

Vaidyanathan Committee Report 2005 [Task Force on Revival of Rural Co-operative Credit Institutions]

To nurse the rural cooperative credit system back to health, to ensure that the rural credit doubled over three years and that the coverage of small and marginal farmers by institutional lending was expanded substantially, the Government of India in August 2004 set up a Task Force to suggest an action plan for reviving rural cooperative credit institutions and legal measures necessary for facilitating this process. The Task Force, chaired by Prof. A. Vaidyanathan, recommended that any financial restructuring which did not address the root causes of the weaknesses of the system would not result in its sustained revival and would require legal measures. The recommendations of the Task Force in accordance with its Terms of Reference are basically confined to revival of credit cooperatives for which it suggests a financial package. The Vaidyanathan Committee has also suggested a model cooperative law that can be enacted by the State Governments. Recommendations of the Task Force are being currently implemented. The Vaidyanathan Committee has also given its report on the long-term cooperative credit structure.

Main features of the Proposed Legal and Regulatory Reforms

(1) Fulfilling the conditions of the Restructuring Programme will require drastic changes in the State laws that govern Cooperative Credit Societies and a clear undertaking by the State Governments to accept the authority of the Reserve Bank of India (RBI) in all matters concerning financial regulation of cooperative banks.

(2) Some conditions, like retiring the State's contribution to equity and withdrawing nominees from the boards can be done by Executive Order, pending formal amendment of the existing law and through voluntary restraint. So can training and tightening of audit. The changes meant to redefine and limit the role of RCS to registration, conducting regular elections and annual general meetings, ensuring independent audit and liquidation proceedings, as well as those precluding government interference in matters relating to financial management, will call for drastic amendments

to the existing law. Implementing the prudential regulation of DCCBs and SCBs can be achieved to some extent, in the meantime, through appropriate MOUs between the State Government and the RBI.

(3) Since a new enactment is a time consuming process, the Task Force has identified and recommended specific parameters on actions that can be initiated, by participating State Governments, by means of Executive Orders issued under the extant CSA. Such an Executive Order would cover the following:

- Ensuring full voting membership rights on all users of financial services including deposits.
- Removing State intervention in administration and financial matters
- Withdrawing restrictive orders, if any, on financial matters.
- Permitting cooperatives wider access to financial institution.
- Permitting cooperatives registered under parallel Acts (in States applicable) to be members of cooperatives, registered under the CSA and vice versa.
- Limiting the exercise of powers of the State Governments to supersede Boards.
- Ensuring timely elections and audits.
- Facilitating effective exercise of the regulatory authority of the RBI, in case of cooperative banks.
- Exiting state equity and participation on Boards of financial cooperatives.
- Prescribing prudential norms, including CRAR for PACS on lines suggested.

(4) The Task Force has analysed the reasons for the opposition to amendments earlier proposed to the B R Act. It has concluded that the opposition was because of apprehension that the proposed amendments sought to bring in improvements in the governance of the banking cooperatives, by disregarding the cooperative character of the banking cooperatives, which is distinct from banking companies.

(5) The Task Force has, therefore, recommended that while professionalism is necessary in the governance and management of financial cooperatives, it needs to

be done with due regard for the characteristics of the membership of the financial cooperatives. The Task Force recommends that steps be taken by the RBI to have the B R Act suitably amended to ensure the following:

- Bringing cooperative banks on par with commercial banks in terms of prudent financial regulation.
- Prescribing fit and proper criteria consistent with the membership of cooperatives for election to the Boards. To ensure professionalism in the Boards, however, three or four members with prescribed qualifications should be co-opted with voting rights in case members with prescribed qualifications do not get elected.
- Prescribing minimum qualifications for CEOs of the cooperative banks and approving their names.
- Prescribing capital adequacy norms for cooperative banks (to be implemented in a phased manner).
- Prohibiting any cooperative other than a cooperative bank from accepting public deposits from any person other than its members.
- Prohibiting any cooperative other than a cooperative bank, from using the words “bank”, “banker”, “banking”, or any other derivative of the word “bank”, in its registered name.

(6) As cooperative banks are at present, being concurrently supervised by the NABARD, the Task Force also recommends that NABARD be empowered suitably to improve the effectiveness of its supervision.

Prospects of Co-operatives

The role of co-operative in the fast changing world is important every area of the society there should be a role to the co-operativ Presently the commercial banks are the funding agency of the panchayath and local authorities. These should be given to the operative bank also. It is the duty of the co-operative bank to provide fund in tourism, education health etc. It should also provide loan and advances to locals in the cultivation of vegetables fruits, gram etc. The co-operative should chalk out programmes and policies eradicate pollution and for protecting the environment. In the bank ing sector the co-operatives should

implement new programmes and strategies to attract the customers. The activities of the cooperative banks should be restructured and rearranged in such a way to promote welfare and prosperity to the living masses.

Kerala Co-operative Vision 2025

1. By 2025 all the primary co-operatives in the state should run in to profit.
2. All the residents in the area of operation of the society should be the members.
3. The source of income of the society will be from the area of operation. The present deposit will be enhanced to 4 times
4. All types of requirements of the members should meet the society
5. All types of assistance for increasing agricultural production should be provided to members.
6. All the measures should be taken for marketing the produce of the members.
7. The society should take necessary measures for supplying necessities of daily life both to the members and others residing in the area of operation of the society.
- 8: All non credit operations should be implemented
9. Commitment of responsibility to members and society.
10. Arrange post death fund and higher education scholarship to the members.
11. Arrange facilities to public for performing their primary activities.
12. Arrange adalath for solving problems among members.
13. Establishment of labour bank to the jobless members of the society.
14. Extending agricultural and non agricultural assistance to the members by establishing producer companies.

The above visions are stated in co-operative workshop held in august 22,24,26, 2015 at Munnar under the leadership of Kerala Co-operative Department.

Problems and Challenges Faced by the Cooperative Sector

As is seen from the previous discussions, cooperatives in India came into being as a result of the Government taking awareness of the agricultural conditions that prevailed during the latter part of the nineteenth century and the absence of institutional arrangements for finance to agriculturists, which had resulted in mounting distress and discontent. Small, local, locally worked institutions, cooperative in form, which would satisfy the postulates of proximity, security and facility for providing credit, were seen as the answer to this situation. However, subsequent events during both pre and post Independence period have led to a vast growth of cooperatives covering various sectors of the Indian economy.

Though we can claim to have the World's largest and most diverse cooperative movement, barring some exceptions our cooperatives in general are fraught with a number of problems and challenges. Apart from certain inherent weaknesses, they are constrained by the overwhelming role of the government as well as prescriptive and restrictive legislation and have been unable to retain an autonomous and democratic character.

The problems and challenges that cooperatives face today are numerous. These encompass the functional aspects of cooperatives namely membership, governance and operations which could be considered as internal to the organization. These problems are further compounded by two important external factors - namely politicization of cooperatives and the control/interference by governments. These are discussed below in detail.

Membership

Theoretically and conceptually, a cooperative comes into being as a result of a common need of members. If co-operatives are to succeed, it is important that members are well informed of not only their right but also obligations and the need to participate actively in the affairs of the cooperative. Ensuring 'Active member participation and enabling speedy exit of non-user members has remained a daunting task for cooperatives. Poor member Participation has also been due to lack of effort to enhance member equity in cooperatives and near absence of member communication and awareness building efforts.

Cooperative Acts in general stipulate removal of membership on by the General Body through a special resolution. Calling a General Body meeting and expelling

members is a long drawn process and coupled with this due to political compulsions the problem of removing a large percentage of inactive members has not been addressed with the required seriousness.

Governance

In an organizational context, governance refers to the institutional framework that defines the structure and linkages, behavior, interaction, rules of conduct, conflict resolution, incentives and disincentives for behavior. In cooperatives, governance issues are primarily focused on the structure of the Board and its relationship with members, managers and the State. Sadly, the most important function of governance, which is that of aligning the tasks in tune with the basic objective with which a cooperative is organized, has received very little attention.

Lack of Recognition of Cooperatives as Economic Institutions

A fundamental issue having substantial bearing on the governance of cooperative institutions is the lack of recognition of cooperatives as economic institutions meant to serve the needs of its members. The general perception has been that cooperatives are instruments of government meant for public good and therefore need to be supported by the government.

Design Issues

The 'design' of a cooperative is an important factor in determining the manner in which it is governed, its success and viability. While designing a cooperative enterprise, one needs to consider factors local socio-political conditions, local economy, leadership, by-laws, norms and rules, critical linkages with federal structure, by-laws, norms and rules criti and other organizations, macro policies etc.

Lack of initial knowledge about the multi-faceted choices in designing/re-designing co-operatives seriously affects governance. inhibits growth and can result in wrong choices. This is particularly so where there is no clear focal and dynamic leadership.

Board and Management Interface and Accountability

Cooperatives have a two-tier management structure of the Board and its executives, all in the ultimate analysis responsible to the General Body. The effectiveness of a cooperative depends in large part on the quality of partnership

between its Board and Chief Executive. The Board should concern itself with long-term or strategic planning; organizational (as opposed to operational) policies, representation and relationships with members, government, other business and the public at large; resource mobilization, monitoring of the organization's performance, and the selection, supervision/direction of the Chief Executive. The Chief Executive must be responsible for achievement of plan objectives, the efficient, economical and effective use of resources, recommending possible business strategies to its Board: recruitment, supervision and evaluation of employees; coordination of departments and groups: etc.

In a business environment the importance of professionally trained and qualified manpower cannot be overemphasized. However, this is one of the weakest areas of cooperatives where the practice of posting government officials in managerial positions in cooperatives for brief tenures has been growing. Many States have common cadre of employees who are deputed to the cooperatives. Most often, these officials have no understanding of the business, either by training or practice and they are deputed for too short a tenure to acquire adequate understanding. There are also numerous instances where the officers posted by the government to hold key positions such as Chief Executive are changed too frequently resulting in a lack of accountability and thus affecting the business of the cooperatives. The laws also do not provide the required autonomy to cooperatives in matters related to staff strength remuneration payable, service conditions etc.

Cooperatives are also unable to attract and retain competent professionals (particularly in areas such as marketing and finance) since apart from their lack of financial ability to pay market based compensation they are also unable to provide a stimulating and conducive work culture and environment including freedom for operations with the required delegation of authority. The need for change and adoption of sound HR policies assumes great importance, particularly with a rapidly growing private sector.

Capital

Lack of capital, both equity and debt, are key constraints to the development and growth of cooperatives. The need for equity in all forms of

organization arises out of the requirement of containing the financial risk of debt within reasonable limits. Equity also ensures member stake and interest in the cooperative.

Most cooperatives suffer from lack of member capital and consequently low leverage in raising debt required for the growth of the business. Further, cooperatives are generally constrained to minimize retained earnings, as the cooperative Act and Rules virtually treat retained earnings as out of the purview of members funds. While corporate entities can raise equity as well as borrow from the market by placing appropriate instruments, cooperatives do not have access to capital markets. Any effort to broaden the equity base through introduction of instruments other than the shares to be subscribed only by members opens up the debate about the ownership, voting rights, cooperative principles etc.

In the globalized economic order, cooperatives as economic entities cannot remain isolated. In order to be competitive they have necessarily to grow and for that, augmentation of capital at the required pace is also necessary, as capital adequacy is one of the important parameters to judge the strength of an economic business entity.

A problem affecting the capital of a cooperative is one relating to recoveries of debt. The high level of under recoveries of Primary Credit Societies has not only adversely affected their own growth, but also the financial results of higher tier financial cooperatives. The problems of non-credit cooperatives are not materially different. A large number of non-credit cooperatives are also either defunct or sick, the major reasons being similar to those of credit cooperatives.

There has been extensive debate on whether government should participate in the share capital of cooperatives. Government financial support is often justified on grounds that cooperatives cannot raise capital from capital markets and a majority of the members are unable to contribute share capital in the quantity required to run the cooperatives efficiently. However, equity contribution from government has invariably impacted on the autonomy of cooperatives and is a matter which does not merit compromise. Linkages and Competitiveness

In the current liberalized and globalised economic environment, cooperatives need a level playing field in order to cope with the emerging competition, sustain growth and meet member needs and services effectively. Unfortunately,

constrained by restrictive laws, cooperatives lack functional autonomy including the required freedom in matters such as, area of operation, appointment of staff, deciding on remuneration payable, pricing, mobilization of funds, investment of funds and flexibility in business operations.

Accessibility to Finance/Credit Services by Members

Lack of credit facilities to a large segment of rural population, particularly the poor and marginalized, is a concern that needs to be addressed. The formal banking system in the country services 25.9% of total rural households while 14% farmer households depend on money lenders for their credit needs. Further, 51.4% of the total farmer households do not have any access to credit facilities

Cooperative credit presently accounts for a mere 18% of total agricultural credit. Having declined to this level from 56% in 1985- 86, this is indicative of the shrinkage of credit provided to agricultural households by the cooperative sector. Nearly 70 - 80% of the members of cooperatives as also borrowing members are constituted of small and marginal members.

Sickness in the Cooperative Sector

Of over 5 lakh cooperatives in the country at different levels a large number today are not viable, while many are practically dormant. A large number of the non-viable cooperatives are, in fact, on the verge of sickness or incipient sickness. The sickness is particularly visible in the processing sector, of which sugar, textiles and vegetable oil account for a sizeable portion.

Though the government has been providing financial assistance for rehabilitation of sick cooperatives into a healthy enterprise, it has not always met with encouraging results. It must be recognized that most cooperatives function in the agricultural sector where the risk element is relatively high and the returns on investment low and they, therefore, start off with an initial disadvantage.

Politicization of Cooperatives and Control/Interference by Government

Although cooperative democracy is based on common economic interest and as such is entirely different from political democracy, overtime cooperatives have been increasingly politicized. Cooperative institutions in the country with their vast outreach have become powerful instruments of political mobilization. Instances of a political party in power assuming control over large sized cooperatives through

methods such as appointing an active member of the party to the position of Chairman, nominating persons of its choice on the Board, issuing directions to them and the Official nominees to vote for a particular candidate as Chairman have become common. This has led to factions in the board, conflicts in governance and management and lack of consensus in decision making. Also, factors such as personal/political interests of board members and use of the cooperative for political patronage have weakened the cooperative sector and affected their ability to function as competitive and professionally managed business entities.

Mass enrolment of members of cooperatives is also resorted to, prior to elections. Changes in law to suit political ends are also to be found when there is a change of government. In many instances, politicians who are chairmen of cooperative Boards refuse to call for elections, continuing to be entrenched in positions of authority.

Audit of cooperatives is conducted by the Registrar and in several states it is not found to be timely as well as satisfying the current days' requirement/standards and challenges.