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INSTITUTIONAL DEVELOPMENT
ROLE OF NABARD
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INSTITUTIONAL DEVELOPMENT – ROLE OF NABARD

6.1 Introduction

In the preceding two chapters various refinance operations of NABARD have been discussed and analysed. NABARD, besides these refinance operations, is also engaged in various co-ordinating and developmental activities for the promotion of agriculture and rural development. Being an apex institution, NABARD is responsible for fostering a healthy growth of rural credit and the institutions dispensing it. Keeping this in view, NABARD has undertaken a number of measures since its inception, such as, strengthening and rehabilitation of co-operative credit institutions and RRBs, improving the rural credit activities of commercial banks, and measures for improving the recovery performance of financing institutions. NABARD performs other activities like inspection, monitoring, evaluation, training and extension support for the banking institutions.

A systematic process of institution building of the Rural Financial Institutions (RFIs) in the country began with the implementation of the recommendations of the All India Rural Credit Survey Committee in 1954. Since then, many programmes aimed at strengthening the RFIs to make them viable, sustainable and self-reliant have been launched. While some of them succeeded to some extent, others either failed to take-off or did not have the desired impact. The challenges posed by the financial sector reforms and the market-orientation and liberalisation process initiated

6 1) Discussion with various personnel, NABARD Regional Office, Bangalore.
  2) Various Issues of Potential Linked Plan, NABARD.
  3) Various Issues of Annual Plans, NABARD.
by the Government of India, however, underscore the urgent need and a critical approach to build strong and vibrant RFIs, which can face competition and emerging challenges.

The first section of the chapter deals with the evolution of the RFIs, the second section gives a retrospective resume of the programmes initiated by the Reserve Bank of India and NABARD. The third section deals with the lessons learnt from the implementation of the earlier programmes while in the fourth section, the details of the current policy initiatives by NABARD are given. The last and concluding section indicates the challenges of institution building and the future prospects.

6.2 Evolution of Rural Financial Institutions

Historically, the institutionalisation of the rural credit delivery system began with the enactment of the Co-operative Credit Societies (CCSs) Act in 1904. The co-operative credit system was established in the country, primarily, to combat the problems of usury and indebtedness of the farmers to money-lenders. Over the years, the co-operative credit institutions, both in the short-term and long-term structures, have emerged as the prime institutional agency for dispensation of credit for agricultural and rural development in the country.

The short-term co-operative credit structure has at its base, the primary societies of all kinds, viz., Primary Agricultural Credit Societies (PACS) which, in a large number of cases deals, mainly in credit. Though expected to be multi-purpose in character, Farmers Service (Co-operative) Societies referred to as FSS, which are, in fact, multi-purpose societies but with a larger area of operation and larger membership. The Large-sized Adivasi Multi-purpose societies in tribal areas known popularly as LAMPS, expected to provide, under a single roof, all types of credit and
non-credit services, including marketing of agricultural and minor forest produce of tribals. These primary societies are affiliated to District Central Co-operative Banks (DCCBs) at the district level which, in turn are affiliated to State Co-operative Banks (SCBs) at the State level known as the apex banks. In some States having two-tier structure, the primary societies are affiliated to the apex banks.

Under the long term structure, Land Development Banks, which, in later years, were to become a major institutional agency for providing investment credit, were originally established primarily for meeting the credit requirements of farmers for redemption of their prior debts and evolved over the years to cater to the investment credit requirements in the rural areas. The organisational structure is not of a uniform pattern all over the country. A majority of the states (11) have the federal set-up with the State Land Development Bank (SLDB) at the state level and affiliated Primary Land Development Banks (PLDBs) at the district or taluka levels while in some States (8) the structure is a unitary type, the operational units below the State Land Development Bank being its branches. In Andhra Pradesh, the short-term and long-term co-operative credit institutions have been integrated recently.

The first step towards bringing in the commercial banks into the rural credit delivery system was the involvement of the State Bank of India in "extension banking in the rural areas" based on the recommendations of the All India Rural Credit Survey Committee. Subsequently, the All India Rural Credit Review Committee, which was appointed in 1966 by the Reserve Bank of India (RBI) to reassess the development that had taken place in the field of rural credit since 1954, emphasized that while strengthening of credit co-operatives should be pursued, rural credit should not be the prerogative of the co-operative sector alone considering the magnitude of the demand for agricultural credit. And, thus, the commercial banks were also involved in
providing rural credit. With the extension in 1967 of social control on commercial banks and the subsequent nationalization of 14 major commercial banks in 1969, the commercial banks have been assigned a greater role in the provision of rural credit. A scheme for financing of PACS by commercial banks was evolved during the seventies especially in the areas where DCCBs were weak.

Although the co-operative and commercial banks had an impressive record in terms of geographical coverage and disbursement of credit, it was observed that a vast majority of the poor were generally deprived of credit and other banking facilities.

In order to provide access to low-cost banking facilities to the poor, a new set-up of RRBs was established in the country to meet exclusively the needs of the weaker sections of the rural population, as institutions, which 'combine the local feel and familiarity with rural problems which the co-operatives possess and the degree of business organization, ability to mobilize deposits, access to central money markets and modernised outlook which the commercial banks have'.

As of 31 March 1994, the rural credit delivery system comprised 28 SCBs, 352 DCCBs with a network of 11,596 branches and 89,481 primary units (PACS, LAMPS and FSS) under the short-term credit structure and 20 SLDBs with 1,062 branches and 747 PLDBs with 1,153 branches (including the branches of DCCBs in Andhra Pradesh having integrated structure) under the long-term credit structure, besides 21,948 rural branches of commercial banks and 196 RRBs with a network of 14,547 branches. Thus, the efforts in building up of a wide network of RFls with a view to providing access to the vast majority of the rural populace have been successful.
6.3 Institutional Development – A Retrospective

A special developmental role was envisaged for the RBI in the field of agricultural credit, right from its inception, through the setting-up of a specialised Agricultural Credit Department (ACD). Notwithstanding the efforts made by RBI, the share of institutional agencies in agricultural credit dispensation remained rather meagre during the first one-and-a-half decades of its operation. The RBI, therefore, convened in 1951, the Informal Conference on Rural Finance, with Prof. D. R. Gadgil as Chairman, to undertake a review of RBI’s role in the sphere of rural finance and to make recommendations for increasing the flow of credit. A significant outcome of the recommendations of the Informal Conference on Rural Finance was the constitution of a Committee of Direction, known as the All India Rural Credit Survey (AIRCS) Committee in 1951, headed by Shri A.D. Gorwala. The Committee studied the essential features of existing credit agencies and recommended an elaborate framework of Integrated Scheme of Rural Credit to strengthen and sustain the co-operative credit institutions. The Committee observed that of the total amount borrowed by cultivators in 1951-52, the non-institutional agencies accounted for as much as 92.7 per cent as against 3.3 per cent by Government, 3.1 per cent by Co-operatives and 0.9 per cent by Commercial banks. Notwithstanding the almost negligible share of Co-operatives in rural credit, the Committee came to the unequivocal conclusion that ‘No form of credit organisation will be suitable except the co-operatives for strengthening the agricultural economy better.

The Committee also recognised the need for a separate long-term credit structure and recommended the establishment of Central Land Mortgage Banks (CLMBs) in all the States. More significantly, the Committee changed the role and
functions of the CLMBs from that of purveyors of credit for debt redemption to providers of credit for productive investment purposes. The principle of state-partnership in the share capital was recommended to CLMBs also as in the case of institutions in the short-term structure.

The basis of the future policy laid down by the Committee was the positive and deliberate creation of conditions in which co-operative credit institutions would have a reasonable chance of success. For this purpose, it made several recommendations, collectively known as the Integrated Scheme of Rural Credit. The main features of the scheme were:

(i) state partnership through contribution to the share capital of co-operative credit institutions;

(ii) full co-ordination between credit and other economic activities, especially marketing and processing; and

(iii) administration through adequately trained and efficient personnel, responsive to the needs of the rural population.

The RBI was assigned a crucial role in the scheme of integrated credit which was concerned with three main items, viz., development of co-operative credit, expansion of co-operative economic activities (especially processing and marketing), and training of co-operative personnel. The various steps taken by RBI and NABARD, after its establishment in 1982, could be broadly classified as developmental initiatives and rehabilitation measures.
6.3a Developmental Initiatives

The recommendations of various Committees further enlarged the role of RBI in creating and strengthening the necessary institutional infrastructure. While many states had no apex co-operative bank, the banks that were in existence in a few states were not strong enough and needed substantial strengthening. As a result of the sustained efforts of the RBI, Apex Co-operative Banks were established in all the States. Simultaneously, efforts were also made for organising one DCCB for each District. The development initiatives taken by the RBI included establishment of National Agricultural Credit Funds, Supervision and Inspection of Banks, annual discussions with the State Governments, systematisation of crop loan operations and training of personnel of the co-operative banks.

6.3b National Agricultural Credit Funds

Following are the recommendations of the AIRCS Committee (1954); the establishment of the two National Agricultural Credit (NAC) Funds for Long Term Operations and stabilisation arrangements by RBI. Both these funds were transferred to NABARD on its formation and have been rechristened (with a view to covering the entire gamut of rural credit) as 'National Rural Credit (long-term Operations) Fund' and 'National Rural Credit (Stabilisation)' respectively. The outstanding under loans disbursed out of NRC (LTO) and NRC (Stabilisation) Funds as at the end March, 1995, stood at Rs.7,934 crores and Rs.109.73 crores, respectively.

6.3c Inspection of Banks

In pursuance of the recommendations of the Informal Conference, a system of inspection of Co-operative Banks by RBI, on a voluntary basis, was instituted in the year 1952-53. With the extension of Banking Regulation Act with effect from 1st
March 1966 to co-operative banks, the inspection of SCBs and DCCBs became the statutory responsibility of the RBI. This role was assigned to NABARD after its formation and since then it has been inspecting all the SCBs, DCCBs and the RRBs, in addition to the voluntary inspection of SLDBs and other Co-operative Apex Societies. The inspections have been designed as a tool for institutional development covering development/promotional aspects besides examining financial health of institutions. Thus, the inspections are path-finding and not fault-finding in nature.

6.3d Discussions with State Governments

A system of holding annual discussions with the representatives of State Governments and Co-operative banks was started by the RBI in the sixties. Since the formation of NABARD these annual discussions are being continued by the Chairman, NABARD, for enabling a thorough review of the status of not only the co-operative institutions but also other agencies engaged in rural credit in each state and taking suitable measures for accelerating the ground level credit flow in each state, in general, and strengthening the co-operative institutions, in particular. This has helped better coordination among the concerned State Government Departments, the RFIs and NABARD and resolving various crucial issues related to agricultural and rural development.

6.3e Rationalisation of Crop Loan System

Following are the recommendations of the AIRCS Committee and the Vaikunta Mehta Committee on co-operative credit, it was widely accepted that the quantum of credit should be determined on the basis of the needs as related to the crop production activity undertaken by a cultivator as well as his repaying capacity.
RBI had, accordingly, prepared and published in 1972 a Manual setting out in detail the procedure to be adopted by co-operative banks for rationalising the provision of ST and MT loans for agricultural purposes styled as "Manual on Production Oriented System of Lending for Agriculture". In view of the phenomenal changes that have since taken place in agricultural practices on account of technological improvements, and the possible changes in the components of agricultural credit, a Crop Loan Committee was constituted by NABARD in 1992 to review the existing crop loan system. The Committee has since finalised its views on the basis of which the manual is also being revised.

6.3f Training and Development

Human Resource Development is an integral part of institutional development. As a part of its recommendations for institutionalising the rural credit, the AIRCS Committee Report emphasised training of personnel of co-operative institutions. The training set-up as also the training needs have undergone numerous changes following the developments that took place from time to time.

For the first time in 1953, a central agency called the Central Committee for Co-operative Training was created with functions shares between the RBI and the GOI. Even after the transfer of co-operative training from the Central Committee to National Co-operative Union of India (NCUI) during the sixties, the RBI continued and sustained its interest by setting up the Co-operative Banker's Training College at Pune which was subsequently renamed as College of Agricultural Banking (CAB) to train the senior and middle level personnel of co-operative banks to equip them to handle and carry out developmental banking operations on sound lines.
With the advent of RRBs in 1975, as an important player in the field of rural credit, and the adoption of multi-agency approach to rural credit, the CAB has continued to share the responsibility of training the personnel of RRBs as well as the rural branches of commercial banks in addition to the co-operative bank personnel.

Since its formation, NABARD has devoted special attention to the training needs of RFIs. While, on the one hand, it continued to collaborate with the CAB in the training of rural bank functionaries, the NABARD, on the other hands, independently set up the Banker's Institute of Rural Development (BIRD) at the National level and two Regional Training Centres for focused attention to the training of a large number of rural bankers, in general and RRB personnel in, particular. The exclusive attention given for training RRB personnel continued till 1992 in the training establishments of NABARD. At the same time, NABARD continued its support both academically and financially for training the personnel of land development banks in their Junior Level Training Centres (JLTCs). Thus, training as a part of the institutional development has been supported, in BIRD, RTCS, CAB of RBI and JLTCs of SLDBs with financial back-up and other support from NABARD.

The BIRD and the two RTCs which were training exclusively the personnel of RRBs till 1992 have assumed a new role in the context of reorganisation of the BIRD as an autonomous society to serve as the national level apex training institute of excellence. The reorganised BIRD has been given the mandate for training of trainers, reorienting senior executives of Co-operative banks, RRBs and rural branches of commercial banks and conducting high quality functional programmes in addition to diversifying its efforts into action research and providing consultancy services. With the reorganisation of BIRD, the institutional development through training has undergone a radical change by the adoption of innovative approaches.
such as policy seminars for senior executives, intensive client specific training programmes with regional focus, building up live case studies as an instrument of effective training, demand based in-company programmes and organisational development initiatives to change the mindset of the personnel for effective functioning, turn around strategy, etc. The RTCs have been providing support to the BIRD by conducting region specific training programmes, workshops, studies, etc., addressed to middle and implementation level of rural bankers.

NABARD also encourages the SCBs and DCCBs to develop their human resources by extending support for the conduct of training programmes in the Agricultural Co-operative Staff Training Institutes (ACSTIs) since 1994. NABARD is also supporting the initiative for formulating perspective HRD/manpower plan along with the business development plan as a part of the Development Planning exercise both in the short-term and long-term co-operative credit institutions.

6.3g Pilot Project for Strengthening Credit Delivery System

The Pilot Project for strengthening the credit delivery system was introduced by NABARD in consultation with the World Bank under NB Credit Project I in March 1984. Initially, launched in three districts of Aurangabad (Maharashtra), Hoshangabad (M.P.) and Sabarkantha (Gujarat), it was extended to 13 more districts from July 1986 onwards. Thus, the Project launched with the financial aid of the World Bank was in operation in 16 districts of 13 States. The project covered all the lending institutions, including commercial banks, operating in the selected districts. The Project came to an end in the first three districts on 30 June 1990 and in the remaining districts on 31 December 1990.
The objective of the Project, apart from strengthening the credit delivery system at the grass-root level, included, (i) achieving qualitative improvement in lending and effective supervision/monitoring of loans, (ii) introducing structured work activities and imparting need-based training to the field staff, (iii) intensifying the contacts between banker and borrower, (iv) improving the systems and procedures in the branches, and (v) ensuring timely and adequate supply of credit, recycling of funds and appropriate relief to the farmers (who are not wilful defaulters).

The above objectives were sought to be achieved through limiting the workload of the field functionaries to a reasonable level, increasing their mobility by making available vehicular support and sharpening their skills by organising a series of training programmes. Apart from meeting the major part of the incremental staff cost, NABARD also helped the banks in acquiring vehicles (soft loans/grant) and also extended matching grant to co-operative sector for the intensive development of a few selected PACS and all LAMPS operating in the 16 Pilot Project districts. These societies were provided with inputs like additional staff (secretary), and the requisite additional share capital.

6.3h Vikas Volunteer Vahini Programme – Borrower Education

The National Bank has taken a creative initiative to bring about an attitudinal change amongst the borrowers in their outlook towards the concept of credit through the launching of Vikas Volunteer Vahini (VVV) Programme. The VVV programme was inaugurated by the Prime Minister on 5 November 1982 while dedicating NABARD to the nation. In a sense, therefore, the VVV programme was the maiden institutional-building exercise launched by NABARD on its formation. The
Programme aimed at propagating the message of “Development through Credit” and Repayment Ethics. Initially, launched in 3 States (Gujarat, Orissa and Tamilnadu) in 1983, it has since taken roots in as many as 23 States. As of 31 December 1994, there were 1,088 Clubs being maintained by 900 branches of Commercial Banks and RRBs and 100 Co-operative Banks. Of these, 75 Clubs are being run in association with the Voluntary agencies, Agricultural Universities and Krishi Vigyankendras.

6.3I Rehabilitation Initiatives

The primary level institutions in the co-operative credit structure were characterised by a large number of weak and uneconomic societies, many of which had become loss-making on account of heavy overdues. At the intermediate level, many of the Central Co-operative Banks were weak having smaller areas of operation, poor business, small deposits and heavy overdues. In order to make these institutions financially healthy, the RBI and NABARD took several initiatives to rehabilitate them.

6.3J Rehabilitation Programme for weak DCCBs

In order to improve the health of the DCCBs and SCBs (in the two-tier structure), a rehabilitation programme was introduced by the RBI in 1969-70. The programme focused on investigation of overdues, coercive action for recovery of overdues of wilful defaulters, rationalisation of loan policies and procedures to improve the quality of loaning, strengthening of resources, improving arrangements for supervision over the end-use of credit and reorganisation of the primary credit societies affiliated to these banks through the process of liquidation, amalgamation, etc., to have viable units at the base level. With a view to giving an impetus to the on-
going rehabilitation programme, a special 12-point programme was introduced by NABARD during 1987-88 for "selected" weak banks. This programme covered such of those banks, which were identified as "weak" as on 30 June 1985 and had overdues of more than 58 per cent of demand as on 30 June 1986 and were prima-facie ineligible or likely to be ineligible for credit limits from NABARD. These programmes were not able to make any serious impact on the working of the weak banks mainly due to the failure of the State Governments to provide adequate resources support to the co-operative credit institutions and to play, in general, an active role in their implementation.

6.3k Rehabilitation of Ground Level Co-operative Institutions

With a view to giving a new thrust and direction for the development of PACS and LAMPS, and three year 15 point programme for the development of selected PACS/LAMPS was introduced during 1985-86 in 3 pilot project districts which was, subsequently, extended to 13 other Project districts. Under the programme, financial assistance was provided towards additional share capital, meeting 50 per cent of the cost of infrastructural facilities such as iron-safe, banking counter, etc., and subsidising the salary of additional secretary, NABARD had extended financial assistance by way of grant of soft loan in the ratio of 30:70 towards the construction of godown and storage facilities so as to enable the LAMPS to undertake procurement of minor forest-produce and marketing of agricultural-produce of their members. At the end of the programme on 31st December 1990, all the 417 PACS and 157 LAMPS operating in pilot project districts, provided with assistance, showed considerable progress in the mobilisation of deposits, loan disbursements, and recovery performance.
6.3i Programme for Rehabilitation of Weak PLDBs

With a view to improving the financial health and operational efficiency of the primary units in the long term co-operative credit structure, a 10 Point Action Programme for rehabilitation of weak PLDBs/branches of SLDBs was introduced by NABARD in January 1986. In the first instance, 4 states, viz., Orissa, West Bengal, Bihar and Uttar Pradesh (Eastern districts), were covered under the programme. The programme was subsequently extended (in April 1986) to all other states. The rehabilitation measures included among others, merger of non-viable units with strong units, investigation of overdues, strengthening of resources, etc. The comprehensive rehabilitation programme was approved in respect of only 139 units spread over 8 states, i.e., Gujarat (61), Himachal Pradesh (3), Karnataka (33), Rajasthan (8), Tamilnadu (14), Tripura (2), Uttar Pradesh (12) and West Bengal (6). The financial assistance released by NABARD under the programme amounted to Rs.681.29 lakhs. Of this, an amount of Rs.641 lakhs was released by way of loans to the State Governments for contribution to the share capital of weak units and the balance of Rs.40.29 lakhs was released as grant towards staff subsidy to the respective SLDBs. The rehabilitation programme was closed with effect from 31st March 1991.

6.3m Institutional Strengthening Programme

The Agricultural Credit Review Committee (ACRC 1989), which had reviewed the rural financial system in the country and evaluated the major problems and issues affecting the agricultural credit system, had suggested that NABARD should formulate a programme to strengthen and revitalise the rural credit institutions, especially the co-operatives. Accordingly, NABARD had formulated the Institutional Strengthening Programme covering "non-solvent" and "near non-solvent" banks. The programme was to be completed within a specified time-frame of 3 to 5 years, with a
provision that in case the concerned banks failed to turn the corner within the time-frame, the concerned State Governments would make alternative arrangements for credit dispensation in the areas of operation of such banks. The Programme was, however, a non-starter since it did not find favour with the State Governments mainly due to their inability to fund their share as envisaged under the programme.

6.4 Lessons Learnt from the Implementation of Programmes

The performance of the institutions within the co-operative credit structure in terms of viability, did not improve despite more than four decades of development initiatives and rehabilitation programmes of RBI and NABARD. The continuous deterioration in the financial health of these institutions has been due to a variety of causative factors, mainly the poor resource-base, high transaction costs coupled with low margins, mounting overdues, lack of professional management, faulty accounting procedures resulting in imbalances among the various tiers of the co-operatives in the loan amounts outstanding and excessive state controls with a high degree of bureaucratisation.

6.4a Resource Base

The inability of the PACS to mobilise rural deposits is one of the significant factors contributing to their weakness. Although the deposits of PACS have grown from a mere Rs.4.48 crores during 1951-52 to Rs.1,664 crores during 1991-92, the share of deposits in the total resource base of PACS increased marginally from 10.8 per cent to 13.7 per cent during the corresponding period. The average deposits per member at the All-India level stood at Rs.178 while across the States, it ranged from a low level of Re.1 (Goa) and Rs.3 (Bihar) to Rs.577 (Himachal Pradesh) and Rs.1,075 (Kerala). At the end of March 1992, the average deposits per society stood at Rs.1.86 lakhs while the average borrowings per society worked out to Rs.9.14
Thus, the PACS depend almost entirely on the resources of the higher financing agency. This is indicative of the vertical dependence of the ground level institutions on the higher tiers.

6.4b Decline in Borrowing Membership

The proportion of borrowing members in the PACS has been showing a steady decline over the years. The percentage of borrowing members, which stood at 53 as at the end of June 1961, declined to 36 by June 1971 and further to 33 by March 1992. This trend could be attributed to a general lack of improvement in the resource position and capacity of societies for increased lending in spite of enrolment of new members. The declining trend in the borrowing membership affects, inter-alia, the business levels of the societies and consequently their viability. A resultant disturbing feature is that, as at the end of March 1991, barring PACS in Haryana (Rs.13.68 lakhs), Kerala (Rs.50.96 lakhs) and Tamilnadu (Rs.13.94 lakhs), the societies in other states had an average short-term loan business ranging from Rs.3.01 lakhs in Nagaland to Rs.8.03 lakhs in Madhya Pradesh, which was far below the level of Rs.10 lakhs estimated by NABARD in 1987-88 required to attain viability. The ACRC, however, estimated the break-even level of business of PACS at Rs.25-30 lakhs, comprising Rs.17 lakhs of credit business and the balance non-credit business.

6.4c Transaction Costs, Lending Rates and Margins

The rural financial institutions to be viable are required to have sufficient margin between ending rates and the costs of funds in order to fully cover the transaction costs. Questions are raised in various quarters regarding realistic deposit rates and lending rates for an institution to be viable, particularly, when the interest rates are uniformly administered (till recently) and exogenous to the system.
Attempts have been made time and again to estimate transaction costs, financial costs and margins available to the credit institutions. A systematic attempt was first made by the ACRC. The ACRC recommended that the minimum lending rate to be charged by CBs, RRBs, LDBs and PACS was to be 14.5 per cent, 16.4 per cent, 12.8 per cent and 15.9 per cent, respectively, at the then prevailing costs and business levels (1986-87). Based on the methodology adopted by ACRC, the required lending rates and financial costs in respect of Co-operatives and RRBs have been estimated for the years 1992 and 1994.

There exists a yawning gap between income generated and costs incurred by the rural credit institutions. However, besides the low level of financial margin, high transaction costs have also largely contributed to this gap. While the deregulation of interest rates, recently allowed to co-operatives and also to RRBs to some extent, should help them in bringing down this gap considerably, reduction in the transaction costs also is equally important. A part of the gap could also be reduced through better and efficient funds management and cost-effectiveness in all possible areas.

6.4d Recovery Performance

Mounting overdues, besides eroding the profitability of banks, have also increased their transaction costs for effecting recovery and impaired their capacity to recycle their funds. The overdues in all the tiers of the co-operative credit structure have been steadily increasing over the years. While the build-up of overdues could be largely attributed to deficiencies in loaning policies and procedures, other factors such as infrastructure investments, non-realisation of anticipated level of returns, wilful default, defective legal framework, lack of government assistance in recovery, etc., have also contributed to the mounting overdues, in equal measure. A major factor vitiating the recovery climate has been the announcements of across-the-board
loan waivers and/or interest subsidy/concessions in respect of co-operative dues. Such measures, which run counter to the principles of credit, negating the repayment ethics, are also not conducive to the long-term viability of co-operative credit institutions. Further, there are built-in relief measures already available in the system like conversion of short-term loans into medium-term loans and postponement/reschedule of long-term loan instalments in the event of natural calamities etc.

The National Bank has utilised every available opportunity and forum to emphasise the importance of improved recovery performance. The co-operative banks were advised in 1988 that provision of refinance to them would be subject to the condition that they would not contravene, directly or indirectly, the directives/instructions of RBI/NABARD on interest rates and those relating to conversion of short-term loans into medium-term loans and rescheduling/determent of loan repayment. These directives/instructions were not scrupulously observed by the co-operative banks in some of the States, thereby adversely affecting the recovery and causing impediments in the smooth flow of credit, which is essential for agricultural and rural development. Recognising the need for non-interference in the repayment of co-operative dues, an agreement has, therefore, been reached through the State Level Memoranda of Understanding (MoU) executed by the apex co-operative banks and the concerned State Governments with NABARD for strengthening the co-operative credit structure that there will not be any such across-the-board loan/interest waivers or concessions, henceforth.

6.4e Imbalances

In many of the DCCBs (and SCBs under the two tier system) and the SLDBs, the loans portfolio at the DCCB/SLDB level is not covered by the outstanding loans
and interest thereon for the same purposes at the level of PACS/PLDBs against the ultimate borrowers. The difference in outstanding between these two levels has been termed as "Imbalances". The Committee under the Chairmanship of late Shri A. P. Shinde, which examined the issue, observed that the different accounting procedures in the treatment of repayment followed by the various tiers of co-operatives was the major cause of imbalances. However, the in-house Working Committee which examined the issue, subsequently, was of the view that imbalances in loans outstanding arise, in addition to the accounting procedures, on account of poor resource base and high loan delinquency at the ground level institutions as also diversion of part of recoveries to meet the establishment cost, repayment of loans availed for construction of godowns, etc., and frauds.

Such imbalances, as on 31 March 1994, were estimated to be of the order of Rs.736 crores. Substantial amount of imbalances existed in the states of Bihar, Gujarat, Karnataka, Rajasthan, Tamilnadu and Uttar Pradesh. This was a serious problem causing progressive deterioration in the profitability of PACS/PLDBs. As observed by the ACRC, it is the responsibility of the higher tier institutions to take care of the lower tier institutions through which they operate. The State Government of Rajasthan has since evolved a scheme for removal of these imbalances by sharing the burden in a pre-determined proportion by the DCCBs, SCBs and the State Government. Such a scheme is worthy of emulation by other states and accordingly, the GOI has recently proposed a central sector scheme for the purpose of seeking views of the State Governments. Besides, the requisite accounting reforms are to be implemented/operationalised to ensure non-recurrence of such a phenomenon.
6.4f Democratisation in the Management of Co-operatives

The credit institutions in the co-operative sector are conceived to be basically democratic organisations, which can meet the aspirations of the people for whom they are established. This can be achieved only when they are run by democratic managements. This implies people's effective participation in the management of credit institutions through the elected boards. However, in a large number of cases, the boards of management of co-operatives have been superseded and several such institutions are being run by the Boards/Administrators nominated/appointed by the State Governments concerned. It cannot be denied that there may be cases of mismanagement, financial irregularities, etc., requiring suppression of the Boards of such institutions. However, suppression is not the only remedy for correcting the situation and if at all a board is to be superseded, it should be done so only in extreme cases and an attempt should be made to hold fresh elections as early as possible so that democratic management is restored.

The co-operatives raised their voices against the distortions taking place in the co-operatives and called for changes in the co-operative laws and Government attitude towards co-operatives. These developments led to the setting up of a Committee by the Government of India under the Chairmanship of Shri K. N. Ardhanareeswaran. The Committee in its report submitted in 1987 examined various State Co-operative Acts and made the following observations:

The existing Co-operative Societies Act contains provisions which militate against the democratic character and autonomy of co-operatives.
Over the years, the Registrar has acquired undue powers in the management of the co-operatives which should be curtailed.

The role of the Registrar should be made more positive and he should be looked upon as a development agent.

The federal co-operative societies should play a more active part in the developmental functions relating to promotion, organisation, proper functioning and growth of the affiliated co-operative societies.

The changing complexities of member management, human resource development and financial management have necessitated availability of professional assistance to co-operatives through adequate trained and professional staff on appropriate terms working under the general guidance of a democratically elected body.

The Report of the Committee was sent to the State Governments for their consideration and for implementation of the recommendations. However, the response was not encouraging and the recommendations made in the Report could not be implemented. Subsequently, the Government of India constituted the Committee on Model Co-operative Act under the Chairmanship of Choudhary Brahmp Perkash to have a quick review of the status of co-operatives and to formulate a Model Co-operative Law. The Committee submitted its Report in May 1991, which contained a Model State Co-operative Societies Bill.

The Model Bill sought to check the influence/interference of the State Governments on the functioning of the co-operatives as evident from the provisions contained therein which gave no power to the Registrar or Government for supersession of the Board of Directors, compulsory amalgamation or division of co-operatives, compulsory amendment of byelaws, voting of resolutions, issuance of
directions etc. The Model Bill also prohibits co-operatives from accepting funds from the Government by way of equity. The Model Bill was circulated amongst the State Governments in September 1992. However, most of the State Governments did not yet initiated action on this Report.

As the absence of democratisation lessens the participation and involvement of the members in the affairs of the society, restoration of the democratic character has been one of the important action points of the MoU executed by the State Governments/Banks with the NABARD.

6.4g Human Resource Development

One of the areas in the co-operative credit institutions which requires greater attention is the development of human resource. Lack of professionalism in management, deficiencies in training imparted, absence of proper systems for recruitment, etc., underline the necessity for conscious HRD efforts in co-operative credit institutions to improve the quality of their personnel. These issues/deficiencies though identified did not often receive a comprehensive treatment. Since no worthwhile attempt appears to have been made to address these aspects, NABARD intends to support studies on these aspects in different states to facilitate preparation of a time-bound action plan to contribute to the human resource development efforts of these institutions.

6.5 Current Policy Initiatives by NABARD

There is no gainsaying the fact that the institutional development efforts hitherto did not get fully translated into creating viable and healthy rural credit institutions. The complexities associated with the working of co-operative credit institutions, notably the absence of truly democratic management, vulnerability to
political pressures, general lack of earnest governmental actions, inability of the credit institutions to mobilise deposits and consequent vertical dependence on higher tier institutions, inadequate margin on loaning operations and high transaction cost disproportionate to the level of business, poor recovery efforts and vitiated recovery climate due to across-the-board loan/interest waiver schemes, etc., have constrained them from measuring up to the expectation of the apex institutions like RBI and NABARD. The experience over the years has shown that while a set of problems was being attended to, other problems kept surfacing. Similarly, while a group of weak institutions was being nursed, yet another group of institutions kept slipping into sickness.

Such a situation is hardly conducive to building an effective credit delivery system, especially in the context of the emerging competitive environment in the wake of the financial sector reforms launched by the Government of India and RBI. There is an imperative need, therefore, for the Co-operative Banks and RRBs to be sensitive to concepts of cost-effectiveness, commercial-orientation, and professionalism in management, accountability, etc. To bring about such a sensitivity, a 'total diagnosis' of all the ills of these institutions is called for. It is recognised that any programme evolved after such diagnosis, should encompass the critical minimum effort' that will attack simultaneously all the crucial factors that impinge on the viable functioning of the Co-operative and Regional Rural Banks. The remedy to these problems ultimately lies in allowing these institutions to function truly as financial intermediaries based on market forces rather than compelling them into the role of mere instruments of credit delivery, dependent primarily on financial support from the higher financing agencies.
The institutions should, therefore, be left free in the first place to determine the terms of their own resources mobilisation and correspondingly those for lending and investment. This implies that the system should allow the institutions to devise their own policies for mobilisation of resources and deployment thereof on the most profitable lines. If this situation has to be brought about, the restrictions on the terms and conditions on which the institutions can tap the market for resources and deploy them will have to be removed. While a beginning has been made by freeing the interest rate structure in respect of deposits and lendings of co-operatives (with a minimum lending rate of 12%), a similar move is required for the RRBs as well. The commencement of the process of transformation of land development banks into resource based institutions from their existing status of channelising agencies for investment credit provided by higher financing agencies brooks no delay. The LDBs will have to be encouraged to formulate appropriate schemes for resource mobilisation by tapping the market. While these important issues are yet to be adequately addressed at the macro level for enabling the rural financial institutions to assume the role of real financial intermediaries, a number of measures have been initiated by NABARD for revamping these institutions.

The concern of the GOI and NABARD about the restoration of the financial health of these institutions culminated in the budget proposals for the years 1994-95 and 1995-96 requiring the Co-operative Banks and State Governments to enter into MoU with NABARD based on state-specific Development Action Plan (DAPs) to be prepared by them. Similarly, in the case of RRBs, they were required to enter into MoU with their sponsor banks. In the first phase, 50 of the 196 RRBs, from all over the country, were required to be taken-up for comprehensive restructuring during the year 1994-95 based on certain financial norms/parameters subject to regional representation and geographical distribution. Accordingly, 49 RRBs have been finally
taken up for the comprehensive restructuring during 1994-95. Another set of about 50 RRBs will be taken up for restructuring during the year 1995-96.

Based on the detailed guidelines issued for the purpose by NABARD, DAPs have been prepared by all the co-operative banks and the RRBs identified for comprehensive restructuring. MoU at the State level have been executed in regard to 23 out of 28 SCBs and 18 out of 20 SLDBs and all the 49 RRBs. The initial results shown by these institutions have been encouraging. Many institutions have recorded significant progress in improving, among others, their loaning and recovery performance and reducing their operating losses and some of them even turning around. The various components of DAPs and MoU in regard to the co-operatives and RRBs are discussed below separately.

6.5a Co-operatives

In order to improve the long-term viability of co-operative credit institutions, NABARD has initiated the process for drawing up DAPs for the district level co-operative credit institutions. Similarly, State Action Plans (SAPs) incorporating the action points emanating from DAPs for the apex level institutions are also being prepared. These Plans are intended to be implemented through the mechanism of tripartite MoU to be entered into by respective state level banks and State Governments with NABARD. Separate MoU are envisaged for the short-term and the long-term co-operative credit structures.

6.5b Development Action Plans

The basic philosophy of the DAPs is to prepare institution-specific action plans, taking into account their strengths and weaknesses, diagnosing the past and looking into the future, anticipating course of events and preparing coping strategies,
the implementation of which would improve their viability. In order to assess the
viability status of the institutions, a thorough analysis of the various aspects such as
financial, organisational, systems and procedures and human resource development
having a bearing on the viability of the credit institutions is envisaged. On the basis of
such an analysis, the factors that affect the viability of the banks are identified and
specific remedial measures are chalked out. A distinctive feature of the preparation
of DAP is the break-even analysis of the credit institutions carried out for projecting
the year-wise growth in loans and advances and level of recovery to be achieved,
besides other performance obligations which would enable the banks to attain
viability within the specific time frame.

The DAPs contain realistic projections for growth in the operations of the
institutions, based on the past performance, potential available in their area of
operation and their capability to exploit such potential. Further, the magnitude of
accumulated losses and bad and doubtful debts and other unrealisable assets is also
expected to be estimated on a realistic basis through the exercise of DAPs. This is
an important component of the entire exercise, which should be kept in view while
devising a package of time-bound measures for enabling the co-operative institutions
to attain not only current but sustainable viability as well.

The PACs and other ground level co-operative institutions such as weavers’
societies, marketing societies, industrial societies, etc., are the constituents through
which the DCCBs operate. Similarly, the PLDBs or the branches of the SLDBs
constitute the units in the lower tier for credit planning and disbursement in the Long-
Term structure. In view of this, it has been envisaged that the DAPs would be
prepared on a “bottom up” approach, planning for improving their financial viability
based on available potential and their past performance. The DAPs are also
envisaged as "Rolling Plans" whereby the projections for ensuing year are revised, if necessary, at the end of every year based on the projected/actual achievements during the year and the growth rate projected for subsequent years.

6.5c State Action Plans

As the different tiers of co-operative institutions have a high degree of inter-dependence and mutual interest, it was considered appropriate for the apex institutions such as the SCBs and SLDBs to prepare a State Action Plan incorporating therein the action points emanating from the DAPs of affiliated co-operative units at the lower tiers.

6.5d Guidelines for the Preparation of DAPs/SAPs

With a view to facilitating the preparation of DAPs/SAPs by the co-operative credit institutions, detailed guidelines, with illustrations, to work out break-even level of business and other parameters were prepared by NABARD and circulated to the credit institutions in the short-term and long-term co-operative credit structures, in March 1994. Since this exercise was the first of its kind, NABARD also provided necessary guidance and support to the SCBs/SLDBs to ensure preparation of DAPs/SAPs on soundlines.

6.5e Memorandum of Understanding

The performance obligations on the part of the co-operative credit institutions and the State Governments arising out of the DAPs/SAPs of the short-term and long-term credit structures would form the basis of the MoU to be entered into by the Apex level co-operative banks (SCBs/SLDBs) and the State Governments with NABARD. In view of the involvement of many agencies and their inter-dependence, it would be
necessary for each agency to fulfil its commitment adhering to the time frame to make the action plans effective. The Memorandum of Understanding seeks to ensure such commitment. Separate MoU is also required to be entered into between the SCB and each of the affiliated DCCBs as well as between the SLDB and each of the affiliated PLDBs in the States where federal co-operative credit structure exists.

6.5f Monitoring of MoU

The realisation of the objective of this exercise is to strengthen the co-operative credit institutions which largely depend upon effective monitoring of the implementation of Memorandum of Understanding by the concerned State Governments, the SCBs, the SLDBs and NABARD. A self-propelled mechanism for monitoring the implementation of DAPs/SAPs and MoU has been evolved in terms of which Review and Monitoring Committees are required to be constituted both at the state and district/zonal levels chiefly consisting of senior level officers of the State Governments (APC or Secretary, Co-operation), co-operative credit institutions, RBI (RPCD) and NABARD to review periodically the progress of action taken as required under the DAPs and MoU and to effect mid-course corrections, if necessary.

6.5g Financial Package for Co-operative Banks

The DAPs prepared by the co-operative banks have shown that many of the banks would not be in a position to attain sustainable viability because of heavy accumulated losses and other loss assets. The quantum of resources required to cleanse the balance sheets of the co-operative credit institutions, both under short-term and long-term structures, have been tentatively estimated to be of the order of
Rs.2,800 crores. While this estimate needs to be reassessed precisely, after a thorough analysis of balance sheets of co-operative credit institutions as at the end of March 1995, a suitable mechanism for mobilisation of resources required for the purpose from within and outside the system needs to be evolved urgently.

6.5h Co-operative Development Fund

In the course of implementation of various rehabilitation programmes, it was realised that the co-operative institutions may not be able to implement certain measures such as professionalisation of management, improving recovery climate, augmenting the productivity of human resources, streamlining the systems and procedures, building-up of proper Management Information System, providing adequate training facilities, etc., without external assistance in revamping the co-operative organisations, as part of its institution-building role, has been engaging the attention of NABARD for long. As a sequel to the recommendations of the Parliamentary Committee on Agriculture (1992), NABARD has established the "Co-operative Development Fund" during the year 1991-93, with an initial corpus of Rs.10 crores. A further sum of Rs. 20 crores was added to the corpus of the fund from out of the operational surplus of NABARD during the year 1993-94.

The broad objectives of the Fund are to support (i) the efforts of the ground level credit institutions (PACS) to mobilise resources, etc., (assistance from the Fund may also be extended on a selective basis to weak DCCBs for the purpose), (ii) the human resource development aimed at achieving better working results and improvement in viability and also for introduction of and improvements in the systems
obtaining in the co-operative credit institutions, (iii) building up better Management Information System (MIS), and (iv) conduct of special studies for improving functional efficiency and on items referred to at (i) to (iii) above. As at the end of March 1995, a total assistance of Rs.907 lakhs has been sanctioned to 11 SCBs and 10 SLDBs for various purposes.

6.51 Regional Rural Banks

The viability of RRBs has remained a matter of concern since their very inception. The functioning of RRBs has been the subject of study by different Working Groups/Committees from time to time, viz., Working Groups under the Chairmanship of Prof. M.L. Dantwala (1977) and Shri K.M.Kelkar (1984), CRAFICARD (1979), ACRC (1989) and recently by the Committee on Financial Sector Reforms (1991). These Working Groups and Committees made several recommendations to improve the viability of RRBs. While the ACRC favoured the merger of RRBs with their sponsor banks, the Narasimham Committee recommended constitution of rural subsidiaries.

The viability of RRBs had been affected by certain inherent factors such as the stipulation of lending to only target group (weaker sections of society) at directed low lending rates which restricted the scope to earn higher margin, poor quality of loans, location of branches at centers with limited potential, keen competition from branches of commercial banks and co-operative banks, etc. Moreover, the financial burden on the RRBs increased substantially from September 1987, with the implementation of NIT Award.
6.5j Restructuring of Regional Rural Banks

At the instance of Government of India, the Reserve Bank constituted in April 1994, a Committee on Restructuring of RRBs headed by Dr. M.C. Bhandari, Chief General Manager, NABARD, to spearhead the process of laying down the norms/parameters for identification of RRBs to be taken-up for comprehensive restructuring and identifying RRBs on the basis of definite financial norms/parameters subject to regional representation and geographical distribution. Accordingly, the Committee had identified the first batch of 49 RRBs for comprehensive restructuring.

Keeping in view the recommendations of the Committee, the GOI decided to provide an amount of Rs.300 crores, through the capital route, to the RRBs. The amount was to be contributed by the GOI, sponsor banks and the State Governments in the proportion of their share holding. While the shares pertaining to GOI and sponsor banks have already been passed on to the RRBs, the State Governments have yet to release their share. The exact amount of assistance required for cleansing of the balance sheets of RRBs would however, be known only after a detailed analysis of their non-performing assets. In some cases, a second dose of assistance may also be called for. It is heartening to note that many of the identified RRBs will be in a position to attain current viability on stand-alone basis within a reasonable time-frame. However, the same cannot be said of some of the RRBs which were mandated to be included for restructuring mainly on account of considerations of regional representation and geographical distribution and do not show much promise based on their past record and future potential.
6.5k Special package of measures

The Committee on Restructuring of RRBs made wide ranging recommendations, among others, pertaining to:

(i) Selection of Chairman/CEO,
(ii) Delineation of the roles and responsibilities of the different agencies supervising the work of RRBs,
(iii) Staff matters,
(iv) Return on SLR Funds with sponsor banks,
(v) Improving the return on non-SLR surplus funds,
(vi) Augmentation of share capital,
(vii) Expansion of existing avenues of business,
(viii) De-regulation of interest rates,
(ix) Funds management,
(x) Rationalisation of branch licensing policy, etc.

Most of these recommendations have either been implemented or are in the process of implementation by the concerned agencies. Some of the vexed issues such as those relating to staff matters are, however, under the active consideration of the concerned agencies. Recently, an expert group has been constituted by RBI under the chairmanship of Dr. N.K. Thingalaya, Chairman and Managing Director of Syndicate Bank, with NABARD as Convenor, to examine all policy issues emanating from the comprehensive restructuring of RRBs on an on-going basis, to make specific recommendations on all such issues and report the progress on restructuring exercise to RBI at quarterly intervals.
6.5i Organisational Development Initiatives

The Committee on Restructuring of RRBs placed special emphasis on skill-upgradation of the personnel of RRBs. Effective implementation of the turnaround exercise would call for an attitudinal re-orientation of the RRB personnel, which is sought to be addressed through a unique intervention strategy, viz., Organisational Development Initiatives (ODI). This strategy is proposed to be implemented by NABARD, through BIRD for RRBs (and the NABARD Staff College for the co-operative credit institutions), in a package approach involving training and consultancy encompassing dialogues within and among RRBs. Sensitisation of the Chairmen and General Managers of the selected 49 RRBs has already been done as part of the intervention strategy.

6.5m National Consultation on Issues on Rural Credit

In order to discuss the issues relating to the viability of rural credit institutions, recovery performance and credit innovations, the RBI and the NABARD had jointly organised a two-day National Consultation on Rural Credit in September 1994, in which a select group of economists, administrators, bankers, representatives from co-operative institutions, government and NGOs participated. The general view in the meet was that credit institutions must be allowed to charge interest rates commensurate with the cost of raising resources and transaction costs. The RBI as part of its credit policy had announced in October 1994 partial deregulation of interest rates on advances by banks (including co-operative banks) with a floor level. The participants also highlighted the structural weaknesses in the co-operatives, more particularly in the PACs, and the lack of leadership. The need for ensuring the functioning of the co-operatives, bereft of political influences and excessive
interference or bureaucracy, was also emphasised. On the role of NGOs and Self-Help Groups (SHGs), the participants were of the opinion that they should act as facilitators in ensuring accessibility of the poor to the credit institutions and should not supplant the existing credit delivery structure.

6.5n Applicability of Capital Adequacy and Income Recognition Norms to Co-operative Banks

Following are the recommendations of the Narasimham Committee on financial sector reforms which inter-alia recommended adoption of capital adequacy norms by commercial banks, the RBI prescribed in April 1992, a phased time-table where under commercial banks with international presence are supposed to maintain the internationally accepted minimum capital adequacy norm of 8 per cent by March 1995 and others by March 1996. In this context, RBI introduced certain income recognition, asset classification and provisioning norms on a prudential basis for commercial banks from the year 1992-93. The main consideration for the introduction of these prudential norms is that a bank's balance sheet should reflect its actual financial health. Therefore, a policy of income recognition based on a record of recovery rather than on any subjective consideration has been prescribed by RBI along with the system of classification of assets, which again is based on objective criteria ensuring a uniform and consistent application of the provisioning norms.

The applicability of the norms of capital adequacy, income recognition, provisioning for bad and doubtful assets, classification of assets and other related norms to co-operative banks was taken-up for discussion in the Seminar of Chairmen of SCBs held on 17 August 1993. Pursuant to the views expressed therein, an Informal Working Group headed by a CGM, NABARD, and with members drawn from the SCBs of Gujarat, Kerala and Maharashtra, and Officers-in-charge of Inspection
and Institutional Development Departments of NABARD was constituted. The application of capital adequacy, income recognition and other related prudential norms to co-operative banks was welcomed unanimously as the Group felt that co-operative banks, in no way, could be classified as second class banking institutions. However, in view of the diversity in the structure and operations of the co-operative banks, as compared to the commercial banks, the Group was of the view that the norms of co-operative banks should be evolved in a manner suitable to their functioning.

Meanwhile, the exercise of subjecting the SCBs to the concept of capital adequacy norms was set in motion by the Reserve Bank of India. As the policy of income recognition is based on record of recovery and other objective criteria ensuring a uniform and consistent application of the provisioning norms, it was felt necessary for all the co-operative banks to be well-versed with various concepts and methodology involved. Accordingly, the RBI advised the SCBs in September 1994, to draw up a dummy balance sheet based on the actual financial accounts for the financial year ending 31 March 1994 after giving effect to income recognition, asset classification and provisioning norms and also prepare a statement of capital funds, risk assets/exposures and risk assets ratios as per the guidelines issued by it. A two-day workshop (on 15 and 16 November 1994) was also arranged by the National Federation of State Co-operative Banks (NAFSCOB) for the purpose. The preparation of dummy balance sheets and relevant statements on capital funds etc., will facilitate assessment of the impact of application of these norms on the financial position of the SCBs. Since the co-operative banks form an important segment of the banking system in the country, they have to be conscious of the need to adopt capital adequacy and related norms in the interest of their financial health, though with due regard to their structural and operational features which are different from those of commercial banks.
6.5o Deregulation of Interest rates for RRBs

As per the mandate of financing to target group (i.e. weaker sections of the society), the advances portfolio of the RRBs consisted till recently almost exclusively of small loans mostly below Rs.25,000/-. RRBs charge minimum stipulated fixed interest rate of 12 per cent applicable to such loans falling under the lowest interest slab, restricting the scope to earn higher level of income. They have been allowed to finance non-target groups also with effect from 12th September 1992, subject, however, to the ceiling of 40 per cent of their fresh lending which was increased to 60 percent effective from 1st January 1994. While the financing of non-target group by the RRBs is yet to pick up to an appreciable level, such financing extended so far largely falls under the slab of loans up to Rs.2 lakhs carrying a rate of interest of 13.5 per cent only. The prospect of RRBs securing substantial cross-subsidisation through big advances also does not appear to be bright in view of several other factors including the area of their operation. Thus, one of the prime reasons for poor profitability of RRBs, viz., inadequate financial margin is likely to persist unless measures for reduction in the transaction costs are also initiated simultaneously and they are enabled to increase their interest spread through further deregulation of the present interest rate regime.

Deregulation of interest rates with the prescription of a minimum lending rate is being advocated as a means for increasing the financial margin of the RRBs. There is also a considered view that timeliness in disbursement and adequacy in quantum of credit are far more important than any concession in interest rates. Keeping in view the experience of the co-operative banks in regard to deregulation of interest rates, a suitable policy framework in regard to RRBs also needs to be evolved.
6.6 Challenges of Institution Building

An effective rural credit delivery system is a *sine qua non* for the smooth flow of credit for agricultural and rural development. The process of institutionalisation of rural credit had two distinct phases, the first was expansion of the network of branches in order to improve the access of the rural population to institutional credit and other banking facilities even in the remotest parts of the country, while the second was transformation of these institutions into organisationally strong, financially viable and operationally efficient units. Institutionalisation of rural credit has been achieved to a large extent with the ubiquitous multi-agency institutional arrangements for provision of credit for agriculture and rural development. The second phase of institutional development witnessed several initiatives taken by RBI and NABARD for the rehabilitation of weak units in the co-operative sector. These included a 12-Point Programme for rehabilitation of weak DCCBs, 15-Point Programme for rehabilitation of ground level co-operative institutions, 10-Point Programme for rehabilitation of weak PLDBs and lastly, the institutional strengthening programme covering 'non-solvent' and 'near-non-solvent' banks. While the first three programmes were not able to make any serious impact on the working of the weak units mainly because of lack of adequate resources support, and low recoveries, the fourth programme viz., institutional strengthening programme was a non-starter as it did not find favour with the State Governments mainly due to their inability to fund their share as envisaged under the programme. However, the latest initiative taken by NABARD for revamping both the co-operatives and RRBs, through DAPs and MoU, has received a much greater impetus with the reforms initiated in the financial sector by the Government.

The current initiative for strengthening the RRBs through restructuring and infusion of capital to cleanse their balance sheets, hinges primarily on the earnestness with which the State Governments, the sponsor banks and RRBs
themselves implement the key action points incorporated in the MoU. During the restructuring process of RRBs, several issues particularly relating to staff matters, return of SLR and non-SLR funds, interest rates and margins, branch licensing policy, expansion of business avenues and multiplicity of agencies exercising control over the working of RRBs, have come to fore. It is hoped that the Expert Group recently appointed by RBI to look into all such problems, on an on-going basis, will help in resolving these issues with positive approach and active support of all the concerned agencies.

The success of the current initiatives for strengthening the co-operatives through DAPs/SAPs will largely depend on the seriousness with which certain vital issues affecting their working are addressed to. They relate to recovery, resource mobilisation, operational efficiency, productivity improvement and cost effectiveness, which would determine the viability of their operations. Business diversification, broadening and deepening of credit along with the quality of service offered to farmers are equally important in the changing economic environments. Human resource development and systems improvements also deserve focused attention. The problem of carry over of accumulated losses and loss assets has also to be tackled through evolving a suitable mechanism for mobilisation of resources required to cleanse their balance sheets.

The co-operatives, as they are conceived, have to be run by democratic managements so that they can truly function as people’s institutions and meet the aspirations of the people for whom they are established. The Model Co-operative Societies Act, proposed by the Committee under the Chairmanship of Choudhary Brahmap Perkash seeks to achieve this objective. With a view to facilitating the democratisation process it would be necessary to enact legislations on the lines of the
Model Act, albeit, with relevant modifications to suit local conditions. The recent initiatives taken by the Government of Andhra Pradesh for introducing the bill for enactment of the 'Andhra Pradesh Mutually Aided Co-operative Societies Act, 1995' is a welcome attempt to provide for the voluntary formation of co-operative societies as accountable, competitive and self-reliant business enterprises, based on thrift, self-help and mutual aid and owned, managed and controlled by members for their economic and social betterment.

The importance of a dynamic and highly motivated leadership in the development of co-operatives can hardly be overemphasised. The 'peer influence' has, indeed, been the desideratum in motivating the members to involve themselves in the development of their co-operatives. The pre-eminent position of many of the co-operatives, especially in the states of Gujarat and Maharashtra could be attributed largely to the good and strong leadership provided by the non-official cooperators. Increasing officialisation and progressive politicisation of the co-operatives have caused greater damage to the concept of cooperation by stultifying leadership, generating members' apathy and curbing local initiatives at the grass-root level. Steady de-politicisation, combined with the renewed capacity of non-official elected leadership to rise above political persuasions, is imperative to motivate the members to take price in the success of their co-operative institutions. To recapture the spirit of cooperation, a climate conducive to democratic governance and development of strong co-operative leadership needs to be achieved. While adoption of the Model Co-operative Societies Act, would bring about greater democratisation and minimise interference in the functioning of the co-operatives, a suitable strategy for transforming the co-operative leadership into a real 'peer', through suitable training
programmes, publication of pamphlets/books in local language etc., for the benefit of non-official office-bearers of co-operatives needs to be evolved.

The recent deregulation of interest rates places the onus of determining the interest rates to be charged by co-operatives on their managements. The co-operative banks are free to fix the rates of interest on their lendings (with a floor rate of 12 per cent) to have adequate margin with a view to meeting their operational cost and leave sufficient margin. This does not, however, mean that there is an unlimited scope for them to charge any rate of interest. The rate of interest to be charged to ultimate borrowers should be reasonable from the viewpoint of farmers' interest and viable from the viewpoint of viability of credit institutions. Further, sharing of margin among different tiers of the co-operative structure should also be fair to ensure that the co-operative institutions under all tiers function on a viable basis. Similarly their lending rates as also deposit rates are to be recognised.

In the long-term perspective, though the commercial banks are expected to meet their share of growing demand for rural credit, the co-operatives and RRBs which enjoy a pivotal position with a good network of branches in rural areas will have to shoulder a major responsibility in the supply of rural credit. And, therefore, these institutions need to be adequately strengthened, to enable them to play an effective and meaningful role in meeting fully the credit demand of the rural credit.

In this context, it is worthwhile recalling the observations of the All India Rural Credit Survey Committee, also known as the Committee of Directions (1954), that "our principal recommendations are vitally related to one another and together form a
unit of policy and action, from which no main component may be removed without imperilling the whole*. These observations would be appropriate to the current initiatives of NABARD too.

To sum up, institutional development, in a sense, is a continuum, a long distance, in terms of time and the objective of creating a healthy credit delivery system. They already been traversed. A lot has been done. Yet, the agenda is far from complete.