Short Term Cooperative Credit Structure and Financial Inclusion

By

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I indeed deem it an honour and a privilege to be addressing today this very august and distinguished audience on issues, concerns and challenges that the rural cooperative credit structure faces at its current stage of evolution.

As you may perhaps be aware, the United Nations has declared the year 2012 as the International Year of Cooperatives and, to my mind, this is precisely what makes today's Central Zone Cooperative Conference, both contextually and topically, very relevant and it will culminate, I am sure, in most desired outcomes going forward ! And it will be no exaggeration to say that India has been among the pioneering nations in the matter of genesis, and

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democratic evolution, of agricultural and rural co-operatives, truly informed, and inspired, by the tenets and principles of cooperation. Given the extensive and widespread financial exclusion in the country, both the Government of India and the Reserve Bank, decided to put financial inclusion on the top of their policy and strategy agenda. As part of this veritable watershed policy and strategy initiative, the Government and the Reserve Bank enjoined upon Scheduled Commercial Banks and Regional Rural Banks to roll out, in a time-bound manner, Board-approved, Top-Management-owned, business-plan-integrated, mission-mode-driven and Government & RBI-monitored, BC-ICT-CBS (Business Correspondent – Information & Communication Technology – Core Banking Solution)-leveraged Financial Inclusion Plans for door-step delivery of a bouquet of basic financial services in the hitherto financially-excluded rural areas. But I must hasten here to add that the idea is not to compete with, but complement, rural and agricultural cooperatives in their ever critical and central 'niche' role in delivering on financial inclusion !

I hardly need to belabour, before this learned and distinguished audience, the point that, along its sojourn through time, the cooperative movement came to be bedevilled by some unfortunate developments undermining its vibrancy. To my mind, at the margin, this explains the imperative of a complementary role for commercial banks.

But having said that, as regards the national challenge of delivering, credibly and effectively, on financial inclusion agenda, it would be very instructive to put in perspective the relative potential of the rural cooperative credit structure. Specifically, considering that compared to Commercial Banks and Regional Rural Banks (RRBs), which, between them, currently account for 33000 rural branches, 33 State Cooperative Banks with 953 branches, 371 District Central Cooperative Banks (DCCBs) with 12858 branches and 1,09,000 Primary Agricultural Credit Societies (PACS), between them, account for a total of 1,22,590 service outlets, the penetrative outreach of the command area of the rural cooperative structure is simply formidable ! Indeed, it is precisely because of this formidable penetrative outreach of the rural cooperative structure that the Reserve Bank of India has not only allowed PACS to act as Business Correspondents of commercial banks but also allowed treatment of loans by commercial banks to farmers through PACS, Farmers' Service Societies (FSS) and Large-sized Adivasi Multipurpose Societies (LAMPS) as priority sector lending in the indirect finance category. Although under the Financial Inclusion Plan initiatives, Commercial Banks and RRBs will, through both brick and mortar branches and business correspondents, provide banking outlets in around 3,50,000 villages by 2013, it is because of the huge potential and promise that the rural co-operative credit structure represents for financial inclusion that the Government and the Reserve Bank of India thought it fit to revive the financially haemorrhaged Short Term Cooperative Credit Structure (STCCS) by setting up the Vaidyanathan Committee and accepting its comprehensive recommendations for implementation in a business like manner.

Based on the recommendations of the Vaidyanathan Committee and after reaching consensus with Chief Ministers, Finance Ministers and Cooperation Ministers of States, Government of India decided to provide massive financial assistance (since revised to Rs.19,330 crores (Rs. 193 Billion) from the originally estimated Rs.13,596 crores Rs. 136 Billion) to the financially haemorrhaged Short Term Cooperative Credit Structure but also, only appropriately, made it conditional upon rigorous and stringent compliance with, and progress on, pre-specified critical parameters like facilitating regulatory powers of the RBI, limiting equity participation of State Governments in cooperative banks to 25%, limiting the powers of State Governments to supersede the boards, removing State Government intervention in all financial and internal administrative matters, special audits of PACS, District Central Cooperative Banks (DCCBs), and State Cooperative Banks (SCBs), conduct of Statutory Audit by Chartered Accountants (CAs), timely election of Board of Directors, appointment/co-option of professionally qualified Directors and appointment of Chief Executive Officers (CEOs) in accordance with the RBI-prescribed fit-and-proper criteria, training and Human Resources Development, computerization, Common Accounting System (CAS) and Management Information System (MIS), by amendment of State Co-operative Societies Acts and amendment of Rules and adoption of appropriate Bye-Laws.

In this context, it is encouraging to note that 25 States have since signed the MoUs for implementation of the Revival Package. These are Andhra Pradesh, Arunachal Pradesh, Assam, Bihar, Chattisgarh, Gujarat, Haryana, Jammu & Kashmir, Jharkhand, Karnataka, Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Mizoram, Nagaland, Orissa, Punjab, Rajasthan, Sikkim, Tamil Nadu, Tripura, Uttarakhand, Uttar Pradesh and West Bengal. Between them, they cover more than 96% of the STCCS units in the country. The financial assistance under the Package is released only on the implementation of legal and institutional reforms. NABARD has, as on 31 October, 2011, has already released an amount of Rs 9002.98 crore (Rs. 90 Billion) towards Government of India's share for recapitalisation of PACS in seventeen States while State Governments have released Rs.855.53 (Rs. 8.5 Billion)crore as their share.

It is also very encouraging to note that 21 States have amended their respective State Cooperative Societies Acts and these are Andhra Pradesh, Arunachal Pradesh, Bihar, Gujarat, Haryana, Karnataka, Jammu & Kashmir, Jharkhand, Madhya Pradesh, Maharashtra, Manipur, Mizoram, Meghalaya, Nagaland, Orissa, Rajasthan, Sikkim, Tamil Nadu, Tripura, Uttar Pradesh and West Bengal.

The corner-stone of this realignment exercise was to overhaul and re-engineer governance and management in the rural co-operative credit structure with a view to preventing recurrence of such financial haemorrhaging. And, significantly, to reinforce, and sustain, overhauled and re-engineered governance in such financially rejuvenated and renewed co-operative credit structure, effective and credible supervision and regulation is a *sine qua non*.

As the distinguished audience is aware, while NABARD supervises the co-operative credit institutions, Reserve Bank regulates them. This supervisory and regulatory framework involves RBI framing and issuing regulatory instructions and guidelines and NABARD examining their actual compliance during inspection. Currently, these regulatory instructions and guidelines are scattered across individual circulars containing them. The imperative of consolidating all the existing regulatory guidelines and instructions has long been felt both by NABARD and the supervised co-operative credit institutions. Accordingly, the Reserve Bank is in the process of consolidating all such instructions and guidelines in the form of a Master Circular and which, I assure this audience, will be in the public domain very soon. It will serve as a ready recokner for the rural co-operative institutions facilitating their compliance with the regulatory instructions and guidelines in force.

I would also take the present opportunity to share with you the recent decision to waive the signing of MoU as a pre-condition for opening of branches by State Co-operative Banks in the States which do not need the re-capitalisation assistance under the Revival Package, provided they comply with all other conditions.

The committee on Financial Sector Assessment (Chairman: Dr. Rakesh Mohan and Co-Chairman: Shri Ashok Chawla) had recommended that rural co-operative banks, which fail to obtain licence by March 2012, should not be allowed to operate. Accordingly, it was proposed in the Annual Policy Statement of April 2009 to work out a roadmap for licensing of unlicensed state and central co-operative banks. For this purpose, in consultation with National Bank for Agriculture and Rural Development (NABARD), revised guidelines on licensing of these banks were issued. All Regional Offices of RBI were advised to issue licences to banks, which meet the prescribed criteria. It is expected that a large number of co-operative banks will be licensed by 2012. The Revival Package based on Vaidyanathan Committee is under implementation which would also help the StCBs/CCBs to improve their financials and be eligible for licensing.

In this context, it is important to note that as on 30th November 2011, out of 31 State Co-operative Banks (SCBs) and 371 District Central Co-operative Banks (DCCBs) in the country, 6 SCBs and 117 DCCBs were unlicensed compared to 17 SCBs, and 296 DCCBs, as on 31st March 2009.

I take the present opportunity to share with this distinguished audience the latest status of licensed and unlicensed StCBs and DCCBs in the four States of Chhattisgarh, Madhya Pradesh, Uttarkhand and Uttar Pradesh which is as under:

Sl. No	Name of the State	Licensing position of State Co-op Bank	Licensing position of District Central Co-operative Banks		
			Total No. of DCCBs	No. of licensed DCCBs	No. of unlicensed DCCBs
1	Chhatisgarh	Licensed	06	06	---
2	Madhya Pradesh	Licensed	38	27	11
3	Uttarakhand	Unlicensed	10	09	01
4	Uttar Pradesh	Licensed	50	20	30

Thus, while in Uttarakhand, the SCB is yet to be licensed, in the states of Chhatisgarh, Madhya Pradesh, Uttarakhand and Uttar Pradesh, out of 104 DCCBs, 42 DCCBs are yet to be licensed.

As announced in the Annual Policy Statement of April, 2010, a study on well-run rural co-operatives including Primary Agricultural Credit Co-operative Societies (PACS), Large Adivasi Multipurpose Co-operative Societies (LAMPS), Farmers Service Societies (FSS) and Thrift and Credit Co-operatives was undertaken by the

Reserve Bank in collaboration with NABARD and State Governments as part of its undivided policy focus on the 'niche' role of rural credit co-operatives in financial inclusion. For the study, 208 well-run co-operatives operating in 21 States were selected. Of these, 71 were operating under Parallel Self-Reliant Co-operative Societies Acts with the rest under respective State Co-operative Societies Acts.

The broad objectives of the study as set out by the Reserve Bank were:

a) To study the functioning of well-run thrift and rural credit co-operatives, including PACS, LAMPS, FSS and other new financial co-operatives, set up under the Parallel Self-Reliant Co-operative Societies Acts to assess their potential to contribute to financial inclusion and the local economy;
b) To study the member, borrower and depositor profiles, saving mobilization and credit extended to tenant farmers, oral lessees and agricultural labourers;
c) To study the quality of actual management and governance and external impediments that come in the way of good governance/management;
d) To study and analyse the impact of functioning of such co-operatives on the local economy/populace;
e) To suggest measures necessary to effectively encourage the emergence of many more such institutions across the country, if the study indicated that they have a significant contribution to make to financial inclusion.

The study was completed in November 2011 and after its due examination, the Reserve Bank will take the findings and recommendations forward.

We are at the threshold of the Second Green Revolution which envisages, and will entail, shift in focus and attention to pulses, fruits, vegetable, live-stock, fisheries, poultry and horticulture and raising their production and productivity with a view to ensuring national food security and sustainable high levels of growth. With these words, I conclude my address and wish today’s Conference all success that it so very much deserves !

Thank you all so very much indeed.

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