Introductory Note

Draft Report of the Task Force on Revival of Rural Cooperative Credit Institutions (Long Term) – Vaidyanathan Committee

Concerned with the deteriorating health of rural cooperative credit institutions, GoI appointed a Task Force under the Chairmanship of Prof. A Vaidyanathan, in August 2004, to suggest an implementable action plan for their revival. The Committee had submitted its report on Short Term Cooperative Credit Structure during February 2005. Based on the statement of consensus arrived in consultation with State Govts, a revised package amounting to Rs.13596 crore had been recommended. The Package has received the Cabinet approval recently. It is expected that the process of implementation of the Package will take off shortly.

Consequent upon submission of report on Short Term Cooperatives, the GoI had entrusted the work of suggesting an implementable action plan to revive the Long Term Cooperative Credit Structure also to the Vaidyanathan Committee, inter alia, with the following Terms of Reference.

(i) Assess the plans and performance of co-operative Agricultural Rural Development Banks / Land Development Banks and other major components in the overall system.

(ii) Recommend an implementable action plan for reviving Agriculture and Rural Development banks engaged in long term lending for agriculture and rural development and make an assessment of the financial assistance required for such revival, its mode, sharing pattern and phasing

The Committee has since submitted its report on Long Term Cooperative Credit Structure to the Union Finance Minister on 29 December 2005. The draft report has been placed on the public domain on the following websites-

i. www.finmin.nic.in
ii. www.rbi.org.in
iii. www.nabard.org

All stakeholders may peruse the report and provide their valuable suggestions / observations / comments on the draft report. The responses may be e-mailed to us by 21 January 2006 at nabmd@bom5.vsnl.net.in or taskforcecoops@gmail.com or taskforceoncoops@sify.com or sent to NABARD at the following address –

The Managing Director
NABARD
Head Office
C-24, G Block,
Bandra Kurla Complex
Bandra (East)
Mumbai 400051

Draft Report of the

Task Force

on

Revival of Rural Cooperative

Credit Institutions (Long Term)

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CHAPTER I

Introduction

1.01 The Government of India's (GOI) concern at the decline in the share of cooperatives in rural credit and the impairment of the cooperative credit structure on financial, governance and other fronts, prompted the setting up of a Task Force. The Task Force, vide notification dated 5 August 2004, was entrusted with the task of suggesting an implementable action plan for reviving the rural cooperative credit structure (CCS).

1.02 In its first report, the Task Force had dealt only with issues relating to the restructuring of the short term cooperative credit structure (STCCS) for lack of time. It had however, recommended that the Union Government consider setting up a Committee to examine issues pertaining to the long term cooperative credit structure (LTCCS) and suggest ways to revive the system.

1.03 The GoI concurred with the recommendation and vide orders dated 31 January, 2005 and 25 April, 2005 (Annexure 1.1 & 1.2) entrusted the same task force with the task of inter alia, suggesting a workable action plan for reviving the LTCCS. The Terms of Reference (ToR) of theTask Force were as follows:

i. Review the present system of Long Term Lending for Agriculture and Rural Development
ii. Assess the plans and performance of Cooperative Agricultural Rural Development Banks/Land Development Banks and other major components in the overall system.
iii. Suggest a comprehensive strategy for institutional financing of Long Term Agriculture and Development Investment and the kind of role the cooperative structure can play in implementing that strategy in consonance with prudent financial management.
iv. Recommend an implementable action plan for reviving Agriculture and Rural Development Banks engaged in long term lending for agriculture and rural development, and make an assessment of the financial assistance required for such revival, its mode, sharing pattern and phasing.

1.04 It is important to note that unlike the ToR for the STCCS, which were specific and confined to reviving of the STCCS, the ToR for the present Task Force are broader in scope. They call for a comprehensive strategy for institutional financing of long term investment for agricultural development and the role the cooperative credit structure can play in implementing that strategy in consistence with prudent financial management.

1.05 The Task Force comprised the following:

Chairman

Prof. A. Vaidyanathan

Members

Prof. M. S. Sriram, Indian Institute of Management, Ahmedabad

Shri A. K. Singh, Additional Secretary, Ministry of Agriculture, Department of Agriculture and Cooperation (nominated by the Union Ministry of Agriculture, Government of India)

Smt. Madhur Sarangi, Principal Secretary, Cooperation, Government of Orissa (nominated by the Government of Orissa)

Shri L. M. Chaube, Managing Director, U.P. State Cooperative Bank (nominated by the Government of Uttar Pradesh)

Shri U. C. Sarangi, Principal Secretary to Hon'ble Chief Minister of Maharashtra (nominated by the Government of Maharashtra)

Shri M Rama Reddy, President, Sahavikasa Cooperative Development Foundation, Hyderabad

Member Secretary

Shri Y. S. P. Thorat, Managing Director, NABARD

Permanent Invitees

Shri A. V. Sardesai, Executive Director, RBI, Mumbai[1].

Shri K. D. Zacharias, Legal Advisor, RBI, Mumbai.

Co-opted Member

As required by Clause b (ii) of the Government Order referred to *ibid* the Task Force co-opted Dr Amrita Patel, Chairman, NDDB as an additional member at its second meeting held on 25 February 2005.

[1] Shri A V Sardesai retired from the RBI on 30.09.2005. He however, continued on the Task Force as a Permanent Invitee vide GoI's order dated 26.10.2005. In terms of letter RPCD.CO.RF.No.514/ 07.38.03/2005-06.dated 31 October 2005, RBI has indicated that Shri A.V. Sardesai would continue to assist the Task Force supported by Shri K.Bhattacharya.

Shri Rama Reddy did not attend any meeting of the Task Force nor did he respond to any of the material sent to him.

1.06 In its first meeting, the Task Force considered various issues pertaining to its approach and methodology. The Task Force noted that the RBI, vide its order dated 24 January 2005, had constituted an Expert Group under the Chairmanship of Shri Y.S.P.Thorat, Managing Director, NABARD to suggest a road map for increasing investment credit to agriculture in a time bound manner. It was felt that the work of the Expert Group would be a useful input for the Task Force.

1.07 The Task Force noted that the strength and weaknesses of cooperative term lending credit institutions and measures to address them had been studied by several earlier committees, prominent among which are:

- All India Rural Credit Survey Committee (Gorwala Committee,1954)
- All India Rural Credit Review Committee (Venkatappaiah Committee, 1969)
- Committee on Cooperative Land Development Banks (Madhava Das Committee, 1974)
- Committee for Integration of Cooperative Credit Institutions (Hazari Committee, 1975)
- Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) (Sivaraman Committee, 1981)
- Agriculture Credit Review Committee (ACRC) (Khusro Committee, 1985)
- Study Group on Deposit Mobilisation by ARDBs (Bhandari Committee, 1996)
- Task Force to study the functioning of Cooperative Credit System and Suggest Measures for its Strengthening (Capoor Committee, 2000)
- Expert Committee on Rural Credit (Vyas Committee, 2001)
- Joint Committee on Revitalisation Support to Cooperative Credit Structure (Vikhe Patil Committee, 2001)

1.08 The Task Force reviewed the reports of these Committees and their recommendations. Concurrently, it collected information on salient financial and operational aspects of the LTCCS from published and readily available sources. Since these proved inadequate, further information on selected aspects of governance, personnel and portfolios of the LTCCS was obtained from the National

Cooperative Agriculture and Rural Development Banks Federation (NCARDBs' Federation) and from NABARD. These data were analysed for an up-to-date picture of the current status and recent trends in the performance of the system and its constituents.

1.09 The Task Force was required to submit its report by 30 June 2005. Concurrence of the Government of India was, however, obtained for an extension of the deadline for submitting an interim report followed subsequently by the main report. Accordingly, this interim report deals with the restructuring of the LTCCS. The report reviews the status of the system, the impairments within it and suggests a workable action plan for its restructuring. Part II of the report, dealing with the broader issues relating to LT investments for agriculture will be submitted subsequently.

1.10 The Task Force met on 11 occasions in different parts of the country. It had on those occasions, the benefit of presentations made by and interactions with a wide cross-section of senior officials of State Governments, Presidents, Board of Directors, Chief Executive Officers and other officials of the LTCCS, leading cooperators, representatives of trade unions of employees of cooperatives, academics, representatives of non government organisations (NGOs) and senior officers from NABARD. The details of venues and dates of meetings are indicated in Annexure 1.3. The list of invitees is furnished in Annexure 1.4.

1.11 These consultations provided the Task Force with an insight into the qualitative aspects of the functioning of LTCCS including governance, management, the role of the State Governments, etc. It also enabled the Task Force to get diverse views on the revival and revitalisation of the LTCCS.

1.12 The Task Force records its appreciation and thanks to the State Cooperative Agriculture and Rural Development Banks (SCARDBs) across States and the primary banks affiliated to them, the Reserve Bank of India (RBI), NABARD, National Federation of SCARDBs, various State Governments and the numerous individuals and organisations who participated in the consultation meetings.

1.13 The Task Force also records its appreciation to the Secretariat provided by NABARD, consisting of S/Shri P. Mohanaiah, S. Muralidaran, J. D. Bhattacharjee, T. Ravichandran, D. V. Ramana Rao and to Ms Mina Anthony, Smt. S. Ananthalakshmi, Smt. Neha Oak, Shri Raju Perna and Smt. Bharti Jagasia, who provided excellent logistics support. Thanks are also due to Dr Prakash Bakshi, Shri J. R. Sarangal, Shri R. Amalorpavanathan, Shri M. Anandan, Ms Usha Ramesh from NABARD and Shri Pradeep Maria and Smt. Pragya Das from RBI. The report has been made possible by their efforts, sometimes beyond their call of duty.

A. Vaidyanathan
Chairman

M. S. Sriram
Member

A. K. Singh
Member

M. Sarangi
Member

L. M. Chaube
Member

U. C. Sarangi
Member

M. Rama Reddy
Member

Dr Amrita Patel
Member

Y. S. P. Thorat
Member Secretary

Chapter II

Brief History of the Long Term Cooperative Credit Structure (LTCCS)

2.01 The agricultural cooperative credit system in the country is more than a century old. As the cooperative movement spread, it became obvious that the resources mobilised by the societies could mostly be used for short term (ST) loans. The societies were not in a position to extend loans to farmers so that they may liquidate past debts, redeem their land and other assets from usurious moneylenders. Loans from cooperative societies were also not enough to enable farmers to improve upon their land and augment their incomes. It was felt that the long term (LT) loans that farmers needed for these purposes would have to be met by a separate set of institutions. This realisation led to the establishment of the cooperative land mortgage banks (LMBs) in the early 1920s. The first cooperative LMB was set up in Punjab in 1920, followed by two more in the Madras Presidency in1925[2].

2.02 Recognising the need for a separate set of institutions to cater for the long term lending requirements of farmers, Registrars of Cooperative Societies of various provinces held a conference in 1926. They felt that such institutions should be organised and functional under the Cooperative Societies Act. The role of LMBs was reviewed by the Royal Commission on Agriculture in 1926 and by the Indian Central Banking Enquiry Committee in 1931. Both these Committees emphasised the need for appropriate structuring of the LMBs, keeping in mind the need to ensure wide coverage and access to farmers, as well as sufficiently large operations needed for viability.

2.03 The major problem faced by the LMBs was raising resources to sustain LT lending on an appropriate scale and tenor. An effort was made to mitigate this problem by enabling LMBs to float debentures, but because of their scattered network and small scale of operations, they were not able to attract potential investors. The Townsend Committee appointed by the Madras Government to overcome these limitations of the LMBs, suggested setting up a Cooperative Central

[2] For detailed history of LTCCS up to 1975, refer to the Report of the Committee on Cooperative Land Development Banks (Madhavdas Committee), RBI, 1974

Land Mortgage Bank (CLMB). The CLMBs in Madras and Mysore were subsequently created in 1929. The 1930s saw the creation of three more CLMBs, viz., Bombay and Cochin in 1935, and Orissa in 1938. After a lull in the 1940s, ten more CLMBs were set up between 1950 and 1954. By the end of June 1954, there were nine CLMBs and 304 Primary Land Mortgage Banks in the country with a membership of 2.65 lakh.

2.04 The LMBs mushroomed, but unevenly among the provinces in terms of numbers, membership and the volume of lending. While LMBs were constituted and functioned under the cooperative societies Acts of respective states, their structure varied, with some states preferring a federal structure, some a unitary structure and a few, a mix of both federal and unitary features.

2.05 The highly uneven development of LMBs was highlighted by the All India Rural Credit Survey Committee (AIRCSC) in 1954. Reviewing the performance of LMBs and their role in the overall rural credit system, the Committee observed that "Land Mortgage banking has made little progress in India. Whatever development there has been is largely confined to Madras (including Andhra). Out of the 289 primary land mortgage banks, as many as 130 were in Madras.... More than half the states are without a single land mortgage bank." The Committee also noted the difficulties faced by the LMBs in raising resources through debentures even with government guarantee, and lack of coordination between the LT and ST CCSs. The Committee made several important recommendations in the organisation, resource mobilisation and functioning of the LT CCS, as indicated below:

- Each state should have a Central LMB (rechristened as Land Development Bank)
- To make their debentures more liquid and marketable, the tenor of debentures should be for varying periods rather than the 20 year tenor that was common at the time,
- Establishment of primary LMBs should be encouraged to increase their reach and accessibility to farmers, albeit in a gradual and considered fashion

- To ensure that there is an LT outlet in every district, central LMBs should set up district level branches or LT sections should be created in the Central banks or the branches of the apex bank, and
- State governments should be active partners in both the LT and ST cooperative credit societies.
- To augment their resources, LMBs should issue special type of debentures called rural debentures. The scheme was formulated by the RBI in November 1957 with the RBI contributing to a maximum of 2/3 rd of the issue.

2.06 The Committee, while recognising that the ST and LT structures catered for different rural credit needs, emphasised the need for coordination between them. Significantly, the Committee even suggested that while maintaining their separate legal status, the two structures should consider having a common pool of administrative staff, common building wherever feasible, a common board, or at least boards with overlapping membership.

2.07 It further recommended a shift in the lending policies of LMBs. The Committee felt that even as the LMB evolved mechanisms for funding subsistence needs of the agricultural producer, the structure should devise alternative mechanisms for meeting other social and lifecycle credit needs. The focus of lending should be on increasing production. The STCCS should provide medium term loans (for 15 months to 5 years), leaving long term loans (5 to 15 years) exclusively to the LT structure.

2.08 The scale and tenor of resources that LMBs could raise did not allow financing development projects of long gestation on a large scale. Consequently, the AIRCSC recommended establishment of a separate institution which could provide LMBs the resources for long term lending to farmers for the development of agriculture. This recommendation led to the establishment of the Agricultural Refinance Corporation in 1963 and enabled the LT structure to expand rapidly and change from being land 'mortgage' banks to land 'development' banks (LDBs).

2.09 Between 1956 and 1970, the number of central LDBs increased from nine to 19, their membership increased from a mere 10,000 to about 10 lakh and the loans outstanding went up from Rs 13 crore to Rs 507 crore. Over the same period, the number of primary LDBs (PLDBs) grew from 304 to 809, their membership increased from about three lakh to nearly 20 lakh and outstanding loans went up from Rs 10 crore to Rs 367 crore. While the loan business of LDBs increased, the overdues in the structure also increased manifold.

2.10 The All India Rural Credit Review Committee (AIRCRC) of 1969 recommended provision for loans from the RBI to state governments for contribution to the share capital of PLDBs. This recommendation was accepted by the RBI and continued later by the ARDC and NABARD. Another recommendation of the AIRCRC was that Primary Agricultural Credit Societies (PACS) could be used as channels for providing long term credit as agents of the LDBs.

2.11 The LTCCS was next reviewed by two other Committees, one chaired by Shri K. Madhava Das (Committee on Cooperative Land Development Banks) in 1974 and the second by Dr R. K. Hazari (Committee on Integration of Cooperative Credit Institutions) in 1975. The Madhava Das committee, while endorsing diversification of lending operations of the LDBs to cover a broader range of productive activities in agriculture, emphasised the need for greater coordination with the short term structure and the line departments of state governments. This led to the renaming of the structure from LDBs to Agriculture and Rural Development Banks (ARDBs).

2.12 The Committee suggested special arrangements for providing LT credit in smaller states and states with relatively less developed cooperative credit societies. In smaller states, it recommended that instead of creating a separate LT structure, the existing ST structure be encouraged to provide long term credit. In states with poorly developed cooperatives (especially Assam, J&K, Tripura and West Bengal), it recommended integration of the ST and LT structures. The Hazari Committee also examined the viability of PCARDBs and suggested that a PCARDB should have a minimum loan business of Rs 35 lakh to be viable. The Committee did not agree with the recommendation of the AIRCRC that PACS should provide LT loans as agents of PCARDB. It felt that farming had become complex and modern technological methods had led to demand for investment credit for various purposes that the PACS would not be able to handle.

2.13 The Committee attributed the high level of overdues in the LT structure, which had grown from 11% in 1969 to 45% in 1973, to defective loaning policies. It said the overdues were an outcome of wilful default, large scale misuse of loans, ineffective field supervision and lack of concerted efforts and will on the part of banks' board of directors and staff to recover loans. It also observed that overdues were concentrated in loans extended to the bigger cultivators, with land of more than 10 acres. These features persist even today.

2.14 The Hazari Committee (1975) noted the increasing role of commercial banks in financing agriculture directly and indirectly through PACS. It emphasised the need for increasing the role of commercial banks and Regional Rural Banks (RRBs) in financing agriculture, especially because of their ability to provide both ST and LT credit. It sounded a note of caution on the viability of the LTCCS, and mentioned that although there is ample scope for lending by both cooperative banks and commercial banks, borrowers might prefer commercial banks because of the package of credit facilities offered by them. The Committee apprehended that wherever the share of commercial banks assumes much larger proportion than that of a PLDB in a taluk or district, the viability of PLDB could be adversely affected even though the viability of SLDB as a whole may be assured.

2.15 In view of the dual considerations of competition from commercial banks and to enable farmers to have easy access for all their ST & LT credit requirements, the committee strongly suggested the integration of the ST & LT structures. This, the committee felt, would enable greater access, correct imbalances in growth, increase business volumes and ensure greater viability of the cooperative institutions and help them to compete effectively with commercial banks.

2.16 In 1981, the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) not only approved the growing diversification in lending by the LT structure, but also recommended lending for non farm activities. The Committee did not, however, favour integration of LT and ST structures or making any significant change in the extant structure and operations of ARDBs. The Committee also recommended establishment of the National Bank for Agriculture and Rural Development (NABARD). The NABARD was set up in July 1982 by integrating the functions of Agricultural Credit Department

(ACD) and the Rural Planning and Credit Cell (RPCC) of the RBI and its wholly owned subsidiary, the Agricultural Refinance and Development Corporation (ARDC).

2.17 Between 1975 and 1985, the number of SCARDBs remained at 19, while that of PCARDBs under the federal structure increased marginally by about 10 percent. At the same time loans outstanding as well as fresh advances of SCARDBs more than doubled and increased nearly three-fold at the primary level. This growth in lending can be directly attributed to the availability of resources from ARC/ARDC and later from NABARD, as is evident from Table 2.1.

Table 2.1

Salient features of LTCCS from 1975 to 1985

(Rs. crore)

Particulars	Year		
	1975	**1980**	**1985**
SLDBs/SCARDBs			
Number	19	19	19
Membership (000)	3,018	2,652	3,314
Own Funds	134.32	279.63	434.02
Borrowings (including deposits)	1292.50	1936.00	2771.28
Loans issued	183.84	308.55	462.33
Loans Outstanding	992.54	1534.86	2411.24
% of overdues to demand	36	39	32
PLDBs/PCARDBs			
Number	872	896	889
Membership (000)	4,419	6,205	8,400
Own Funds	58.15	132.75	205.37
Borrowings(including deposits)	520.69	873.18	1455.57
Loans issued	111.18	205.78	325.02
Loans Outstanding	518.10	891.06	1504.11
% of overdues to demand	30	51	45

2.18. The growth in lending remained uneven across states as is reflected in the loans outstanding on 30.06.1986. The structure made considerable progress and was relatively strong in Andhra Pradesh (Rs 348.29 crore), Karnataka (Rs 226.04 crore), Maharashtra (Rs 356.28 crore), Punjab (Rs 185.90 crore) and Uttar Pradesh (Rs 332.33 crore). States like Assam (Rs 5.69 crore), Jammu & Kashmir (Rs 3.85

crore), Himachal Pradesh (Rs 5.74 crore) and Tripura (Rs 1.40 crore), however, continued to lag behind.

2.19 The Agriculture Credit and Review Committee (ACRC) set up in 1985, highlighted the uneven growth and diversity of the LT structure across states. This Committee did not favour integration of ST and LT structures. It noted that despite the AIRCSC recommendation that the system should eventually move towards a federal structure, the diversities within it continued. Only 10 of the 20 states had by then adopted a federal structure, eight had unitary structures and two had mixed structures with features of both federal and unitary structures.

2.20. The Committee noted that though the fresh loans issued grew satisfactorily during the decade 1975-76 to 1985-86, overdues also increased from 37.5% to 45% during the period. This trend coincided with the adoption of the multi-agency approach. Overdues continued to be a problem. Apart from drawing attention to the absence of a well-thought out personnel policy in the LT structure and increasing governmental interference in their operations, the Committee did not offer any suggestions to arrest this trend or the strategies that could be adopted under the new environment.

2.21. It may be observed from Table 2.2, that between 1985 and 1995, borrowings of the LTCCS increased by two and half times and owned funds (share capital and reserves) by nearly 200%. Total loans outstanding increased 2.8 times and the fresh loans disbursed more than trebled. At the PCARDB level, the policy of merging weak PCARDBs with strong ones, resulted in a reduction in their numbers from 889 to 757 and membership from 84 lakh to 54 lakh. However, fresh lending volumes more than doubled, and total loans outstanding increased by 80 per cent. The PCARDBs' own resources (share capital and reserves) increased by around 65%, but still constituted a small proportion (around 11 %) of their resources. The PCARDBs were not allowed to accept deposits and their borrowings consisted entirely of funds on-lent by SCARDBs. During this phase, the ratio of fresh advances to total outstanding also increased from about 20% to about 25%.

Table 2.2

Salient features of LTCCS from 1985 to 1995

(Rs. crore)

Particulars	Year		
	1985	**1990**	**1995**
SLDBs/SCARDBs			
Number	19	19	19
Membership (000)	3,314	3,646	4,793
Own Funds	434.02	651.64	1235.55
Borrowings + deposits	2771.28	4192.55	7215.71
Loans issued	462.33	742.64	1574.78
Loans Outstanding	2411.24	3899.21	6816.39
% of overdues to demand	32	50	33
PLDBs/PCARDBs			
Number	889	711	757
Membership (000)	8,400	7,483	5,353
Own Funds	205.37	256.75	339.88
Borrowings + deposits	1455.57	1857.58	2749.92
Loans issued	325.02	344.15	651.49
Loans Outstanding	1504.11	1879.75	2708.58
% of overdues to demand	45	69	48

2.22. The problems faced by the LTCCS in mobilising resources were looked into by the study group set up in 1996 to examine the scheme of 'Mobilisation of Deposits by ARDBs' under the Chairmanship of Dr M.C. Bhandari. The study group recommended that SCARDBs be allowed to mobilise deposits of a wider range and tenor as a supplementary source of funds for lending and to meet their interim finance needs. Other recommendations made by the Group included permitting ARDBs to issue Tax Free Bonds and Debentures, exploring the possibility of financing by public and private sector banks and DFIs and switching from debenture floatation to a loan system with the objective of obviating the need for Government Guarantee. The study group also recommended consortium financing with other banks, lending in the call money market and extending the provision of BR Act to ARDBs. The recommendations of the study group were quite radical and most of them were not implemented. Based on the recommendations of the group, though, SCARDBs, which met certain eligibility criteria, were permitted to mobilise deposits from the public for periods of not less than one year maturity.

2.23. A Task Force headed by Jagdish Capoor was set up in 1999 to study the functioning of the cooperative credit system and suggest measures for strengthening it. This Task Force recommended that ARDBs work as full-fledged banks under the BR Act, 1949. Wherever this was not possible, it recommended that a merger of the ARDBs with the ST structure be considered. This suggestion was supported by the Joint Committee on Revitalisation Support to Cooperative Credit Structure (Vikhe Patil Committee) in 2001. The recommendations of the committees have not been acted upon.

Refinance support

2.24 Till 1948, the RBI had not extended any refinance support to the LMBs. In 1948, the RBI commenced subscribing to the debentures floated by LMBs to the extent of 10%. This increased to 20% in 1950. In 1953, the GoI agreed to subscribe to the debentures to the extent of 20%. As much as 40% of the value of debentures floated by LMBs was then subscribed to by the RBI and the GoI. From 1967 onwards, state governments also started contributing to the debentures of LMBs.

2.25 Up to 1963, the resources for the LTCCS were largely met out of the National Agricultural Credit (Long Term Operations) Fund constituted and managed by the RBI. As this was not sufficient to meet the growing demand, the Agricultural Refinance Corporation (ARC) was set up in 1963 under a special statute as a wholly owned subsidiary of the RBI. The main objective of ARC was to grant medium and long-term credit by way of refinance for development of agriculture, by accessing resources from the market, including international agencies. Although primarily a refinancing agency, the ARC had from the very beginning assumed a developmental and promotional role. Recognising its promotional role, it was renamed Agricultural Refinance and Development Corporation (ARDC) in 1975.

2.26 Among the major policy decisions taken by the ARDC during the period was to increase the quantum of refinance to SCARDBs from 75% to 95%. It also opted to provide interim finance to help initiate their loaning operations and permitted SCARDBs to have an extended period of two years for redeeming debentures. Disbursements made by ARC/ARDC during the period 1963-1982 (20 years) to SCARDBs aggregated Rs 1,405 crore and constituted more than 50% of the refinance support extended by it to all rural financial institutions (RFIs). The ARDC also introduced project based lending in the LTCCS, in addition to lending to individual farmers outside the area based schemes

2.27 While the refinance support to SCARDBs from NABARD grew manifold during the period 1982 to 2004, other agencies viz., Commercial Banks, Regional Rural Banks and State Cooperative Banks were fast entering the field and expanding their operations. Consequently the share of NABARD refinance under investment credit to SCARDBs to total refinance fell from 47% in 1982 to 33% in 2004. Despite this fall in its share of refinance to the LT CCS, the outstanding support by NABARD to the LTCCS stood at Rs16, 000 crore on March 2004. The continuation of refinance support to the LT CCS, under a project based approach was a major contribution of NABARD during this period.

2.28. Even as the business volumes of the LTCCS grew manifold, their losses also continued to mount on account of poor recovery, increasing governmental interference, poor appraisal and follow up. This led NABARD to formulate special programmes for the turnaround of the weak PCARDBs and SCARDBs.

2.29. To improve the financial health and operational efficiency of PCARDBs (and branches of unitary LTCCS), NABARD introduced rehabilitation measures in 1986 (such as merger of non-viable units with strong units, investigation and remedial action to reduce overdues and augmenting own resources). In the first instance, four states were covered. Subsequently, the programme was offered to all other states. It was, however, eventually implemented to a limited extent in eight states only (Gujarat, Himachal Pradesh, Karnataka, Rajasthan, Tamil Nadu, Tripura, Uttar Pradesh and West Bengal). The programme continued till 1991, but did not have much impact.

2.30. The ACRC (1985) suggested that NABARD formulate a programme to strengthen and revitalise rural credit institutions, especially cooperatives. Accordingly, NABARD formulated an Institutional Strengthening Programme covering non-solvent and near non-solvent institutions in both ST & LT CCS. The programme was to be completed within a specified time frame of three to five years with a proviso that should the banks concerned fail to turn around within the stipulated time frame, alternative arrangements for credit dispensation in the areas of operation of such banks should be made. The programme, however, proved to be a non-starter, as the state governments were unable to fund their share as envisaged under the programme.

2.31. Other specific efforts by NABARD towards improving the working of the LTCCS included providing grant support for human resource development and providing training directly, introducing improvements in the working systems in the structure and building up an effective Management Information System (MIS). The NABARD also introduced the concept of Development Action Plans (DAPs), with specific responsibilities for the stakeholders stipulated in Memoranda of Understanding (MOU). These MOUs, which had to be signed between ARDBs, state governments and NABARD, however, proved to be ineffective.

Growth of the LT CCS from 1995 to 2004

2.32 The share capital of SCARDBs increased from Rs 436 crore in 1996 to Rs 762 crore in 2004. In the aggregate, the contribution of state governments remained more or less constant in absolute terms, but their share in the equity of SCARDBs fell from 21% to 12%. At the level of the PCARDB, the share capital increased from Rs 362 crore to Rs 916 crore during the period, with the share of state governments increasing marginally from 14 % to 15%.

2.33 The recommendation of the Bhandari Committee to permit ARDBs to mobilise term deposits of wider range and tenor was accepted. Between 1996 and 2004 the deposits mobilised by the credit cooperative system grew from Rs 188 crore to Rs 857 crore, but formed only 2.5% of its total resources. The system, therefore, continued to depend mostly on NABARD.

2.34 While the loans outstanding at the level of SCARDB between 1996 and 2004 more than doubled from Rs 6,856 crore in 1996 to Rs 16,212 crore in 2004, loans issued during the same period registered a growth of only 63% from Rs 1,798 crore in 1996 to Rs 2,942 crore in 2004. This trend not only reflects a significant slow down in fresh lending, but also an increased amount of overdues. While the overall recovery at the level of SCARDB dropped from 61% in 1996 to 44% in 2004, the recovery at PCARDB level also dropped from 57% to 44%[3].

[3] Data furnished in the paragraph pertains to entire LTCCS incl. Federal, Unitary and Mixed structures

2.35 This period also witnessed a further erosion of the democratic character of the system and impairment of governance. While the number of SCARDBs with elected boards declined from 12 to 10, the number of PCARDBs with elected boards came down drastically from 607 in 1996 to 354 in 2004.

2.36 Prudential Norms were made applicable to the LTCCS in 1997. Non Performing Assets (NPAs) as a percentage of loans outstanding increased from 19% in 1998 to 27% in 2004 at the level of SCARDB. At the PCARDB level NPAs grew from 17% in 1998 to 36% in 2004, reflecting the continuously deteriorating performance of the LT CCS.

2.37 Nine out of 18 reporting SCARDBs were in profit in 1999, with an aggregate profit of Rs 90 crore and another nine SCARDBs incurred losses that year, aggregating Rs 196 crore. The situation had worsened by 2004, and nine out of 19 SCARDBs (for which data were made available to the Task Force) were incurring losses to the extent of Rs 210 crore. At the primary level, 195 PCARDBs earned profit aggregating to Rs 44 crore in 1999, while 528 PCARDBs incurred losses of Rs 183 crore. By 2004, 439 out of 715 PCARDBs (for which data were made available to the Task Force) were incurring losses to the extent of Rs 411 crore.

2.38 The accumulated losses of SCARDBs increased from Rs 591 crore in 1999 to Rs 856 crore at the end of March 2004. The accumulated losses at the PCARDB level were Rs 734 crore in 1999 and increased to a staggering Rs 2,649 crore at the end of March 2004. The extent of financial impairment in the LTCCS is evident from the above data.

Chapter III

Size, Structure and Governance of the LT CCS

3.1 The structure of the long term (LT) CCS is distinct from that of the short term (ST) in many ways, even though the LTCCS also has a history dating back to 1920. Although the structure of the LTCCS as a whole is much smaller in size and in business volumes than the STCCS, its impairment is worse than the latter. Some reasons for this impairment are the dependence of the LTCCS on a single product, no diversification in loan portfolio unlike the STCCS, smaller average per loan size and infrequent borrower contacts. These constraints have not only increased the transaction costs of the LTCCS, but also its NPA levels. Significantly, the larger STCCS have often been the focus of State policy interventions, while the LTCCS has generally not received as much attention. We need to keep in mind the following features, which are typical of the LTCCS, before embarking on a more detailed analysis.

- The first characteristic of the LTCCS is its limited outreach. Compared to the STCCS, which has over 100,000 retail outlets across the country, commercial and regional rural banks which have a combined network of around 32,000 rural and around 15,000 semi-urban outlets, the LTCCS has only about 2,500 retail outlets. In the years following bank nationalisation and the multi agency approach to rural credit, the LTCCS has lost its position as the dominant source for long term credit. The limited outreach of the LTCCS implies that although an LTCCS outlet theoretically covers a large area, its ability to service the population resident there is questionable.

- The second important feature of the LTCCS is the limited range of products and services offered by it. In most cases, the LTCCS offers only long term loans. However, in recent years, some of them have started providing, in a very limited way, crop loans and gold loans. It is obvious that with such a limited range of credit products and almost no other financial services, the LTCCS is ill-equipped to compete with commercial banks, RRBs and even the STCCS.

- The large service area per outlet means that borrowers are scattered over a large geographical area. This results in infrequent interactions among members, which makes it difficult for these institutions, especially in the unitary structure, to function effectively as genuine cooperatives.

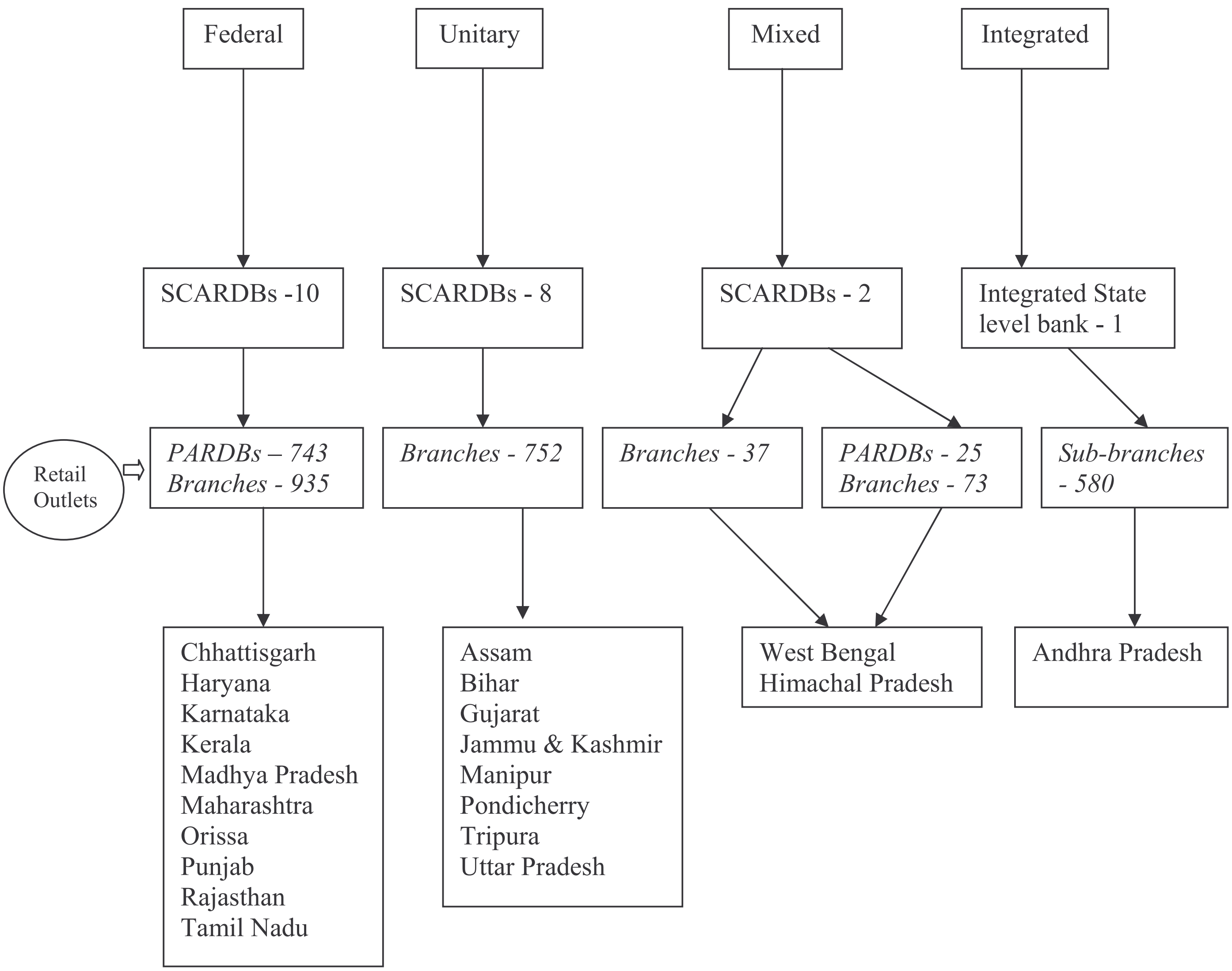
- Scattered lending over a large geographical area, restricted to only long term loans which are needed by farmers rather infrequently, results in infrequent contact with borrowers and makes monitoring of loan usage less effective and more costly. These traits have adverse implications on prompt recovery of loans.

- The exclusivity in dealing with only long term loans also creates a pressure in terms of resource mobilisation and management of liabilities. Although, SCARDBs accept term deposits, these are neither at the primary level, nor from the borrower members. In other words there is no counter-balancing mechanism within the cooperative that drives prudent fund management.

3.2 These problems are compounded by the structural diversity in the LTCCS across states. Unlike the STCCS, which has a federal structure in the entire country even if it has three tiers in some states and two in others, the LT structure does not have a common design. This diversity makes comparing data across states, regions and even across the designs themselves difficult. The country has four different types of structures under the LTCCS at present, described in figure-1.

Figure-1

Structural Features of LT Cooperative Credit Structure (as of 31 March 2004)



Note:

1. LTCCS outlets in the states of Uttaranchal and Jharkhand included in UP and Bihar respectively
2. In the North Eastern States of Meghalaya, Nagaland, Mizoram, Arunachal Pradesh, Sikkim and in the states of Delhi, Goa, Andaman Nicobar, there is no separate LTCCS. The SCBs in these states purvey both ST and LT credit.

Federal Structure

3.3 Under the federal structure, which is operative in 10 states, individual borrowers are members of primary units, or PCARDBs which, in turn, are federated into a state level SCARDB in each state. The SCARDB borrows to meet the needs of PCARDBs, and all ground level loaning operations are done by the PCARDBs. The reach of the LTCCS in a federal structure is, therefore, a function of the PCARDBs (which may have their own branches).

3.4 The penetration levels on the basis of operational holdings, borrowing membership, loans outstanding and loans issued at PCARDB level (as of March 2003) in respect of the LTCCS in the federal structure are indicated in table 3.1. As details of the number of borrowers of the LTCCS were not available till 31.3.2004, the analysis has been made with reference to the position prevalent till 31.3.2003. The Task Force is of the opinion that were the results to be tabulated with reference to the position prevalent till 31.3.2004, the results would have been by and large the same.

Table 3.1

Penetration of LTCCS in the Federal structure

State	No of outlets	Operational land holdings (‘000)	Operational land holdings per outlet (‘000)	Borrowing membership (no in ‘000)	Borrowing members per outlet (‘000)	Loan outstanding as of 31.3.2003 (Rs crore)	Average loan outstanding per outlet (Rs crore)	Average loan outstanding per borrower (Rs)	Loans issued during the year (Rs crore)	Loans issued per outlet (Rs crore)	Average loan issued per borrower (Rs crore
1	2	3	4	5	6	7	8	9	10	11	12
Chattisgarh	95	NA		49	0.5	151	1.6	30,816	43	0.5	8,776
Haryana	86	1,728	20.1	513	6.0	1,616	18.8	31,501	407	4.7	7,934
Karnataka	177	6,221	35.1	701	4.0	1,191	6.7	16,990	176	1.0	2,511
Kerala	105	6,299	60.0	787	7.5	1,483	14.1	18,844	294	2.8	3,736
Madhya Pradesh	405	9,603	23.7	363	0.9	988	2.4	27,218	278	0.7	7,658
Maharashtra	328	10,653	32.5	1,007	3.1	686	2.1	6,812		0.0	0.0
Orissa	53	3,966	74.8	171	3.2	72	1.4	4,211	11	0.2	643
Punjab	87	1,093	12.6	667	7.7	1,680	19.3	25,187	334	3.8	5,007
Rajasthan	162	5,364	33.1	664	4.1	1,222	7.5	18,404	207	1.3	3,117
Tamil Nadu	181	8,012	44.3	488	2.7	1,251	6.9	25,635	286	1.6	5,861
Total	**1679**	**52,939**	**31.5**	**5,410**	**3.2**	**10,340**	**6.2**	**19,113**	**2,036**	**1.2**	**3,763**

3.5 The penetration levels on the basis of the above mentioned parameters were worked out for each state. It may be observed that the number of operational holdings per outlet ranged from 12,600 (Punjab) to 74,800 (Orissa); the overall average being 31,500. The number of borrowers per outlet ranged from 500 (Chattisgarh) to 7,700 in Punjab; the overall per outlet coverage being 3,200 borrowers.

3.6 The loan outstanding per borrower ranged between a low of Rs 4,211 in Orissa to Rs 31,501 in Haryana. With the exception of Maharashtra and Orissa, where the financial impairment is high, the average loan outstanding per borrower in respect of the remaining states was above Rs 16,000. It may be noted that the average loan outstanding per borrower for the federal structure as a whole at around Rs 19,000 was higher than that of the unitary structure which was around Rs 7,500.

3.7 The overall average loan outstanding per outlet was Rs 6.2 crore which was higher than that of the unitary structure and ranged from Rs 1.40 crore in Orissa to Rs 19.30 crore in Punjab. The overall average loans issued per outlet at Rs 1.20 crore was also consequently higher than the corresponding figures of the unitary structure at Rs 1.10 crore.

3.8 The average loans issued per borrower at Rs 3,763, though higher than in the unitary structure, is still quite low. The size of loans issued per borrower, per se, does not seem to be a good barometer for judging the viability of the system. For example, the average loans issued per borrower by the LTCCS in Punjab at Rs 5,007 was lower than the corresponding figure in Tamil Nadu, at around Rs 6,000. However, while all the PCARDBs in Punjab are viable, most of the PCARDBs in Tamil Nadu are not. Thus, this analysis does not lead to any significant conclusion, barring that the loan sizes are rather small.

Unitary Structure

3.9 The unitary structure which is functioning in eight states has a single state level institution which operates through a branch network. Unlike the federal structure, the branches are not independent entities. Even though, individual farmers are serviced through the branch network, they are directly members of the apex body at the state level. This also means that farmer members associated with a branch are not involved in any decision making at the branch level.

3.10 Of the eight unitary banks, four are in small territories like Tripura, Pondicherry, Assam and Manipur. The larger states are Gujarat, Bihar, Uttar Pradesh and Jammu and Kashmir. The penetration levels of the unitary structure are indicted in Table 3.2.

Table 3.2

Penetration of LTCCS in the Unitary structure

State	No of outlets	Operational land holdings (000)	Operational land holdings per outlet (000)	Borrowing membership (no in 000)	Borrowing members per outlet (000)	Loan outstanding as of 31.3.2003 (Rs crore)	Average loan outstanding per outlet (Rs crore)	Average loan outstanding per borrower (Rs)	Loans issued during the year (Rs crore)	Loans issued per outlet (Rs crore)	Average loan issued per borrower (Rs)
1	2	3	4	5	6	7	8	9	10	11	12
Assam	33	2,683	81.3	NA	NA	17	0.5	NA	0.2	0.0	NA
Bihar	151	14,155	93.7	564	3.7	128	0.8	2,270	10.0	0.1	177
Gujarat	176	3,781	21.5	686	3.9	687	3.9	10,015	60.0	0.3	875
Jammu & Kashmir	38	1,336	35.2	64	1.7	28	0.7	4,375	1.0	0.0	156
Manipur	1	143	143.0	0.2	0.2	1	1.0	50,000	0.0	0.0	0
Pondicherry	2	34	17.0	2	1.0	9	4.5	45,000	4.0	2.0	20,000
Tripura	5	301	60.2	15	3.0	12	2.4	8,000	4.0	0.8	2,667
Uttar Pradesh	334	21,529	64.5	3799	11.4	2,997	9.0	7,889	711.0	2.1	1,872
Total	**740**	**43,962**	**59.4**	**5130.2**	**6.9**	**3,879**	**5.2**	**7,561**	**790.2**	**1.1**	**1,540**

3.11 The number of operational holdings per outlet ranged from 17,000 (Pondicherry) to 93,700 (Bihar). As the Manipur SCARDB is under orders for liquidation, it has not been considered for the purpose of the range. The overall average operational holdings per outlet, including Manipur, were 59,400. The number of borrowers per outlet ranged from 1,700 (J& K) to 11,400 in UP; the overall per outlet coverage being 6,900 borrowers.

3.12 The loan outstanding per borrower ranged between a low of Rs 2,270 in Bihar to Rs 45,000 in Pondicherry. Most of these loans issued by the Pondicherry SCARDB are, however, for consumer durables and jewel loans.

3.13 While the overall average loan outstanding per outlet was Rs 5.20 crore, the range in other states was between Rs 0.50 crore in Assam to Rs 9.0 crore in UP. The overall average loans issued per outlet was Rs 1.10 crore and the average loans issued per borrower was Rs 1,540 only. Loans issued per borrower by the LTCCS in Bihar were Rs 177 only. The Task Force views such data made available to it with caution. Nevertheless, the state of financial impairment is quite evident.

Mixed Structure

3.14 Two states viz., Himachal Pradesh and West Bengal, are serviced through the mixed structure comprising both PCARDBs and branches of SCARDBs. In other words, the apex body under this structure functions concurrently through branches and independent PCARDBs. The penetration levels of the LTCCS in the mixed structure are indicated in Table 3.3.

Table 3.3

Penetration of LTCCS in the Mixed structure.

State	No of out lets	Operational land holdings ('000)	Operational land holdings per outlet ('000)	Borrowing membership (no in '000)	Borrowing members per outlet ('000)	Loan out-standing as of 31.3.2003 (Rs crore)	Average loan out-standing per outlet (Rs crore)	Average loan out-standing per borrower (Rs)	Loans issued during the year (Rs crore)	Loans issued per outlet (Rs crore)	Average loan issued per borrower (Rs)
1	2	3	4	5	6	7	8	9	10	11	12
Himachal Pradesh	50	863	17.3	48	1.0	249	5.0	51,875	61	1.2	12,708
West Bengal	84	6,547	77.9	180	2.1	878	10.5	48,778	220	2.6	12,222
Total	**134**	**7,410**	**55.3**	**228**	**1.7**	**1,127**	**8.4**	**49,430**	**281**	**2.1**	**12,325**

3.15 The number of operational holdings per outlet was Rs 17,300 (HP) and 77,900 (WB); the average operational holdings per outlet being 55,300. The number of borrowers per outlet was 1,000 in HP and 2,100 in WB, the average being 1,700 borrowers.

3.16 The average loan outstanding per borrower at Rs 49,340 was higher than the overall average loan outstanding per borrower of the federal and the unitary structures at Rs 19,113 and Rs 7,561 respectively. The average loan outstanding and loans issued per outlet at Rs 8.4 crore and Rs 2.10 crore were higher than the corresponding figures of the federal and unitary structures. This implies that the LTCCS in the mixed structure had better penetration levels than the federal and unitary structures. However, a point to be noted is that although West Bengal has a mixed structure, it leans more to the federal than the unitary structure.

3.17 Notwithstanding the fact that long term investment credit is purveyed through each of the four cooperative credit modules indicated above, there are significant intra-model and inter-state differences in terms of coverage and business parameters.

Integrated Structure

3.18 This arrangement envisages provision for both short term crop loans and long term investment credit through a single primary level outlet.

3.19 The STCCS and the LTCCS were integrated in Andhra Pradesh to facilitate delivery of both short and long term credits through a "single window". Annexure 3.1 provides the summary findings of a study conducted by the Task Force Secretariat on this process of integration, which was presumably done using the broad principles specified by the Hazari Committee way back in 1975.[4] The study showed that the top down approach to such an integration has not been a very successful exercise and that, at the field level, the two functions, viz. provision for credit for ST and LT purposes have not been effectively integrated. Important human resources issues, such as (unification of cadres and pay scales and unified management), have proved to

[4] In the situational analysis that follows in this chapter, the data for Andhra Pradesh has not been included, as the break up for the short and long term CCS was not fully available, and so the long term part of the data could not be integrated in the national figures. It is also expected that the revival package for the short term structure will take care of the long term credit window of the structure, as the structure in any case is integrated.

be the major problem. Inadequate efforts were put in to retrain staff to orient them to the new "single window" structure.

Share of LTCCS in the Term Credit Market

3.20 Credit flow by all agencies vis-à-vis credit flow by the LTCCS is indicated in Table 3.4.

Table – 3.4

Credit Flow by all agencies vis-à-vis Credit Flow by ARDBs

(Rs.crore)

Year	Credit flow by all agencies[1]	Credit flow by ARDBs[2]	% share of ARDBs
1992-93	5,078	1,212	24
1993-94	5,223	1,375	26
1994-95	5,806	1,645	28
1995-96	7,507	2,030	27
1996-97	9,413	2,468	26
1997-98	11,316	2,682	24
1998-99	12,957	2,811	22
1999-00	17,303	2,864	17
2000-01	19,513	2,898	15
2001-02	21,536	2,938	14
2002-03	23,974	3,143	13

1

1.Data source: NABARD
2 Denotes loans issued at ground level

3.21 It may be observed from the Table above, that while the aggregate flow of long term investment credit by all agencies increased more than four-fold during the past ten years, the credit flow from ARDBs had merely increased 2.5 times. The overall share of the LTCCS has declined over the years from 24% of the overall credit in 1992-93, to 13% in 2002-03. The positive feature was that the credit flow by the structure in 1996-97 had doubled since 1992-93. However, from 1998-99 to 2001-02, the credit flow from the LTCCS has remained at around Rs 2,800 crore to Rs 2,900 crore. During this period, the total term credit flow by all agencies witnessed a quantum jump from around Rs 13,000 crore in 1998-99 to around Rs 21,500 crore during 2001-02. Consequently, the percentage share of ARDBs to total ground level credit had declined from 26% in 1993-94 to 13% in 2002-03.

3.22 Two plausible reasons for the declining share of ARDBs in total ground level credit could be the stagnant, or even declining, outreach of the structure and mounting overdues in the system, which brought down its lending capacity substantially. The NPA levels in the structure are significantly higher than that of the ST structure, and also high compared to other financial institutions with similar portfolio. It will also be evident from Annexure 3.2, which provides agency-wise data on term credit flow over the years, that during the same period, the share of commercial banks in total ground level credit had increased from 50% to 78%.

Membership

3.23 Membership in the LT structure has grown at a compound rate of 2% p.a. in the past five years. The overall membership of the LTCCS was 1.56 crore as of March 2003[2]. Of this, as per the data made available, 1.28 crore (82%) were borrowing members (with outstanding loans).

3.24 As break-up of the membership across states and different structures was not readily available, the Task Force sent a questionnaire to all the SCARDBs seeking this data. Based on the responses received, the Task Force was able to comment on the membership of the LTCCS in 12 states. The figure for the 12 states, as of March 2004 was around 66%, with states like Madhya Pradesh, Tamil Nadu and Manipur reporting less than 25% borrowing members. Chhattisgarh (35%), Punjab (45%) and Rajasthan (59%), had a moderate proportion of borrowing membership, while West Bengal, Assam, Maharashtra, Karnataka, UP and Haryana reported above average proportion of borrowing membership. The figure of 82% mentioned as the borrowing membership in Para 3.18, therefore, seems to be an over-estimate.

Resources

3.25 Apart from a small membership contribution, members of the LTCCS are required to contribute a certain percentage of the loan applied as share capital at the time of availing of loans. Usually this share capital contribution ranges from 5%-10% of the loan availed of. As long term loan needs of farmers are rather infrequent, there is neither any incentive nor occasion for the members to voluntarily contribute any further capital to the structure. In the ST structure, however, where the client member has regular transactions, the share capital could increase every time a fresh and higher loan is sought. In addition, the structure at both the primary and apex levels has share capital contribution from the state. Table 3.5 below gives the relative shares of different sources from which the LTCCS derives its working funds.

Table 3.5

Resources of LTCCS and their relative Shares.

(Rs crore)

Particulars/Year	1995-96	1997-98	1999- 00	2001-02	2003-04
SCARDBs					
Share Capital	437	526	626	676	762
Reserves & Provisions	805	1,159	2,075	1,818	2,742
Deposits	158	203	428	533	605
Borrowings	7,202	9,772	12,380	14,832	16,882
Total	8,602	11,660	15,509	17,859	20,991
Acc. Losses	192	402	789	495	856
Net worth *	1050	1283	1912	1999	2648
State Govts equity	90	81	90	89	89
State Govt equity as a % to total	21	15	14	13	12
PCARDBs					
Share Capital	362	522	667	856	916
Reserves & Provisions	255	467	679	1,624	2,055
Deposits	30	99	178	255	252
Borrowings	4,150	5,888	7,661	10,331	11,880
Total	4,797	6,976	9,185	13,066	15,103
Acc. Losses	311	546	968	2053	2649
Net worth *	306	443	378	427	322
State Govts equity	53	94	118	122	140
State Govt equity as a % to total	15	18	18	14	15

*Share cap + Res + provisions – Acc Losses)

3.26 It is clear that around 80% of the resources come from borrowings for the entire structure, while the rest is a combination of contribution of members, government share capital and deposits. The structure has been permitted to raise deposits that have a limited tenor (one to two years) from members and non-members. However, the amount of deposits raised has been marginal. Overall owned capital (share capital, reserves & accumulated profits) constitute only around 20% of the total resources, but once allowance is made for accumulated losses, this share comes down drastically and becomes negative in some cases.

3.27 Like the ST structure, LTCCS is also heavily dependent on external sources of finance. In the case of the LT structure, debentures are floated with state government guarantee. These debentures are subscribed to the extent of 90% to 95% by NABARD, and the balance is shared by the state government and the GoI. Unlike the higher tiers of the ST structure, the SCARDBs do not raise member or non-member deposits on any significant scale. In these respects there is not much difference between the federal, unitary and mixed models.

Loans and Recovery

Purpose-wise Loans Issued

3.28 Details of purpose- wise loans issued by the LTCCS during select years between 1983-84 and 1999-2000 are indicated in Table-3.6

Table-3.6
Purpose-wise Loans Issued by LTCCS

(Rs lakhs)

Purpose	1983-84	1984-85	1988-89	1989-90	1991-92	1997-98	1999-00
Minor Irrigation	19,408	21,245	23,924	25,879	31,982	37,009	38,525
	(44)	(46)	(38)	(35)	(32)	(17)	(18)
Land Development	2,213	3,027	1,559	1,809	2,465	4,117	4,890
	(5)	(7)	(2)	(2)	(2)	(2)	(2)
Farm Mechanisation	10,597	9,994	12,688	15,200	28,861	66,054	69,184
	(24)	(22)	(20)	(20)	(29)	(31)	(32)
Plantation & Horticulture	2,589	2,887	4,745	4,507	5,426	9,924	12,863
	(6)	(6)	(8)	(6)	(5)	(5)	(6)
Animal Husbandry	4,309	3,919	9,743	10,625	14,536	66,054	62,340
	(10)	(8)	(15)	(14)	(15)	(31)	(29)
Fisheries						917	872
						(0)	(0)
Other agricultural loa	3,212	2,946	7,780	14,450	14,360	3,685	5,110
	(7)	(6)	(12)	(19)	(14)	(2)	(2)
Rural Housing	1,535	1,645	2,579	1,648	2,424	69	228
	(3)	(4)	(4)	(2)	(2)	(0)	(0)
Gobar Gas	301	570	184	145	110	7	9
	(1)	(1)	(1)	(2)	(1)	(0)	(0)
Other non-agricultura loans						60,583	22,940
						(28)	(11)
Total	**44,164**	**46,233**	**63,202**	**74,263**	**1,00,164**	**2,15,596**	**2,16,961**
	(100)	(100)	(100)	(100)	(100)	(100)	(100)

Figures in brackets indicate percentages.

3.29 The above table shows that although the main purpose for which the LTCCS was established was land development (e.g., land levelling, minor irrigation, etc.), it no longer forms a major purpose in the loan mix of these institutions and loans issued for such purposes form an insignificant component[5]. While significant growth was witnessed in animal husbandry and farm mechanisation loans, there was a drastic fall in the proportion of loans for minor irrigation. Even though new purposes like housing and fisheries did open up, their magnitudes were negligible.

[5] However, every time a loan is issued for plantation and horticulture activities, about 20% of the overall cost is primarily for land development measures. Investments in minor irrigation also improve the overall productivity of land and hence can be construed as land development.

3.30 Data on purpose-wise loans issued by the LTCCS during the period from 1999-2000 to 2003-04 in eight states, for which data was made available to the Task Force, are indicated in Table-3.7

Table-3.7

Purpose-wise loans issued by LTCCS in select States

(Rs crore)

Year	MI	FM	PH	AH	Fisheries	Other agricultural and non-agricultural purposes
1999-00	151.46	265.85	120.76	252.12	5.94	285.19
% share	14	25	11	23	1	26
2000-01	213.75	372.69	107.97	252.37	5.25	279.38
% share	17	30	9	20	0	23
2001-02	221.93	425.99	107.73	291.39	9.56	375.53
% share	15	30	8	20	1	26
2002-03	233.84	499.12	90.40	170.00	9.40	607.57
% share	15	31	6	11	1	38
2003-04	288.41	469.98	100.38	133.13	10.93	765.75
% sh	16	27	6	8	1	43

3.31 It is evident from Table-3.7 that there has been considerable diversification in the loan portfolio of the LTCCS, away from agricultural purposes. Again within agriculture, while the proportion of loans issued for traditional purposes, like minor irrigation, has remained almost constant, the proportion of loans issued for plantation/horticulture and animal husbandry has declined. At the same time, loans for "other" purposes like non-farm sector and housing, have increased significantly. In other words, the diversification in the loan portfolio of the LTCCS has seen a marked shift from its traditional activities to loans for such purposes, which are also being given by other rural financial institutions

3.32 While this may seem a positive factor from the point of portfolio diversification and asset-liability management, the flip side is that these banks are perhaps diversifying into new business areas without adequately preparing their human resources in the way of training in the required skill sets. There are considerable inter-state variations in these sectoral credit flows. It may be observed from Annexure 3.3, for instance, that while there is significant loan disbursal for the plantation sector in Karnataka and Kerala, in the case of the LTCCS in the states of Haryana, Himachal Pradesh and Punjab, loans are predominantly for other purposes. In the case of MP, loans for farm mechanisation occupy the major share.

Recovery performance

3.33 Three year averages of recovery rates during 2001-04 are indicated in Table 3.8.

Table 3.8

Recovery Performance

Federal	SCARDBs	PCARDBs
Chhattisgarh	43.0	65.7
Haryana	88.7	65.0
Karnataka	22.0	25.0
Kerala	82.0	52.7
Madhya Pradesh	44.3	57.7
Maharashtra	24.0	22.3
Orissa	8.0	28.7
Punjab	92.7	68.7
Rajasthan	53.3	34.3
Tamil Nadu	35.7	36.3

Table 3.8(cont'd)

Recovery Performance

Unitary	SCARDBs	PCARDBs
Assam	8.0	
Bihar	12.3	
Gujarat	38.3	
Jammu & Kashmir	38.3	
Manipur	2.0	
Pondicherry	62.7	
Tripura	49.0	
Uttar Pradesh	65.7	
Mixed		
Himachal Pradesh	56.3	60.3
West Bengal	58.3	61.0

3.34 It is evident that the average recovery ranges very widely from as low as 2% to as high as 93% at the SCARDB level. Average recovery at the apex level under the federal structure is less than 25% in three, between 25% and 50% in another three, and more than 50% in four SCARDBs. Three states have recovery rates of more than 80%.

3.35 The recovery rates at the primary level in this group of ten states ranged between 25% and 69%. Five states reported a recovery rate better than 50% and the others had a recovery rate between 25% and 40%.The recovery rates in both cases tend to be volatile across the years. An interesting feature is that low recovery rates at the primary level is associated with a low recovery rate at the SCARDB level, which is to be expected, considering that the borrowers on the books of SCARDBs are the primaries. When the recovery rates at the primary level are high, the recovery rates at the SCARDB level tend to be higher, because the primaries use their own resources to make additional payments. Because of this, the figures of the SCARDBs look deceptively healthy. In case the recovery rates at the primary level are higher than the recovery rates of the SCARDB, it would mean that the primaries are diverting recoveries effected by them for meeting their overhead costs. Imbalances within the tiers is another factor contributing to different recovery levels between the tiers.

3.36 In the mixed structure, the recovery rates at the primary level and of the apex institution are more or less the same. In the unitary structure, the performance is generally poorer than the federal structure. The recovery rates are also generally much lower than in the other two structures, where three of the eight states have recovery rates of less than 20% and six have less than 50%.Detailed data also show that for states like Uttar Pradesh, recovery levels plummeted from 80% to 40% in the last three years.

3.37 If despite the relatively low rates of recovery, the system has managed to survive, it is because of the sustained and increasing flow of refinance from NABARD, despite low and declining recovery rates.

Level of Non Performing Assets (NPAs)

3.38 The levels of non performing assets (NPAs) as a percentage of loans outstanding as of 31 March 2004 in respect of the LTCCS in the three types of structures are indicated at Table 3.9.

Table 3.9

Levels of NPA of LTCCS as of 31.3.2004

State	NPA as % of Loans Outstanding	
Federal Structure	**SCARDBs**	**PCARDBs**
Chhattisgarh	2.0	15.5
Haryana	0.0	29.5
Karnataka	48.8	51.9
Kerala	6.3	34.0
Madhya Pradesh	8.2	17.7
Maharashtra	65.6	83.8
Orissa	87.5	74.2
Punjab	0.0	19.6
Rajasthan	13.2	36.3
Tamil Nadu	56.6	51.5
Mixed Structure		
Himachal Pradesh	24.7	27.9
West Bengal	20.9	22.9
Unitary Structure		
Assam	98.7	
Bihar	83.7	
Gujarat	57.3	
Jammu & Kashmir	43.1	
Manipur	100.0	
Pondicherry	35.6	
Tripura	55.6	
Uttar Pradesh	35.4	
All India	**26.8**	**35.5**

3.39 The non performing assets as a proportion of outstanding loans vary from quite negligible levels in Punjab and Haryana to almost 80% in four states, with

NPAs in Assam and Manipur being close to 100%. Non performing assets as a percentage of loans outstanding is between 40% and 80% in seven states. It is less than 10% in five states (including Punjab and Haryana).

3.40 In tune with the recovery performance at various levels discussed earlier, NPA rates at the PARDB level are mostly higher than at the SCARDB level under the federal structure. In three cases, the NPA rates are almost equal across the two tiers. Both the high levels of NPAs at the primary level and the disparity between the base and the apex tiers underline the weakness of the structure. This also implies that the apex structure is resting on a weak base and it is only a matter of time before the weaknesses of the base institutions get reflected in the apex structure.

3.41 Compared to the federal and the mixed structures, the unitary structure's record of NPA levels is also poorer, with NPA rates exceeding 40% in six of the eight states, and more than 80% in three states.

Costs, Returns and Margins

3.42 The average returns on funds and the major elements of costs, as well as the financial margins and net margins of SCARDBs in all states and of PCARDBs in the federal and mixed structures, are indicated in Annexure 3.4. These figures are the averages for three years ending 2003-04 and have been compiled by NABARD, based on the information supplied by the SCARDBs. The reported average return on funds for the SCARDBs range from 1.25% to 12.4%. In the case of the PCARDBs of the federal structure, the average return varies from 3.88% to 13.77%. Even though differences in the share of owned resources in total funds and loan sizes have an impact on return on funds, such wide variations are still not comprehensible.

3.43 Financial institutions have three main cost elements, viz., cost of funds, transaction costs and risk provisions. The cost of funds for the apex institutions in most cases range from around 5% to 8.4%, the average cost for unitary SCARDBS being generally slightly lower. As borrowings from NABARD constitute the major part of the funds for the LTCCS, its cost depends, almost directly, on the interest rates charged by NABARD for various activities. For PCARDBs in the federal and mixed structures, the cost of funds ranges from less than 4% to close to 11%. Once again, such a wide variation is not comprehensible, as no PARDB in any state has enough resources of its own to bring down the cost of its aggregate fund to anything less than the lowest rate of interest charged by NABARD.

3.44 The average transaction cost of SCARDBs in the federal structure is 0.73% with a range of 0.33% to 1.29%. The PARDBs' transaction costs are considerably higher, ranging between 1.21% and 3.67% with an average of 2%. The overall transaction cost of the federal and mixed system averages 0.73%, which is still less than the average transaction cost of 3.76% for the unitary system. Within the unitary system, four out of the seven states for which data was available, the transaction costs exceed 4%. These costs perhaps also reflect staff sizes and their salaries in the structure which may not be commensurate with the business sizes of the structure.

3.45 Provisioning against risks of default averages around 1.55% at the SCARDB level and 1.48% at the base level in the federal structure. The variations in this element are considerably larger than others ranging from less than 0.02% to 7.07% in the case of apex institutions and 0.28% to 5.82% at the primary level. In the unitary structure the average provisioning is only 1.67%. As the risk provisions should be related to the levels of NPAs, one would expect the unitary structure to have higher provisioning. Since this is not borne out by the available data, one can only conjecture that provisioning in the case of most LTCCS units is perhaps, much short of requirement.

3.46 The SCARDBs in the federal and mixed structures in all but one state, have a positive financial margin, but with a range of as low as 0.22% in Karnataka to 3.4% in Tamil Nadu. In the case of PCARDBs also, all but one state have positive financial margins. Margins in the unitary structure are generally higher, with four out of seven states for which information is available, reporting financial margins of more than 2.5%.

3.47 The net margin which reflects the overall profitability of the units is positive in seven SCARDBs under the federal structure while the remaining five have negative net margins ranging from (-) .05% to (-) 6%. The PCARDBs in nine out of 12 states have negative net margins. Only three states have a positive net margin for both the tiers taken together. In the unitary structure, three states have a positive net margin and the rest have relatively large (over 3%) negative net margins.

3.48 The data on costs, returns and margins used above are based on information furnished by the SCARDBs and compiled by NABARD. A closer scrutiny however, shows several anomalies. For instance, considering the fact that the bulk of the funds of SCARDBs are provided by NABARD at uniform rates of interest, it is difficult to explain why some states (e.g., Orissa, U.P. and Bihar) should have much lower cost of funds compared to others. Also, within the federal structure, the PCARDBs borrow from the apex institutions, and one would expect their cost of funds to be higher than that of the apex structure. It turns out, however, that in six states, this is not the case. The range of variation in the average return to funds among SCARDBs and PCARDBs in the federal structure also seem to be implausibly large. The reasons for these anomalies could not be ascertained. It probably reflects wide differences in accounting practices (accrual versus cash system of accounting) and audit standards (provisioning, definition of net worth etc) across states. Even as these figures need to be interpreted with caution, they do not hide the extremely poor financial health of the LTCCS.

3.49 The poor financial health of the system is also reflected in the accumulated losses and net worth of the LTCCS institutions, as reflected in their balance sheets of 31 March 2004. The details of accumulated losses of the LTCCS are indicated at Table 3.10.

Table 3.10

Accumulated Losses of LTCCS as of 31.3.2004

(Rs crore)

State	Accumulated Losses	
Federal Structure	**SCARDB**	**PCARDBs**
Chhattisgarh		19.3
Haryana		170.1
Karnataka	201.7	591.9
Kerala		76.4
Madhya Pradesh		253.3
Maharashtra	241.9	851.1
Orissa	112.7	109.5
Punjab		30.2
Rajasthan		87.0
Tamil Nadu	77.8	415.7
Mixed Structure		
Himachal Pradesh	5.04	
West Bengal		45.2
Federal + Mixed Total	639.1	2,649.5
Unitary Structure		
Assam	35.0	
Bihar	150.1	
Gujarat		
Jammu & Kashmir	16.9	
Manipur	2.3	
Pondicherry	2.0	
Tripura	10.5	
Uttar Pradesh		
Unitary Total	216.9	
All India Total	855.9	2,649.5

3.50 In the federal and mixed structures, the accumulated losses of the SCARDBs are estimated to be Rs 639 crore; the bulk of it in Karnataka, Maharashtra, Orissa and Tamil Nadu. The PCARDBs had accumulated losses in all states and aggregated over four times the losses for the SCARDBs. While a major portion of this is in Karnataka, M.P., Tamil Nadu and Maharashtra, even in states like Haryana, Kerala and Punjab, the accumulated losses of the PCARDBs is sizable. The accumulated losses of the unitary system are around Rs 217 crore with nearly 70% of it being accounted for in Bihar.

3.51 The accumulated losses eat into the owned resources of these institutions, the net effect of which is reflected in their net worth. The percentages (average for three years, 2001 to 2004) of net worth to working funds of the LTCCS in the three structures are tabulated in table 3.11.

Table 3.11

Net Worth to Working Funds

Federal Structure	SCARDB	PCARDBs
Chhattisgarh	7.8	4.4
Haryana	5.9	-1.0
Karnataka	5.8	12.2
Kerala	14.9	12.2
Madhya Pradesh	9.7	0.4
Maharashtra	4.9	4.1
Orissa	-67.5	-69.5
Punjab	14.1	10.0
Rajasthan	6.2	18.0
Tamil Nadu	2.5	-14.9
Mixed Structure		
Himachal Pradesh	12.7	5.0
West Bengal	13.3	7.1
Unitary Structure		
Assam	-74.8	
Bihar	-34.0	
Gujarat	19.8	
Manipur	-162.4	
Jammu & Kashmir	-11.0	
Pondicherry	24.8	
Tripura	-19.3	
Uttar Pradesh	26.1	

3.52 All but one apex institution in the federal structure have positive net worth as a proportion of total funds, but the net worth also less than 10% in seven states. At the base level too, most states (seven out of ten) report a positive net worth, but in three states it is less than 10%. The mixed structure banks show positive net worth at both the tiers. The erosion of net worth in the unitary structure is, however, considerably more widespread. While three banks have a positive net margin of 20% or more, five have negative net worth ranging from -11% to -160%.

3.53 As mentioned earlier, there are limitations in the quality of data on the basis of which the financial position of the LTCCS is portrayed. It could be said that the financial position of the LTCCS gives a more optimistic picture than it should. In fact, had the accounting practices and audit standards followed a uniform and a correct procedure, the financial health of the LTCCS would have been worse.

3.54 Having noted this limitation, the Task Force now examines if the type of structure has any bearing on the financial performance of these institutions.

LTCCS in the Federal structure

3.54 While it is easy to analyse overall profitability by examining figures in the unitary structure, it is difficult to take a call when we have to take an integrated view of the federal structure. In the federal structure, the primary and the state level structures are interlinked and it would, therefore, be worthwhile to examine these linkages as well. Table 3.12 below gives some details of SCARDBs under the federal and mixed structures :

Table 3.12

Number of Profit/loss making ARDBs in the Federal structure.

(Rs crore)

Year	2001-02				2002-03				2003-04			
Profit Making SCARDBs	7				8				8			
PCARDBs under Profit Making SCARDBs	Profit		Loss		Profit		Loss		Profit		Loss	
	No	Amt	No	Amt	No	Amt	No	Amt	No	Amt	No	Amt
	135	33	192	129	132	45	196	135	200	67	124	94
Loss Making SCARDBs	5				4				4			
PCARDBs under loss making SCARDBs	Profit		Loss		Profit		Loss		Profit		Loss	
	No	Amt	No	Amt	No	Amt	No	Amt	No	Amt	No	Amt
	61	14	380	194	76	7	364	235	81	8	306	232

3.56 From the table above it is clear that the number of SCARDBs that are profit making are higher than those that make losses. If we look at the number of PCARDBs – the primaries over which these state level bodies preside - it is evident that the number of loss making PCARDBs outnumber the loss making ones in two of the three years for which data is presented. The data for 2003-04 is incomplete to the extent that figures for the Orissa PCARDBs and four PCARDBs in Kerala have not been added. In addition, the accumulated losses of the loss making primaries are higher than the accumulated profits of the profit making entities. This essentially means that even though the SCARDBs are making profits now, they are actually presiding over a system that is sick as a whole, and it will not be long before even the SCARDBs incur losses owing to defaults from the primaries.

3.57 There are quite a few PCARDBs that are making profits, even when they are affiliated to loss making SCARDBs. These entities have to be studied carefully to understand their resource mobilisation and deployment strategies. These institutions indicate that irrespective of the federal affiliation, they could continue to be profitable. Some case studies (Annexure 3.5) from Tamil Nadu illustrate how the institutions under this structure could still be profitable in spite of an adverse regulatory and institutional environment. The positive features observed in good working PCARDBs were as under:

- Honest and committed staff, possessing skill and knowledge of local conditions and people
- availability of some source of income to the farmers even during crop loss
- repayment-sensitive people
- quality lending through proper identification of borrowers and activities, slow expansion of NFS lending based on merits
- lesser bunching of applications during year-end
- predominance of small size loans
- constant supervision and staff's ability to collect dues even under legal cases
- good house-keeping and management of funds
- up to date maintenance of accounts, generally facilitating completion of audit on time

LTCCS in the Unitary structure

3.58 Data on SCARDBs under the unitary structure are tabulated below:

Table 3.13

Number of Profit/loss making ARDBs in the Unitary structure

(Rs crore)

Year	2001-02		2002-03		2003-04	
	No	Amt	No	Amt	No	Amt
Profit making SCARDBs	2	20	1	7	2	25
Loss making SCARDBs	6	31	7	31	5	20
Figure for Manipur not available for 2003-04.						

3.59 The above data reveals that as in the case of the federal structure, the LTCCS under the unitary pattern is also largely financially impaired.

Human Resources and Management

3.60 The management of the structure is also seriously impaired. The main functions of any financial cooperative need to be carried out by high quality human resources. The staff are the people who make important decisions on loans and follow up. In addition to having staff that understand the business well, there should be constant renewal of staff by new recruitments, so that diversity and new thinking is brought into the organisation. It was observed by the Hazari Committee way back in 1976, that the entities had hardly employed any technical staff on their own and was heavily dependent on the state governments for the services of such staff.

3.61 The position does not seem to have changed. The LTCCS has a generally ageing staff profile, characterised by inadequate professional qualifications and low levels of training. As of March 2004, 44% of the staff were more than 50 years old and another 29% were between the age of 40 and 50 years. The position is worse in Chhattisgarh, Gujarat, Karnataka, M.P., Maharashtra, Orissa, Tamil Nadu and Tripura where more than 50% of the staff were above the age of 50. Details of the age profile are furnished in Annexure 3.6. Apart from the staff profile, there were some other problems that were closely associated with the structure. Delineation of governance and management functions were unclear and very often the boards focussed on and took up issues at the operational level, thereby losing sight of the long term strategies. This trend impacted the independence of the executives in the structure in day-to-day management. The structure was also characterised by poor housekeeping, weak internal controls and systems, and absence of asset liability management techniques. As the structure is heavily dependent on refinance for its loan fund needs, resource problems like timeliness and adequacy also continue to plague the structure, particularly because of the complex procedure followed for floating debentures.

Governance aspects

3.62 Before we get into the specifics of the governance issues, it is important to mention the basic features that make governance of these institutions difficult. The structure is an instrument for credit dispensation, with the upper tier refinancing the lower tier, without having its own resource base. A cooperative comprises only borrowers in terms of registration and its membership. Thus, when a group of borrowers sit on the board and decide on policies, they are bound to be in favour of the borrowers – creating a clear conflict of interest between loan disbursal and repayment ethic. In its report on the STCCS, the Task Force had suggested that such a tendency needs to be counter balanced by encouraging PACS to seek resources in the local area in the form of thrift and deposits, and by giving full voting rights to this class of members. Even if this method is encouraged in the present set up of the LTCCS, however, it will take quite some time for a PARDB to encourage its members to keep deposits with the PARDB or to enrol new depositor members. Maintaining a balance in the governance of these institutions is thus, going to be a challenge. One will have to, therefore, think of inducting independent professionals to counterbalance the potential conflict of interest, and also institute a system of accountability while delineating the governance and management functions.

3.63 In addition to the above, there are some problems that are specific to the way the LTCCS operates. These are:

- Membership is limited and not stable owing to the limited investment credit needs of farmers
- Large area of operation entails higher transaction cost for the LTCCS and also for the borrowers
- Existing borrowers are unable to meet their different credit needs from a single point

3.64 Because of the above factors, the LTCCS ends up having three categories of members –

- Those who are dormant, either because they never took a loan or they cleared the loan and continue to retain membership without any further loans
- Those who are continuing borrowers, but have limited contact with the structure because the transactions are reduced to repaying an occasional instalment
- Those who are recent borrowers

3.65 This leads to a situation where the basic tenets of cooperation of mutuality, social collateral and the spirit of neighbourhood institution become difficult to implement. While the basic governance structure continues to be designed on the principles of mutuality, the overall system appears like that of an investor oriented firm, with a principal-agent relationship.

3.66 In a federal system, it is usually the lower tiers that elect the boards of the higher tiers, as they form the membership of the higher tiers. However, because of the structural ordering, particularly with a refinancing system in place, the lower tiers end up being “managed” by the higher tiers in varying degrees of detail, even if the boards of the higher tier are elected by the primaries.

3.67 The influence of the state on the operational details of the structure could potentially be all pervading. This happens not only because even elected leaders could interfere in loaning decisions, clearly indicating a conflict of interest, but because the state can, directly or indirectly influence loaning decisions that are not necessarily based on due diligence. Because a compromise happens at the lending level, it results in a further compromise at the recovery end as well.

3.68 We have to remember that all these loans are fully secured and therefore, if anything the portfolio should have been more safe and performing than the ST structure. But, over the years, it has been demonstrated through action that there is an almost deliberate inability to execute the security offered. Most often, the interference of the state is to be blamed.

3.69 In addition, frequent decisions on interest and loan waivers in the STCCS and that of rephasement of loans in the LTCCS have affected the health of the portfolio of the LTCCS. While there may not be too many direct assaults on the LTCCS, it is to be noted that every time there is an assault on the STCCS, the effect is bound to permeate to the LTCCS.

3.70 In almost all states, the function of conducting elections for the cooperative structure is vested with the state government. Similarly, the function of auditing is also vested with a state-run audit system. By inference, the cooperatives lose their right to self-governance and have to look up to the state constantly for several functions that naturally fall in the domain of the general body and the board of directors. Some pointers to the governance systems are highlighted below:

- No elections have been held in both SCARDBs/PCARDBs for 10 years or more in three states.
- Boards of 10 out of 20 SCARDBs and 414 out of 768 PCARDBs have been superseded (2003-04).
- Most state governments combine the roles of Dominant Shareholder, Manager, Regulator and concurrent Supervisor and Auditor.
- The department headed by the Registrar of Cooperative Societies (RCS) can and does influence administrative matters. The interference is in the form of supersession of boards, appointment of administrators and assuming powers to approve staffing patterns, recruitment, emoluments, asset purchase pattern etc.
- Some of the state governments also interfere in matters relating to fixing rates of interest on loans, either directly or indirectly.
- The state governments also announce waivers of principal and interest quite often and such waiver amounts even when released, are passed on with a time lag. The involvement of the state governments in the management of the LTCCS is given in Annexure 3.7.
- The impairment of the governance structure is also because of politicisation and lack of professionalism in these institutions. The number of directors on boards of SCARDBs, who have professional qualifications are few and far between. Even directors who do have professional qualifications are primarily in the legal area. The Task Force did attempt to collect such information. Data collected from nine states showed that there was no director on an SCARDB board, who was professionally qualified in the fields of agriculture, banking, accountancy etc. Details are indicated in Annexure 3.8.
- Audits are more or less regular as far as the SCARDBs are concerned. There are delays in some states in conducting audits of PCARDBs. However, doubts raised earlier on accounting practices and audit standards and other financial aspects leave much room for questions on the quality of audits.

- A compounding factor is that inspection by NABARD as the principal lender and enforcement of such findings has been weak.

3.71 The following factors also contribute to poor governance in the LTCCS:

- The LTCCS is excluded from the purview of the BR Act 1949 (AACS). As such, the RBI has no control over such institutions even when they have been permitted, albeit in a limited manner, to access term deposits from the public.
- Even though the SCARDBs are subject to inspection by the NABARD, such inspections are purely voluntary from a lender's point of view. Consequently, compliance with the findings is not up to the mark.

3.72 The cumulative result of governance and management aspects is that members, who are mostly borrowers, have little or no sense of stake in the cooperatives, or any accountability in ensuring prudent management of funds. On the contrary, government policies (loan and interest waivers, delaying recoveries) encourage them to presume that they can with impunity, delay or even fail to meet their repayment obligations. Boards of management and their functionaries are not held accountable for the laxity in granting and monitoring loans, poor quality of loan portfolios, high default rates and non performing assets (NPAs) and their adverse effects on the financial health and viability of the societies.

3.73 In short, the LTCCS is impaired on financial, governance and management aspects. The reasons for such impairment are on account of factors that are beyond the control of the system, as well as on account of factors that are within the control of the institutions. The movement away from the original purpose of establishing these institutions shows a general drift from the core. While the drift has been towards mimicking the market, being increasingly occupied by the commercial banks and even the STCCS, the LTCCS has certainly failed to create its own market in almost a century of its existence. The structure does not seem to have a system wherein it effects changes in its overall lending strategy in the face of growing competition and changing pattern of demand for rural credit. Inculcating this thought process would be an essential task that may have to be performed in future, if these institutions have to have a meaningful role to perform.

Role of NABARD

3.74 The Task Force will be failing in its duty were it not to make an assessment of the role played by NABARD vis-a-vis the LTCCS. There is no doubt whatsoever, that but for the support extended by NABARD, both in terms of financial resources and training and capacity building for which NABARD has been providing grant support to the LTCCS, the structure would not have been able to facilitate the provision for projectised investment credit in the rural sector. This is to the credit of NABARD and it needs to be complimented. Having said this, the Task Force is constrained to observe that the role of NABARD in disciplining the structure, particularly once it started exhibiting overdues, leaves much to be desired. In fact, an analysis of the policy guidelines of NABARD over time shows a relaxation in the refinance norms even as overdues were mounting in the LTCCS. Moreover, although a number of well-intentioned schemes for rehabilitation and revival of weak units were put in position by the NABARD, the ground level impact was weak, partly because of the unfavourable political climate and partly because of NABARD's own inability to confront this decisively. The Task Force is of the view that despite being practically the sole lender to the system, NABARD failed to leverage its natural advantage in influencing the LTCCS as part of the lender's discipline. In a presentation made to the Task Force, it was explained that because of state guarantees, there were no defaults to NABARD. On the face of it, this is true. The Task Force notes, however, that NABARD has restructured its loans to the LTCCS in many states to avoid default in its own books. On the basis of the information furnished to the Task Force, the Task Force is apprehensive of the quality of assets that NABARD holds in its long term portfolio and suggests that as a prudential measure, it should, commencing 2006-07, initiate the process of making appropriate provisions for the purpose.

3.75 The Task Force has, in Chapter IV, commented on the sharing of liability in regard to the LTCCS. Strictly speaking, it is of the view that NABARD should bear a part of these losses. However taking into view that the deterioration of the financial health of the CCS was driven by a host of factors outside the control of NABARD, the Task Force is inclined to consider this as an extenuating condition. In an intention to remind NABARD that it has a subsisting responsibility for improving the health of the CCS, the Task Force suggests that all costs relating to capacity building and improving the skill sets of the employees of the LTCCS be shared by NABARD with the GoI in the proportion of 50:50.

Chapter IV

General Approach to Financial Restructuring And the Revival Package

4.01 Main features of the LTCCS

4.01 The LTCCS is in an advanced state of impairment. The degree of impairment in the areas of financial, managerial and governance has been highlighted in Chapters II and III. To recapitulate, the LTCCS has a variety of limitations, when compared to the STCCS and even the RRBs and commercial banks, which impairs its functioning. The much smaller number of retail outlets of the LTCCS leads to higher transaction costs for both the lender and the client. Longer distances also mean infrequent borrower contact and a weak Know Your Customer (KYC) factor, leading to poor quality appraisal and monitoring. Distances and infrequent member contact also lead to poor member participation in PCARDB's activities, more so in unitary structures. A single product (only long term loans) further reduces client interest in ARDBs and almost forces its clients to look for other agencies for other financial services and loan needs. Its clients are hampered even then, because their land is mortgaged to the LTCCS. These factors, further compounded by governmental interference, have led to low recoveries. Difficulties in recovery through attachment and sale of collaterals have only increased their problems further. The structure, therefore, has a very high proportion of NPAs and consequently, high levels of accumulated losses. The growth of ARDBs has, therefore, been tardy in most cases, and even negative in some.

4.02 The Task Force also took note of the fact that the dependence on a single agency, viz., NABARD for lendable resources, had induced a feeling of comfort and complacency in the LTCCS. This has substantially eroded its capacity to cope with an increasingly competitive environment. The fact that NABARD loans are secured through state government guarantee, also resulted in NABARD paying inadequate attention to the quality of its portfolio.

4.03 Even though the LTCCS is in an impaired state, it needs to be recognised that it has played an important role in capital formation in the rural economy. The question that still needs to be addressed, however, is whether recapitalisation of the structure, without resolving the basic issues relating to its design features, would enable the structure to survive on a sustainable basis. While there is no doubt that long term credit must be made available to the agricultural sector in appropriate measure and at reasonable cost, another question to be addressed is whether a separate institutional structure in the cooperative sector is required for this purpose. There are no easy answers to these questions.

4.04 A natural extension of the line of argument taken by the Task Force in its earlier report on the STCCS suggests that ideally the STCCS and the LTCCS should converge. Indeed it is our hope that this should happen in the long run. However, we recognise that over time, walls have been built around each structure and that they are defended with intensity. In the light of this scenario, we also recognise that an artificial merger is likely to cause more harm than good, create a cultural cleavage between two sets of human resources and embroil the institutions in endless conflicts over fitments and salary fixations. As already mentioned, the example of the process by which integration was brought about in Andhra Pradesh and its fallout confirm the apprehensions of the Task Force. Under the circumstances we have thought it fit to carry forward the philosophy articulated in our report on the STCCS for reviving the system, in terms of vision, conditionalities, and operational methodologies. Our belief and indeed, the thrust of our recommendations is to create an environment in which both structures are enabled to come together, meet on a common platform, and recognise that in the long run, their interests lie in being together. Concurrently we have also tried to address certain immediate design and structural issues pertaining to the LTCCS as preconditions for their financial re-engineering. Nothing would make the members of the Task Force happier than to be able to look back at some time in future to find the emergence of a unified cooperative credit structure providing single-window credit facilities to its clientele coupled with a wide range of other ancillary services, such as insurance, remittance of funds, safe custody, etc.

4.5 Conditions Precedent

4.05 In its report on the STCCS the Task Force emphasised the need to convert ground level institutions into democratic member-driven and member-centric institutions. The strategy suggested for this goal was a mix of legal reforms and the exiting of the state government from the equity, governance and management of such institutions. It has been pointed out that the poor spatial coverage of the LTCCS, coupled with the long maturity credit product offered by it, makes for poor member participation in institutional activities, with concomitant adverse effects on its democratic character. With a view to address this, the Task Force has made certain suggestions on structural realignments, basically favouring the federal arrangement over the unitary structure.

4.06 It has also been pointed out that the basic weakness of the structure is that it offers only a single product, viz., long-term loans. To address this constraint, the Task Force recommends that the LTCCS be enabled to provide production, investment and other credits. The Task Force is also in favour of permitting and encouraging these institutions to provide fee-based services.

4.07 The Task Force recognises that the capacity of a structure to include multiple products in its portfolio would depend largely on its ability to raise resources at competitive rates from a variety of institutions. The Task Force, therefore, recommends that in addition to the NABARD, any unit in the LTCCS be free to borrow from other FIs, without the inevitability of having to deal only with its upper tier. The Task Force is also in favour of the structure being permitted to raise funds from the market, through appropriate instruments depending on the strength of its financials.

4.08 It was forcefully represented to the Task Force that the LTCCS should be brought within the purview of the Banking Regulation Act, 1949 (AACS) as banking entities. We have not been able to agree with this view, primarily on the grounds that the structure does not have the experience of banking in the wider sense in which it is understood. We have also recognised that whether or not an institution should be included within the banking fold depends on the Banking Regulator and that it would be inappropriate for the Task Force to make suggestions which impinge on the Regulator's prerogative. However, if on date, or in the future, any entity within this structure fulfils the conditions necessary for obtaining a banking licence, the Banking Regulator may consider it on merits.

4.09 It needs to be re-emphasised that the revival of the LTCCS can not be achieved only through a financial package which is liberal in accommodating the existing financial impairment of the structure. The package needs to be accompanied by institutional, legal and regulatory reforms that could enable the structure to function in a sustainable manner and prevent it from falling back into impairment. In tune with the recommendations of the Task Force on the STCCS, the package for the LTCCS should also be viewed as an integrated package and implemented as such.

4.10 Different views on restructuring and the future role of LTCCS

4.10 To facilitate the Task Force in formulating a suitable restructuring package, discussions were held and opinions invited, among others, from a cross-section of personnel from ARDBs at the primary and apex levels, the federation of SCARDBs, and the employees' union. The views which emerged are summarised below:

- There was wide agreement on the need for restructuring, having professional management, restricting board involvement in individual loan decisions and greater autonomy of the management in appraising applications, deciding on granting loans, monitoring use of credit, and improving recoveries, eliminating government interference in governance and management, reducing operating costs by down sizing, rationalisation of staffing patterns, training, computerisation and proper accounting and reporting systems, stricter supervision and independent audits of ARDBs.

- The financial package should be liberal, cover all accumulated losses, and restore the structure to a healthy state. While it was generally agreed that units which are potentially unviable should be closed down, a concern was also expressed that the criteria for potential viability should be such that it would avoid large scale closures. This apprehension also led some participants to suggest that rehabilitation can be on the lines of the Capoor Committee recommendations, which had neither suggested structural changes in the LTCCS, nor any criteria to determine viability.

- It was widely agreed that ARDBs should provide both short and long term loans. Merger of the LTCCS with the STCCS was, however, not favoured.

- Many participants also favoured ARDBs becoming full-fledged banks with freedom to accept public deposits, raise resources from the market, provide all financial services to their customers and diversify their portfolios. There was general willingness to accept regulation under the BR Act 1949.

- The employees' federation (AICBEF) supported ending dual control, providing greater autonomy, becoming member-centric, making the Model Cooperative Societies Act applicable, immediate holding of elections and RBI/NABARD being the regulatory authority for controlling, supervising and administering these banks. The employees' federation was, however, in favour of the federal structure being converted to the unitary one.

- There were, however, strong differences of opinion on the internal structure of the system and on the relations between the tiers.
- With one exception, SCARDBs under unitary systems do not want to change to a federal system.
- At least two federal SCARDBs want to switch over to the unitary pattern.
- Some federal SCARDBs want a greater and stronger control over the PCARDBs.
- PCARDBs are generally in favour of greater autonomy

4.11 The Task Force considered the above views of the ARDBs, as well as opinions of independent experts and cooperators, along with the recommendations of earlier committees. The Task Force, moreover, took note of the persuasive arguments made by the Hazari Committee for merging the ST and LT structures.

4.12 It is well recognised that PACS being far more numerous than ARDBs and being physically closer to the rural people, are more easily accessible to small and marginal farmers, especially in interior villages. They are, therefore, potentially more conducive to functioning as true cooperatives that are democratic, member driven and self reliant institutions, informed by a spirit of thrift and mutual help. The revitalisation and restructuring package recommended by the Task Force for the STCCS, therefore, is geared to create a legal, policy and institutional environment in which their weaknesses can be remedied and which induces them to realise their potential. Two important recommendations of that package are that PACS should provide short and long term loans to their members, and also be free to access resources from FIs other than their upper tier.

4.13 The Task Force has also recognised that ARDBs have a long history; that they are significant sources of long term credit in several states; and that there is a strong opposition to merger with the ST structure. One of the key issues hampering the working of the LTCCS is the single product offered by it**.** To improve its member contact and build on client-bank relationship, therefore, other credit products and perhaps some other financial services will also have to be offered by the LTCCS to its members.

4.14 Ideally there is little justification in having two parallel cooperative credit structures that perform similar functions. In view of the strong reservations expressed against any externally driven merger of the two structures, however, the Task Force is opting for the second best solution of allowing retention of two parallel structures, while integrating the short and long term lending functions in both and allowing freedom to primary units in each structure to join a federal structure of its choice.

4.15 The basic point is that ground level entities in both structures should meet all types of credit demand of the rural sector, have greater scope and flexibility in raising sources and in deciding their lending strategies, diversifying their portfolios and the financial services they provide to their members.

4.16 For this purpose, the Task Force's report on the STCCS had recommended that societies at all levels should:

- not depend exclusively on NABARD refinance (which in any case is limited and unlikely to meet all the needs of a vibrant and dynamic cooperative credit system),
- be free to borrow from other FIs and not necessarily have an exclusive relationship with upper tiers,
- raise funds through other instruments in the market, and
- mobilise members' deposits, and, where they are under BR Act, also accept public deposits

4.17 It was further emphasised that their ability to access funds through any and all these means be determined by the quality of their financial management.

4.18 These recommendations should also apply to the LTCCS. Therefore, in the case of PCARDBs, as in the case of PACS, deposit mobilisation should be limited to members with depositors being given full voting rights. There is, however, one important difference in the case of the upper tiers of the two systems. While DCCBs and SCBs, being subject to the BR Act, are allowed to mobilise public deposits, SCARDBs have been permitted, as a special case, to mobilise only term deposits from the public that do not exceed their net owned funds of not less than one year maturity.

4.19 As SCARDBs primarily provide long term loans, there is scope and need for them to expand the range of term deposits. The Task Force, therefore, feels that SCARDBs may be permitted to accept a wider range of term deposits from the public if they are willing to have their deposit schemes rated by an accredited rating agency, with capital adequacy as prescribed for non banking financing companies. The SCARDBs then should also be brought under a suitable regulatory mechanism, which needs to be devised for this purpose.

4.20 The NABARD should evolve an annual rating system for ARDBs, based on the regulatory parameters of Capital adequacy, Asset quality, Management and governance, Earnings, Liquidity and Systems (CAMELS). The rating awarded by NABARD should be the criteria for extending financial assistance by not only NABARD, but other agencies as well.

4.21 The NABARD should help ARDBs to get their individual debt instruments rated. The RBI may consider according "priority credit status" for the investments by banking institutions in such debt instruments. The NABARD may facilitate tradability of such instruments in the secondary market.

4.22 The ARDBs cannot, however, accept current or savings deposits unless they get a licence under the BR Act, which requires fulfilment of far more stringent eligibility conditions. Some SCARDBs may be in a position to meet these conditions now. In any case, this decision being the prerogative of the Regulatory Authority, the Task Force is not in a position to make any definitive recommendation on this aspect.

4.23 Under the above circumstances, the Task Force feels that it would be prudent to move cautiously, and in phases. To start with, the SCARDBs could be given the freedom and flexibility to tap a wider range of market sources, mobilise term deposits from the public as is permissible for Non Banking Finance Companies [NBFCs] and under a suitable regulatory regime, to give them wider freedom to determine their lending strategy and portfolio composition. This should be combined with measures to make every unit in the system fully autonomous, be member driven and without being bound to have exclusive financial relationship with upper tier institutions, and be free to have its own HR policy. These measures, combined with institutional changes to improve the quality of management and personnel, appraisal, and monitoring of loans, and incentives for prompt recovery should enable these institutions to become vibrant, dynamic and healthy institutions capable of graduating into full-fledged banks if they so choose. In short, the way this system will evolve will depend on how the SCARDBs function over the years.

4.24 With these initiatives, the quantum of business of the ARDBs will definitely increase and their operations will become more diversified. At the same time, the PCARDBs will face greater competition for rural business from PACS and branches of other banks in their area of operation. Since ARDB retail outlets are generally located in small towns and semi-urban locations, the expansion, scope and scale of their operation as envisaged, will move them away from their original mandate of providing investment credit for agriculture. While broadening the scope of rural lending is not undesirable, it is important to ensure that their focus on lending to the agriculture sector is not diluted. All initiatives for the ST and LTCCS working more closely should, therefore, be actively encouraged.

4.25 **Future structure of the LTCCS**

There are three variants of the LTCCS – federal, unitary, and mixed (in two states). There are inherent good features and bad features in the structures.

Federal

The federal structure, which is prevalent in ten states in the country, allows and encourages decentralised governance with active member participation at the ground level and development of grassroots leadership. Primary units can focus on local problems and find local solutions. Policies can be tailored to fit local needs. Decision making is faster as the primary unit does not have to depend on the higher tier for decisions. Local staff employed will have better knowledge and feel about local conditions, leading to better client relationship. Management is cheaper as local staff can be recruited at lower cost than under a unitary structure. Provided they are allowed to be autonomous, primary units will not have to be burdened by the inefficiency of the higher tier and can also access resources and HR support from outside the system. The federal structure does have certain problems. Frequent changes in leadership, for instance, can lead to poor governance because of inexperience. If leadership does not change, vested interests may get created and unless properly governed, local staff may develop vested interests too. Poor governance or vested interests may lead to high costs and affect the structure's overall performance adversely.

Unitary

The unitary structure is characterised by centralised policy making and constituent branches have to work under uniform systems and procedures. Staffing norms and service conditions are also uniform. Transferability of staff provides opportunities for them to gain wider experience and prevent development of vested interests. The system enables direct control and close supervision of the functioning of ground level units. All this has the apparent merit of facilitating better governance in accordance with centralised policy decisions. However, the unitary structure has several serious disadvantages: It does not allow member participation at all at branch level. Since ordinary members cannot contest state level elections, the unitary system vitiates the central principle of cooperatives, namely democratic and member governed institutions. On the contrary, it increases the risks of politicisation and control of the structure by powerful individuals and interests, who may not even be farmers.

Moreover centralised policy decisions and uniform guidelines and procedures leave little flexibility for adapting to local needs and conditions.

4.26 Suggesting a uniform approach to restructuring the LTCCS is seemingly difficult. However, when the past performance and strengths and weaknesses of the federal and unitary structures are compared, the following aspects emerge:

- At the aggregate level, the federal structure has performed better than the unitary one,
- The federal structure encourages member participation and keeps governance and management costs low. On the other hand, the unitary structure is saddled with high cost staff because of a uniform wage structure, that may not be commensurate with the business volumes of the primary unit. The unitary structure is also prone to political interference.
- The federal structure also allows flexibility in designing policies to suit local conditions, which may get sacrificed in the unitary structure in the name of uniformity and ease of implementation.
- Autonomous primary units (as recommended even in the case of the STCCS) allow them to access market resources much more efficiently, which may not be possible under the unitary structure, where a branch cannot access market funds independently even if it is functioning on sound lines.

4.27 The Task Force, having considered the relative strengths and weaknesses of the two kinds of structures, recommends adoption of the federal system in all states. The basic ground level unit needs to be an autonomous PCARDB rather than a branch of the SCARDB. Thus, the unitary structure should transform itself into a federal structure by converting the branches into PCARDBs.

A case study of the 'Aravakurichi' PCARDB in Karur district of Tamil Nadu, which can be seen at Annexure 3.5 is an excellent example of the efficient functioning of a PCARDB as a primary unit of the federal structure. The noteworthy features of the PCARDB's performance were the growth of membership and share capital; its client friendly operations, which identified good borrowers and ensured timely sanction and disbursement of loans; diversification and expansion of its lending portfolio. Some other exemplary features of the PCARDB were close monitoring and supervision of recovery of loans, which touched an all-time high of around 95% during 1994-95 and regular inspections, check and supervision by the SCARDB as well as regular audit of the bank. The bank's real strength was its highly professional and committed staff. This earned the bank NABARD's award for Best Performance in 1998-99. A decline, however, began to set in at the PCARDB since 2003-04, with a virtual standstill in the recovery drive owing to drought and the state government's instructions to ban coercive action for recovery, frequent announcement of interest waiver schemes, followed by non-disbursement of loans and a halt to the refinance flow from the NABARD.

What needs to be emphasised here is that the functioning of such a vibrant and dynamic entity can get impaired owing to certain extraneous factors much beyond their control. Thus, it is essential that affiliated PCARDBs, if efficient, should be free to mobilise resources from the market, rather than depend solely on the NABARD for their finances to ensure that their business activities do not get stifled. Also, the NABARD should have a separate refinance policy for banks with a good performance.

Earlier NABARD was allowed to refinance apex banks only. Now the Act has been amended enabling NABARD to refinance eligible DCCBs. However, NABARD cannot refinance eligible PCARDBs. The Task Force feels that the NABARD Act needs to be further amended to directly refinance PCARDBs as well, where the PCARDBs fulfil all criteria for refinance. The NABARD should also not insist on the pre-condition of a state government guarantee for refinancing such an institution.

4.28. Role of SCARDBs

4.28 At present, an SCARDB provides the following services to its affiliated PCARDBs :

- borrows, primarily from NABARD, to provide lendable resources to the PCARDBs,
- provides technical support to PCARDBs in terms of manpower and advice, and
- supervises and controls the PCARDBs

4.29 In the reorganised set up, an SCARDB will not depend solely on NABARD, but will be free to access the market to mobilise resources. The PCARDBs will also be free to access market resources based on their own financial status and performance. The SCARDB cannot remain merely a pass-through agency, as it will increase the cost, and not value. In order to avoid this, the SCARDB should focus on tapping wider resources at a lower cost taking advantage of its scale. This combined with on-lending will make resource management efficient.

4.30 Thus, unless such resources can be passed on to the PCARDB on terms better than what the PCARDB can itself negotiate in the market, the loan business of the SCARDB is likely to only decline. The process will, therefore, lead to efficient resource management by all, and will also require the SCARDB to make suitable policy changes in its lending to affiliated PCARDBs, and much of its credit business will depend on credit plus services that it can provide to its members along with credit rather than merely on the cost of credit. Thus, the apex tier must play a major role in terms of providing support services like technical manpower and advice, HRD, supervision and audit, and interacting with all other agencies on behalf of PCARDBs as the latter may not be in a position to acquire, manage and afford such manpower. Such services can be provided by the federal entity as part and parcel of the credit support, or on a fee based mechanism which is exclusive of credit support.

4.31. Since PACS and DCCBs under the STCCS will also require similar services, but may not be able to afford them on their own, it might be worthwhile to create a joint institutional mechanism under which, the SCARDB and SCB can partner each other to provide such services at mutually advantageous basis.

Criteria for eligibility to receive assistance under the package

4.32 There is a major distinction under the LTCCS as far as accumulated loan losses due to non-repayment of loans are concerned. While under the STCCS, most loans were unsecured loans (crop loans being given on hypothecation of standing crop only), all loans provided by the LTCCS to borrowers are fully secured by way of collateral, with mortgage of land and other properties. Inability of the LTCCS to realise its dues by enforcing the collateral is both owing to its own inefficiency, as well as the social and political resistance towards it. It also needs to be noted that although lands are mortgaged to the PCARDB, the SCARDB, being a lender to the PCARDB, takes a charge on the mortgaged land.

4.33 There is one more difference viz., unlike the PACS, which predominantly have loans repayable within a year, loans of ground level lending arms of the LTCCS are repayable over a number of years. Even if losses of the system are wiped out under the package, the system will still have many instalments of defaulted and still outstanding loans, which will have to be recovered in future as per contracted repayment schedule. Unless the LTCCS improves its recovery efforts substantially, unlike the STCCS, it will slip back into impairment almost immediately, even without transacting any fresh business. Norms for potential viability for the LTCCS, and the resultant eligibility to receive assistance under the proposed package, therefore, should be far more stringent than those applicable to the STCCS.

4.34 In tune with the recommendations of the Task Force for the STCCS, field level units which have little chance of becoming sustainably viable even after the present accumulated losses are cleared, need to be closed down. Their assets and liabilities should be passed on to the SCARDB as it already has a charge on the lands mortgaged with the PCARDB. In such cases, the recapitalisation amount against the accumulated losses of the primary units to be closed, would be directly passed on to the SCARDB. However, wherever possible, the merger option may be explored. Where this is not possible, the long term credit needs should be met by the STCCS and other RFIs.

4.35 Although this is the realistic scenario, the Task Force is conscious of the fact that there have been demands for relaxation in the eligibility criteria recommended even for the STCCS. Therefore, taking both the requirement and practicality into account, the Task Force recommends that any ultimate legal entity of the LTCCS, i.e., PCARDB under the federal structure or branch under the unitary structure, will be eligible to receive assistance under the proposed package, provided it fulfils the following criteria :

- its gross interest margin is equal to or more than 50% of its operating expenses

plus

- its recovery is equal to or more than 50% of the demand

4.36 It is necessary to recognise that any dilution in this criteria for the sake of covering a larger number of PCARDBs or branches of SCARDBs would have a cascading effect, as it will only mean that units with very large and very old overdues will be included in the package. Even if their accumulated losses are taken care of under the package, it will still mean huge amounts remaining outstanding in the books of such units, which they will find difficult to recover in future. Such units will, therefore, again slip back into impairment immediately, thus defeating the very purpose of recapitalisation. It is therefore important to put in place an effective recovery mechanism during the next three years. It is also necessary for the state governments to facilitate the recovery process. As far as branches of the existing unitary structure are concerned, a suitable cost sharing mechanism between the SCARDB and its branches will have to be worked out by the state level Implementation Committee, to enable identification of eligible branches, and after that the above mentioned criteria can be applied to the branches also. However, calculation of accumulated losses even for branches which are found to be eligible under the above criteria will not be easy. Hence, it is recommended that all arrears at the branch level as of March 2005 be covered and the branch be allowed to start on a clean slate after converting itself into an autonomous PCARDB.

4.37 As in the case of the STCCS, the accumulated losses of the LTCCS will be funded. As NPA norms have been made applicable to the LTCCS from 1998 onwards, it is presumed that the structure has been making provisions against impaired assets as per guidelines. However, in order to ensure that the accumulated losses as presented in the books of account of the various LTCCS units present a true picture of their financial status, a special audit of the financial statements of the LTCCS as of 31 March, 2005 will have to be done by specially designated auditors under a fee based arrangement. It needs to be clarified that instructions have already been issued that owing to the reschedulement of loans effected during 2004-05 under the farmers in distress or farmers in arrears schemes, writing back provisions already made, is not permissible. The accumulated losses as of 31 March, 2005 are expected to be far higher than those reflected in the balance sheets.

4.38 Accumulated losses and Sharing Pattern

- The aggregate accumulated losses of the PCARDBs in the federal structure as on 31 March, 2004 were Rs 2,649 crore. The aggregate accumulated losses of the entire unitary structure were Rs 217 crore[6]. The aggregate accumulated losses at the primary level may, therefore, be taken at Rs 2,866 crore.

- The total aggregate losses at the SCARDB level under the federal structure as of 31 March, 2004 are reported to be Rs 639 crore. These losses would, however, get wiped out once the accumulated losses of the PCARDBs are funded.

- It has been mentioned earlier that although the LTCCS was primarily meant to provide LT loans for agricultural and related purposes, the structure has, of late, diversified its portfolio to LT loans for NFS, housing and other such activities. Estimates on losses arising from this diversification are not readily available. But given the fact that these sectors now account for about 20% of the portfolio for the time being, the same percentage of accumulated losses can be attributed to these sectors (institution-wise actual figures could be arrived at when the special audits are undertaken).

- In tune with the recommendations of the Task Force on STCCS, it is recommended that all losses arising out of LT loans to agricultural and related activities in respect of PCARDBs (and branches of unitary structure) may be borne by the GoI. This amount is expected to be about Rs 2,291 crore.

- Any receivables from the state governments related to already announced waivers and subsidies would have to be met upfront by the concerned state government. Based on the data made available to the Task Force, this amount works out to only Rs 80 crore. The said amount is rather small, as such announcements are more often than not biased more towards the STCCS.

- It is recommended that all losses arising from non-agricultural loans by the structure may be borne by the concerned state government and the LTCCS equally.

[6] Although, very strictly, the amount of aggregate losses at the level of branches may be slightly different, this difference may be ignored for the time being.

- It is reiterated, on the lines of the emphasis laid by the Task Force on STCCS, that recapitalisation of the LTCCS is not equivalent to writing off of the dues from the borrowers of the structure. Since all loans are issued by the LTCCS with appropriate collateral securities, it is left to the concerned state government to either meet its share out of its budgetary resources or facilitate the recovery of such loans through appropriate legal action and revenue recovery proceedings and meet its own shortfall.

- The Task Force has also noted that unlike the primaries under the STCCS, the PCARDBs and branches under the unitary LTCCS have significant real estate at their disposal. The Task Force, therefore, recommends that sale of such real estate may be resorted to in a transparent manner, for meeting the aggregate losses and liability of the structure and the state to higher financing institutions.

- This aspect is mentioned here as the restructuring process is likely to see the closure of some primaries and apex structures. In all such cases, dues payable to the upper financing agencies like the NABARD, GoI, and even the concerned state government will have to be ensured. Since all debentures floated by the LTCCS are guaranteed by the state government concerned, the Task Force recommends that wherever the apex structure is to be liquidated, the concerned state government fully meets its guarantee obligation through budgetary resources or through a soft loan that may be provided to it by the GoI, as part of this package. However, in all such cases, the state government may use the real estate of the LTCCS to support its obligations. Similarly, the state government should also make all attempts to recover dues from the borrowers through appropriate legal action, to meet its own obligations towards the implementation of the revival package.

4.39 CRAR

Because of the share linking process already in vogue in the LTCCS, most units are likely to have adequate CRAR, after accumulated losses are covered under the recapitalisation package. However, any shortfall in any unit for achieving a minimum of 7% CRAR would be funded by the GoI as grant assistance. Both the primary and apex units would, however, be expected to raise their CRAR to at least 12% within five years through their internal resources. As far as SCARDBs are concerned, the Task Force recommends that they conform with the norms prescribed for NBFCs. The adequacy of SCARDBs to meet the capital adequacy norms prescribed for NBFCs and the magnitude of financial assistance required for the purpose can only be assessed after the special audit results are available.

4.40. Technical assistance and other issues

4.40 In tune with the overall recommendations and procedure for implementation recommended for the STCCS, assistance may be provided for installing appropriate accounting systems (especially since the PCARDBs will now deal with ST loans and member deposits), HR efforts, computerisation, appropriate CRAR and retirement of government share capital etc. The norms suggested for the STCCS will be equally applicable in this case also, and may be safely adopted. The entire cost of such technical assistance would be met by the GoI, except that the cost of HR development as contemplated in the revival package could be shared by the GoI and NABARD in a ratio as suggested earlier in the report (para 3.69 of Chapter III).

4.41 Based on the above recommendations, the aggregate liability of the revival package and its sharing pattern are indicated in table 4.1.

Table: 4.1.

Tentative estimates of Revival Package

(Rs crore)

Particulars	Share of		
	GoI	State Govts	CCS
Accumulated losses due to:			
- Agricultural loans	2293		
- Non-agricultural loans	0	287	286
Receivables from State Govt		80	
Return of State Govts equity	0		229
Minimum CRAR	0		
- SCARDBs as applicab to NBFCs *	0		
- PCARDBs @ 7% #	0		
HRD$ and Special audit	27		
Computerisation	37		
Implementation costs	100		
Total	2457	367	515
Share of liability (%)	74	11	15
Means of financing	Grant by GoI	Soft loans by GoI if needed	Soft loans by Go if needed
Total by all agencies	3339		
Add contingencies	1500		
Grand Total	4839		

* # This amount needs to be estimated after the capitalised balance sheets are arrived at.

$ Half of the HRD cost is to be met by NABARD

4.42 The percentage shares indicated above represent the aggregate and approximations at the macro level. It is clarified that these percentage shares would depend on the pattern emerging after the special audits and the extent of financial assistance required to meet the CRAR norms.

CHAPTER – V

Legal Reforms and Structural Changes

5.01. Need for Reforms

The Task Force reiterates that cooperatives can be revived only if they become dynamic, self governed and self-reliant organisations, based on mutual thrift and credit. To this end, it is also imperative that the scope for the government's interference in the internal affairs of cooperatives be eliminated. Accordingly, all the essential legal, regulatory and structural reforms recommended for the STCCS would be applicable to the LTCSS as well.

5.02. Legal Framework of LTCCS

The present legal framework governing the LTCCS falls in one of the following two categories:-

(i) A separate chapter in the respective State Cooperative Societies Act dealing with the LTCCS and

(ii) A separate state enactment dealing with the LTCCS.

5.03. Advantages in the System

The law governing LTCCS has created a special mechanism for the recovery of the loans and advances. This includes:

- Power to distrain
- Power to sell mortgaged property without intervention of the court
- Provision for disposal of sale proceeds
- Recovery by the Collector
- A guarantee fund to meet certain losses in the event of deficiency of sale proceeds.

5.04. Deficiencies in the System

The working of the LTCCS is affected by inbuilt maladies/ structural deficiencies present in the system, including the following:

- Restriction on financing PCARDBs through SCARDBs only and denying PCARDBs access to finance through other higher tier financial institutions
- The stipulation that SCARDBs only raise resources by floating debentures, which is a time consuming process with inherent defects and is required to be

backed by state government guarantee. There are, however, enabling provisions in the Act by which the SCARDB may raise resources by way of loans too.

- PCARDBs not being able to accept member deposits owing to restrictions imposed by the administration on mobilising such deposits, even though the bye-laws of the societies permit such deposits, which are necessary for an efficient credit delivery system.
- Restriction on purposes for which loans can be issued and the tenor of loans

5.05. The Task Force has found that structural changes are necessary to revitalise the LTCCS and these changes do require amendments in the existing laws. The Task Force has also suggested that the primary units in the structure be at liberty to join the higher tier of their choice. In other words, PCARDBS should be free to get affiliated to DCCBs/SCBs. This requires amendments to the legislation concerning them.

5.06. The essence of the reform measures proposed on the lines of the STCCS could be summarised as under:

- ensuring full voting membership rights on all users of financial services, including depositors (other than in the case of public deposits)
- removing the provisions for government equity and participation in the boards
- removing state intervention in administrative and financial matters
- permitting societies to take loans from any regulated financial entity and not necessarily only from their upper tier, and to place deposits with regulated financial entities of their choice
- limiting the powers of state governments to supersede boards, except for clearly specified financial irregularities and due powers.
- ensuring timely elections before the expiry of the term of the existing boards
- prescribing prudential norms including CRAR

The changes mentioned above may be effected through executive orders under the existing laws, or through legislative measures where necessary.

5.07. In addition to the above, the special measures specific to the LT CSS are as under:-

- ❖ enabling LTCCS to undertake credit business other than long term loans and also loans for non-agricultural purposes.
- ❖ giving PCARDBs greater freedom of affiliation with any federal cooperative credit structure
- ❖ Enabling acceptance of deposit by PCARDBs from members and SCARDBs from the public, subject to regulatory norms on the lines of those specified for loan companies.
- ❖ converting unitary structures to federal ones (in the concerned states) by converting branches into PCARDBs and consequently facilitating transfer of assets and liabilities at different levels and also by necessary reallocation of human resources
- ❖ providing full autonomy to the primary and apex units in the appointment of CEO (according to prescribed norms) and all other operating personnel.

The main modifications/reforms are discussed in the ensuing paragraphs.

5.08. Purpose for which loans can be issued

Some state laws provide for an exhaustive list of purposes for which the LTCCS can grant loans, thus limiting the scope for diversification. For flexibility in granting loans and to facilitate diversification of the loan portfolio, the relevant provisions need to be amended. However, stress on agriculture and rural development should remain an identifying or defining factor for ARDBs.

5.09. Tenor of loans

While some state Acts do not make any distinction between short-term loans and long-term loans, others only permit granting long term loans. The LTCCS should be given the freedom to make short or medium term loans and the restriction thereon should be withdrawn by amending the laws.

5.10. Appointment of Trustees

Debentures are issued by the LTCCS against the security of the mortgages given in their favour by borrowers. The trustees appointed by the state governments exercise vast control over the administration of the LTCCS. To avoid government intervention in this matter, provisions for floating debentures and appointment of trustees need to be modified to enable LTCCS to follow the methods of other corporate entities in floating debentures.

5.11. Sanction of loans

Some state enactments provide for a District Loan Committee with the power to sanction loans or recommend sanctioning of loans on the terms specified by the committee. The provisions for centralised sanction of loans should be removed and the LTCCS be kept free to sanction loans based on specified norms.

5.12. Investment of funds

State enactments confer considerable powers on registrars/state governments pertaining to investments that may be made by the ARDBs. These provisions may be amended to empower the LTCCS to take investment decisions, subject to specified norms.

5.13. Ceiling on dividends

At present there is a ceiling on dividends by ARDBs. Profit making ARDBs may be permitted to give dividends up to a specified limit, based on clear norms leaving no room for the discretion of the government/administration in the matter.

5.14. Guarantee of the State Government for NABARD refinance

Provisions may be made for NABARD to lend to the LTCCS as a matter of policy, based on the performance and the financial strength of the ARDBs and without necessarily taking state government guarantees. NABARD may also be authorised to lend directly to PCARDBs without routing the loans through SCARDBs.

5.15. Nomination on the Board

The state laws empower the government to nominate its directors on the boards of the ARDBs. The power to nominate directors may be restricted to cases where the government subscribes to the share capital (which shall be withdrawn in due course) and even in such cases, only one government director may be permitted.

5.16. Restriction to admit members

At present there are restrictions in some states on admission of new members for a certain period prior to the election to the boards. This trend reportedly leads to suspension of business by enrolling new members during that period. This may be modified by amending the laws/bye laws, to permit enrollment of new members but restrict their voting rights. Stricter eligibility criteria for membership and for contesting election may be introduced.

5.17. Improvement in Documentation Practices

There are suggestions from various quarters on the need to simplify loan documents. The Task Force is of the opinion that there is substance in the argument and the state government shall constitute a team of legal experts for studying the entire loan documentation process and come out with a simple and comprehensive system of loan documentation.

The Task Force has noted that the Gehan system prevalent in certain states like Kerala, works very well and it is highly desirable that it be replicated by all the state governments. The implementation of this system requires amendments to the governing law.

The Task Force also studied the problem faced by the structure in the execution of mortgage at the time of granting loans. The creditors generally prefer English Mortgage which requires registration and the borrower is made to bear the stamp duty and registration charges. An alternative system of equitable mortgage, by depositing title deeds, does exist. Since many towns are not notified for creation of equitable mortgage, this system has not taken off in a big way. Hence, the Task Force feels that more towns may be notified under the Transfer of Property Act for the creation of equitable mortgage.

5.18. Recovery Practices

Even though there are inbuilt advantages in the present recovery mechanism of LTCCS, the fact remains that they are not used effectively. The Task Force has observed that one of the main reasons for the poor recovery is that coercive steps are not taken for recovery under the provisions of law due to political interference / verbal instructions. Moreover, because of the peculiar social situation in rural areas, when the property is brought for auction there are no takers, which ultimately hinders the recovery process. Even though there are provisions in the Act by which PCARDBs/SCARDBs can purchase the mortgaged property, that is generally not done. For the effectiveness of the system, it is necessary that the provisions empowering ARDBs to recover loans be retained and implemented in letter and spirit.

Concerns have been expressed by some experts that the inefficiency and the slackness of the Sale Officer appointed by the state government has resulted in delaying the recovery process and that instead of appointing a government nominee, an Officer from the ARDB itself may be appointed as Sale Officer. Already, some state enactments do contain such a provision. The Task Force recommends that such a provision be incorporated in all state enactments.

Chapter VI

Implementation Mechanism

6.01 Effective implementation and its monitoring are essential for the success of any programme. The revitalisation of the CCS is no exception to this rule. It is with this vision that the Task Force had, in its report on the STCCS[7], recommended institution of an empowered implementation mechanism, so as to ensure effective implementation of its recommendations. The basic purpose and the rational for the revival package for LT and ST CCS are similar**.** The Task Force, therefore, recommends a unified implementation mechanism for ST & LT CCS, for which representatives of the LTCCS should be inducted at all levels. The structure of the integrated implementation mechanism and the process of implementation of the revival programme are described in the ensuing paragraphs.

6.02 It has been recommended that the National Bank for Agriculture and Rural Development (NABARD) be designated the Nodal Implementing and Pass-Through Agency. It will also coordinate and monitor the progress of the implementation of the revitalisation package. The GoI should formally vest NABARD with authority to give appropriate guidance and instructions for proper implementation of the programme, including mid course corrections, wherever necessary.

6.03 The NABARD will guide the field level implementation teams in approving bank specific restructuring programmes, enter into agreements with ARDBs covering the terms and conditions of the programmes, and follow up on the progress with each ARDB and other concerned agencies. Among other things, it should have the authority to operate the fund earmarked by the GoI and ensure its proper use. To provide overall guidance and to monitor the progress of the process at the national and state levels, however, it is necessary to have independent committees of stakeholders with defined responsibilities.

National level

6.04 At the national level, there will be a National Guidance and Monitoring Committee (NGMC). The constitution of the Committee will be as under :

---

[7] Chapter VII - Implementation Mechanism – Report of the Task Force on Revival of Rural Cooperative Credit Institutions – February 2005 – GoI.

i.	Secretary (FS), GoI	Chairman
ii.	Additional Secretary, MoA, GoI	Member
iii.	Deputy Governor, RBI	Member
iv.	Chairperson, NABARD	Member
v.	Chairperson of NAFSCOB	Member
vi.	Chairperson of NCARDBF	Member
vii.	Representatives of the states under review (Secretaries of Finance & Cooperation)	Members
viii.	Two eminent cooperators	Members
ix.	Executive Director, NABARD (to be designated by NABARD)	Member Secretary

6.05 The National Committee will act as the clearing house for policy references and monitor the implementation of the scheme on an All India basis. The primary tasks of the National Committee would be (a) approving state specific reform packages, (b) securing approval of the GoI and ensuring release of funds to the pass-through agency, (c) reviewing the implementation of the package on a quarterly basis, and (d) ensuring that the core recommendations of the package are implemented meticulously. The Committee will report to the Union Finance Minister on a quarterly basis. A dedicated team at the NABARD headquarters will support this committee. The secretariat for the committee will also be provided by the NABARD.

6.06 At the field level the programme will be implemented by a two-tier structure, one at the state level and the second at the district level.

State level

6.07 A State Level Implementation and Monitoring Committee (SLIC) will be put in position in every state where the revival package is to be implemented. The constitution of the SLIC will be as under :

i.	Secretary (Finance), state govt.	Chairman
ii.	Secretary (Cooperation), state govt.	Member
iii.	Registrar of Cooperative Societies (RCS)	Member
iv.	Independent chartered accountant	Member
v.	CEO of SCB	Member
vi.	CEO of SCARDB	Member
vii.	Regional Director, RBI	Member
viii.	CGM, NABARD RO	Member Secretary & Convenor

6.08 Responsibilities of the SLIC will include (a) preparation of the state reform package as per the recommendations of the Task Force, (b) securing approval of the package from NGMC, (c) ensuring execution of appropriate MoUs between the RBI, the state government, the Government of India, SCB and SCARDB, (d) ensuring proper conduct of audit, assessment of financial assistance required at SCARDB level, and vetting of financial assistance and other steps necessary at the level of PCARDBs, (f) recommending release of assistance on fulfilment of the prescribed conditionalities, and (g) overall supervision and control of the implementation of the scheme in the state.

6.09 A dedicated team at the NABARD Regional Office will assist this Committee.

District level

6.10 A District Level Planning and Implementation Committee (DLIC), working under the overall guidance and supervision of the State Level Committee, would be set up in each district. The constitution of each DLIC will be as under :

i.	Deputy General Manager of NABARD, RO	Chairman & Convenor
ii.	Representative of the RBI	Member
iii.	Deputy RCS	Member
iv.	CEO of DCCB	Member
v.	CEOs of PCARDBs of the district	Member
vi.	Independent chartered accountant	Member

6.11 The responsibilities of the DLIC will include (a) ensuring that special audits are conducted of all PCARDBs as of March 2005, and drawing up and vetting of reconstituted balance sheets, (b) ensuring execution of MoUs between PCARDBs, SCARDB, DCCB, the state government, and NABARD, (c) institution-wise assessment of financial and other assistance required, (d) recommending release of such assistance on fulfilment of the prescribed conditionalities, and (e) overseeing implementation including all issues relating to HRD and computerisation. The committee will ensure establishing and stabilising of accounting systems, MIS, and computerisation, and required HRD over a period of two years. A two or three member team of dedicated officers, drawn from NABARD or contracted especially for the purpose, and working full time on implementation of the Revival Package (RP) will support the Committee.

Role of NABARD

6.12 The NABARD will be the overall in-charge for designing, implementing and monitoring of the revival package including institution of legal and other reforms. The NABARD will ensure (a) preparation of model MoUs, & model balance sheet proformae for PCARDBs, SCARDBs and branches of SCARDBs, (b) designing of a standard accounting system, common software and hardware configuration, and (c) designing of training modules, manuals and materials.

6.13 All implementation costs, including costs of dedicated teams at the district, state and national levels will be fully met through GoI grant support.

Time Frame for implementation

6.14 Once the GoI announces the scheme, it is expected that some states may agree to participate immediately, while some others may do so later. Similarly, LTCCS units may also take some time to true their balance sheets as of March 2005. The implementation of the scheme is, therefore, likely to be staggered in different states. It is expected that the process, once started in any state, will take between two to three years to complete all the stages of legal and institutional reforms, capitalisation, and institutional and human resources capacity building.

6.15 It is recommended that the scheme be kept open for a period of two years for the state governments to decide on their participation, and be closed for accepting participation in the scheme on 31 March, 2008. Similarly, the scheme may be closed for disbursement of assistance on completion of three years from the date of signing of the initial MoU by the state government with the GoI.

6.16 The Task Force would like to clarify that given the uncertainties involved in state governments and concerned institutions opting to participate in the scheme, the pace at which the reform process progresses, the completion of formalities involved in the documentation processes, it is not possible for the Task Force to predict with certainty the amounts required under the Revival Package. It is also possible that the amount, even when released, may not get utilised in the year concerned. The Task Force, therefore, suggests that the GoI evolve a suitable mechanism for ensuring the continued flow of funds and carry over unspent balances in the Revival Package.

6.17 While ground work is done under Phase I of the implementation process at the field level in having balance sheets re-audited and trued, preparing action plans, and executing the necessary MoUs, the state governments would also have to simultaneously move during this period to bring in the desired reforms in the legal framework by bringing in the recommended amendments in the state CSA, the SCARDB Act (wherever applicable), and other administrative orders like cadre system etc. The Task Force considers it necessary to reiterate that the second phase of the implementation of the Revival Package, which would contain recapitalisation of the institutions and institutional and HR development, can and would start only after the state governments have already brought in the legal amendments mentioned.

6.18 **Restructuring Process - PCARDBs**

Phase I

- All PCARDBs to sign MoU with DLIC as per standard format
- Technical assistance support to be provided to ensure that PCARDBs or branches of SCARDB furnish audited balance sheets as of March 2005 to the DLIC, with estimates of accumulated losses (bifurcated purpose-wise) and provisions as prescribed by the Task Force
- DLIC to categorise PCARDBs as per norms prescribed and recommend winding up of potentially unviable PCARDBs to the SLIC, for action by RCS
- Action plan to provide for assets and liabilities of such PCARDBs to be taken over by another PARDB or SCARDB
- Assessment of unit wise financial assistance required as per the recommendations of the Task Force based on the special audit.

Phase II

Unviable PCARDBs

- Agreement by all stakeholders on action plan on transferring assets and liabilities and how the area is to be served

Viable and potentially viable PCARDBs

- Retire state government capital; if required avail of a soft loan under the package
- Move to the Parallel Act or to amend bye-laws to provide for a uniform membership for all users of the cooperative characterised by voting rights
- Hold elections, if required, as per the applicable Act
- Amend bye-laws to enable the PARDB to borrow from any financial institution
- Amend bye-laws to facilitate the PARDB to affiliate with or abstain from a federal structure of its choice
- Recruit / appoint critical staff as per MOU after cadre system is abolished
- Avail of Technical Assistance to develop institutional action plans to achieve sustainable financial viability in three years

Phase III

- Release of first tranche of financial assistance to PCARDBs, which have completed all Phase I and II actions

- Implement agreed institutional actions, including the plan for computerisation to be supported through Technical Assistance grant
- Devise and institute staffing and salary structure in tune with margins
- Train staff and elected board members as programmed under the scheme
- Implement internal control procedures and regular audits
- Second and third tranche financial assistance to be released on achievement of agreed performance benchmarks, including recovery.

6.19 **Restructuring Process - SCARDB**

Phase I

- Sign MoU with SLIC and PCARDBs
- Have balance sheet as of 31 March, 2005 re-audited as per recommendations of the Task Force and furnish the same to the SLIC, with an estimate of accumulated losses and provisions. In case of unitary SCARDB, also construct balance sheets for the newly proposed PCARDBs (by converting the existing branches of SCARDB) by apportioning necessary assets and liabilities of the SCARDB and devise staff transfer norms.
- Take steps to convert branches of unitary / mixed SCARDBs into PCARDBs.
- Amend bye-laws enabling the SCARDB to borrow from any FI
- Develop business plans for sustainable financial viability over a five- year period, and
- Recruit key personnel and develop phased plan for replacing state government employees with SCARDB employees

Phase II

- Hold elections where they are due and also regularly and as per the law.
- Retire state government share capital, avail a soft loan under the scheme if needed
- Install professional governance and management by co-opting professionals on the board
- Appoint a professional CEO
- Implement agreed institutional actions including
    - Devising and instituting staffing and salary structures in tune with margins available
    - Implementing internal controls and professional audits
- Implement the common accounting system, MIS.
- Initiate the process of automation and computerisation.

Phase III

- First and second tranches of financial assistance released on achievements of agreed performance benchmarks
- Implement agreed institutional actions including
    - Installing automation for accounting and MIS to be supported through TA grant
    - Train staff and elected board members during the implementation period of the scheme on the lines of the recommended package
    - Implement an internal supervisory system for PCARDBs
- Nurture PCARDBs as leader of a professional federated structure and provide efficient services on human resources, processes, product development, and standardisation
- Third tranche of financial assistance released on achievement of agreed performance benchmarks.

Annexure 1.1

F.No.3(56)/2004-AC
Government of India
Ministry of Finance
Department of Economic Affairs
(Banking Division)
Jeevan Deep Building,
Parliament Street
New Delhi - 110 001
Dated, the 31 January, 2005

ORDER

Vide Order No.3(56)/2004-AC dated 5th August 2004, a Task Force was appointed under the Chairmanship of Prof.A. Vaidyanathan to suggest a workable action plan for reviving the rural Co-operative Credit Structure (CCS). The Task Force in its draft final report has addressed the issue of short term co-operative credit structures. There is an urgent need for strengthening the long term co-operative credit structure also for agriculture and rural development. The Govt. has decided to entrust this work to the Task Force with the following modified Terms of Reference & composition:-

Terms of Reference

I. Review the present system for Long Term Lending for Agriculture and Rural Development.

II. Assess the plans and performance of Co-operative Agricultural Rural Development Banks/ Land Development Banks and other major components in the overall system.

III. Suggest a comprehensive strategy for institutional financing of Long Term Agriculture and Development investment and the kind of role the co-operative structure can play in implementing that strategy consistent with prudent financial management.

b) **Composition:**

i. All the existing composition of the Task Force, including permanent invitees, will continue.

ii. The Task force is also advised to co-opt one or two additional members with expertise in the area of Long Term Co-operative Credit for Agriculture and Rural Development.

c) The Task Force will be provided with secretariat assistance by NABARD.

d) The Task Force will submit its report by 30th June, 2005.

Sd/-

(B.S. BHALLA)
Director (AC & VIG.)

To

1. Prof. A. Vaidyanathan, Madras Institute of Development Studies, New Number 22, Second Main Road, Gandhi Nagar, Adayar, Chennai 600 020
2. Mr. Rama Reddy, President, Sahavikasa Cooperative Development Foundation, Post Box No. 1465, Hyderabad 500 059 (Fax No. 040 – 24531903)
3. Prof. M.S. Sriram, Wing 5, Indian Institute of Management, Vastrapur, Ahmedabad - 380 015 (Fax No. 079 – 26306896)
4. The Secretary, Department of Agriculture & Cooperation, Krishi Bhawan, New Delhi.
5. The Chief Secretary, Government of Orissa
6. The Chief Secretary, Government of Uttar Pradesh
7. The Chief Secretary, Government of Maharashtra
8. Dr. Y.S.P. Thorat, Managing Director, NABARD, Mumbai
9. Shri A V Sardesai, RBI, Central Office, Mumbai
10. The Legal Officer, RBI, Central Office, Mumbai

Copy to:
1. The Governor, Reserve Bank of India, Central Office, Mumbai
2. The Chairperson, NABARD, Mumbai
3. PS to FM

Sd/-
(B.S. BHALLA)
Director (AC & VIG.)

Annexure 1.2

F.No.3/56/2004-AC
Government of India
Ministry of Finance
Department of Economic Affairs
(Banking Division)
Jeevan Deep Building, Parliament Street,
NEW DELHI – 110 001

April 25, 2005

ORDER

Subject : Order No.3(56)/2004-AC dated 31st January, 2005 regarding Task Force for strengthening Long Term Co-operative Credit Structure.

In partial modification of the aforesaid dated 31st January, 2005 the following is added to the Terms of Reference mentioned therein:

"iv) Recommended an implementable action plan for reviving Agriculture and Rural Development Banks engaged in long term lending for agriculture and rural development, and make an assessment of the financial assistance required for such revival, its mode, sharing pattern and phasing."

(B.S.BHALLA)
DIRECTOR (AC&VIG.)

To

1. Prof.A.Vaidyanathan, Madras Institute of Development Studies, New Number 22, Second Main Road, Gandhi Nagar, Adayar, Chennai – 600 020.
2. Mr.Rama Reddy, President, Sahavikasa Co-operative Development Foundation, Post Box No.1465, Hyderabad- 500 059 (Fax No.040 2453 1903).
3. Prof.M.S.Sriram, Wing 5, Indian Institute of Management, Vastrapur.
4. The Secretary, Department of Agriculture & Co-operation, Krishi Bhawan, New Delhi – 110 001.
5. The Chief Secretary, Government of Orissa.
6. The Chief Secretary, Government of Uttar Pradesh.
7. The Chief Secretary, Government of Maharashtra.
8. Dr.YSP Thorat, Managing Director, NABARD, Mumbai.
9. Shri AV Sardesai, RBI, Central Office, Mumbai.
10. The Legal Officer, RNO, Central Office, Mumbai.

Copy to:

1. The Governor, RBI, Central Office, Mumbai.
2. The Chairperson, NABARD, Mumbai
3. PS to Finance Minister.

Annexure 1.3

Details of meetings of the Task Force

Sr.No	Date	Venue
1	15 February 2005	New Delhi
2	25 February 2005	Chennai
3	1 & 2 April 2005	New Delhi
4	15 & 16 April 2005	Bangalore
5	16 & 17 June 2005	Guwahati
6	15 & 16 July 2005	Kolkata
7	18 & 19 August 2005	Jaipur
8	5 & 6 September 2005	Pune, CAB
9	28 September 2005	Chennai
10	24 October 2005	Mumbai
11	28 & 29 November 2005	Chennai

ANNEXURE 1.4

LIST OF INVITEES

Second Meeting held at Chennai on 25 February 2005

Sr.No	Name	Designation	Institution
	S/Shri		
1	Machendranathan	Special Secretary Cooperation	Govt. of Tamil Nadu
2	M Ravikumar	General Manager	Tamil Nadu SCARDB
3	Smt. T Vijayalaxmi	General Manager	Tamil Nadu SCARDB
4	Dr.Prakash Bakshi	Chief General Manager	NABARD, Tamil Nadu RO

Third Meeting held at Delhi on 1 & 2 April 2005

Sr.No	Name	Designation	Institution
	S/Shri		
1	K Sivadasan Nair	President	NCARDBs' Federation
2	K K Ravindran	Managing Director	NCARDBs' Federation
3	Viswajit Khanna	RCS	Govt. of Punjab
4	V K Bansal	Addl.Registrar, Credit	Govt. of Punjab
5	A S Gill	Managing Director	Punjab SCARDB
6	Dr. H S Kohli	Addl. MD	Punjab SCARDB
7	M S Rana	General Manager	Haryana SCARDB
8	Tarun Lakhanpal	Manager	Haryana SCARDB
9	Thakur Kashmir Singh	Chairman	HP SCARDB
10	H C Verma	Managing Director	HPSCARDB

Fourth Meeting held at Bangalore on 15 & 16 April 2005

Sr.No	Name	Designation	Institution
	S/Shri		
1	K V Prabhu	Trustee	NIRB, Bangalore
2	K Sivadasan Nair	President	Kerala SCARDB
3	N A Shanbhag	General Manager	SLBC, Syndicate Bank
4	George Kuriakose	General Manager	Kerala SCARDB
5	M Veerabhadraiah	Managing Director	Andhra Pradesh SCB
6	B K Swamy	General Manager	Andhra Pradesh SCB
7	A R Shivaram	Vice President	Karnataka SCARDB
8	H Jayadeva	Managing Director	Karnataka SCARDB
9	Sadanand Yediyal	General Manager	Karnataka SCARDB
10	Ms. Sahar Banu	Secretary	Karnataka SCARDB
11	G S Kulkarni	Lead Dist.Manager	Belgaum
12	M E Shivalingamurthy	CEO	Zilla Parishad, Belgaum
13	A Gopal	LDM	South Canara District
14	G S Sivaswamy	CEO	Zilla Parishad, Bellary
15	S S Acharya	Executive Director	NABARD
16	B B Mohanty	Chief General Manager	NABARD, Karnataka RO

17	M L Sukhdeve	General Manager	NABARD, Karnataka RO
18	Arun Tallur	DDM	NABARD, Belgaum
19	Ibrahim Padbidri	DDM	NABARD, Kolar

Fifth Meeting held at Guwahati on 16 & 17 June 2005

Sr.No	Name	Designation	Institution
	S/Shri		
1	J I Kathar	RCS	Govt. of Assam
2	Sailen Bora	Chairman	Assam SCARDB
3	A B Das	Chief Executive Director	Assam SCARDB
4	Sapan Saha	RCS	Govt. of Tripura
5	Sukumar Barman	President	Tripura SCARDB
6	Y Thamkishore Singh	RCS	Govt. of Manipur
7	Chandrakant Singh	President	Manipur SCARDB
8	Dr. Amarendra Sahoo	Regional Director	RBI, Guwahati
9	P K Bahinipati	General Manager	RBI, Guwahati
10	C K Gopalakrishna	Chief General Manager	NABARD, Assam RO

Sixth Meeting held at Kolkata on 15 July 2005

Sr.No	Name	Designation	Institution
	S/Shri		
1	Dilip Chakraborty	Principal Secretary (Cooperation)	Govt. of West Bengal
2	Saral Deb	Chairman	West Bengal SCARDB
3	N Ganguly	MD	West Bengal SCARDB
4	P Chatterjee	Financial Analyst	West Bengal SCARDB
5	Sudarshan Naik	RCS	Govt. of Orissa
6	Biswa Prakash Mohapatra	Managing Director	Orissa SCARDB
7	Dhuleshwar Mania	DGM	Orissa SCARDB
8	G L Tawte	Chief General Manager	NABARD, West Bengal RO
9	Rajendra Singh	General Manager	NABARD, West Bengal RO

Seventh Meeting held at Jaipur on 18 August 2005

Sr.No	Name	Designation	Institution
	S/Shri		
1	J P Gupta	RCS	Govt. of Gujarat
2	Kanhubhai M Patel	Chairman	Gujarat SCARDB
3	Malay Srivastava	RCS	Govt. of Madhya Pradesh
4	S K Oswal	Managing Director	Madhya Pradesh SCARDB
5	Ashok Jain	Secretary (Cooperation) & Administrator	Govt. of Rajasthan RSLDB, Jaipur
6	S D Meena	Project Director, Monitoring	Commissioner of Cooperation, Govt. of Rajasthan
7	Shiv Lal Meena	Managing Director	RSLDB, Jaipur

8	J R Sarangal	Chief General Manager	NABARD, Rajasthan RO
9	R Amalorpavanathan	Deputy General Manager	NABARD, Rajasthan RO

Eighth Meeting held at CAB, Pune on 5 & 6 September 2005

Sr.No	Name	Designation	Institution
	S/Shri		
1	Balasaheb Vikhe Patil	Member of Parliament	Govt. of India
2	B G Yashod	Addl. Commissioner	Commissioner of Cooperation, Govt. of Maharashtra
3	Sheshrao Sangale	Liquidator	Maharashtra SCARMDB
4	Madhukar B Patil	Manager Finance	Maharashtra SCARMDB
5	N V Angane	Officer	Maharashtra SCARMDB
6	N Srinivasan	Chief General Manager	NABARD, Maharashtra RO
7	J R Sarangal	Chief General Manager	NABARD, Rajasthan RO
8	R Amalorpavanathan	Deputy General Manager	NABARD, Rajasthan RO

Annexure 3.1

Integration of the ST and LT cooperative credit structures –
Andhra Pradesh.

Highlights of study done by secretariat of the Task Force.

The significant points were as follows:

1. While integration of the structures cannot be prima facie dismissed as an undesirable route, it needs to be considered carefully.
2. The AP experience does not give us deep insights into the merits of integration because the necessary planning required for the integration does not seem to have gone into the exercise.
3. While at the primary level, the integration increased the membership and capital base because of the merger, the structure was unable to capitalize on the exercise because it failed in planning to allocate resources and chase targets on both the segments of credit.
4. At the district level, the results have to be seen in the context of merging a structure, which has huge accumulated losses with a structure that had marginal profits, thereby rendering even the profitable segment of the structure weak.
5. The important aspect of human resources and their integration does not seem to have got the adequate attention it deserved. Therefore inadequate efforts were put in retraining the staff to orient them to the new "single window" structure.
6. At the state level, while the balance sheets were merged, it was evident that the staff still believed in a two-structure framework and there never was an emotional integration of the staff.
7. If there is any attempt to integrate the structures, detailed plans for the roll out of the entire strategy should be in place and some planning for different scenarios has to be necessarily planned.

The findings of the NIRD and the VAMNICOM studies were on similar lines and had suggested that the process of integration should be looked into much more carefully before blindly suggesting the integration of the two structures.

Annexure 3.2

GROUND LEVEL CREDIT FLOW, SHARE OF VARIOUS AGENCIES FOR FARM SECTOR ADVANCES (M.T/L.T CREDIT)

(Rs. Crore)

S.No.	Particulars/ Agency	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
1	Co-operative Banks	2208	2278	2156	2148	2616	3098	3356	3489	4190	4737	3968
		(43.5%)	(43.6%)	(37.1%)	(28.06)	(27.8%)	(27.4.%)	(25.9%)	(20.2%)	(21.5%)	(22.0%)	(16.55%)
2	Of which, SCARDBs	1212	1375	1645	2030	2468	2682	2811	2864	2898	2938	3103
		(23.9%)	(26.3%)	(28.3%)	(27.0%)	(26.2%)	(23.7%)	(21.7%)	(16.6%)	(14.9%)	(13.6%)	(12.9%)
3	RRBs	342	245	395	532	563	644	750	749	974	1077	1295
		(6.7%)	(4.7%)	(6.8%)	(7.1%)	(6.0%)	(5.7%)	(5.8%)	(4.3%)	(5.0%)	(5.0%)	(5.40%)
4	Commercial Banks	2528	2700	3255	4827	6234	7482	8821	13036	14321	15683	18670
		(49.8%)	(51.7%)	(56.1%)	(64.3%)	(66.2%)	(66.1%)	68.1%)	(75.3%)	(73.4%)	(72.8%)	(77.8%)
5	Other agencies	0	0	0	0	0	92	30	29	28	39	41
							(0.8%)	(0.2%)	(0.2%)	(0.1%)	(0.2%)	(0.17%)
	TOTAL	5078	5223	5806	7507	9413	11316	12957	17303	19513	21536	23974

Source: NABARD. Data in respect of SCARDBs taken from Federation

MT loans are generally for 5 years

Annexure 3.3

Details of Purpose-wise Loans Issued.

Haryana

(Rs lakh)

Year	MI	FM	PH	AH	Fisheries	Others	Total
99-2000	4131.41	7890.35	702.46	5129.24	92.86	7244.32	25190.64
% share	16.40	31.32	2.79	20.36	0.37	28.76	100.00
2000-01	3966.08	7347.30	1296.04	7602.77	77.11	7344.35	27633.65
% share	14.35	26.59	4.69	27.51	0.28	26.58	100.00
2001-02	2771.53	9608.52	1156.08	8221.36	142.26	14702.06	36601.81
% share	7.57	26.25	3.16	22.46	0.39	40.17	100.00
2002-03	3220.18	8603.78	1127.79	8185.31	184.19	19348.68	40669.93
% share	7.92	21.16	2.77	20.13	0.45	47.57	100.00
2003-04	8740.00	6136.59	2682.78	4373.51	187.58	20604.31	42724.77
% share	20.46	14.36	6.28	10.24	0.44	48.23	100.00

Himachal Pradesh						**(Rs lakh)**	
Year	MI	FM	PH	AH	Fisheries	Others	Total
99-2000	1328.00	2396.40	680.00	974.00	8.75	8210.89	13598.04
% share	9.77	17.62	5.00	7.16	0.06	60.38	100.00
2000-01	1625.92	2995.77	704.00	1223.00	10.80	9313.45	15872.94
% share	10.24	18.87	4.44	7.70	0.07	58.68	100.00
2001-02	1830.00	3540.00	754.00	1510.00	54.30	9435.00	17123.30
% share	10.69	20.67	4.40	8.82	0.32	55.10	100.00
2002-03	2547.00	3820.00	783.00	1850.00	20.05	10020.00	19040.05
% share	13.38	20.06	4.11	9.72	0.11	52.63	100.00
2003-04	3103.00	4704.00	999.00	1532.00	41.30	10800.00	21179.30
% share	14.65	22.21	4.72	7.23	0.20	50.99	100.00

Orissa						**(Rs lakh)**	
Year	MI	FM	PH	AH	Fisheries	Others	Total
99-2000	NA	NA	NA	NA	NA	NA	
% share							
2000-01	NA	NA	NA	NA	NA	NA	
% share							
2001-02	104.54	370.95	7.84	108.74	8.79	10.57	611.43
% share	17.10	60.67	1.28	17.78	1.44	1.73	100.00
2002-03	297.68	374.23	35.77	233.50	81.37	75.06	1097.61
% share	27.12	34.09	3.26	21.27	7.41	6.84	100.00
2003-04	261.98	266.08	26.14	204.41	140.34	171.73	1070.68
% share	24.47	24.85	2.44	19.09	13.11	16.04	100.00

Annexure 3.3 (contd)							
Karnataka						**(Rs lakh)**	
Year	MI	FM	PH	AH	Fisheries	Others	Total
99-2000	3232.00	4483.00	3101.00	1345.00	12.00	2335.00	14508.00
% share	22.28	30.90	21.37	9.27	0.08	16.09	100.00
2000-01	3522.00	3794.00	2763.00	1005.00	3.00	1391.00	12478.00
% share	28.23	30.41	22.14	8.05	0.02	11.15	100.00
2001-02	3640.00	2444.00	2459.00	833.00	7.00	1489.00	10872.00
% share	33.48	22.48	22.62	7.66	0.06	13.70	100.00
2002-03	3687.00	2317.00	2349.00	840.00	3.00	2611.00	11807.00
% share	31.23	19.62	19.89	7.11	0.03	22.11	100.00
2003-04	3060.00	1145.00	1636.00	692.00	0.00	1326.00	7859.00
% share	38.94	14.57	20.82	8.81	0.00	16.87	100.00

Chattisgarh

(Rs lakh)

Year	MI	FM	PH	AH	Fisheries	Others	Total
99-2000	NA	NA	NA	NA	NA	NA	
% share							
2000-01	3352.70	6370.77	2.45	97.30	6.70	248.52	10078.44
% share	33.27	63.21	0.02	0.97	0.07	2.47	100.00
2001-02	3640.12	9266.38	2.70	130.12	30.40	370.27	13439.99
% share	27.08	68.95	0.02	0.97	0.23	2.75	100.00
2002-03	4512.56	11312.10	4.10	147.70	80.05	497.74	16554.25
% share	27.26	68.33	0.02	0.89	0.48	3.01	100.00
2003-04	5742.56	13399.75	6.04	162.98	97.95	875.55	20284.83
% share	28.31	66.06	0.03	0.80	0.48	4.32	100.00

Madhya Pradesh						**(Rs lakh)**	
Year	MI	FM	PH	AH	Fisheries	Others	Total
99-2000	1888.46	7345.37	32.72	244.85	16.96	498.39	10026.75
% share	18.83	73.26	0.33	2.44	0.17	4.97	100.00
2000-01	4029.03	9570.06	42.95	735.57	21.24	925.18	15324.03
% share	26.29	62.45	0.28	4.80	0.14	6.04	100.00
2001-02	5406.48	13420.71	50.24	1287.73	30.66	1024.02	21219.84
% share	25.48	63.25	0.24	6.07	0.14	4.83	100.00
2002-03	5501.44	17146.97	75.90	2508.95	59.21	2504.84	27797.31
% share	19.79	61.69	0.27	9.03	0.21	9.01	100.00
2003-04	4522.60	13325.49	38.99	2265.68	66.96	2848.91	23068.63
% share	19.60	57.76	0.17	9.82	0.29	12.35	100.00

Annexure 3.3 (contd)

Punjab **(Rs lakh)**

Year	MI	FM	PH	AH	Fisheries	Others	Total
99-2000	2969.48	3579.50	3142.49	15917.93	262.98	8247.19	34119.57
% share	8.70	10.49	9.21	46.65	0.77	24.17	100.00
2000-01	2904.91	5922.74	1133.65	12912.92	176.47	5901.34	28952.03
% share	10.03	20.46	3.92	44.60	0.61	20.38	100.00
2001-02	2552.77	3610.33	1041.38	15770.78	307.57	7510.87	30793.70
% share	8.29	11.72	3.38	51.21	1.00	24.39	100.00
2002-03	1499.52	5684.21	1291.83	2111.76	335.99	22488.46	33411.77
% share	4.49	17.01	3.87	6.32	1.01	67.31	100.00
2003-04	2075.63	7942.15	2243.01	3174.71	386.44	35583.06	51405.00
% share	4.04	15.45	4.36	6.18	0.75	69.22	100.00

Kerala **(Rs lakh)**

Year	MI	FM	PH	AH	Fisheries	Others	Total
99-2000	1596.46	890.04	4417.83	1600.65	200.32	1982.81	10688.11
% share	14.94	8.33	41.33	14.98	1.87	18.55	100.00
2000-01	1974.20	1268.60	4854.62	1660.13	229.85	2813.85	12801.25
% share	15.42	9.91	37.92	12.97	1.80	21.98	100.00
2001-02	2247.35	337.74	5302.04	1277.06	375.44	3011.55	12551.18
% share	17.91	2.69	42.24	10.17	2.99	23.99	100.00
2002-03	2118.19	653.93	3372.37	1123.24	176.15	3212.89	10656.77
% share	19.88	6.14	31.65	10.54	1.65	30.15	100.00
2003-04	1334.96	78.54	2406.25	907.54	172.25	4365.90	9265.44
% share	14.41	0.85	25.97	9.79	1.86	47.12	100.00

Source: As reported by Regional Offices of NABARD

Annexure 3.4

SR. NO.	STATE	AVG. RETURN OF FUNDS (2001-02,2002-03 & 2003-04)		AVG. COST OF FUNDS (2001-02,2002-03 & 2003-04)		AVG.FINANCIAL MARGIN (2001-02,2002-03 & 2003-04)		AVG.TRANSACTION COST (2001-02,2002-03 & 2003-04)		AVG.RISK COST (2001-02,2002-03 & 2003-04)		AVG.NET MARGIN (2001-02,2002-03 & 2003-04)	
Federal+ Mixed		SCARDB	PCARDB	SCARDB	PCARDB	SCARDB	PCARDB	SCARDB	PCARDB	SCARDB	PCARDB	SCARDB	PCARDB
1	**Chattisgarh**	7.47	8.88	6.21	8.57	1.26	0.31	0.75	2.35	0.17	1.00	0.35	-2.40
2	**Haryana**	9.13	8.41	8.20	7.32	0.93	1.10	0.40	1.67	0.02	1.44	0.51	-1.90
3	**Karnataka**	8.59	8.10	8.37	10.66	0.22	-2.56	1.22	1.65	1.87	1.45	-2.87	-5.65
4	**Kerala**	9.57	11.02	7.20	8.99	2.38	2.04	0.52	1.21	0.36	1.53	1.55	-0.23
5	**Madhya Pradesh**	7.99	10.98	6.77	8.72	1.22	2.26	0.80	3.67	0.34	0.44	0.10	-1.58
6	**Maharashtra**	8.33	8.85	7.17	6.67	1.15	2.18	0.33	3.14	7.07	5.82	-6.21	-6.14
7	**Orissa**	4.41	3.88	4.96	3.72	-0.55	0.16	0.71	1.92	1.14	0.28	-2.39	-1.98
8	**Punjab**	9.82	9.65	7.65	7.28	2.18	2.37	0.61	1.34	0.08	0.85	1.49	0.47
9	**Rajasthan**	8.53	10.72	7.14	7.12	1.38	3.61	0.33	1.27	0.34	3.18	0.74	-0.60
10	**Tamil Nadu**	10.96	13.77	7.55	10.97	3.41	2.81	1.03	2.18	4.20	3.85	-1.72	-2.79
11	**Himachal Pradesh**	10.36	12.18	7.41	8.29	2.95	3.90	1.29	1.57	1.81	1.93	-0.05	0.61
12	**West Bengal**	8.66	9.86	6.82	7.23	1.84	2.63	0.78	2.29	0.39	0.51	0.79	0.23
Federal+ Mixed		**8.65**	9.69	**7.12**	**7.96**	**1.53**	**1.73**	**0.73**	**2.02**	**1.48**	**1.86**	**-0.64**	**-1.83**
UNITARY													
13	**Assam**	1.25		0.64		0.60		1.37		0.00		-0.69	
14	**Bihar**	8.18		5.63		2.55		5.04		5.12		-7.51	
15	**Gujarat**	9.86		6.02		3.84		1.98		1.75		0.12	
16	**Jammu & Kashmir**	8.42		6.82		1.60		6.55		0.72		-5.38	
17	**Manipur**	NA		NA		NA		NA		NA		NA	
18	**Pondicherry**	12.41		7.08		5.33		5.14		0.74		0.39	
19	**Tripura**	5.96		5.35		0.61		4.53		2.46		-3.24	
20	**Uttar Pradesh**	10.26		5.02		5.24		1.69		0.90		2.80	
	Unitary	**8.05**		**5.22**		**2.82**		**3.76**		**1.67**		**-1.93**	
	ALL INDIA	**8.43**	**9.69**	**6.42**	**7.96**	**2.01**	**1.73**	**1.85**	**2.02**	**1.55**	**1.86**	**-1.12**	**-1.83**
	Source: As reported by Regional Offices of NABARD												

Annexure 3.5

Aravakurichi and Srivilliputhur Primary Cooperative Agriculture and Rural Development Banks (PCARDBs) in Tamil Nadu- A case study

A. Aravakuruchi PCARDB in Karur district

The Aravakurichi PCARDB was established in 1969-70. The bank has earned profits for 26 years, in its 35 years of existence and has earned profits continuously since 1992-93. It has regularly declared dividends of as much as 14%, for its shareholders for several years. The bank constructed its own building in 2000, entirely out of its own resources. It has been able to contain establishment costs within 2% of working capital.

2. Declining trend

Scanty rainfall and intermittent drought in the last five years, a fiat from the state government to suspend distraint proceedings against defaulters and the unhelpful attitude of the department staff have been a severe setback to the bank. Its recovery levels fell from 87.2% during 1999-2000 to 61.2% during 2003-04. Consequently, its NPAs increased from a mere 5% to 23% during the period and the bank's net margin declined from Rs 17.59 lakh on 31 March, 2000 to Rs 1.81 lakh on 31 March, 2004.

3. Area of operation - Repayment sensitive clientele

The area of operation of the bank spans across 58 villages and it has customers in 52 villages. No major food or cash crop grows in the area, as it is mostly rain fed. Growing drumstick trees and dairy farming or sheep rearing are the main investment activities in the area, while growing millets and groundnuts is the chief production activity. The inhabitants of the region reportedly have a repayment culture and are sensitive to coercive action for recovery. This attitude is evident in the receipt of advance repayments of Rs 46.02 lakh, Rs 37.34 lakh and Rs 67.78 lakh during the three drought-stricken years of 2001-02, 2002-03 and 2003-04.

4. Growth of membership and share capital

4.1 The bank's membership grew from a mere 830 in 1973-74 to 5,872 on 31 March, 2004 and its share capital grew from Rs 1 lakh to Rs 53 lakh during the period. Over a period of 20-25 years, around 1,300 members have availed of at least four loans in succession from the bank. In the 1980s, the bank had a monopoly in issuing loans for new wells with pump sets and for deepening of wells, which brought prosperity to several hundred families in the area. Other factors that have endeared the bank to local inhabitants are easy access to staff, prompt disbursement of loans and declaration of dividend.

4.2 Suspension of refinance by NABARD to the SCARDB since 1 April, 2004 (because the state government did not execute the guarantee deed), coupled with poor overall recovery in the state, has aggravated the situation. Having learnt that fresh loan disbursements by the bank had stopped because refinance was not available from NABARD, some of the good borrowers have started withholding repayment of dues, while some of the good members have resigned their membership.

4.3 The bank is not able to sustain its member retention capacity at present, mainly because fresh loans have not been issued since 1 April, 2004. The number of members of the bank fell to 5,749 at the end of March 2005 from 5,872 on 31 March, 2004 and its share capital dwindled to Rs 48 lakh from Rs 53 lakh a year earlier.

5. Lending operations

5.1. Identification of borrowers

Bank staff undertake a thorough screening and make detailed enquiries about the borrowers' background and other sources of income, track record in repayment of earlier loans availed from other sources, experience in the field for which loan is applied for, etc. before admitting loan applications. Recommendations of existing good borrowers are also taken into account.

5.2. Time taken to sanction and disburse loan

Loans are normally disbursed within 10 days to 25 days from the date of loan application.

5.3. Extent of diversification

Sheep rearing and dairy accounted for more than 80% of the bank's total lending. Tractors and other farm implements were financed to a limited extent. The bank has been very cautious in expanding its NFS portfolio, particularly rural housing, under which recovery is sustained at 100% as on date. The bank's continued good recovery performance under NFS (around 90%) is mainly due to its high selectivity of borrowers and activities under the sector.

5.4 Predominance of small loans

More than 80% of the bank's disbursements were below Rs 50,000 per loan, forming around 65% of the total loan disbursed in a year during the last five years.

5.5 Spread of loan disbursement in a year

In the LTCCS in Tamil Nadu, fresh lending normally commences in December and gets heavily concentrated (more than 60%) in March. This affects the quality of lending. In the case of the Aravakurichi PCARDB, lending was fairly spread throughout the year, ensuring that the bank had sufficient time for identifying borrowers and ensuring quality of lending, as well as end-use of credit.

5.6 Declining trend since 2003-04

The highest lending recorded by the bank was Rs 235 lakh in 2002-03. This was also the highest by any PCARDB in the state. Subsequently, disbursements in 2003-04 fell to Rs 175 lakh, in the wake of instructions from the SCARDB in mid-February 2004 to stop loan disbursements and instead, concentrate on recovery. With no fresh disbursements since April 2004 and no sign of return to normalcy, loan recovery has come almost to a halt. The bank has lost its image in the area, the goodwill of its regular customers and the ability to rope in quality borrowers. People in the area seem apprehensive that the bank will be wound up shortly.

5.7 Urgent need to resume normal lending

In any system of development through credit, lending and recovery are inter-dependent processes and abruptly stopping one process is bound to adversely affect the other. The bank should not be allowed to suffer because of the non-performance by other PCARDBs (poor recoveries) in the state and the non-execution of the Permanent Mandate clause by the state government. A mechanism should be worked out to make refinance support available to good performing banks, so as to ensure credit to eligible borrowers on the one hand and to safeguard the health of the good institutions, on the other.

6. Monitoring and recovery process

6.1. Demand for recovery falls due in February, August or November for different loans. The bank has, however, been concentrating on recovering loans in the months of May and June, when farmers are believed to posses cash, after marketing their agricultural produce (millets and groundnuts).

6.2 Recovery levels of the animal husbandry (AH) sector fell sharply to 59% and 55% in the last two years, as the productivity of the AH investments suffered during the drought period. This drop dented the overall recovery levels of the bank, even though recoveries of loans for other purposes remained almost unaffected. The age-wise classification of the overdues points to a specific trend, showing a sharp rise in overdues of “less than one year”, with a portion slipping down to longer tenures. This trend could be attributed to drought and the state government's orders to restrain distraint.

6.3 The bank maintains village-wise borrowers’ lists and complete details of default, classified in terms of size, purpose, borrower status, etc., enabling it to concentrate on specific cases and effect possible recoveries. A chronic defaulter is met at least once a month and persuaded to make repayments. Even though the bank has been restrained from executing the decrees it had been empowered with, it has made good progress during the current year, in collecting around 38.5% of the dues. These achievements speak of the unrelenting efforts of the bank staff and the repayment culture of the people of the region.

6.4 Fall-out of non-disbursement of loans

A halt in disbursal of fresh loans from 1 April, 2004 had stifled the bank's recovery drive during the peak season of May and June that year and contributed to the downslide in the bank’s recovery level to 61% for 2003-04. The low recovery level also impacted the bank's capacity to pay the SCARDB's dues on time. Commencing 2002-03, the bank has not been able to fully clear the principal demand arising in August and February, but could clear it out of the bulk recoveries made during May and June

7. *Other business of the bank*

7.1 Jewel loans

The quantum of jewel loans issued by the bank had declined from Rs 22 lakh during 1999-2000 to Rs 17 lakh during 2003-04, mainly because of competition from other agencies, that have been offering the loan at lower rates of interest (i.e., @ 9-10%, compared to 11% charged by the PCARDB). Even so, borrowers still approach the bank for loans, for they feel that the time taken by the bank to process and sanction a loan is the least. Also, borrowers can obtain loans and make repayments even up to 5.00 per month. The jewel loan business has, however, become almost unviable for the bank after the SCARDB reduced the margin on jewel loans by 1 1/2% from May 2003. The interest margin earned on jewel loans (Rs 63,000 during 2003-04) was barely adequate to meet the interest liabilities on jewel loan CC with the DCCB (Rs 4,100), commission to appraiser (Rs 4,674), insurance cost (Rs 1,500), stationery, books of account, manpower, etc.

7.2 Mobilisation of fixed deposits on behalf of SCARDB

The bank's credibility in the area of operation and popularity among the people of the region have enabled it to mobilise fixed deposits from the public of Rs 2.64 lakh, Rs 6.35 lakh and Rs 7.90 lakh in the last three years.

8. Management of funds

8.1 Minimum interest payment on CC accounts

The bank was extremely prudent in operating the CC accounts it maintains with the nearby DCCB, for which interest at 13.5% is payable on the outstanding borrowings. The PCARDB was extremely prompt in claiming reimbursement from the SCARDB of the loans disbursed through borrowings in the CC accounts, thereby restricting the interest outflow to about Rs 30,000 per year on an average. Such interest payments constituted hardly 0.2% of the aggregate drawals on the CC account.

8.2 Other incomes

The bank earned an income of Rs 6.88 lakh during 2003-04 from interest on investments and loan processing and evaluation fees.

9. Internal checks & controls and supervision by the SCARDB

9.1 Inspection by the SCARDB was invariably carried out by bunching two or three years or quarters together instead of every quarter. Defects mainly related to procedural aspects, such as non-obtention of second EC, occasional delay in sanctioning loans, arrears in loan verification by bank staff, rising NPAs and non-improvement in recoveries.

9.2 Good house-keeping and up-to-date posting of accounts and registers enabled the bank to meet the requirements of the auditors. The bank staff have also been preparing the final accounts on their own for the auditors.

10. Management

The bank had an elected board till June 1976. From June 1976 to September 1996, it was managed by the officials (Cooperative Sub-Registrar) of the Co-operative Department, called Special Officers (SO). Elections were held and there was an elected board between September 1996 and May 2001. The board was superseded in May 2001 and has ever since been managed by officials of the Cooperative Department. Each SO has had a minimum stint of three years at the helm, which has provided some continuity in the bank's operations and more importantly, helped to build a better rapport with the staff

11. Audit

11.1 Audit by the Department of Co-operative Audit was generally completed within eight to 12 months from the close of the year. The shortcomings pointed out in the last four audit reports include a need to reduce NPAs, disposal of unclaimed dividend, non-receipt of interest on some old investments, items pending under sundry debtors, regularisation of the expenditure on building construction (pending with the RCS for no reason), non-appropriation of profits, delay in convening general body meetings, retention of heavy cash during May and June, etc. The bank delayed sending the compliance reports to the audit observations.

11.2 The bank earned an "A" classification in audit in all the years till 2001-02. Since the bank’s dues to the SCARDB were yet to be cleared as of 31 March, it was placed in "C" class for the years 2002-03 and 2003-04, even though the bank had complied with all other requirements for placement in "A" class.

12. Staff - the bank's real strength

12.1 The singular factor responsible for the bank's good performance has been its staff. The staff hail from the nearby villages and have excellent knowledge of the people and the area. For many years, the bank had a staff strength of seven in all, including the secretary. At present, the bank has a staff of five, including a secretary, two supervisors, a lady typist and a clerk-cum-attendant. The secretary and the supervisors enjoy immense popularity in the area and among the staff of other banks and former directors, all of whom shower praises on the staff for their hard work, commitment to the bank and honesty.

13. Summary of findings

13.1 By virtue of its excellent performance during 1998-99 (recovery: 88.4%, NPAs:3%, history of declaring dividend even up to 14%, consistent growth in membership, share capital & loan disbursements), Aravakurichi PCARDB won NABARD's Best Performance Award for that year.

13.2 Since then, the bank's achievements have been on a downslide, mainly because of falling recoveries. Intermittent drought, a directive from the state government to stop even persuasive methods, the unhelpful attitude of the district cooperative administration, etc. contributed to the declining trend. Non-availability of refinance from SCARDB/NABARD since 1 April, 2004 has caused further setback to loan recovery levels (61% for 2003-04 and only 50% likely by June 2005), apart from driving away the existing members and potential borrowers.

13.3 Despite the above setbacks, the bank is among the top ten PCARDBs in the state. The factors that contributed to the good performance of the PCARDB, despite odds are:

- Honest and committed staff, with skill and knowledge of the local conditions and people;
- Availability of some source of income to the farmers, even during crop loss; repayment-sensitive people;
- Quality lending through proper identification of borrowers and activities, slow expansion of NFS lending based on merits, lesser bunching of applications during the year-end;
- Predominance of small size loans (80% of loans were less than for Rs 50,000);
- Constant supervision and the staff's ability to collect dues even under legal cases (38.5%);
- Good house-keeping and management of funds;
- Up-to-date maintenance of accounts, facilitating completion of audit generally on time;

14. Conclusion

While the bank staff need to pursue their recovery efforts more vigorously and endeavour to avoid even the minor mistakes pointed out by the auditors/inspectors, efforts should be made to restore the line of credit immediately. It takes time and effort to build good institutions and these should not be allowed to wither away because of the indifferent attitude of the state government. A scheme may have to be formulated by NABARD to provide refinance to good performers, on the basis of the existing security and put them under close supervision and guidance.

B Srivilliputhur PCARDB in Virudhunagar District

The Srivilliputhur PCARDB was established in 1956-57. The bank is a profit making and dividend-declaring bank (up to 9%). The bank constructed its own building in 1989. It received the Best Performance award from NABARD, for its performance in the year 2000-01. It also received the State Level Award for its performance during the same year. It continuously won district level awards for the years 1996-97 to 2002-03

2. Area of operation

The bank operates in an area that covers three blocks with 95 revenue villages. The major crops grown in the area are paddy, sugarcane, bajra and ragi. There is potential in the area for financing mango, sapota, coconut, citrus and amala cultivation, along with drip irrigation, deepening of wells, farm mechanisation and NFS activities

3. Salient features of the bank

The bank is manned by well-qualified, committed staff, with skill and knowledge of the local conditions and people. The bank has been graded 'A' class for four years from 2000-01 to 2003-04. The bank has been regular in its repayments to the SCARDB.

4. Membership Analysis

The bank's membership grew from 4,361 in 1999-2000 to 4,636 in 2003-04; a growth of 6.3%. Its borrowing membership grew from 1,208 to 2,323, (a growth of 92.6%) during the same period. The bank's share capital grew from Rs 37.27 lakh to Rs 44.16 lakh during the period. The share of the state government stood at Rs 8.88 lakh, forming 20% of the bank's shareholding.

5. Lending operations

5.1 The bank had financed a total of 371 borrowers to the extent of Rs 592 lakh during the five year period between 1999-2000 and 2003-04. Only 30 borrowers belonged to the SF/MF category. Loans disbursed against security of jewels formed 46% of the loans. The other major purpose was for NFS loans, including SRTO and rural housing, which formed 31% of the disbursements. The average loan per borrower was Rs 1.60 lakh. The strategy adopted by the bank was diversification towards financing big borrowers under NFS and farm mechanisation, to increase business and profit and to facilitate closer follow up for better recovery of loans.

5.2 The bank has financed schemes ranging from NFS units, tractors and power tillers, deepening of wells, mini dairies, Kisan Bikes and horticultural units. Bunching of loans was observed from the fact that more than 60% of the loans were sanctioned during the last quarter of the year (35% alone in March).

6. Non Performing Assets, Overdues, Recovery

6.1 Non Performing Assets as a percentage of loans and advance outstanding during the five-year period between 1999-2000 and 2003-04 showed mixed trends. From 26% in 1999-2000, NPAs reduced to 15% in 2002-03. In 2004-05, its NPAs increased to 22%, which could be attributed to falling recovery levels, coupled with no fresh lending on account of non-availability of refinance from NABARD.

6.2 Three sectors alone accounted for 78% of the total NPAs, of which NFS accounted for 37% of the NPAs, followed by farm mechanisation at 26.9% and MI at 14.4%.

6.3 The bank's overdues as of 30 June, 2000 were Rs 64 lakh. This increased to Rs 89 lakh on 30 June, 2004. The overdues of more than six years were Rs 22 lakh, forming 25% of the overdues. Overdues below two years amounted to Rs 28 lakh, indicating fresh slippages. Out of total overdues of Rs 88.81 lakh as of 30 June, 2004, maximum overdues of Rs 24.99 lakh were under NFS (28.1%), followed by farm mechanisation at Rs 13.27 lakh (30.8%) and minor irrigation (MI) at Rs 13.27 lakh (14.9%). These three sectors account for 73.8% of the total overdues

6.4 The bank had consistently recorded recovery above 60% in the five- year period between 1999-2000 and 2003-04. The lowest recorded loan recovery was 60.7% in June 2000 and the highest was 71.7% in June 2003. This record was achieved by the bank, despite the ban on coercive action ordered by the state government and the intermittent drought in the state.

7. Human Resource Development

7.1 The top position in the bank is being manned by an official from the Co-operative Department and his salary is met by the bank. Staff are regularly sent for training at JLTC of TNCSARDB. Of the bank's total staff of six, (including a secretary, four supervisors and a lower grade staff), two supervisors are B.Com. graduates and one supervisor is a BBA graduate.

7.2 The staff had the financial soundness of the bank in mind as is evident from the recovery achieved by the bank despite the odds. They understood that their own survival was linked to the functioning of the bank. The Best Performance Award given to them by NABARD had a positive effect on their functioning and served well in motivating and sustaining their performance.

8. Internal Checks and Control, Audit

8.1 The last quarterly inspection of the bank by LVEO of TNCSARDB, covering the period up to 31.12.2004, was conducted during January 2005 and the report was received by the PCARDB for compliance, only on 11 March, 2005.

8.2 Annual inspection by the SCARDB has been conducted only up to the financial year 2002-03. The bank is yet to be inspected for the year 2003-04. Half yearly inspection was conducted by the Deputy Registrar of Co-operative Societies (DRCS) during August 2004 and covered the period from 01.04.2001 to 31.03.2003 (bunching of two years). The report was received by the bank on 18 February, 2005. While the PCARDB cannot be blamed for such lapses, it shows the lack of seriousness on the part of the Department of Co-operation, TNCSARDB on the role of inspection in keeping the systems on track in a PCARDB.

8.3 The PCARDB has been audited up to the financial year 2003-04. The bank has been classified as an 'A' class bank.

9. Governance

An elected board of 10 directors managed the bank during the period 26.10.1996 and 24.05.2001. After the supersession of the board, the affairs of the bank are managed by the Special Officer, with all the powers of the board of management. He is appointed by the Department of Co-operation, Government of Tamil Nadu. During the last four years (from 25.05.01 till date), the bank has seen six changes in the post of Special Officer.

10. Suggestions which emerged from the study

10.1 The LTCCS completely depends on borrowings from SCARDB/NABARD for its lending. In Tamil Nadu, from 1 April, 2004, the banks could not disburse loans to the farmers since refinance facilities were not available from NABARD, because of non-availability of government guarantee. The NABARD should have a separate refinance policy for good working banks.

10.2 The PCARDBs may be permitted to mobilise deposits from the public/members the way other banks, including CCBs and PACS are.

10.3 In the LTCCS in Tamil Nadu, the due dates for repayment of principal and payment of interest are 1 August and 1 November and the corresponding due dates of the TNCSARDB are 15 August and 15 November. These dates do not coincide with the marketing season of crop produce. The entire demand at the borrowers' level, therefore, become overdue and recoveries are made only during May, June. The due dates at PCARDB/borrowers' level may have to be changed to 1 November and 1 March and the bank should also maintain 31 March as the due date of the DCB instead of 30 June. This will also help the bank to sanction loans during April, May and June for all agricultural activities just before the onset of the monsoons, particularly for minor irrigation and plantation and horticulture.

10.4 Banks may be permitted to issue working capital loans (CC limits/SCC) for NFS activities financed by the banks and crop loan/KCC to farmers financed for FS activities. The beneficiaries should avail of all types of loans from the same financial institution.

10.5 Land records should be computerised by the Land Registration Department. This will enable farmers to obtain land documents easily to avail of loans easily and in less time.

Points emerging from the studies of Aravakurichi and Srivilliputhur PCARDBs

- Both are Best Performing Banks, profit and service oriented banks, but different.
- Major lending of the Srivilliputhur PCARDB is for Jewel loans, NFS, FM, i.e big loans. The average size of a loan is Rs 1.6 lakh.
- Major lending for sheep farming and dairy at Aravakurichi – small loans. The average size of a loan is below Rs 50,000. Jewel loans are an anathema in this bank.
- The common factor in both banks is committed staff.
- The cause for the decline in performance in both banks is non-availability of funds for lending and ban on coercive action for recovery.

Annexure 3.6

Age-Wise Classification of Staff of SCARDBs and PCARDBs (as on 31 March 2004)

Sr No	State	Less than 30 years		30 - 40 years		40-50 years		More than 50 years		Total	
		Number	%	Number	%	Number	%	Number	%	Number	%
1	Assam	5	1.71	121	41.3	128	43.69	39	13.31	293	100
2	Bihar	-	-	-	-	-	-	-	-	1370	100
3	Chhattisgarh	10	2.16	49	10.61	151	32.68	252	54.55	462	100
4	Gujarat	6	1.04	157	27.26	156	27.08	257	44.62	576	100
5	Haryana	62	3.33	397	21.3	754	40.45	651	34.92	1864	100
6	Himachal Pradesh	33	14.54	89	39.21	37	16.3	68	29.96	227	100
7	Jammu & Kashmir	5	2.24	93	41.7	61	27.35	64	28.7	223	100
8	Karnataka	65	3.28	98	4.94	770	38.81	1051	52.97	1984	100
9	Kerala	58	3.8	329	21.56	642	42.07	497	32.57	1526	100
10	Madhya Pradesh	109	3.41	341	10.67	1116	34.91	1631	51.02	3197	100
11	Maharasthra	20	0.68	389	13.31	1040	35.58	1474	50.43	2923	100
12	Orissa	44	5.13	73	8.51	242	28.21	499	58.16	858	100
13	Pondicherry	1	2.86	15	42.86	10	28.57	9	25.71	35	100
14	Punjab	125	9.78	280	21.91	329	25.74	544	42.57	1278	100
15	Rajasthan	4	2.56	9	5.77	70	44.87	73	46.79	156	100
16	Tamil Nadu	37	2.5	385	26.05	176	11.91	880	59.54	1478	100
17	Tripura	1	2.13	2	4.26	2	4.26	42	89.36	47	100
18	Uttar Pradesh	495	13.04	618	16.28	839	22.11	1843	48.56	3795	100
19	West Bengal	4	2.7	27	18.24	65	43.92	52	35.14	148	100
	Total	**1084**	**4.83**	**3472**	**15.47**	**6588**	**29.36**	**9926**	**44.23**	**22440**	**100**

Source: SCARDB Federation

		Annexure 3.7		
Involvement of State Government in the management of LTCCS				
Sl	**Particulars / State**	**Assam**	**Bihar**	**Chattisgarh**
1	**Whether Sector-wise priorities are fixed by the State Government**	No	No	No
2	**In the last three years (upto March 2004) has State announced any waivers of (Principal/interest/penal interest etc.)**	No	Yes	No.Schemes announced by state government were applicable only for ST structure.
(I)	**Dates of annoucement**	NA	15.8.2003	Not applicable
(ii)	**Amount involved**	NA	Rs 20.54 crore	Not applicable
(iii)	**Amount Released**	NA	Rs 20.54 crore	Not applicable
(iv)	**Amount still not released (as on 31 March 2004)**	NA	Additional amount of Rs 10.84 crore claimed by Bihar SCARDB still remains unpaid.	Not applicable
3	**Involvement of the Government in Recovery of loans**	State Govt has taken following steps for recovery of dues of the SCARDB. (I) posted 28 land sale officers from Cooperation Dept to improve recovery of long term overdues.(ii) Posted 2 officers for recovery under Bengal Public Recovery Act (BPDR Act). (iii) Periodic monitoring of recoveries by RCS. (iv) Review of activities of bank by Minister of State on regular basis. Support of State Govt has however not resulted in substantial improvement in recovery of loans. Bank has stoppred lending leading to weak financials on account of low recovery.	Nil	Involvement of Government in recovery of dues has not been to the desired extent.
4	**Does State Government/RCS/Ministers fix rate of interest on Deposits and loans.**	No	No	State Government has fixed rate of interest on loans but not on deposits.

Annexure 3.7 (contd)

Sr. No.	Particulars / State	Harayana	Rajasthan	Karnataka	Kerala
1	**Whether Sector-wise priorities are fixed by the State Government**	No.	No.	No.	No
2	**In the last three years (upto March 2004) has State announced any waivers of (Principal/interest/penal interest etc.)**	No.	No.	Yes. Full interest waiver under horiticulture schemes and interest over and above 9% under agricultural loans for the year 2002-03 was announced. Vide order dated 27.4.2005, GoK decided to waive int +penal interest on all loans availed upto 31.3.2004. If farmers repay principal by 30.6.2005 Govt will waive int + PIon all loans upto 30.3.2005. Money to be paid to CCS. Provision of Rs 450 crore made in budget for 05-06.	Yes. In 2001-02 State Government had announced interest waiver scheme which envisaged waiver of interest upto 6 months for loan accounts upto Rs.50000 and the beneficiaries income upto Rs.60000 p.a. and agricultural land holdings of 1 ha.
(I)	**Dates of annoucement**	Not applicable	Not applicable	9/15/2003, 27.4.2005	29-Dec-01
(ii)	**Amount involved**	Not applicable	Not applicable	Rs.36 crore as on 15.9.03	5.76 crore
(iii)	**Amount Released**	Not applicable	Not applicable	Rs.36 crore on 31.8.04	Information not available
(iv)	**Amount still not released (as on 31 March 2004)**	Not applicable	Not applicable	Nil	Information not available

3	**Involvement of the Government in Recovery of loans**	Full support is provided by the State Government.	State Government deputes its officers from cooperation department for assisting bank in recovery of loans. It also monitors recovery of loans on a regular basis.	Dept. of cooperation in involved in the recovery process by providing awards and execution orders on coercive measures U/S 70 and 99 of KCS Act and also participates in recovery works. GoK had imposed a ban during Aug 2003. This has severely hampered recovery efforts.	With state government approval, RCS appoints special recovery officers in each PCARDB whose salary is paid by both SCARDB and PCARDB in equal proportion. The SROs are also given field work. The SROs help in recovery of loans through auctioning of properties, etc. However, major loans continue to be overdues.
4	**Does State Government/RCS/Ministers fix rate of interest on Deposits and loans.**	Rate of interest on loans and deposits are fixed by the Board with approval of RCS.	No	Yes. CCS advised vide order dated 9.12.2004 that agrl loans should be puveyed to farmers @ 6% w.e.f 1.4.2005. GoK to provide subsidy to banks @ 5.5%.	No. The bank is empowered to fix interest rate of loans. The State Government has not yet permitted the SCARDB or PCARDBs to mobilise deposits.

Annexure 3.7 (contd)

Sr. No.	Particulars / State	Orissa	Pondicherry	Punjab
1	**Whether Sector-wise priorities are fixed by the State Government**	No. The State government has not fixed any sectorwise targets. However, SLBC fixes targets to OSCARDB under SGSY and PMRY.	No	No.
2	**In the last three years (upto March 2004) has State announced any waivers of (Principal/interest/penal interest etc.)**	No.	Yes. Compromise Package Scheme for waiver of overdue interest on loans borrowed by members.	No.
(I)	**Dates of annoucement**	Not applicable	18.1.2002	Not applicable
(ii)	**Amount involved**	Not applicable	0.96 crore	Not applicable
(iii)	**Amount Released**	Not applicable	0.96 crore	Not applicable
(iv)	**Amount still not released (as on 31 March 2004)**	Not applicable	Nil	Not applicable
3	**Involvement of the Government in Recovery of loans**	Government officials are involved in recovery of loans. The State government has appointed Sales Officers for disposal of assets in decrees obtained by the bank. Out of 15624 cases filed involving Rs.24.21 crore as on 31.3.2005, 5250 cases involving Rs.7.46 crore have been disposed off.	Not applicable	Full support is provided by the State Government.
4	**Does State Government/RCS/Ministers fix rate of interest on Deposits and loans.**	No. Interest rates on loans are fixed by the bank in consultation with NABARD.	No. ROI fixed by Board	Rate of interest on loans and deposits are fixed by the Board with approval of RCS.

Annexure 3.7 (contd)

Sr. No.	Particulars / State	Madhya Pradesh	Maharashtra	Gujarat
1	**Whether Sector-wise priorities are fixed by the State Government**	Inf not yet received. Ro reminded to expedite	No.	No
2	**In the last three years (upto March 2004) has State announced any waivers of (Principal/interest/penal interest etc.)**		No. The State Government has however directed the bank to implement OTS. Interest loss on account of OTS is to be borne by PCARDB.	No
(I)	**Dates of annoucement**		Not applicable.	Not applicable
(ii)	**Amount involved**		Not applicable.	Not applicable
(iii)	**Amount Released**		Not applicable.	Not applicable
(iv)	**Amount still not released (as on 31 March 2004)**		Not applicable.	Not applicable
3	**Involvement of the Government in Recovery of loans**		Powers of recovery by coercive measures has been delegated to the staff of the bank.	State Govt appoints Special Recovery Officers at each district office of the bank to take legal action against defaulters as per Section 139 of CSA, 1961. Auction of mortgaged land is undertaken by SROs for which grant is sanctioned. However grant sanctioned during last five years is inadequate and hence it becomes difficult to take legal action against defaulters.
4	**Does State Government/RCS/Ministers fix rate of interest on Deposits and loans.**		No.	No

Annexure 3.7 (contd)

Sr. No.	Particulars / State	Tamil Nadu	Tripura	Uttar Pradesh	West Bengal
1	**Whether Sector-wise priorities are fixed by the State Government**	Yes. Sectorwise targets are fixed based on priorities.	No.	No.	No.
2	**In the last three years (upto March 2004) has State announced any waivers of (Principal/interest/penal interest etc.)**	Yes. 4 schemes involving interest waiver/penal interest waiver/ interest incentive schemes and OTS were announced.	No.	No.	No.
(I)	**Dates of annoucement**	16.5.01, 28.3.02, 19.12.03	Not Applicaple	Not Applicaple	Not Applicaple
(ii)	**Amount involved**	Rs.27.12 crore	Not Applicaple	Not Applicaple	Not Applicaple
(iii)	**Amount Released**	Rs.10.71 crore	Not Applicaple	Not Applicaple	Not Applicaple
(iv)	**Amount still not released (as on 31 March 2004)**	Rs.16.41 crore	Not Applicaple	Not Applicaple	Not Applicaple
3	**Involvement of the Government in Recovery of loans**	Departmental officers are deployed for recovery of overdues in April to June every year. Further the special officers of PCARDB who are government officials are authorised to take leagal action to collect overdues under the revenue recovery act.	PDR Act has been implemented. In distrain and sale cases, the government machinery is involved to the required extent.	Yes. Government provides appreciable support in recovery generally through revenue officials. Progress is reviewed by Commissioner/DMs and other officials at different levels. District authorities also provide support in many ways providing security guards, suspending the arms licenses of defaulters, etc. In respect of recovery of overdues under Sec.95A of UPCS Act, 1965 recovery certificates are issued by District Collectors to recover the dues as arrear of land revenue.	Government provides adminstrative help in executing court orders to seize the securities or destrain crops for recovery of loans from defaulters. The government in the cooperative directorate also adjudicates on disputes over repayament of loans to cooperative societies.

4	**Does State Government /RCS/Ministers fix rate of interest on Deposits and loans.**				

Annexure 3.8 (Contd)

Data on Background of Directors on Boards of SCARDBs

Sr No	SCARDB	Total no of Directors	Age of Directors	Educational/Profesional Qualifications	Details of other positions held (MP/MLA/MLC/Corporator)	Political party to which the director belongs to	Remarks
1	Madhya Pradesh	13	Most are in range of 50-55 yrs. One director is 81 yrs old	3 are under graduates, 3 are graduates, 2 are post graduates, 5 are professionally qualified (LLB)		10 -- Cong (I), 2 -- BJP	Only 13 Directors as others disqualified for various reasons. Board unable to function due to want of quorum. SG has appointed 5 member committee to conduct affairs. Committee headed by Sec (Coop), RCS, CGM, NABARD, MD, MPSCARDB.
2	West Bengal	18		MD is an MSc, Rank of JRCS	3 directors have political backgrounds	CPM	
3	Manipur	11	1 director is in the late forties, 5 are in the fifties, 3 in the sixties, 2 in the seventies	2 are under graduates, 6 graduates, 1 post graduate, 2 professionally qualified (BE/LLB)	9 are corporaters, one is a lawyer and another an engineer	7 -- INC, 2 BJP, 2 have no party affiliations	

4	Assam	7	2 are in the late fiftees, one early sixties. Other directors are State Govt officials; hence less than 60 yrs.CGM NB also on Board CEO, ASCARDB on deputation from NABARD.	3 are IAS officers, Chairman is a graduate, 1 is professionally qualified (CEO)		Chairman -- INC(I)	
5	Harayana	12	2 directors are in the thirties, 3 in the forties, 6 in the fifties and 1 in the seventies	7 are under graduates (one director is just 7th pass), 2 graduates, 1 post graduate and 2 have profesional qualifications (LLB)	-	Bank has not parted with this information.	
6	Uttar Pradesh	17. At present there are two vacancies .	2 directors are in thirties, 6 are in the forties, 4 in the fiftiesand one in the sixties	3 are undergraduates, 7 graduates, 1 post graduate and 2 have professional qualifications.	2 directors are MLAs and one an MLC.		
7	Bihar	14					

8	Punjab	14	4 directors are in the forties, 5 in the fifties, 4 in the sixties and 1 in the seventies	6 are undergraduates, 5 graduates, 1 post graduate and 2 have professional qualifications.(LLB)	Nil	13 -- Akali Dal, 1 -- Congress	
9	Kerala	21	4 directors are in the forties, and an equal number in the fifties, sixties and seventies	9 are undergraduates,2 graduates and 6 have professional qualifications (LLB).	Chairman and 2 directors are advocates, 4 are retired teachers, 6 are social workers and 3 are agriculturists	Not available	
Source: As reported by Regional Offices of NABARD							

Abbreviations

AACS	As Applicable to Cooperative Societies
ACD	Agricultural Credit Department
ACRC	Agriculture Credit Review Committee
AH	Animal Husbandry
AIRCSC	All India Rural Credit Survey Committee
ARC	Agricultural Refinance Corporation
ARDB	Agricultural Rural Development Bank
ARDC	Agricultural Refinance & Development Corporation
BR Act	Banking Regulation Act
CEO	Chief Executive Officer
CLMB	Central Land Mortgage Bank
CRAFICARD	Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development
CRAR	Capital to Risk Weighted Asset Ratio
CSA	Cooperative Societies Act
DAPs	Development Action Plans
DCCB	District Central Cooperative Bank
DFI	Development Financial Institution
DLIC	District Level Planning and Implementation Committee
FIs	Financial Institutions
FM	Farm Mechanisation
GoI	Government of India
HR	Human Resource
HRD	Human Resource Development
LDB	Land Development Bank
LMBs	Land Mortgage Banks
LT	Long Term
LTCCS	Long Term Cooperative Credit Structure
MI	Minor Irrigation
MIS	Management Information System
MoA	Ministry of Agriculture
MoU	Memorandum of Understanding
NABARD	National Bank for Agriculture & Rural Development Bank
NAFSCOB	National Federation of State Cooperative Banks
NBFC	Non Banking Finance Company
NCARDBF	National Cooperative Agriculture & Rural Development Banks' Federation
NFS	Non Farm Sector
NGMC	National Guidance and Monitoring Committee
NGO	Non Government Organization
NPA	Non Performing Asset
PACS	Primary Agricultural Credit Societies
PCARDB	Primary Cooperative Agriculture and Rural Development Bank
PH	Plantation & Horticulture
PLDB	Primary Land Development Bank
RBI	Reserve Bank of India
RCS	Registrar of Cooperative Societies
RFI	Rural Financial Institutions
RP	Revival Package
RPCC	Rural Planning and Credit Cell
RRB	Regional Rural Bank
SCARDB	State Cooperative Agricultural Rural Development Bank
SCB	State Cooperative Bank
SLDB	State Land Development Bank
SLIC	State Level Implementation and Monitoring Committee
ST	Short Term
STCCS -	Short Term Cooperative Credit Structure
ToR	Terms of Reference