
<td>Punjab</td>
<td>82.75</td>
</tr>
<tr>
<td>16</td>
<td>Rajasthan</td>
<td>66.65</td>
</tr>
<tr>
<td>17</td>
<td>Tamil Nadu</td>
<td>43.49</td>
</tr>
<tr>
<td>18</td>
<td>Tripura</td>
<td>44.18</td>
</tr>
<tr>
<td>19</td>
<td>Uttar Pradesh</td>
<td>81.13</td>
</tr>
<tr>
<td>20</td>
<td>West Bengal</td>
<td>61.31</td>
</tr>
<tr>
<td></td>
<td>All India Average</td>
<td></td>
</tr>
</tbody>
</table>

Source: Background Papers, 40th I.C.C., NCUI, New Delhi. P. 85.

Note: Recovery position of Manipur is not available.

The above table reveals that the aggregate loan recoveries of ARDBs at national level hovers around less than 60 per cent during 1997-1998 to 1999-2000.

There is also wide variation in recovery performance from State to State. While recovery performance is generally poor in the entire north east and eastern regions, there are also certain States with poor recovery in north. Certain southern states, however, show that the recovery is generally good, but not more than three fifth of the total volume of the credit.

The following table shows the grouping of banks (state wise) based on range of recovery.

**Table 2.3**

Classification of Banks According to Range of Recovery (1999-2000)

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Range of Recovery</th>
<th>No. of Banks</th>
<th>Name of the States</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Above 80 per cent</td>
<td>2</td>
<td>Punjab, Uttar Pradesh</td>
</tr>
<tr>
<td></td>
<td>Percentage</td>
<td></td>
<td>States/Provinces</td>
</tr>
<tr>
<td>---</td>
<td>------------</td>
<td>---</td>
<td>-------------------</td>
</tr>
<tr>
<td>2</td>
<td>70-80 per cent</td>
<td>1</td>
<td>Kerala</td>
</tr>
<tr>
<td>3</td>
<td>60-70 per cent</td>
<td>5</td>
<td>Andhra Pradesh, Gujarat, Haryana, Himachal Pradesh, Rajasthan</td>
</tr>
<tr>
<td>4</td>
<td>50-60 per cent</td>
<td>1</td>
<td>West Bengal</td>
</tr>
<tr>
<td>5</td>
<td>40-50 per cent</td>
<td>4</td>
<td>Madhya Pradesh, Maharashtra, Tamil Nadu, Tripura</td>
</tr>
<tr>
<td>6</td>
<td>30-40 per cent</td>
<td>2</td>
<td>Bihar, Pondicherry</td>
</tr>
<tr>
<td>7</td>
<td>Below 30 per cent</td>
<td>4</td>
<td>Assam, Jammu &amp; Kashmir, Karnataka, Orissa</td>
</tr>
</tbody>
</table>

Source: Background Papers, 14th I C C N C U J New Delhi, p 86

No exact figures are available on the extent of NPAs. It is estimated that the loan outstanding of loan accounts with overdues of 13 months or more aggregated to Rs 2500 crores constituting 18.5 per cent of the total loan outstandings of Rs 13,487 crores as on 31st March 2000. The provisioning requirement at the base level is estimated to be around Rs 400 crores against the total loans outstandings in the defaulted accounts with varying interest rates starting from 10 per cent.

The researcher is of the view that the entire powers relating to loan recoveries should be assigned to officers of the bank. The powers to initiate legal measures for recovery is now assigned only to officials of co-operative department in most States. Government should desist from across the board measures like...
loan waiver. Dues to ARDBs may be brought under revenue recovery proceedings addition to other legal remedies available for recovery. NABARD should play a more proactive and supportive role in facilitating higher recoveries. NABARD's scheme for providing relief to the borrowers as well as banks in the event of natural calamities should be appropriately modified to provide real relief rather than postponing the current dues with compounded interest. Banks should insist insurance of assets created out of loans. The Rashtriya Krishi Bima Yojana announced by Government recently covers only selected seasonal crops. The scheme may be gradually extended to perennial crops and all other investment and assets in agriculture.

Wherever suitable insurance products are not available at reasonable cost compensation funds should be set up with contribution by banks, borrowers and NABARD.

Union Finance Minister during the Budget speech on 29th February 1988 had announced setting up of a fund to provide relief to the farmers affected by drought and other natural calamities against loss of assets and that the corpus of the Fund would be provided by the Central and State Governments on an agreed basis. It was further announced that the criteria for releasing money from the Fund would worked out by Reserve Bank of India. Unfortunately the Fund has not been set up so far. Steps may be made to set up the Fund without further delay with provision to provide the following relief to affected farmers who had availed loans from financial institutions:-
a) Relief towards interest portion of postponed instalment.

b) Compensating the assets damaged/destroyed in floods etc. by scaling down the loan outstanding or writing off the same.

c) When the dues are postponed for the three successive years write off the postponed dues.

NABARD should permit blocking of overdues in genuine case without undertaking from the Government, based on the performance commitments by banks. A special package for reviving the structure in the backward regions of north east and east consisting of restructuring of existing institutions along with blocking of overdues and reviving refinance support. There are instances of weak base level units even in States where the structure as a whole is strong. NABARD and SCARDBs concerned should evolve a strategy to strengthen weak base level units.

**Regulatory Function – Audit Inspection:**

While cooperative is a State subject the business of cooperative banks and financial institutions is a central subject. Cooperation being a State subject the State Government has the mandate to regulate and ensure the cooperative aspects of the working of ARDBs like democratic management, periodical elections to the Board, holding of General Body Meetings as frequently as prescribed by law, settlement of disputes etc. However, banking and credit being central subjects cannot be regulated by any State authority. NABARD being the statutory
regulatory authority in rural credit should be made the single regulatory authority as regards the business of ARDBs.

Bringing ARDBs under Banking Regulation Act will remove the legal hurdles in entrusting the regulatory function to NABARD/RBI/NABARD.

Areas of self-regulation should be identified, formalised and left to the banks for regulation.

The cooperative audit generally failed to set appropriate norms and standard to help cooperative institutions to operate efficiently in a competitive market environment. The system of cooperative audit also proved to be very expensive compared to industrial standards. Cooperative audit also has resulted in huge arrears defeating the very purpose of audit. The system of cooperative audit should, therefore, be discontinued and audit should be entrusted to Chartered Accountants selected from a panel approved by NABARD.

**Streamlining System and Procedures:**

In a market economy like the one emerging in India customer is the prime focus. Success of credit and banking institutions which are providing by and large personalised services in a competitive environment depends on the quality of customer service. The new philosophy of banking places the customer in the centre of all their operations. Banks are devising new products not only to suit various segments of customers but also with provision to accommodate specific needs of individual clients. Marketing strategies of banks are also changing to methods of direct appeal to individual preferences.
Customer service is a neglected area in ARDBs. ARDBs could afford some complacency in this regard in a somewhat closed market environment as was prevailing until 90s. But under competitive market conditions in lending and resource mobilisation to which ARDBs are exposed today, better attention to customer service has become a necessity. Banks have needs of customer as an individual.

Adequacy and timeline of credit and simplicity of procedure are the three tenets of sound credit delivery system. While adequacy and timeliness loans are closely related to the loan policies and appraisal system of the banks drawn out practices and sometimes legal and statutory provisions.

Borrowers look forward to higher standards of customer service which is noted for its absence in ARDBs. Long waiting for getting a loan is the most important impediment to customer satisfaction in ARDBs. The time lag between applying a loan and getting it is generally more in ARDBs as compared to other banks. Average time taken for giving a loan needs to be reduced considerably.

The person who comes to the bank for any purpose should be attended to without long waiting time. "Come tomorrow" syndrome among the bank staff should be effectively tackled by fixing responsibility and accountability and also making the customers aware of their right to service and also a machinery to monitor customer grievances and redressal.

Long term loan by its very nature involves thorough processing and legal scrutiny requiring considerable term lag between receipt of loan proposal and actual disbursement of loan.
This apart, the traditional system and cumbersome procedure has rendered the credit delivery system much wasteful and time consuming in many ARDBs. Streamlining of credit delivery system of ARDBs has also become an urgent need in the context of direct positioning of these banks against other rural credit institutions like commercial banks and RRBs in the emerging competitive involvement. The credit delivery system of commercial banks and RRBs have been much simpler as well as customer friendly compared to that of cooperative credit institutions even before. The credit delivery system of these banks have recently undergone a fresh round of rationalisation and simplification on the basis of the recommendation of R.V. Gupta Committee. Though the recommendations of R.V. Gupta Committee do not have any direct impact on cooperatives, the reforms in the credit delivery system of commercial banks and RRBs as recommended by R.V. Gupta Committee will obviously make the credit delivery system of cooperative including ARDBs more obsolete. Serious effort have to be made to streamline the credit delivery system of ARDBs on an urgent basis in this context.

There is scope for lot of simplification in the loan application forms prescribed by most of the banks by eliminating duplications and questions eliciting information and date not very relevant the stage of application. Some times it is seen that while information which are not relevant are called for in the applications, certain relevant information are called for. The application forms of many ARDBs are very elaborate and complicated running into so many pages that the borrower has to
take the help of others to fill it up. With some thinking a simple one page application form can be designed calling for all relevant information and excluding information which are not relevant at the stage of application.

The document and records called for alongwith loan application for legal scrutiny are numerous in many banks. Sometime copies of all the village records relating to the security properly are required. Encumbrance certificates are also called for several times during the course of appraisal and disbursements. The efforts to simplify legal scrutiny made by some banks show that the documents required for legal scrutiny and the time and money spent for arranging such documents can be brought down, considerably.

The appraisal system followed by banks at present is also not conducive to a sound delivery system. In some cases field staff of the operating unit is not delegated powers to appraise applications beyond a certain amount and some times District and State level offices are required to appraise loan applications at the ground level. Similarly, different aspects of appraisal of the same loan is done by different officers separately leading to unnecessary delay and some times harassment of applicant. Lack of flexible approach and over dependence on generalised norms relating to scale of finance and inability to accommodate field level variations in assessing the cost estimates are also some of the short-comings of the appraisal system leading to under financing or over financing.

Application of information technology is another important aspect of streamlining systems and ARDBs is in varying stages of progress. NABARD gives assistance for computerisation from its
Cooperative Development Fund but there is no clear policy and common approach towards computrisation. NABARD assistance is available in the limited area of MIS.

Identifying operation areas for computerisation including that in the branches and PADBs and to evolve a plan of action to operationalise the system within a time frame are required. Development of software is another issue where little progress is made.

**Human Resources**

**Staff Productivity:**

The staff strength and productivity in terms of per staff business at SLDB and PLDB levels in 1997-98 are furnished below:

**Table 2.4**

*ARDBs Staff Productivity*

<table>
<thead>
<tr>
<th>Name of the Bank</th>
<th>Structural Pattern</th>
<th>Staff Strength</th>
<th>Per Staff Business</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>SLDB</td>
<td>PLDB</td>
</tr>
<tr>
<td>1. Haryana</td>
<td>Federal</td>
<td>170</td>
<td>1445</td>
</tr>
<tr>
<td>2. Himachal Pradesh</td>
<td>Mixed</td>
<td>117</td>
<td>42</td>
</tr>
<tr>
<td>3. Jammu &amp; Kashmir</td>
<td>Unitary</td>
<td>200</td>
<td>-</td>
</tr>
<tr>
<td>4. Punjab</td>
<td>Federal</td>
<td>213</td>
<td>1356</td>
</tr>
<tr>
<td>5. Rajasthan</td>
<td>Federal</td>
<td>192</td>
<td>928</td>
</tr>
<tr>
<td>6. Assam</td>
<td>Unitary</td>
<td>528</td>
<td>-</td>
</tr>
<tr>
<td>7. Manipur</td>
<td>Unitary</td>
<td>44</td>
<td>-</td>
</tr>
<tr>
<td>8. Tripura</td>
<td>Unitary</td>
<td>Not available</td>
<td></td>
</tr>
<tr>
<td>9. Bihar</td>
<td>Unitary</td>
<td>2196</td>
<td>-</td>
</tr>
<tr>
<td>10. Orissa</td>
<td>Federal</td>
<td>230</td>
<td>890</td>
</tr>
<tr>
<td>No.</td>
<td>State</td>
<td>Type</td>
<td>Staff</td>
</tr>
<tr>
<td>-----</td>
<td>------------------</td>
<td>----------</td>
<td>-------</td>
</tr>
<tr>
<td>11.</td>
<td>West Bengal</td>
<td>Mixed</td>
<td>148</td>
</tr>
<tr>
<td>12.</td>
<td>Madhay Pradesh</td>
<td>Federal</td>
<td>787</td>
</tr>
<tr>
<td>13.</td>
<td>Uttar Pradesh</td>
<td>Unitary</td>
<td>3579</td>
</tr>
<tr>
<td>14.</td>
<td>Gujarat</td>
<td>Unitary</td>
<td>1336</td>
</tr>
<tr>
<td>15.</td>
<td>Karnataka</td>
<td>Federal</td>
<td>928</td>
</tr>
<tr>
<td>16.</td>
<td>Kerala</td>
<td>Federal</td>
<td>483</td>
</tr>
<tr>
<td>17.</td>
<td>Tamil Nadu</td>
<td>Federal</td>
<td>490</td>
</tr>
<tr>
<td>18.</td>
<td>Pondicherry</td>
<td>Unitary</td>
<td>12</td>
</tr>
</tbody>
</table>

Source: Background Papers, 14th I.C.C., N.C.U.I, New Delhi, p. 89

The productivity at apex level varies from Rs. 452 lakhs per staff in Haryana to Rs. 45 lakhs per staff in Orissa and Rs. 68 lakhs per staff in Madhya Pradesh.

While the business of Rs. 150 lakhs per staff at the SLDB level can be taken as the norm, the number of staff can vary depending upon the add-on services given by the apex to primaries like free service of technical personnel, incentives and subsidies etc.

States like Orissa, M.P. and Karnataka have to improve per employee productivity at the apex level either by substantially improving the business level or by deliberate measures to down size the staff.

The productivity at the PLDB level in the Federal structure varies from Rs. 71 lakhs in Punjab, Rs. 65 lakhs in Karnataka, Rs. 63 lakhs in Kerala to Rs. 11 lakhs in Orissa, and Rs. 15 lakhs in M.P. Taking per staff business of Rs. 50 lakhs as the norm the PARDBs in M.P., Orissa and West Bengal have to achieve substantial improvement in productivity.
In unitary structure per employee business is highest in Pondicherry followed by Gujarat and U.P. whereas Manipur, Bihar and Jammu and Kashmir fall in the bottom line. Downsizing of staff may be required in banks having per employee business levels less than Rs. 35 lakhs.

Banks have to improve per employee productivity and to eliminate staffing by taking measures such as introducing VRS. Proper recruitment policy by progressively reducing dependence on deputation staff is required for professionalisation of management.

Training Needs and Infrastructure for Training:

ARDBs have training centres in 12 States. These centres mainly cater to the training needs of junior and middle level staff. Review of the working of the training centres indicates deficiencies in capacity utilisation, physical and academic facilities, faculty and curriculum development etc.

Recently NABARD suggested integration of the training centres of SCARDBs and State Cooperative Banks. On detailed consideration of the advantage and disadvantage of integrating the structures as pointed out by NABARD, the Board of Management of the Federation felt that integrating the training structures as proposed by NABARD will have more disadvantage for both the sectors than whatever advantage indicated by NABARD which mainly relate to reduction of saving in expenditure and financial support extended by NABARD to JLTCs of ARDBs and ACSTIs of SCBs. An integrated training institution cannot focus on the specific areas of skill development and training needs relating to
the operations of ARDBs. Instead of integrating these training structures the perspective strategy should be to strengthen the existing training institutions by maintaining its separate identity and removing deficiencies in their working.

Banks have to evolve a system to identify training needs at various levels in the organisation and to effectively make use of the training facilities within and outside the organisation to meet the training needs.

To sum up, it may be inferred that a conducive policy/legal environment may be created to professionals management by building own cadres of management and by strengthening the process of democratic control. The nominated members of the Board of Directors should be professionals in the field of operations carried out by the cooperatives. There should be proper recruitment policy coupled with career planning, transfer policy etc. There should be direct entry at officer level in stipulated percentage. Norms for employee productivity in terms of per employee business should be evolve and monitored. System of performance appraisal and evaluation on regular basis should be introduced. Norms for deciding the right size of staff depending on the business levels and potential for business growth should be evolved and measures should be taken to downsize staff wherever required. Banks should embark on a programme of member education to make them aware of their right and responsibilities and separate budget should be provided for this.

There should be proper assessment of training needs at various levels such as leaders, managers and staff for providing need based training. Measures may be taken to strengthen in house
training infrastructure. Banks should encourage staff and officers in self-training. Courses in the pattern of CAIIIB may be evolved for this purpose. Staff may be motivated in self-training by early promotions, advance increments etc.