Labor and Globalization

Veerashekharappa, Meenakshi Rajeev,
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Reforming Cooperative Credit Structure in India for Financial Inclusion

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CHAPTER 1

Introduction

1.1. Introduction

A cooperative bank is a financial institution founded and funded by members of a given professional group or local community and sharing common interests, ideas and convictions of financial independence. All the members bring their individual financial resources into the organisation and form a joint large financial resource base, and these resources are then lent to members within the group. Thus, the owners and customers of the banks are the same people who help start this financial entity, and avail a wide range of banking and financial service activities within the group. Apart from credit related activities, cooperatives have been involved in non-credit activities such as purchase of raw materials, and marketing of products. Thus, their role in the economy is multi-faceted. While cooperatives play a major role in the rural economy of India, their urban counterparts cater to the small business and other enterprises in their respective regions.

Cooperatives are rather old institutions in India. Historically, enactment of the Credit Cooperative Societies Act way back in the year 1904 was instrumental in setting up the required legal and structural framework for the establishment of credit cooperative systems in the rural areas. Thus, these entities constitute a convenient financial mechanism for farmers to access credit and other financial services. After 1947, the expansion of cooperative banks was rapid, due mainly to government policy initiatives. The existence of a solid cooperative banking system is cited as one of the important reasons for the increased agricultural productivity in rural areas as it enabled farmers to access credit and thereby use inputs like modern agricultural implements, HYV seeds and fertilizers. After independence, the credit cooperative sector was identified by the government as a key policy instrument to reach the rural poor and therefore set up a number of committees subsequently to ensure a better and healthier cooperative movement, particularly in rural areas. Thereafter, in consonance with such an approach, financial services and other operations of the cooperatives were strengthened over time through interventions by both state and central governments, aimed at assigning an even greater role to the cooperatives in financial inclusion in the rural areas.

In this context, it is important to mention that though the cooperative institutions did receive considerable attention of the government both at the state as well as at the national level, the financial health of the cooperatives has remained bleak. Owing to this, cooperatives at the grass roots level were unable to serve the poor farmers adequately. In order to bring about reforms of the cooperatives, a committee was constituted in 2004 under the chairmanship of Prof. Vaidyanathan[1], which can be considered as a landmark development in this sector. This committee submitted its report in 2005 wherein it suggested an infusion of funds to the cooperatives in order to allow them to be self-sustainable in future. Apart from infusion of resources, the committee also suggested a series of reform measures to be undertaken by the cooperative. This research work is an attempt to evaluate the process of reform in the state of Bihar. The state assumes particular importance in this context for several reasons. The state of Bihar is primarily agrarian, stands out for its low per capita income and poor financial infrastructure. Thus, cooperatives at the grass roots level are critical to ensure financial inclusion and inclusive growth in the state. Another important feature is that the state has embarked upon a new system of having at least one cooperative credit society in each village. This is not the case in other Indian states where not every gram panchayat area has a cooperative credit society.

Against this backdrop, we conducted an intensive field study at the state, district as well as village levels to evaluate the progress of implementation of the revival package and understand the problems faced at the grass roots level. This book discusses some of the findings from our field experience which it is hoped would provide important policy implications for the success of the programme.

The book unfolds in 10 chapters: The following chapter discusses the basics of short run cooperative credit societies. Chapter three delineates the recommendations of the Prof. Vaidyanathan committee which is followed (in Chapter four) by a critical evaluation of the performance of the state cooperative bank after the revival package was introduced. Five districts were selected for a detailed study, and each of these is taken up in the next five chapters. A concluding section provides a summary and puts forth policy implications.

1.2. Development of Credit Cooperatives

The development of cooperative credit in India can broadly be classified into two phases: pre-independence and post-independence.

1.2.1. Pre-Independence

As mentioned above, the genesis of formal cooperative endeavours in India can be traced back to the year 1912, when the Cooperative Societies Act was passed enabling the cooperative societies to provide non-credit services to its members. In the next stage of its evolution, the urban cooperative banking structure was transformed into a Central Cooperative Bank with primary cooperatives below it, and individuals as members. Further, this act also became

[1] Vaidyanathan Committee Report mentioned in this book can be referred to NABARD (2004) and NABARD (2007) in the reference list.

the model for establishing a federation of cooperatives in both the agriculture and non agriculture sector, both credit and non credit, such as purchase and sale unions and cooperative of handloom wavers and other artisans in the non agriculture sector.

The Government of India Act of the year 1919 instituted several key changes in the legislative aspects of the cooperative act. Following this, the first provincial act, The Bombay Cooperative Societies Act was passed in 1925. Further, in 1928, the Royal Commission on agriculture highlighted in its recommendation the need for setting up land mortgage banks. However, a major breakthrough for the cooperative sector was the establishment of All India Association of Cooperative Institutions in 1929.

1.2.2. Post-Independence Era

After independence, the cooperative sector was revisited in the year 1954 with the All India Rural Credit Survey Committee (AIRCSC) recommending state partnership for reasons of equity and ease of governance and management of the cooperative societies. But, such a model of partnership between the state and cooperative societies led to unwarranted intervention in the operational activities of cooperatives. Later, the National Bank for Agriculture and Rural Development (NABARD) was established in 1981 under a Government of India Act with the objective of effectively guaranteeing re-finance support to cooperative banks and thus, stimulating the credit intake in the rural sector.

However, with the partnership of the state governments with the cooperatives, there came a realization of the increasing pitfalls of state patronage and politicization of the cooperatives. Cooperative institutions suffered greatly from bureaucratic hurdles and eventually resulted in poor governance and management and consequently impairment of financial health of the entities.

Subsequently, in order to protect the dignity of cooperative financial institutions, the Government of India formulated a National Cooperative Policy (NCP 2002) in the year 2002. The objective of the policy was to facilitate the development of the cooperatives with assurance of the necessary government support, encouragement, assistance and guidance. The consensus among the policy makers was that the cooperative institutions need to be self-reliant and autonomously managed to ensure that they are more accountable to their members, which in turn would increase their effectiveness in making a substantial contribution to the rural economy.

1.3. Present Structure of Cooperatives

The present structure of the cooperative institutions is divided on the lines of geographical location and based on the services offered by each, making it slightly complex to comprehend (see Fig A1.1 in the Appendix to Chapter 1).

Currently, cooperative societies are divided into three tiers at the rural level. Urban cooperative bank consists of a single tier, e.g., primary cooperatives, commonly referred to as urban cooperative banks.

Rural areas have two kinds of cooperative societies: The first type consists of institutions that are involved in granting credit of short term nature, known as the short term cooperative credit societies (STCCS), with which this research is primarily concerned. STCCS consist of three categories of banks i.e., the State Cooperative banks (SCBs), District Central Cooperative banks (DCCBs) and the Primary Agricultural Cooperative societies (PACS).
The second type of cooperative institutions in rural areas is involved in lending on a long term basis. This system consists of two tiers: the primary tier being at the state level and the secondary tier at the taluk level. It is important to mention here that the pattern varies across states and therefore the number of tiers is also specific to each state, with some states practicing a two tier system and others like Andhra Pradesh, functioning with a single entity, combining short and long term loans within one institution.

1.4. Present Status of Cooperatives

The growth and advancement of Indian cooperative systems have been rapid over the years, and cooperatives have substantially increased their presence by adding more branches and members as well as expanding business in both credit and non-credit activities. According to the National Federation of State Cooperative Banks (NAFSCOB), as of March 31, 2012, the total number of state cooperative banks (STCBs) in the country was 31 and the total number of their branches 1047. The total number of district cooperative banks in India was 371, and the total number of branches 13495.

The financial performance of the cooperative banks can be captured by two critical indicators, deposits and credit. An examination of available data reveals that total deposit had fallen by 3.7 percent in 2010-11 compared to 2009-10 figures but there was a growth of 6 percent in the following year, i.e., between 2010-11 to 2011-12. Though uneven across years, growth figures witnessed in recent years have been positive. The total loans issued by cooperative banks increased by 19 percent in 2011-12 compared to the previous year. However, there was a perceptible decrease in the demand for loans from lower-tier institutions. Despite this, short and long term loans together disbursed for 2011-12 registered an increase of 16 percent, compared to the previous year. The banks have also gone for investment related activities in the form of statutory (SLR) investments, which constitute more than 60 percent of the total investment of the STCCS. The total borrowings of the SCBs in 2011 – 12 also witnessed an increase of 31 percent.

The financial position of most of the District Central Cooperative Banks (DCCBs) is similar to that of State Cooperative Banks, with positive growth in deposits and credit, and most of them have been earning profits. The third and the lowest tier in the short term credit system at the rural level is the Primary Agriculture Credit Societies (PACS). The examination of data of PACS at a national level reveals that the total membership for 2011-2012 was 127.4 million (NAFSCOB, 2012) and the number of total borrowers was 45.2 million individuals, and total deposit 189760 million rupees for 2012. Corresponding figures for some of the previous years, for example, for 2004-2005 are: total membership of PACS 135.4 million individuals; number of borrowing members 51.3 million, and total deposit 181430 million rupees. Although the total numbers of borrowers had fallen, interestingly the total deposit had increased in the same period.

The data revealed that southern states had the highest number of members per PACS at 3256 (NAFSCOB 2012). The western states had the lowest number of members at 577 persons per PACS. Further, the low number of members per PACS in the western states could be because of the relatively higher number of PACS located in these states. The average number of borrowers per PACS is 507 across India, with the highest number of borrowers being in the southern region with 1514 persons and the lowest number of borrowers from the north-eastern region with 61 persons (See table 1.1).

Table 1.1 Distributions of PACS by Region, 2011-12

Regions	Total Number of PACS	Average Membership per PACS	Average Borrowing Membership Per PACS	Credit Potential Available
Northern	10818	922	567	355
Eastern	19421	1417	401	1016
Central	15357	697	331	366
Western	29633	577	166	411
Southern	13703	3256	1514	1742
North Eastern	3500	1133	61	1072

Source: NAFSCOB 2011 – 2012

The gap between the average membership and average borrowing membership is indicative of the borrowing capacity available (demand for loan) and the availability of potential credit. In essence, there is a huge potential for expansion of credit, more so in the southern, eastern and north-eastern regions. The southern region holds the highest potential of credit at 1742 individual members in each society. Similarly the potential for credit stands at 1072 individual members in the north-eastern and at 1016 individual members in the eastern region for each cooperative society (see table 1.1).

1.5. A Brief Review of Literature

The literature on cooperatives in India is quite expansive and it is not possible to discuss this literature exhaustively. A large number of authors have talked about the role of cooperatives in financial inclusion of the poor (see Lakshmi et al. 2013, Rachana 2011, Rajeev and Vani 2012), emphasizing the importance of cooperatives in reaching out to especially the poor farmers in rural areas. Many of the studies in this area are primarily survey based. For example, the study by Rachana (2011) conducted a survey in villages of Gujarat and finds that primary agricultural credit societies (PACS) comparatively have a better coverage. However, the major problem faced by the cooperatives is concerning their financial health (Rachana 2011, Veerashekharappa, Rajeev and Bhattacharjee 2014). Agarwal et al. (2012) in this context talk about the problems of cooperative banks especially focusing on the non performing assets (NPAs). Similarly focusing on West Bengal cooperatives, Rakshit et al. (2012) examines NPAs of state cooperative banks to understand whether priority sector lending is a cause of bad loans vis-à-vis non priority sector credit. Concentrating on more quantitatively rigorous methods, Bhat and Bhat (2013) applied the concept of technical efficiency to evaluate the performance of cooperative banks. Engaging on the same concept of efficiency, Chander et al. (2011) examine financial performance and efficiency in the functioning of cooperative banks in Haryana. While highlighting the inefficiency of cooperative banks it is also necessary to discuss the causes of poor performance and Mitra's (2013) paper based on the Hoogly district of West Bengal exactly does so by focusing on causes and effects of nonperforming assets. While most of these papers concentrate on the rural cooperative banks, their urban counterpart is not neglected. Pandian et al. (2013) and a few other authors evaluate the performance of urban cooperative banks. Gnanasekaram (2012) in this context utilizes a time series analysis to forecast performance of urban cooperative banks.

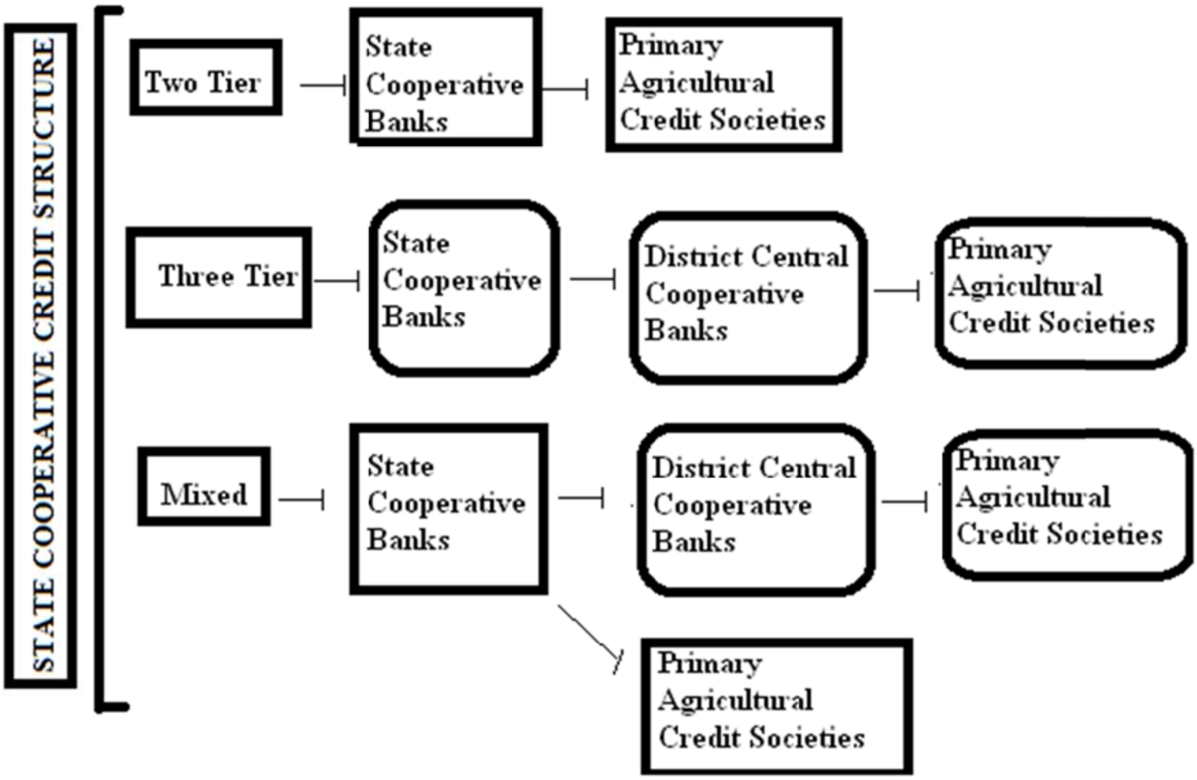
The above review of literature shows that there is limited research on the importance of recent developments such as the event of initiating a revival package for the cooperatives given their poor health conditions (see Veerashekharappa, Rajeev and Bhattacharjee 2011); this work is intended to fill the gap by critically evaluating the performance of such significant programmes for the sector.

1.6. Conclusion

The cooperative credit institutions have undergone a substantial transformation over the years in terms of organisational structure in the rural and urban areas. However, there are certain critical problems in their functioning still persisting which make them (especially at the rural level) *non viable institutions*. A large number of PACS becoming loss-making entities across the country is a testimony of this fact. The Vaidyanathan Committee was appointed to outline a revival package for cooperatives as the finances of most cooperatives had deteriorated. The committee, while suggesting an infusion of funds to the societies, is also of the opinion that it is necessary to adhere to the norms suggested for the reform of the cooperative sector. Only then will this important institution be sustainable and become an important tool for *attaining financial inclusion in India*. This research critically examines the progress of this reform drive in an important state in India, Bihar. In particular it discusses the background for appointing the committee, its recommendations and ground level realities based on a field survey in the state of Bihar, which provide a basis for suggestions for improvement in the short term cooperative credit societies (STCCS). The findings, we hope, will be of use to other states of India as well.

APPENDIX

A1.1. Cooperative Credit Structure



Source: Authors construction using information from secondary sources

CHAPTER 2

Functions and Operation of STCCS

2.1. Introduction[1]

As mentioned in the previous chapter, cooperative institutions are primarily engaged in credit related operations, and societies are usually formed separately to provide short and long-term loans. In the current study, we concentrate on the short-term cooperative credit societies (STCCS) and the implementation of revival packages. This chapter therefore highlights important features of the STCCS while the discussions on the revival package are taken up in the next chapter. The mandate and operational details of STCCS vary across states depending on the structure governing these institutions in the concerned state. However, the main purpose of STCCS is to provide credit and monitor the lower tiers of the cooperative institutions. However, these institutions are controlled by multiple agencies and they still have the freedom to expand their activities. However, after the entry of commercial banks and RRBs, the role of cooperative institutions as major suppliers of short-term credit has declined and in their place, commercial banks and RRBs have become the major suppliers of short-term credit. In the current competitive environment, STCCS have necessarily to compete with the other financial institutions, particularly regional rural banks (RRBs).

Notwithstanding the increased competition, the cooperative banking sector has been registering positive growth; for instance the number of functioning offices of short term cooperative banks (STCB) branches have increased in the last ten years, i.e., from 986 in 1998-99 to 1015 by 2009-10, though the growth rate varied across states for several reasons. Further, the average annual percentage growth rates of offices and membership for the period 1999-00 to 2011-12 were 1.7 and 6.47 percent, respectively (see Table 2.1). Also, the annual average growth in membership per office has increased; in fact, the average annual percent increment in members per office has been 4.73 (from 199-00 to 2011-12). Similarly, there was an increase in the total paid share capital of the state cooperative banks (SCBs), which in turn brought down the share of the state government contribution to 11 percent.

[1] This chapter has been written using various secondary sources on the topic.

Table 2.1 Annual Growth Rates of Offices and Membership of SCBs

Year	Annual Growth Rate of		
	No. of Offices	**Total Membership**	**Members per Office**
1999-00	2.85	-5.27	-7.6
2000-01	-0.23	-10.52	-10.13
2001-02	3.93	-4.02	-7.75
2002 - 03	3.56	13.74	9.92
2003 - 04	-0.21	12.93	13.19
2004 - 05	2.58	3.74	1.13
2005 - 06	0.94	-1.87	-2.79
2006 - 07	-2.49	-3.21	-0.73
2007 - 08	5.12	1.44	-3.50
2008 - 09	0.61	33.03	32.23
2009 - 10	2.32	64.77	61.03
2010 - 11	1.28	-29.01	-29.91
2011 - 12	1.85	8.32	6.35
AAGR	**1.70**	**6.47**	**4.73**

Note: AAGR: Annual Average Growth Rate in terms of percent increment
Source: Computed using data from various National Federation of State Cooperative Banks (NAFSCOB) Reports

In regard to financial indicators, deposits in state cooperative banks (SCBs) in the country aggregated at Rs.84837 crore[2] during 2009-10, representing an increase of 18.2 percent over the previous year (see National Federation of State Cooperative Banks (NAFSCOB), 2009-10), though the increased deposits did not lead to increased lending. For instance, during 2003-04, there was negative growth in aggregate loans issued, while this trend was reversed during 2006-07 to 2007-08, the growth rate being 13.26 percent for the period. At a disaggregated level, out of 31 short-term cooperative banks (STCBs), 14 recorded negative growth, while the others recorded a positive growth rate during the period. Also, the ratio of the non performing assets (NPAs) to loan outstanding varied from 17 to 11 percent, which is attributed to various factors including the government's interest subsidized credit programme (NAFSCOB,2009-10). However, it is somewhat encouraging to observe that the NPAs to total loan outstanding ratio, which was around 17.2 percent during 2002-03, declined to 11.6 per cent by 2009-10 (Table 2.2). This may be to some extent due to the application of Agriculture Debt Weaver & Debt Relief Scheme (ADWDRS).

[2] Rs 1 crore = Rs 10,000,000.

Table 2.2 NPAs and Loan Outstanding of SCBs (Rs. Crore)

Year	Total NPAs	Total Loan Outstanding	NPAs to Loan Outstanding Ratio (Percent)
2000-01	3889	29848	13.03
2001-02	4485	32111	13.97
2002-03	6284	32798	19.16
2003-04	6548	35105	18.65
2004-05	6072	37346	16.26
2005-06	6735	39684	16.97
2006-07	6704	47354	14.16
2007-08	6169	48228	12.79
2008-09	5718	46201	12.38
2009-10	5432	49104	11.06

Note: Rs 1 Crore = Rs 10,000,000.
Source: NAFSCOB Report: Various issues

2.2. District Central Cooperative Banks (DCCBs)

The district central cooperative banks, as the name suggests, are operational at the district level under the guidance of SCB. At the national level, the total numbers of DCCBs as well as their branches increased marginally during the period 1998-99 – 2007-08, while the membership per branch increased considerably from 6233 to 9140. Similarly, the aggregate paid-up share capital also recorded an increase of 6 percent. The contribution of state government towards share capital has come down marginally over the years, and currently accounts for 11 percent. The aggregate deposits of DCCBs stood at Rs. 105594 crores during 2007-08, of which 62 percent of deposits was held by five states: Maharashtra, Kerala, Tamil Nadu, Gujarat and Uttar Pradesh in descending order, thereby showing concentration of cooperative activities in selected states. The aggregate outstanding loan also showed an increasing trend, the annual average percentage increment of loan outstanding during the 2001-2008 period being 9.98 (NAFCOSB 2007-2008).

Ironically, however, the NPA ratios for DCCBs had shown generally an increasing trend between 2000-01 and 2007-08 (Table 2.3). The rate of growth of NPAs was relatively higher than the growth in total advances during this period. The growth in ‘loss’ assets have also been comparatively higher than the other two asset categories for DCCBs which is a matter of serious concern.

Table 2.3 Annual Growth Rate of Asset-Quality of DCCBs[3]

Year	Annual Growth Rate of			
	Sub Standard Assets	Doubtful Assets	Loss Assets	Total NPA
2001-02	26.65	22.48	39.19	26.33
2002-03	20.21	19.20	-5.44	17.10
2003-04	10.85	19.92	37.45	16.46
2004-05	-23.26	-0.25	21.30	-10.06
2005-06	6.76	10.67	5.35	8.19
2006-07	-7.68	14.17	17.33	5.00
2007-08	23.26	7.35	7.65	13.54
AAGR	**8.11**	**13.36**	**17.55**	**10.94**

Note: AAGR-Average Annual Growth Rate, Growth Rates measured in terms of percent increment

Source: Computed using data from NAFSCOB

2.3. Primary Agricultural Credit Societies (PACS)

Primary Agricultural Credit Societies (PACS) form the third and bottom tier of the short-term credit cooperative structure and operates at the grassroots level, i.e., at the village level. As PACs are the direct purveyors of credit to the rural borrowers, both coverage and viability of these institutions need to be strengthened in order to ensure inclusive financial assistance to the needy, as well as to enhance the stability of the short-term cooperative credit structure. As revealed by the study, over the last twelve years, on an average the number of PACS has been declining, but the membership has been marginally increasing (see the last row depicting average annual growth in Table 2.4). According to NAFSCOB, membership increased from 12.5 crores during 2005-06 to 13.3 crores during 2008-9, only to decline to 12.6 crores during 2009-10.

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[3] As per the RBI guidelines *sub standard assets* are the ones which have remained NPA for a period less than or equal to 12 months. Such an asset will have well defined credit weaknesses that jeopardise the liquidation of the debt and are characterised by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected. *Doubtful Assets:* With effect from March 31, 2005, an asset would be classified as doubtful if it has remained in the sub standard category for a period of 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, – on the basis of currently known facts, conditions and values – highly questionable and improbable. *Loss Assets:* A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

Table 2.4 Annual Growth Rate (percent increment) of Membership of PACS

Year	Annual Growth Rate		
	No. of Societies	Total Membership	Members per Society
2000 - 01	-2.66	-8.00	-5.35
2001 - 02	-0.6	2.22	2.84
2002 - 03	14.31	20.96	5.82
2003 - 04	-5.85	9.60	16.41
2004 - 05	3.82	-5.91	-9.38
2005 - 06	-3.09	-1.73	1.40
2006 - 07	-12.37	0.48	14.66
2007 - 08	1.85	4.42	2.52
2008 - 09	0.72	0.76	0.04
2009 - 10	-1.03	-4.48	-3.49
2010 - 11	-1.30	-4.11	-2.84
2011 - 12	-1.05	-6.29	-5.30
AAGR	**-0.60**	**0.66**	**1.44**

Note: AAGR: Annual Average Growth Rate
Source: NAFSCOB

More importantly, the number of borrowers as a percentage of the total members increased from 37 to 60.4 during the above period. Moving on to the financial indicators, one observes that deposits as well as borrowings increased by 5 and 17 percent respectively during the above period, and as expected, a positive link is discernible between deposits and loans issued (see Table 2.5).

An important observation from our analysis of NAFSCOB data is that the quantum of over-dues as a percentage of total outstanding loans, which is a rough indicator of the non-performing assets of PACS, was high across all three tiers of the short- term cooperative credit structure. Moreover, there was a sharp increase in this ratio from 26.9 percent in March 2007 to 36.6 percent in March 2008.

Table 2.5 Deposit and Borrowers of PACS

Year	Per Capita (in Rs)	
	Deposit	**Loan Issued**
1999 - 00	2900	5507.66
2000 - 01	2897.08	5522.33
2001 - 02	2672.79	5539.65
2002 - 03	1547.55	2751.54
2003 - 04	1339.81	2593.53
2004 - 05	1488.99	3077.70
2005 - 06	1562.43	3428.16
2006 - 07	1866.90	3944.03
2007 - 08	1934.86	4382.46
2008 - 09	1983.03	4441.76
2009 - 10	2791.20	5927.71
2010 - 11	3071.82	7531.76
2011 - 12	4423.82	9445.78

Source: NAFSCOB

2.4. Conclusion

This chapter provides a brief account of the performance of STCCS over the years. As observed from the above analysis, possibly owing to consolidation and restructuring, there has been a reduction in the number of institutions at the 3rd tier level. This has resulted in the share of loans and deposits at the PACS level increasing in recent years, as evidenced by the rise in the total membership as well as borrowers in PACS, which is the lowest tier in the rural cooperative credit structure. Ironically, however, high levels of NPAs continue to affect the rural cooperative sector. This disturbing issue needs to be tackled effectively in order to make cooperative banking institutions successful in the days to come.

CHAPTER 3

Task Force Recommendations on Revival of STCCS

3.1. Introduction

In view of the importance of the cooperative credit structure in India and the gloomy state in which it is currently, the Government of India (GOI) has been making concerted efforts to revitalize the system. As an essential step, GOI appointed a Task Force in August 2004 under the chairmanship of Prof. A.Vaidyanathan with the mandate to formulate a plan of action to rejuvenate the rural cooperative credit structure. The Task Force realized that a solely market driven institution cannot take care of the needs of the poor and the needy in a federal structure like India, and recommended that the state governments also need to be incorporated into this process. With this objective, members of the Task Force held lengthy consultations with governments at both the centre and states in order to work out modalities for the implementation of the plan. The committee's final report on STCCS was submitted in February 2005.

The new economic policies have been successful in unshackling private enterprises from the earlier rigid dispensation and promoting industrial and services sectors to ensure higher economic growth in these sectors. Sadly, the agricultural sector did not get much attention compared to the other two sectors, and therefore the positive benefits of the economic growth remained out of reach of the needy masses in rural India. However, in the first two decades of the new economic policy, in spite of its predominant role in delivering credit and non credit facilities to the lower segment of the economy, the cooperative sector did not receive enough attention. The paradigm shift in Indian discourse created scores of new challenges for the cooperative sector. Prior to the onset of economic reforms, cooperative credit institutions were financially weak and also operationally inefficient. Several times in the past, committees were formed to reform these institutions, and based on their recommendations various steps were taken at different points in time to improve operations.

However, it was the revival package announced by the Government of India based on the recommendations of the Task Force led by Professor Vaidyanathan that could introduce the most important reforms in the cooperative credit institutions in India in recent time.

3.2. The Need for Task Force Committee

Since independence, the state policy was mainly focused on creating rapid and equitable economic development. As a part of this strategy, governments at both the centre and states embarked on a number of policies for reforming and streamlining rural financial cooperatives, and several committees were formed to arrive at appropriate policies for improving the sector. The All India Rural Credit Survey (AIRCS) recommended state partnership in terms of both equity and governance and management. It also recommended to make a link between credit and marketing cooperatives and to enlarge their areas of operation. Importantly in its recommendations, the AIRCS strongly opposed direct government intervention in the governance and management of cooperative credit institutions. As a result, the view that government should restrict itself to ensuring that there is continuous flow of cheap institutional credit to the cooperative institutions and that government should not intervene in their operations unless these institutions failed to deliver institutional credits in the rural areas became forceful. Down the road, the Bawa Committee (1971) recommended setting up large multi-purpose cooperatives in tribal areas. In 1975, the Hazari Committee recommended integration of short term and long term credit structures. The National Commission on Agricultural which was formed one year later recommended setting up Farmers Service Cooperative Societies with the active collaboration of nationalized banks. Later, in 1981, the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD, which is also known as Sivaraman Committee), recommended setting up NABARD.

The state's heightened interest in and concern for the performance of cooperatives in the country became obvious. The focus, however, was on expanding and reorganizing the state supported structures, without first addressing the task of restoring and strengthening autonomy, mutual help and self-governance. The Agriculture Credit Review Committee (Khusro Committee, 1989) talked for the first time about the importance of encouraging member thrift and savings for the cooperatives. Of these, special mention needs to be made of the Committees headed by Chaudhry Brahm Perkash, Shri Jagdish Capoor, Sri Vikhe Patil, Prof. V.S. Vyas and Prof. A. Vaidyanathan during the last two decades, to suggest reforms in the cooperative credit sector. The Sri Brahm Perkash committee emphasized the need to make the cooperatives self-reliant, autonomous and fully democratic institutions and proposed a model law. The Jagadish Capoor committee recommended measures for improvement of human resources in the cooperative structure.

3.3. The Task Force Committee Report

The Central Government set up a special Task Force in August 2004 with the mandate to suggest an action plan for reviving the credit cooperative societies in India which submitted its report in February 2005. Thereafter, in a special meeting conducted by the Government of India (GOI) of State Chief Ministers on September 9, 2005, it was decided to implement the recommendations of the report. Subsequently meetings with the Finance and Cooperation Ministers of selected states were also held.

The revival package was intended to revitalize the short-term (rural) cooperative credit structure (STCCS). It sought to (a) provide financial assistance to bring the system to an acceptable level of health; (b) introduce legal and institutional reforms necessary for their democratic, self-reliant and efficient functioning; and (c) take measures to improve the quality of governance and management.

The Task Force found that due to the incidence of "deep impairment of governance" the STCCS failed to realize its enormous potentials and became dependent on the state for several basic operations. In its report, the Task Force provides a detailed account on how a state government curtails the autonomy of STCCS by making itself the dominant shareholder and arrogating the power of manager, regulator, supervisor and auditor of the cooperative institutions in the state.

Also, the report of the Task Force contained certain recommendations to remedy the deficiencies found in the system, as also to usher in a strong and effective cooperative banking system.

3.4. Policy Recommendations of the Task Force

Some of the important recommendations of the Task Force include:

i. All users including depositors should have full voting rights

ii. Cooperative institutions should have autonomy to deal with administrative and financial matters

iii. Government should not nominate any representative(s) on the Boards of cooperatives, and provision for government equity should be removed

iv. Restrictive orders on financial issues need to be withdrawn

v. Cooperatives should have freedom for both taking loans from and placing deposits with any financial institution of their choice

vi. Permitting cooperatives under the parallel Acts to be members of upper tiers under the existing cooperative societies Acts

vii. A cap on the powers of state governments is needed to reduce the government interference on Boards

viii. Elections should be conducted in a timely manner, and prior to the expiry of the existing Boards

ix. To ensure smooth progress of the cooperative banks, RBI should have full regulatory powers

x. To prescribe prudential norms including CRAR for all financial cooperatives including PACS.

3.5. Policy Package

To execute the recommendations of the Task Force, the Government of India (GOI) created National Bank for Agriculture and Rural Development (NABARD) as the implementing agency, and also announced a financial assistance package. Besides these two steps, GOI also prescribed several other mandatory requirements such as legal and institutional reforms and improvement of management of the cooperative institutions.

3.5.1. Financial Assistance

The financial assistance package was to encourage state governments to reform their legal and institutional system by incorporating the recommendations of the Task Force. By using this assistance package, it became possible to cover accumulated losses in the Cooperative Credit Societies (CCS), but the institutions were barred from writing off the existing loans, and the cooperatives were advised to make efforts to recover outstanding loans in order to make the institutions financially sound. The first step of the financial restructuring process was to ensure the financial health of the Primary Agricultural Cooperative Societies (PACS). The method suggested was to cleanse the balance sheets and strengthen the capital base of PACS, so that they could move on to the upper tiers. With this, the DCCBs would become eligible to receive assistance in order to clear the existing accumulated losses and reach a minimum norm of capital adequacy. The same process was also prescribed to recover the financial health of the State Cooperative Banks (SCBs).

Accumulated losses in the CCS include the items listed below:

i. Non-repayment of loans disbursed by cooperatives for agricultural and other businesses purposes;

ii. Non-repayment of loans to individuals for other purposes like consumer goods, housing, gold loans etc.

iii. Losses on account of non-credit businesses like public distribution system (PDS), procurement of food grains on behalf of government, sale of fertilizers etc.

iv. Non-repayment of loans issued under government guarantees where the State government has not yet paid to the cooperatives although guarantees have been invoked/ un-invoked;

v. Non-payment of dues by governments on account of waivers or subsidies announced by them; and

vi. Losses due to fraud etc.

3.5.2. Legal and Institutional Reforms

The revival package for STCCS focuses on introducing legal and institutional reforms which will enable the cooperatives to function as autonomous member-centric and member-governed institutions. Suitable amendments of Acts, such as Cooperative Societies Acts of the States, Banking Regulations (BR) Act, NABARD Act, and DICGC Act are to be made.

Reforms in the Cooperative Societies Act: To make the process faster, the state governments should issue Executive Orders to bring in the structural reforms in credit cooperatives by stipulating the following provisions:

i. Full voting rights need to be ensured to all users of financial services including depositors in cooperatives other than cooperative banks.

ii. There should not be any form of state interference in financial and administrative issues of the cooperatives.

iii. The state government should put a cap of 25 percent on equity. It should also have the right to lower it further. Besides this, the state governments should not nominate more than one representative on the Boards of cooperative banks.

iv. Wherever applicable, cooperatives registered under the State Cooperative Societies Act should not face any difficulty to migrate to the Parallel Act.

v. All restrictive orders related to financial issues need to be withdrawn.

vi. All cooperatives should have freedom to take loans from any regulated financial institution of their choice and should be able to deposit funds in such financial institutions of their choice. Here, state governments/RCS can determine a threshold limit for such activities. There should not be any restriction on cooperatives under the Parallel Act to become members of upper tiers under the existing Cooperative Societies Acts and vice versa.

vii. State governments should not be able to easily surpass the Boards.

viii. Elections should be held in a timely manner, and necessarily before the expiry of the existing Boards.

ix. To ensure smooth progress of the cooperative banks, RBI should have full regulatory powers

x. Prudential norms should be prescribed including CRAR, for all financial cooperatives including PACS, as per the directions of RBI.

The Task Force recommended a model Cooperative Law for adoption by the state governments. And, in such states where an old Cooperative Societies Act is in force, convergence of the existing and the recommended Acts should be attempted in order to make the Act purposeful and compliant to relevant laws. However, if any state is unwilling to adopt the model act in total, then it should incorporate the salient provisions of the model act into the existing Cooperative Societies Acts.

Reforms in the Banking Regulation (BR) Act of 1949: Amendments made to the BR Act included the following:

i. All cooperative banks and commercial banks should have the same regulatory norms.

ii. Regardless of the type of membership of cooperatives including membership of the DCCBs and SCBs, RBI should prescribe criteria for election to Boards of cooperative banks.

iii. The RBI should prescribe criteria for professionals to be on the Boards of cooperative banks. In case members with such professional qualifications or experience do not get elected in the normal electoral process, then the Board will be required to co-opt such professionals to the Board and they would have full voting rights.

iv. The cooperative banks themselves should appoint their CEOs without having any interference by the State government. However, RBI may prescribe the minimum qualifications of the CEO to be appointed and the name proposed by the cooperative bank for the position of CEO would have to be approved by RBI.

v. Cooperatives other than cooperative banks, as approved by the RBI, shall not accept deposits of non-voting members. Such cooperatives should also not use words like “bank”, “banking”, "banker" or any other derivative of the word "bank" in their registered name.

vi. Introducing a Common Accounting System (CAS). At the primary level, the CAS also needs to be simple and easily comprehensible, and facilitate a sound Management Information System (MIS) across various levels of STCCS and beyond, to facilitate proper and timely decisions at all levels. The CAS and MIS so evolved would form the basis for computerization of STCCS units.

3.5.3. Improvement in Management Quality

a) Capacity building and training: Quite often, the Board of Directors, vested with the responsibility of business development and management, are also not sufficiently conversant with issues relating to banking business, and corporate governance. Also, in most institutions there is neither any systematic arrangement to impart basic competency to the staff at entry level nor any familiarization or sensitization programme for the Board members. Hence, training was recommended at all the levels of personnel including the Board members.

b) Computerization of PACS**:** The present competitive business environment and changing market dynamics, fresh regulations and compliance requirements, industry consolidation, need for delivery of cost effective products and services, maintaining secure data platforms, meeting increasing customer demands and other strategic issues have all made banking far more complex than in the past. As such the use of technology has become a key focus area for extending the outreach of banking and financial services.

3.6. Conclusion

Considering the fact that the STCCS could not realize the enormous potential opened up by its vast outreach owing mainly to a "deep impairment of governance", a task force was constituted in order to improve the functioning of the institution. The task force made a series of recommendations to enhance the autonomy of the institution especially at the village level, and to ensure better governance. A financial package has also been devised depending on the level of non-performing assets of the banks. This study is mandated to critically examine the process of implementation of the recommendations of the task force in the state of Bihar and suggest areas that need further strengthening in order to make this revival effort a success.

CHAPTER 4

Impact of Revival and Reforms Package: A Consolidated Review

4.1. Introduction

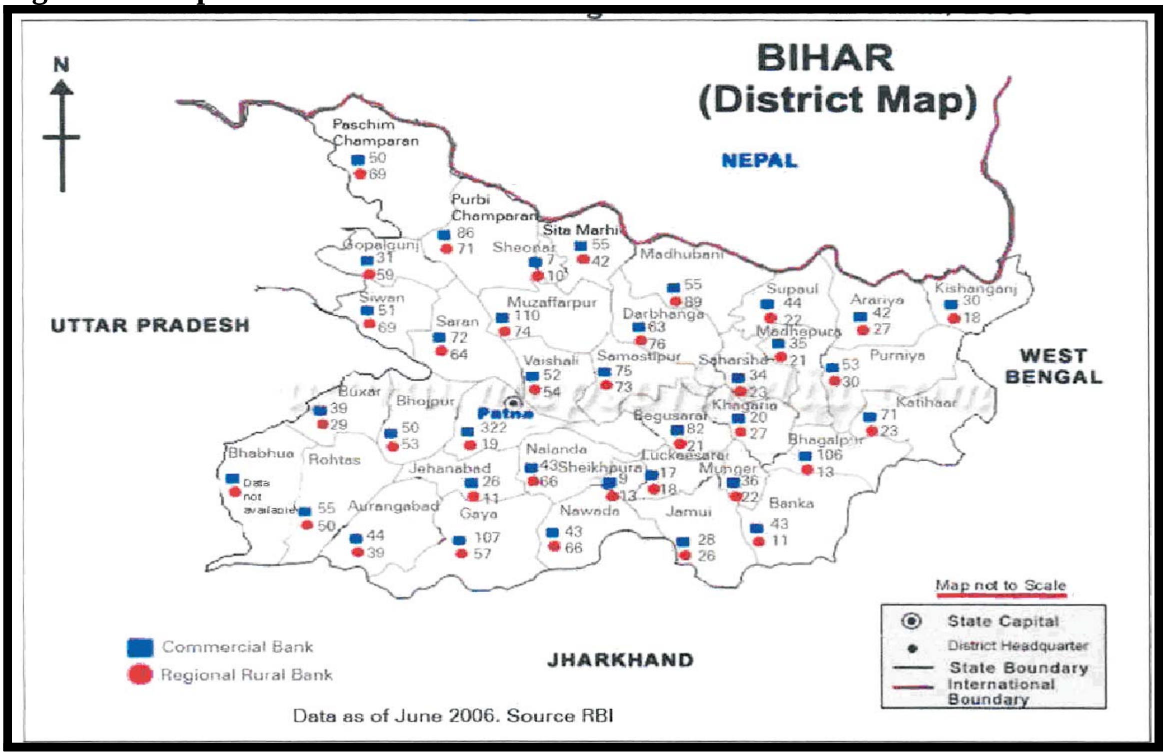
Having discussed cooperatives at the national level, to get a closer view of the institution and its reform process we concentrate on the state of Bihar. The state of Bihar is bounded on the east by West Bengal, west by Uttar Pradesh (see Fig 4.1), north by the Himalayan republic of Nepal and south by the newly created state of Jharkhand. The total area of the State is 94,163.00 sq. km. The net cultivated area in the state is 53.31 lakh hectares against the gross cultivated area of 72.95 lakh hectares (Bihar Statistical Handbook, Directorate of Economics and Statistics, Bihar, 2012). Demographically, the population of the state is a little more than Rs 10.4 crore (104 million, as per 2011 census figures[2]) with decadal growth of 25% which is much higher than all India average decadal growth of 17%.[3] The population density at 1106/square km is much higher than all India average of 382 (Census of India, 2011) and the gender ratio (918 female per thousand male) is lower than the national average at 940 (Census, 2011). The economy of the state is predominantly rural, with 89 percent of the state's population dependent on rural/agrarian economic activities for their livelihood, and the contribution of rural agricultural economy in the Gross State Domestic Product of the state is close to 20 percent during 2011-12 (Directorate of Economics and Statistics, Bihar, 2012). The state is a major producer of cane, wheat, lentils and jute.

As far as social indicators are concerned, the literacy rate of 61% in Bihar is lower than the national average of 74% (as per 2011 census); similarly both male and female literacy rates in Bihar are lower than the all India average. In terms of economic indicators such as consumption expenditure, 42.60 percent of the state's population lives below the poverty line (BPL) as against the national average of 26.10 percent (presented in table A 4.1 of the Appendix). The per capita income of Bihar during 2008-09 at current prices was Rs 5,772 which can be considered as relatively low compared to the per capita income of the neighboring states of Uttar Pradesh, Madhya Pradesh and West Bengal. These below national average figures for the state in respect of literacy, poverty and other related indicators are indicative of the fact that the state needs to achieve a lot even to reach the national average level.

2 http://www.census2011.co.in/census/state/bihar.html

3 http://www.wikipedia.org/wiki/List_of_states_and_union_territories_of_India_by_population

Figure 4.1 Map of Bihar



Source: Reserve Bank of India

4.2. Banking Profile of Bihar

According to the Report of the Special Task Force on Bihar,[3] the financial services (including banking services) and service delivery systems are poor and the coverage inadequate in the state. The report essentially points out that given the current situation of low penetration of banking services, achieving the objective of financial inclusion will be demanding in a state like Bihar. For instance, 65 percent of the bank branches in the state are located in the rural areas, and each branch roughly covers 13 villages. Further, the population density per bank branch is 23,000 as against the national average of 15,000. The bank branches in the state are not only few in number but also located far between that on an average, a branch caters to 35 sq. km of geographical area. However, as can be seen from Table 4.1, half the number of commercial bank branches covers 89 percent of the population in the rural areas while the other half covers just 11 percent of the urban population. These statistics point to the uneven spread of banking services in the state. The cooperative banks too seem to prefer urban areas rather than rural areas in opening branches. However, the PACS, i.e., the Primary Agricultural Credit Societies, the bottom tier entity serving the agrarian community, have a noticeable presence in rural areas despite the resource crunch caused for several reasons including the increase in their number following an amendment to the cooperative act in 2008 (discussed in sections 4.3 and 4.6).

Table 4.1 Banking Network in Bihar

Agency	Number of Banks	Total Branches	Rural Branches (in percent of total branches)	Semi Urban Branches (in percent of total branches)	Urban Branches (in percent of total branches)
Commercial Banks	32	2313	52.92	23.17	23.91
Regional Rural Banks	4	1479	81.61	14.87	3.52
Bihar State Cooperative Banks	1	17	-	5.88	94.12
Dist. Central Coop. Banks	22*	279	--	-	-
Bihar state Cooperative Land Development Bank	1	151	52.98	21.19	25.83

Note: *Apart from 22 DCCBs, three DCCBs viz., Darbhanga, Saran and Madhepura are not functioning at present.
Source: State Focus Paper 2010-11, Bihar, Published by NABARD

The transaction pattern of the banking sector in Bihar shows that the average credit-deposit (CD) ratio is 34.8 percent (in 2008) as against the

[3] Bihar's Exposure towards the Banking Sector: a Report of the Task Force on Bihar, Government of India, July 2007.

national average of over 70 percent. Thus, the low credit-deposit ratio reflects the conservative approach in the disbursal of credit. The deposits as well as advance per capita are estimated to be lower than the national average, consistent with the low-per capita average income of around Rs 5, 700 per year.

4.2.1. Need for Cooperative Sector in Bihar and its Reform

As can be seen from the above discussion, Bihar is an agro centric state which is also economically under-developed. Thus, the farmers of Bihar inevitably need regular financial support for cultivation especially to meet their short term working capital needs. The second important fact to note is that the banking sector in Bihar is not well developed. It is therefore essential to have a strong banking network in the rural regions of the state mandated to the farmer community, especially the small and marginal farmers. In this respect cooperative banks that are by definition member centric in nature assume considerable importance. In order to ensure financial inclusion through the cooperative banks, the Bihar government has taken up a new initiative to have one bank branch in each village panchayat. Such wider and deeper penetration of cooperative banking entities is not witnessed in other states. While making available such member centric accessible financial institutions to the poor is a welcome step, one also needs to make sure that these institutions remain healthy so that they can serve the needy in a sustainable manner. This, however, is the greatest challenge of the cooperative banking sector in the country as a whole, as their financial health is rather poor. The Prof. Vaidyanathan committee report and recommendations provided therein, which we have discussed at length in the last chapter, are essential to ensure such a sustainable and financially sound institution under the cooperative structure in the country and especially in a state like Bihar.

While the committee has recommended financial assistance to the cooperative banking institutions to cover their losses, it cautions that “financial assistance alone cannot revive cooperatives and empower them to realise their full potential and extend adequate credit to the villages and the rural population, (especially the asset-poor, the asset-less and the disadvantaged).” This needs to be taken special note of. Cooperatives can only be revived if they are allowed to function as democratic, self-governing, self-reliant entities mandated to ensure mutual thrift and credit. The scope for the government’s involvement and interference in their internal functioning should be eliminated. “Enactment of a liberal law by the State Governments to enable cooperatives to function as fully member driven institutions is an essential and critical requirement” (Vaidyanathan, 2004). In the light of these recommendations, we discuss the cooperative baking structure and its performance in the state of Bihar.

4.3. Organisational Profile of Cooperative sector

The structure of the cooperative credit societies in Bihar is similar to the general cooperative structure that exists in most states of India. The State Cooperative Bank (SCB) (Apex bank) operates as the top most tier with its 15 branches. At the district level, there are 22 District Central Cooperative Banks (DCCBs) affiliated to the Apex Bank, with branches evenly spread across each district.

At the grass roots level, the Primary Agricultural Credit Societies (PACS) function — 8,463 of them — to provide credit and non-credit services to the rural population, where, generally, one PACS covers the jurisdiction of one village panchayat, according to the amended Panchayat Act of 2008.

4.4. The performance of Bihar State Cooperative Bank

The state level cooperative bank was registered as the Bihar and Orissa Provincial Co-operative Bank in March 1914 under the Cooperative Societies Act II of 1912. Historically, the area of operation of the bank, then, was for two states, Bihar and Orissa. However, after the separation of Orissa in 1936-37, the area of operation became limited to the Bihar state, and later in the year 1950, it was therefore renamed along geographical lines as Bihar State Co-operative Bank Ltd., and operated with 14 branches and 30 DCCBs under it. After the separation of the state of Jharkhand from Bihar in the year 2000, five branches and eight DCCBs were transferred to the state of Jharkhand, based on the geographical location of branches of the DCCBs. As the Jharkhand State Co-operative Bank had not come into existence at the time of data collection for this study, the assets and liabilities of the original bank could not be apportioned in the absence of any formula or pre fixed condition for the purpose. Therefore, this analysis generally reflects the position of the undivided entity. (It is to be noted that Jharkhand State Cooperative Bank is operational at present).

As revealed by our data, the bank had operated profitably since its inception till March 1997. However, with the application of prudential norms, the bank started showing losses in its balance sheet at approximately Rs 14.06 crore, Rs 49.98 crore and Rs 68.81 crore during the years 1997-98, 1998-99 and 1999-2000, respectively. During 2000-01, this trend changed and the bank started making profits; subsequently, it added two more branches during 2007-2008. However, the overall performance of the bank has not been very encouraging. For instance, during the period 2004 – 2010, the bank made large borrowings from NABARD, government and commercial banks under the facility of overdraft account and cash credit. Large borrowing will inevitably increase the service cost unless timely and proper utilization is made of these borrowed funds. As can be observed from table 4.2, the percentage of overdue has increased, and along with it, the bank has shown poor recovery despite the Agriculture Debt Waiver and Debt Relief Scheme (ADWDRS, see section 4.8) and other relief measures made available to the cooperative banks. Experts argue that the poor recovery of the banks can to some extent be attributed to the division of PACS; this division, as mentioned above, was initiated in order to have one PACS per village panchayat. Delay in repayment of overdues by the PACS also contributed to large overhead.

Table 4.2 Financial Particulars of State Cooperative Bank (Rs. in lakh*)

Sl. No	Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	AAGR
1	Number of offices	15	15	15	15	15	15	15	2,67
2	Paid up capital	1862	1810	1829	1829	1838	1871	1881	0.18
3	Government share	478	478	478	478	478	478	-	0.00
4	Government capital (%)	26	26	26	26	26	25		
5	Reserves& Fund	19501	23342	33832	37359	38836	13721	17772	7.31
6	Deposits	75136	93918	77540	89961	83602	115905	150569	14.18
7	Borrowings	2862	10904	5177	2903	5295	6140	11874	62.71
8	Working Capital	118084	120848	131224	135700	129133	177550	222980	12.10
9	Loan issued	18965	56237	54080	62830	69259	61478	64157	35.37
10	Loan outstanding	48998	56237	54080	62829	62829	134148	-	28.13
11	Gross Profit During the Year	-	6841	5078	608	2955	2041	3429	51.55
12	Overdue to demand %	55.46	60.21	52.16	67.1	67.1	82.3	-	9.29

*Rs 1 lakh = Rs 100,000

Source: NAFSCOB and balance Sheet of SCB.

4.5. The performance of DCCBs: An Aggregate Picture

The functional and operational activities of the affiliated DCCBs are controlled and regulated by the Apex State Cooperative Banks. The total number of DCCB branches has varied across the years. As can be seen from Table 4.3, the total number of branch offices of DCCBs has declined in the last five years (2003-04 to 2008-09), i.e., from 325 to 311, possibly due to the merger of non-viable branches. The increase in equity share capital was largely due to pumping the funds by state government through equity. However, *the pumping of funds through equity is contrary to the MOU agreed upon after consenting on the revival package. According to the MOU agreement, the state equity share capital has to be reduced to 25 percent or less of the total share capital of the DCCBs. This stipulation is considered necessary to reduce the state's interference and make banks operate in an autonomous and member centric fashion as a* *commercial entity.*_Data presented however, give an impression that the DCCBs are largely dependent on state equity capital for a capital base.

Nevertheless, the DCCBs in aggregate have managed to accumulate a large deposit base over the years, the annual growth in deposits being 7 percent. The loans disbursed during the above period also increased and the growth rate is in excess of 8 percent (see table 4.3). However, overdue amount of the banks has come down over the years, but it is still over 55 percent (see Table 4.3 for certain important indicators). The high overdues of these district level banks will push up the proportion of their NPA (Non Performing Assets), and an increase in NPA could adversely impact the financial performance of the banks. Therefore necessary steps need to be taken at the level of the DCCB and SCB to ensure that NPA does not increase beyond a certain limit.

Table 4.3 Performance of DCCBs in Aggregate (Rs. in lakhs)

Sl No	Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	AAGR
1	Numbers of offices	325	323	328	328	317	311	-0.86
2	Paid up capital	7327	7722	14219	14219	15376	15502	19.70
2a	contribution of Government	3018	3091	9184	9184	9835	9835	41.33
3	Share of state’s capital %	41.2	40.0	64.6	64.6	64.0	63.4	-
4	Reserves	3350	4109	4192	4192	4046	4058	4.30
5	Borrowings	32724	40324	34130	34130	31697	31381	-0.05
6	Deposits	70038	73533	77175	77175	91367	96017	6.68
7	Loans issued	16675	21284	24711	24711	23337	24149	8.33
8	Loans outstanding	57637	65574	65351	65351	61315	60212	1.09
9	Overdue to demand %	65.08	59.01	53.33	53.33	56.95	56.2	-2.66

Note: Rs 1 lakh = Rs 100,000
Source: NAFSCOB

4.6. The performance of PACS: A Macro Scenario

The number of Primary Agricultural Credit Societies (PACS) - the primary level cooperative institutions in Bihar - was 5,969 till the year 2007-2008. Prior to the enactment of the new Cooperative act in 2008, PACS in the state numbered 5965. *The total strength of PACS increased substantially to 8,463 following the full implementation of the new Cooperative act, which stipulated the presence of at least one PACS in each panchayat. This was a significant step which aimed at instilling a completely new cooperative culture in Bihar by way of a more inclusive banking structure***.** It is to be noted that in other states of India not every village has a cooperative credit society.

In 2009, soon after the process of restructuring, elections were held at all the levels of cooperatives, including the PACS. From Table 4.4 columns 7 and 8, it can be observed that the number of PACSs increased by 2498 in 2009. This increase has completely transformed the operational dynamics of PACS in rural areas. Given the sudden nature of this transformation, it is necessary to allow adequate time for the full development of the newly formed PACS. It is a reasonable assumption that, given sufficient time, the PACS will develop the basic physical infrastructure and hire the required manpower to function efficiently and effectively in the rural areas.

Table 4.4 Financial Particulars of PACS (Rs. in lakh)

Sl. No	Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	AAGR
1	2	3	4	5	6	7	8	9
1	Total PACS	5965	5965	5965	5965	5965	8463	8.47
2	Paid up capital	8,037	8,152	8,506	8,509	8,888	8,888	2.05
2a	contribution of Government	2,849	2,849	3,588	3,183	3,183	3,183	2.93
3	Share of state(%)	35.4	34.9	42.2	37.4	35.8	35.8	-
4	Reserves	198	261	247	247	254	254	5.86
5	Deposits	4,894	4,992	5,986	6,115	6,672	6,672	6.64
6	Borrowings	48,089	49,383	49,975	50,115	50,115	50,115	0.83
7	Total Borrowers	131,000	246,000	211,000	305,000	305,000	195,000	16.41
8	Per Capita Borrowing(Rs)	36,709	20,074	23,685	16,431	16,431	25,700	-0.31
9	Loans issued	14,159	27,375	23,448	29,553	35,015	31,654	22.78
10	Loans outstanding	14,159	42,331	35,116	28,551	43,248	43,248	42.94
11	Percentage of overdue to demand	64	54	51	40	66	46	-1.62

Source: NAFSCOB

However, for the purpose of evaluating the functioning of short-term credit at the ground level, we selected five (5) DCCBs and one hundred (100) PACS. The selection of each DCCB was done in consultation with the NABARD regional office, Patna. The final selection of DCCBs for analysis was based on a number of measurable performance indicators. The DCCBs so selected are Pataliputra (Patna district), Arah (Arha district), Nalanda (Nalanda district), Magadh (Gaya district) and Vaishali (Vaishali district).

4.7. Performance in Aggregate of the Selected DCCBs

4.7.1. Share of State Government Equity Capital

Increasing the equity share capital is one of the essential methods to enhance the performance of the financial indicators. The total equity share capital values of the selected districts have improved over the years; in fact, the average annual growth rate of equity share capital currently ranges from 3.8 percent to 33 percent across the selected districts. The increase was mainly due to the contribution under certain heads of account, and except for Pataliputra DCCB, increase in equity capital in other DCCBs was due to pumping of funds by the state government as equity funds. In fact, the contributions were more evident during 2005-07 and later (Table 4.4). Under the revival package, the share of state equity capital was to be brought down to 25 percent, but in these DCCBs it was found increasing, which is against the norms of the revival package. During our discussion with the concerned officials, it was learnt that this trend was practiced in most of the districts of the state.

4.7.2. Reserve Fund and Deposits

Reserve funds are part of the net profit that has to be maintained by the cooperative societies in the balance sheet and are, under the relevant sections, considered as important contributions from the net profit. The profit minus the contribution to the reserve fund is considered for paying out dividends and other capital expenditures. The cooperative societies are required to use the reserve fund, wholly or partly, in line with the ratio of owned and borrowed capital. It is also clear that not enough has been done to hold funds in reserve across the selected DCCBs as excepting Pataliputra DCCB, all the other DCCB institutions have low levels of reserve funds. For instance, the DCCB in Vaishali has the lowest sum of Rs 56 lakh as a reserve fund, followed by Bauxar-Arah with Rs 113 lakh and Nalanda with Rs 211 lakh. *The annual average growth over the last five years has also been insignificant.*

Regarding deposits in the selected DCCBs, it is observed that deposits have increased in line with annual average growth rates and ranged between 5 to 29 percent across the selected districts. The district of Nalanda witnessed the lowest growth while the highest growth was registered in Vaishali district. However, the Vaishali DCCB has less reserve funds and lower equity capital share, but deposit mobilisation doubled between 2004-05 and 2008-09.

4.7.3. Borrowing and Investment

The borrowings by the selected DCCBs (SCBs being the major source) during the last five years show that except in the cases of Pataliputra and Magadh, the growth of borrowings for the others was either negative or a small positive number, and may reduce the volume of resources available for credit or non credit business. However, the DCCBs are found to have made good investment of the resources raised through their deposits. For instance, during the preceding five years (2004-25 to 2008-09), the DCCBs of Magadh and Pataliputra registered an annual growth rate of 32 and 27 percent respectively in their investment portfolios. Similarly, Bauxar-Arah and Nalanda DCCBs also registered significant average annual growth rates of 20 and 11 percent, respectively (See table A4.2 in the Appendix).

4.7.4. Advances, Deposits and Overdue to Demand

We next examine the trend in advances by the DCCBs (see Table A4.2 in the Appendix). As is well known, an increase in advances indicates that there is demand for credit from these institutions in the state. Observing the growth of advances across the selected DCCBs, it is seen that the average annual growth rate of advances varied for last five years from (-) 23 percent to (+) 66 percent. The Pataliputra DCCB has registered the highest positive growth rate followed by Vaishali and Nalanda in descending order, whereas Bauxar-Arah and Gaya DCCBs have registered negative growth rates.

The deposits of DCCBs also show wide variation across the states; it varied from as low as (-) 15 percent to as high as (+) 29 percent. The growth in deposits in Bauxar-Arha is lowest at (-) 15 percent, while for Vaishali it is the highest at 29 percent. Similarly, the growth in the total reserve fund is also highest for Vaishali DCCB with around 30 percent, while other DCCBs also show positive growth (See Table A4.2 in the Appendix).

The overdue to demand ratio (non repaid loan to total loan provided in the current year) across the years in the DCCBs varied from 30 percent to as high as 78 percent. During 2004-05, the overdue ratio varied between 44 to 78 percent across the selected DCCBs. The DCCBs which had higher overdue to demand have reduced their overdue with the implementation of ADWDRS scheme (see also section 4.8). It is observed that Arah DCCB, which had a 67 percent overdue to demand ratio, reduced it to 38 percent after the implementation of ADWDRS. However, some DCCBs are showing more than 50 percent overdue to demand even after implementation of ADWDRS (See table A4.3 of the Appendix).

4.8. Assistance Received from ADWDRS & Revival Package

These two distinctively different schemes are similar in characteristics in the sense that both are initiatives to boost rural credit. The former is intended to give relief to farmers and the latter to institutions. The Agricultural Debt Waiver and Debt Relief Scheme (ADWDRS) of 2008 was formulated to give relief to the small/marginal farmers, and artisans from their debt burden, and was followed up by a scheme for recapitalization assistance to the short-term cooperative credit structure for all unpaid loans. Thus the Government of India has initiated various credit related measures for strengthening the lending institutions as well as the borrowing community with a view to strengthening both lending and borrowing as well as and diversification of investment. Under ADWDRS, a large number of small/marginal farmers and others have benefited and the amount released to the lending institutions to wipe out the outstanding loans of the farmers in the selected five districts is presented in Table A4.4 in the Appendix.

For recapitalization of cooperative societies it was decided that a correct estimate of accumulated losses needed to be ascertained first to determine the amount of recapitalization support necessary. For the purpose of ascertaining the correct monetary value of the accumulated losses as on 31st March, 2004, a special audit of PACS, DCCB, and SCB was to be conducted. The other rationale behind conducting the special audit was to classify the losses on the basis of their origins, i.e., losses due to credit business, public distribution business, or other trading business. NABARD has formulated all the technical details related to special audit which include special audit formats, manual and frequently asked questions (FAQs) on special audit. These special audits are to be conducted by the personnel of the cooperative audit department of the state. The special audit can also be conducted by the selected outsourced auditors after being suitably trained on the guidelines in the conduct of a special audit. This would be the first round of the special audit structure. The second round would be conducted by a set of independent chartered accountants who are members of the district level implementation committee (DLIC).

The special audit of 5,342 PACS of the state of Bihar has been completed as per the norms of recapitalization assistance. The total amount claimed under the programme was Rs 414.65 crore which was approved by the State Level Implementation Committee (SLIC). Of the total amount, the shares of Central and State Governments and PACS stand at Rs 300.35 crore, Rs 27.04 crore and Rs. 87.26 crore respectively. Accordingly, the state has already released Rs 24.10 crore as its share. The share of Government of India had not been released at the time of our survey which indicates that the release of central funds was taking time.

4.9. Implementation of Revival Package: A Review

The Finance Minister, in the budget of 2008 - 09, had announced that the National Bank for Agriculture and Rural Development (NABARD) had been designated as the implementing agency for the process of implementation of the revival package in all states. NABARD subsequently had constituted a special department within its internal banking structure known as the Department for Cooperative Revival and Reforms (DCRR) that has been looking into the reforms carried out at the institutional level in the cooperative sector. The findings of DCRR formed the basis on which the revival assistance is being provided to institutions. At the national level, the National Implementing and Monitoring Committee (NIMC) is the institution responsible for monitoring the implementation of the package and also taking decisions on policy and operational matters (NABARD, 2013).

The revival package programme is a state centric programme carried out at the national level by the central bank of the country, i.e. the Reserve Bank of India. The implementation is conducted and monitored jointly by the State Level Implementing and Monitoring Committee (SLIC) and the DCCB Level Implementation and Monitoring Committee (DLIC). The concerned regional office of the NABARD supports the SLIC, and each DLIC is supported by a dedicated DCCB level support team comprising officers from NABARD, DCCB and cooperative department (NABARD, 2013).

Thus the implementation of this package for the STCCS is a state task, for which partial financial support is also provided by the central government. Though this is a national level scheme, the choice of participation in the package is the state’s own decision. However, states which ultimately decide to be a part in this revival package programme have to undertake it through signing an MOU and then carry it out through implementing various reform measures.

The signing of the Memorandum of Understanding (MOU) among the government of India, the participating state government and the NABARD is the first step in the process of implementation of the revival package in any state. A common draft of the MOU was finalized by the National Implementation and Monitoring Committee (NIMC), and the decisions taken by the NIMC on policy and operational issues could either be incorporated in the MOU or could be incorporated suitably while making amendments to the relevant acts, rules, and/or byelaws. The inclusion of issues which are not common to other states but are in line with the spirit of the revival package can be included in the revival package (NABARD, 2013).

The model of sharing the financial burden is that the central government will bear the entire losses that could arise from the direct credit business of the PACS, DCCB and the SCB. However, losses on account of non agriculture credit business will be shared by the state government. The central government will provide its shares as grants while the state government is required to draw resources from its budget or from its open market borrowings to meet its share of assistance (NABARD, 2007).

The government of Bihar, with the execution of the MOU with the Government of India and NABARD, became part of the programme on March 15, 2007 (NABARD, 2013). As per the contractual agreement, the implementation of the package was to be completed by March 14, 2010. However, due to various factors the implementation period was extended for an additional period of one year, up to March 2011. Thus, we felt during our survey that one needs to wait for some reasonable time to get an unbiased and objective picture of the accomplishment of the revival package in the state. The initiation of the revival package, as mentioned, was intended to cover the accumulated loss of the intermediate and primary level institutions as of March 31, 2004 and to maintain the minimum capital adequacy at 7 percent by these institutions (NABARD, 2013).

As per the latest data (Dec 6, 2010) given in table A 4.5 in the Appendix, 20 DCCBs and 4,854 (of 6059) PACS/MPCS were slated to receive assistance through the revival package on the basis of a special audit. According to the norms of the revival package, the total amount to be provided to the DCCBs is Rs 385 crore and to the PACS, around Rs 374.04 crore. Based on the recommendation of SLIC, a partial amount of the total package was released to the PACS. It has to be pointed out that on account of not having accumulated losses on their balance sheet on March 31, 2004, the Pataliputra DCCB has not made any claims on the revival package. Essentially, in the last SLIC Meeting (of July 15, 2010), it was decided that the process of recapitalisation assistance to the DCCBs would start only after the process of recapitalisation of PACS was over. This decision was based on the mandate of the task force as incorporated in the guiding principles of financial restructuring, which emphasizes that the very purpose reviving the credit cooperative societies would be meaningless without first addressing the infirmities of the primary level institutions. This means that it may take considerable time for the recapitalization process of the DCCB to begin. Additionally, in the case of the state of Bihar, the division of PACSs between two states (Bihar and Jharkhand) has made the process of their recapitalization difficult to implement.

The magnitude of recapitalization to be made available to PACS is according to the categorization under sections A, B or C. This categorization is based on the recovery percentage achieved by the PACS. *However, during our survey it was found that in certain districts, the eligible PACS have yet to be categorized. All the PACS in the selected districts have put in their claim for the recapitalisation assistance based on special auditing.* Across the state, the average amount claimed was found to be 4.50 lakh per PACS. Among the selected districts, the lowest revival assistance of Rs 2.40 lakh is claimed by Pataliputra and the highest by Vaishali District. The revival assistance to PACS being proportionate to their losses, the PACS affiliated with Vaishali DCCB have claimed a relatively higher amount than the PACS in other districts. In terms of financial indicators, the performance of PACs in this district however is poor (See table A 4.6 in the Appendix).

4.10. Revival Package Achievements

The revival package reached most of the PACS in the middle of 2010. It was during this time period that the PACS which had been divided as per the above mentioned amended law were trying to adjust their assets and liabilities. Thus, the statistics regarding these aspects were difficult to be accessed in the survey. This, as mentioned earlier, is mainly due to the revamping of the entire cooperative banking system which made the impact assessment (in terms of financial indicators) of the revival package on PACS difficult. However, information with regard to the achievement made by the cooperatives in terms of certain desired and assessable indicators could be collected, and a discussion about some of these parameters is presented below.

4.10.1. Legal Reforms

The task force on revival of the cooperatives has assigned considerable importance to laws that enable the cooperatives to function as democratic, self-governing and self-reliant institutions (see Prof. Vaidyanathan Committee Report, pp 40, Section 5, NABARD, 2004). It acknowledges that enactment of laws that enable the cooperatives to function as member driven institutions is vital for the elimination of any scope of government's unnecessary involvement. The task force has also stressed that the laws should grant depositors full voting rights along with borrowers in order to make the cooperative credit societies more democratic and inclusive. The report also favoured legislative changes that bring the cooperatives under the regulatory guidelines of the Banking Regulation Act (BRA) of the Reserve Bank of India (RBI) which currently covers only the commercial banks (Prof. Vaidyanathan Committee Report pp. 40 Section 5). Such a move would bring cooperatives on par with commercial banks and delegate greater responsibility to them. Similarly, other legal reforms were also proposed in regard to elections, access to other financial institutions and others. (Prof. Vaidyanathan Committee Report 2004, pp.41, Section 5). For these changes to happen earlier, bylaws needed to be amended.

Moving on to the state of Bihar, it was observed that the Bihar Cooperative Societies Act was amended in the year 2008 which, as mentioned earlier, made it mandatory to have one PACS in each village. Subsequently, the amendments to the Bihar Cooperative Societies Rules were also carried out. As per the recommendations of the Prof. Vaidyanathan committee certain legal amendments need to be made in the bylaws of the cooperatives. This was necessary to change the present legal structure under which the cooperatives operate. Indeed, amendments of the bylaws have given more autonomy to the cooperatives at different levels.

In this regard, for the state of Bihar, amendments to the bylaws of Bihar State Cooperative Bank (BSCB) were forwarded to the higher authorities for approval and certification, after approval in the General Meeting of the Bank. With a view to amending bylaws of DCCBs, a committee has been constituted to identify the clauses of bylaws required to be amended. Model bylaws have been prepared by the state government for PACS. Thus, except for amendments to the Bihar Cooperative Societies Act, not much progress was achieved for quite some time with regards to reforms of legal aspects.

4.10.2. Institutional Reforms

Institutional reforms, as has been recommended by the task force headed by Professor A. Vaidyanathan, essentially mandates central and state governments to make amendments to their respective cooperatives act such as the cooperative societies act, NABARD Act, and DICGC Act. For example, the functions of the DICGC are governed by the provisions of 'The Deposit Insurance and Credit Guarantee Corporation Act, 1961' (DICGC Act) and 'The Deposit Insurance and Credit Guarantee Corporation General Regulations, 1961' framed by the Reserve Bank of India, the Central Bank of India, in exercise of the powers conferred by sub-section (3) of Section 50 of the said Act (http://www.dicgc.org.in/english/au_profile.html). This act deals with deposit insurance and credit guarantee facilities and issues related to them.

These changes or amendments have to be in line with the recommendations of the revival committee as incorporated in the memorandum of understanding (MOU) signed among the stake holders concerned (NABARD, 2004). In particular, the amendments made in the Bihar Cooperative Societies Act, 2008 under the initiative of the Bihar State Government have led to fresh elections for DCCB. However, the election of a chairperson and members of the Executive Committees of the DCCBs as well as Bihar Sate Cooperative Boards (BSCB) had yet to take place during the time of survey. Further, the inclusion of professional directors has not taken place at BSCB and DCCBs level. According to the officials, this would be taken up while conducting fresh election in these intuitions. However, the Bihar Cooperative Societies Act is not operative presently due to a stay issued by the Patna High Court.

The task force has recommended that cooperative banks in their functioning should maintain the same level of professionalism as preserved by the commercial banks. This, the task force feels, is required in order to improve the efficiency of the cooperatives as they now seek to compete with other regional rural banks and commercial banks (see Vaidyanathan Committee report, pp. 41, section 5). For this to happen, autonomy of the banks is necessary. In order to reduce state interventions the committee recommended as a first step a reduction in the state's share capital in cooperatives. Steps have been taken towards converting the government share capital in excess of 25 percent into grants. But, this had not been fully achieved at the time of the study. Further it is observed that the state government has increased its equity capital in a number of DCCBs in the process of strengthening them. Thus, some of the state government's decisions, though made for the overall good of the system, seem to contradict the directives of the revival package.

4.10.3. Governance Issues

The Task force has suggested certain important changes to ensure a better governance of the system (NABARD, 2004, pp. 41 section 5). These include holding regular monthly and half-yearly meetings of PACS, as also of Annual General Body Meetings. It is noted that these prescriptions are being followed by the PACs in the state. The cooperative societies now have complete autonomy in lending (subject to availability of funds), audit assignments, collection of deposits, and recovery of loan. It is to be noted that after reconstruction of the PACS in the year 2008, elections were held in all the PACS. However, the elected board members and the chairman were found to be lacking in relevant experience or acceptable track-records. This has, therefore, created problems in the smooth functioning of the organisations. Therefore, comprehensive training needs to be given to elected representatives and officials alike in matters of cooperative governance.

4.10.4. Human Resources: Fit and Proper Criteria for selection of CEOs

The task force has firmly stipulated that the DCCBs and the SCBs in the states that decide to participate and benefit from the revival package should adopt the 'fit and proper criteria' of eligibility as prescribed in the package in the matter of board membership. In the event that professionally qualified persons are not being selected to the Boards, these institutions should induct/appoint professionally qualified persons to the Board in order to benefit from their expertise in matters of cooperative governance (pp 42, NABARD, 2007).

The process of the appointments of CEOs as per "fit and proper criteria" had not started when the survey was conducted. In the meantime the cadre system, the traditional method of selection of officials, had been largely abandoned. Out of 8,463 PACS, only about 1,200 PACS have cadre managers, as they were selected prior to the adoption of the new system. The practice of appointing cadre personnel will cease to exist with their retirement. Most of the PACS have appointed CEOs according to the fit and proper criteria. One-third of the total appointed CEOs are graduates, while the rest are undergraduates.

Thus, as far as manpower related reforms are concerned the appointment of executives at BSCB and DCCBs as per the RBI instruction of fit and proper criteria has yet to take place. The guidelines of fit and proper criteria for appointment of officials have already been formulated, and communicated to the banks through NABARD on January 16, 2009; but it will take some time to implement these at the ground level concerning all members of the societies. Further, the process for withdrawal of government nominee in excess of one person, as mandated under the package, has yet to take place.

4.10.5. Capacity Building Programme

The task force has recommended a number of reforms in the cooperatives which include the adoption of a more scientific accounting practice. To carry forward these reforms one needs capable officials. It is therefore necessary to train the existing manpower so that they can cater to the changing needs of the societies. To this end training programmes are organized in the state of Bihar.

The task force suggests that ongoing as well as future strategies for training should target both staff and elected representatives in order to develop their competence (NABARD, 2004, pp.131).Training was recommended on the designed modules and in Bihar, 8,722 PACS personnel have been trained under the two modules of Business Develop Plans (BDP). The D.N.S. Institute for Cooperative Management, Patna, has been identified as the nodal agency to coordinate and organize training for capacity building in the state. In this context, 14 master trainers were trained by Bankers Institute of Rural Development (BIRD) on training modules for PACS secretaries and elected members. District level trainers have imparted training to 1,503 PACS secretaries and 7,219 board members at district/taluka level.

However, the interactions with the personnel who attended training reveal that the training programme has not provided much knowledge and exposure. Training was inadequate to improve skills in the common accounting system, management of information system as well as to prepare a business development plan (BDP).

4.10.6. Common Accounting System (CAS)

The Task force on Revival of Short-Term Cooperative Credit Structure stressed the need of standard accounting practices like double entry book keeping which would have adequate provisions against non performing assets and follow proper income recognition and asset classification norms. These practices are needed to have a uniform accounting system which would enable a fitting and appropriate analysis of the banking activities carried out at the primary level (NABARD, 2008).The implementation of CAS at the PACS level has not taken place even after the adoption of the revival package. Efforts by the DCCBs and NABARD officials at the district level certainly inspire hope and confidence that the CAS would be adopted by the primary level institutions in the coming years. The required ledgers for CAS are being printed and supplied to the PACS. Unfortunately almost all the PACS still use the old single entry accounting system. The chairpersons of newly formed PACS have expressed that they do not have enough resources to pay salaries of competent persons who can carry out these tasks, and it would therefore be difficult to implement CAS. To facilitate the process of adoption of CAS, the state should provide qualified staff at the PACS level and support the PACS financially to meet the salaries of personnel at least for a certain period of time.

4.11. Computerization of PACS

Computerization process is necessary for proper implementation of CAS and MIS in PACS. As a matter of fact, the adoption of CAS, MIS and computerization has to be an integrated process. Ironically, the state of Bihar still lacks adequate computerization even at the state level. During our visit, we observed that in the matter of adopting computerization, there is a lot to be achieved at the DCCB and the PACS levels. Lack of dependable and quality electricity supply is another major hurdle in using computers in the PACS.

4.12. Conclusion

The rural cooperative structure, especially at the primary level, has obviously undergone substantial restructuring, initially in the legal facet and, subsequently on the ground with the result that the number of PACS has considerably increased over time with one PACS per village panchayat as a norm. Therefore, it will be inappropriate at this juncture to come out with conclusions on its performance and functioning. However, the ground level study that we conducted involved elaborate consultations with officials and staff of PACs, and has thrown up some insightful details that will go a long way in steering our research and also formulating solutions.

i. Firstly, the credit deposit ratio that is prevalent in the state is not satisfactory and needs to be increased urgently. The revival package for PACS and DCCBs, and the legal amendment should result in a greater credit flow and consequently to an increase in credit deposit ratio.

ii. Secondly, the high overdues of the DCCB is an area of concern, and has to be resolved by the banks. Overdue beyond 30% would adversely affect the bank’s capital base and jeopardize long term sustainability of the bank.

iii. Thirdly, from the point of view of both apex banks and state cooperative banks, it is essential to ensure that the large borrowings made under the overdraft facility is utilized efficiently and effectively by PACS in order to make the banking system more proficient.

iv. Finally, in order to assess performance of the banks at various levels it is necessary to have a sound accounting system in place. In this regard adoption of CAS and MIS will go a long way. However, we observe that there is a problem of getting capable human resources to carry forward these tasks and there are also technical problems like lack of computers. Training programmes are seen to be not so effective. Thus there is a need to address these problems in order to make the cooperative banking system efficient and sustainable.

These problems concerning the accounting system and manpower and training observed in the state of Bihar are also the problems of other states of India (see Veershekharappa, Rajeev et al.2011a,b,c). Thus some of these issues need to be addressed by most states of India.

APPENDIX

Table A4.1 Bihar State at a Glance

Sl. No.	Particulars	Statistics
1	Geographical Area (Sq. Km.)	94163
2	Number of Districts	38
	Number of Villages	45103
3	Total Population (2001) million	82.87
	Rural Population %	89.53
	Male Population (2001) %	52.07
	Population Density (No./Sqkm)	880
	Gender ratio Per 1000	920
4	Total Literacy %	47.53
	Male Literacy %	60.32
	Female Literacy %	33.57
5	Population Below Poverty Line (2004-05) %	41.4
6	Per-capita Income Rupees	5772
7	Total Number of Commercial Banks	32
8	Total Number of Cooperative Banks	22
9	Agriculture	Cane, wheat, lentils and jute
10	Industry	Textiles, oil mills, etc.

Source: www.biharonline.in and State Focus Paper, 2010-11

Table A4.2 AAGR of Financial Indicators of Selected DCCBs during 2004-05 to 2008-09

Indicators	Buxar Arah	Nalanda	Patli Putra	Vaishali	Magadh
Number of Branches	0.00	0.00	0.00	12.50	0.00
State Share Capital	5.70	0.00	0.00	44.78	91.90
Total Share Capital	7.65	3.30	11.91	32.90	49.55
Percentage Share of State Share Capital to Total Share Capital	-1.62	-3.08	-10.43	4.30	13.76
Total Reserve Funds	3.79	0.12	1.37	29.64	0.61
Deposits	-15.19	5.59	21.46	29.59	2.11
Borrowings	-26.07	2.18	150.01	-27.06	448.52
Investment	19.51	11.52	26.28	0.00	32.32
Total Loan and Advances	-10.79	9.95	65.96	40.76	-23.26
Total Loan Outstanding	12.01	-2.05	14.95	-14.77	-7.12

Data Source: NAFSCOB and Data collected by authors through Balance Sheets of the DCCBs

Table A4.3 Percentage of Overdue to Demand in Selected DCCBs

Name	2004-05	2005-06	2006-07	2007-08	2008-09
Arah	67.45	67.45	67.45	37.6	37.6
Nalanda	56.98	56.98	58.6	54.32	54.32
Patli Putra	44.43	29.91	29.91	39.82	39.82
Vaishali	78.27	36.77	36.77	36.77	36.08
Magadh	NA	NA	NA	NA	NA

Source: NAFSCOB and data collected by authors through Balance Sheets of the DCCB

Table A4.4 District-wise ADW& DR Scheme, 2008

Districts	No. of SF/MF Beneficiaries	Amount Reimbursable (Rs. in lakh)	Per capita SF/MF Received (Amt in Rs)
Bhojpur	32,876	7,047.91	21437.86
Gaya	35,257	6,119.14	17355.82
Nalanda	37,700	4,815.23	12772.49
Patna	47,759	10,415.31	21808.06
Vaishali	51,874	8,833.15	17028.09
State Total	**1307103**	**229797.09**	**17580.64**

Source: http://slbc.bih.nic.in

Table A 4.5 Revival Package Approved & Released (Rs in Crore)

Details of	GoI	GoB	Institutions	Total
DCCB				
20 DCCBs*	300.96	15.47	69.42	385.85
PACS/MPCS				
Approved	273.45	24.50	76.08	374.04
Released	265.06	27.04	0	292.10
To be released	8.39		76.08	84.47

Source: Regional Office Patna, Bihar note released on Dec 6, 2010, for state level stakeholders meeting.

Table A4.6 Amount Claimed by the PACS in the District (Rs in lakhs)

Sl No	Name of the DCCB	No. of PACS	Total eligible PACS	Amount claimed	Amount sanctioned/released		Total amount	Per capital amount
1	2	3	4	5	GOI	State Govt.		
1	Pataliputra	335	335	1064.33	727.2	78.27	805.47	2.40
2	Nalanda	222	222	1745.84	1053.91	157.88	1211.79	5.46
3	Magadh	345	345	1702.11	1215.52	104.85	1320.37	3.83
4	Arah	366	366	1287.98	900.72	74.78	975.5	2.67
5	Vaishali	166	166	1563.45	1208.57	146.99	1355.56	8.17
Sub-total		1434	1434	7363.71	5105.92	562.77	5668.69	4.01
State Total		5965	5965	41464.98	26505.87	2704.17	29210.04	4.98

Source: Data collected by authors from Regional office, Patna

CHAPTER 5

The Impact of Revival Package on STCCS of Patna District

5.1. General Profile of the District

Patna, the capital of Bihar, was known as Pataliputra in medieval times. The district lies in the heart of the South Bihar plains and geographically, this ancient district is bound on the north by the Ganges, beyond which lie the districts of Saran, Vaishali, Samastipur and Begusarai. To the east lie the districts of Lakhisarai and Nalanda and in the south, the district of Jahanabad. Patna is separated from Bhojpur district on the west by the River Sone.

Presently Patna is the administrative headquarters of the district and the state, and is expectedly well connected by rail and road with all the major cities of the country. Patna city is also the main educational centre of Bihar and the literacy rate of 63 percent in the district is relatively high vis-à-vis other districts. The population density of 1471 per sq. km (see Table 5.1) is higher than the state average. Also, currently, the population density of the city is one of the highest in the state because the city experiences a substantial migration from the other districts. Patna city is also the main center of economic activities in the state and has therefore undergone a lot of urbanization.

As far as the rural agricultural sector is concerned, rice, the main crop of the district, accounts for more than one-third of the gross area sown while the other important food grains grown are maize, pulses and wheat. Non-food crops consist mostly of oil-seeds, cash crops such as vegetables, and watermelons are also grown in the Diara belt.

Table 5.1 Major Indicators of Patna

Particulars	Statistics
Area (Sq. km)	3202
Population (2001)	47,09,851
Males	25,14,949
Females	21,94,902
Population density (Per Sq. km)	1471
Gender Ratio	873
Literacy Rate %	63.82
Language Spoken	Hindi, Urdu, Bhojpuri, English, Maithali & Maghi
No. of Sub-Division	6
No. of Blocks	23
Average rainfall (mm)	1200

Source: www.biharonline.in

5.2. Pataliputra District Central Cooperative Bank (DCCB)

The District Central Cooperative Bank Ltd (DCCB) of Pataliputra is the oldest DCCB in Bihar with 20 branches, and has its head office in Patna. The DCCB has 21 branches and 331 PACS in the district. Out of the total PACS, 29 are located in the urban areas and the remaining 302 are situated in the rural areas, and therefore it is clear that majority of the PACS are located in the rural areas of Patna district.

Moving on to the revival package and its disbursement, it is to be noted that the DCCB has not claimed any amount under the revival package; however, all the PACS affiliated with the DCCB are found to have claimed their entitlements under the package. Details of the financial performance of the DCCB for five years preceding the survey are presented in table 5.2. During the five years under review, the DCCB registered a considerable increase in its total funding with an annual average growth rate of 3.27 percent on a yearly basis. The deposits of the DCCB increased significantly in the years 2004-05 to 2008-09. The increase in deposit is a clear indication of the greater coverage of banking services in the district. It is also indicative of the rise in per capita income of the farmers in the district which has been made possible due to the right kind of government policies. The positive growth in the disbursal of loans (between the years 2004-05 and 2005-06) indicates the dynamism of new business endeavors and expanding economic activity in the district. The increase seen in the growth rate of investments proves that the district level bank has been able to make proper and fitting use of the accumulated funds. In regard to outstanding loans, it is to be noted that the DCCB received Rs 108.91 crore under ADWDR scheme out of which Rs 104.15 crore was on account of the waiver of small /marginal farmer debts.

Table 5.2 Financial Particulars of DCCB of Pataliputra (Rs in lakhs)

Sl. No	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	AAGR (percent increment)
1	Number of Branches	21	21	21	21	21	0.00
2	State Share Capital	103	103	103	103	103	0.00
3	Total Share Capital	287	310	355	424	448	11.91
4	Percentage Share of State Share Capital to Total Share Capital	35.89	33.23	29.01	24.29	22.99	-
5	Total Reserve Funds	1497	1490	1569	1571	1579	1.37
6	Total Own Fund (3+4)	1784	1800	1924	1995	2027	3.27
8	Total Deposits	6736	7743	8808	11993	14510	21.46
9	Total Investment	4116	7453	7453	9246	9246	26.28
10	Total Loan and Advances	520	1892	1892	1892	1892	65.96
11	Total Loan Outstanding	2271	2085	2085	3503	3503	14.95

Note: AAGR Annual average Growth Rate
Source: National Federation of State Cooperative Banks Ltd (NAFSCOB) and balance sheet of the DCCB.

It is necessary to point out that the recommendations of the Prof. Vaidyanthan committee that the percentage of state share capital in the total share capital should be less than 25 percent, has been adhered to by the DCCB of Pataliputra. The figures in table 5.2 show that the share of state government capital has been consistently going down in the total share capital of the DCCB, which positively proves that the banks have implemented the recommendations of the Prof. Vaidyanathan committee.

5.3. Implementation of the Revival Package in the District

Pataliputra DCCB, as stated earlier, has not made any claim for assistance under the revival package because the bank has performed well over the last five years. Barring one PACS, 330 PACS have submitted their claims for assistance under the revival package. As part of this study, we visited the DCCB in Patna and in consultation with DCCB and local NABARD officials, we selected 20 PACS for a comprehensive analysis on their performance. The selection of PACS was done by weighting various aspects such as performance, existing vs. newly formed PACS and so on. The selected PACS are: *Hatiyakanth, Ganghara, Sarari, Jamsabet, Hetampur, Patlapur, Kasimchawk, Puranapanapur, Manas, Mubarakpur, Ajwan, Nawdeha, Chesi, Deora, Gonwan, Faridpur, Jamalpura, Neora, Yamunapur and Nawhi.*

Further, a study regarding the number of members in each PACS was also carried out. Coming to the size of PACS in terms of number of members, 35% of the PACS have membership ranging between 500 and 1000, 45% of the

PACS have membership ranging between 1000 to 2000, 15 percent of the PACS have membership in excess of 2000 (see Table A5.1 in the Appendix).

Among the 20 PACS selected, the highest amount in the revival package from central government was received by Hatiakanth PACS (Rs 34.46 lakh) and this particular PACS received the highest amount of Rs. 4.32 lakhs from the government of Bihar as well (see Table 5.3). Of the total selected PACS, 13 PACS have received ADWDRS funds while seven PACS have accumulated losses due to farmer default. The PACS which have not received any assistance under the ADWDRS have relatively less accumulated losses compared to other PACS as of 2004. *It is understandable therefore that certain PACS function reasonably well and also that by adhering to sound practice it is indeed possible to make good recovery.*

Table 5.3 Selected PACS, Assistance under RR and ADWDRS

Name of the PACS	ADWDRS Scheme (Rs. in lakhs)	Revival Assistance Received (Rs in lakhs)		
		From GOI	From GOB	Total
Hatiyakanth	Not received	34.46	4.32	38.78
Ganghara	3.79	14.05	0.35	14.4
Sarari	0.68	1.47	0.7	2.17
Jamsabet	NA	1.45	0.18	1.63
Hetampur	0.61	1.84	0	1.84
Patlapur	3.44	17.3	0	17.3
Kasimchawk	0.82	6.25	0.02	6.27
Puranapanapur	NA	0.2	0.04	0.24
Manas	1.62	3.78	0	3.78
Mubarakpur	NA	0.76	0.88	1.64
Ajwan	6.47	14.5	3.46	17.96
Nawhi	NA	0.33	0.29	0.62
Nawdeha	NA	0.029	0.025	0.054
Chesi	2.26	3.86	0.32	4.18
Deora	2.88	4.13	0.21	4.34
Gonwan	0.15	1.53	0.03	1.56
Faridpur	0.44	0.54	0	0.54
Jamalpura	4.99	9.98	3.7	13.68
Neora	NA	1.97	0.67	2.64
Yamunapur	NA	0.27	0.05	0.32

Source: Survey of 20 PACS by authors

Most of the new PACS do not have any equity capital of the state government as revealed by their capital balance position. However, the balance sheets of the old PACSs reveal that 70 percent of the PACSs have less than 25 percent of the state's equity capital.

In the context of cooperative bank credit to farmers, the role of the *Kisan credit card* is significant. The Kisan credit card enables a farmer to obtain a certain amount of credit which he/she can withdraw at different points of time.

Thus this card not only provides accessibility to credit as and when required, i.e., money can be withdrawn during sowing time, mid period or harvest time. On the contrary, if the total credit is disbursed at the beginning, farmers tend to use it for other purposes and are forced to borrow from informal lenders at harvest time. In case of the PACS of Bihar it is observed that Kisan credit cards have been issued to the farmers to help them draw credit from the bank. However, contrary to popular belief, it was discovered that not all the farmers were provided with the credit card facility. According to our survey findings given in table A5.2 of the Appendix, 61 percent of the PACS have provided credit card facilities to only to 10 percent of their members. Thus, a substantially large number of members do not have credit cards.

5.4. Governance Issues

In regard to institutional and governance related reforms it needs to be mentioned that as a first step in this direction, model bylaws have been prepared by the state government, but adoption of these bylaws by the PACS is likely to take some more time. It may be noted that elections for office were held after the expansion in the number of PACS in 2008. However, the newly elected members and chairpersons of most of the PACS are new to the system and lack experience in the cooperative credit programme. Consequently, most of the newly created PACS are unable to follow the guidelines regarding their functioning. Some of the PACS have yet to figure out their own jurisdiction and have sought legal assistance.

Information gathered during our visits also reveals that all the PACS conduct monthly executive committee meetings and two General Body Meetings) (GBMs) every year. With regard to ‘autonomy’, an important consideration of the Revival Committee, the PACS are found to have absolute freedom in matters of lending (subject to availability of funds), capital requirements audit, assignments, collection of deposits, and recovery of loans.

Thus, it is observed from the ground that the implementation process is on and governance reforms are indeed taking place. However, it is also necessary to mention that this is going to be a continuous process for sometime as several reforms especially relating to human capital and capacity building, have yet to take place. For example, the new PACS are often found to face severe scarcity of staff and hence the family members of the sarpanch are often found looking after the daily functioning of the banks. During our discussions with PACS officials, we found them to be very confused and jittery in their expressions rather than being pragmatic, probably due to inexperience.

5.5. Capacity Building Programme

The importance of capacity building programmes, especially at the primary level institutions, has been highlighted by the Prof. Vaidyanthan committee in chapter 4 of the report (4.18). The task force talks of a desirable training strategy that should meet the requirements to carry forward the reform process. To this end, D N Sinha (DNS) Institute for Cooperative Management, Patna, has been identified as the nodal agency to coordinate and organise training programmes for capacity building in the state. All PACS officials were given two days of training at the DNS Institute by two faculty members. The subject matter of the training programme was essentially preliminary accounting system and methods. The training programme, though it gave initial knowledge to the trainees regarding the revival package, was inadequate to carry forward the entire reform measures. The trainees are of the opinion that the quality of trainers should improve and that such training programmes should be held on a recurring basis where hands-on exercises are carried out. Only with initial handholding it will be possible for the employees of the PACS to bring about major changes in the functioning and accounting processes at the grass roots level.

5.6. Implementation of CAS and Computerization

The task force has stressed the need for the PACS to conduct their operations under CAS. The CAS, as per the stipulations of the high level committee, should be based on standard accounting practices of asset classification, double entry, netting concepts and prudential norms. Implementation of CAS in the district has yet to take place, and towards this end, the process of printing required ledgers has commenced. In this regard, the tendering and placing of orders is going on at the nodal agency level. The process of computerization has yet to be implemented. It is to be noted that the adoption of CAS will be a time consuming and lengthy process, and one would see full-fledged implementation of the new accounting system only after a few years.

5.7. Human Resources: Fit and Proper Criteria

As per the 'fit and proper criteria', individuals with graduate level qualification are only eligible to be appointed as CEO of PACS. After election, most of the PACS have appointed CEOs or chairpersons as per the fit and proper criteria. From table A 5.3 in the Appendix, it can be seen 19.05 percent PACS in the selected sample have chairmen who are just 10^{th} pass, 42.86 percent have chairmen who have studied up to 12 class and 38.10 percent of PACS have chairmen who are graduates. Thus this problem of human resources would have to be addressed adequately in the days to come.

5.8. Concluding Remarks

The district of Patna is one of the flourishing and affluent districts in Bihar. Its contiguity to Patna city, the state capital, which is the focal point of most of the major economic activities in state, makes it one of the thriving districts in Bihar with a relatively better standard of living vis-a-vis other districts in the state.

The financial management of the DCCB in this strategically important district has been in conformity with most of the major recommendations of the Prof. Vaidyanathan committee. For instance, the share of the state capital has been consistently declining and is now under 25 percent. Also, the increase in loans and advances is an indication of the growing economic activity in the district. An increase in total loan outstanding between 2004 and 2008 at the DCCB level also indicates an increase in credit disbursement. However, the bank needs to be careful regarding nonperforming assets, and given the history of cooperative banks, recovery should receive higher priority.

As for the implementation of the revival package, we observe that model bylaws have been prepared, and elections have been held in the DCCBs and PACS; the capacity building measures have also been implemented. The enforcement of the model bylaws should be supplemented by following recommendations such as adopting standard practices in accounting, and adhering to the fit and proper criteria when choosing the chairman of the primary level institutions.

The PACS are crucial in carrying out the various non-credit activities in order to channelize the welfare programmes of the government. Among the selected societies, we found that around 65 percent of the PACS carry out non-credit business related to public distribution system and others. These activities consume the time of the PACS officials which in turn has been adversely impacting their credit disbursement and recovery schedule. Once a proper accounting system is put in place, PACS will be able to evaluate their own performance quickly. It is hoped that a proper and fail-safe accounting system will help the PACS to give adequate attention to NPAs.

Further, the PACS will have to adopt the changes and make sure that the implementation of the legal and structural reforms and governance norms, as mentioned in chapter 4, is also undertaken by the DCCB and SCB. The integration of the PACS vertically and horizontally through computerization will be of great significance as that will bring much needed inclusiveness to the rural cooperative structure.

Thus to sum up, even in case of a developed district like Patna, a considerable amount of progress needs to be achieved by the cooperative banks especially at the ground level in order to make the cooperative credit institutions successful.

APPENDIX

Table A5.1 Distribution of PACS According to Membership

Number of Members	In Percentage PACS
Less than 500	5
500 to 1000	35
1000 to 2000	45
More than 2000	15
Total	100

Source: Field Survey

Table A5.2 Members having Kisan Credit Card

Borrowing of Kisan credit card	Percentage of PACS
Less than 10 per cent	61.54
10 to 20 per cent	15.38
More than 20 per cent	23.08
Total	100

Source: Field Survey

Table A5.3 Qualification of Staff

Qualification of chairman	Percentage of PACS
10^{th} class	19.05
12^{th} class	42.86
Graduate	38.10
Total	100

Source: Field Survey

CHAPTER 6

The Impact of Revival Package on STCCS of Gaya District

6.1. General Profile of the District

Historically, the district of Gaya was a part of the ancient Magadh region. The ancient district is considered sacred and venerated by two of the world's largest religious groups -- Hindus and Buddhists-- for this place is believed to be the birth place of Sri Gautam Buddha. The present Gaya district is situated 100 kilometers south of the capital city of Patna, on the banks of the River Falgu. The district is bound by rocky hillocks, i.e., Mangala-Gauri, Shringa-Sthan, Ram-Shila and Brahmayoni on three sides and the river on the fourth (western) side. The district Jehanabad is to the north, on the south lies Chatra district of Jharkhand, on the east lies Nawada district and on the west Aurangabad district. The district has 24 blocks under four subdivisions. The population density in the district is 696 persons per square km (see table 6.1); the gender ratio is mildly skewed with 937 females per 1000 males. The important agricultural crops are paddy, wheat, potato, and lentils and the major industries operating in Gaya are oil mills, and sugar factories.

Table 6.1 Gaya District at a Glance

Particulars	**Statistics**
Population(2001)	34,64,983
Male	17,89,231
Female	16,75,752
Population density (Per Sq. km)	696
Gender Ratio	937
Literacy Rate %	51.07
No. of Sub-Division	4
No. of Blocks	24
Agriculture	Paddy, Wheat, Potato, Lentils.

Source: http://gov.bih.nic.in/Profile/districts

As part of the impact assessment study of the Revival Package for STCC, the research team visited Gaya district, and held detailed discussions on various aspects of the cooperative banks with the Magadh DCCB CEO and the DDM of NABARD. In consultation with the officials, a decision was made to select 20 PACS as the sample for a comprehensive study of the implementation process of the recommendations of the Task Force. The PACS included in the sample are a mix of good, average and poor performing ones.

6.2. Performance of Magadh DCCB

The Magadh DCCB has 10 branches in the district and each branch has been found to serve more than two blocks for five years preceding the survey. Under the revival package, one of the essential indicators that needs to be considered while examining the financial performance of a DCCB is the share of the state's equity. As mentioned above, dependence of the bank on the state's equity should be consistently reduced in order to ensure autonomy of the bank. Surprisingly however, in the DCCB, the state equity capital was found to have registered a drastic, sudden and enormous increase in 2005–06. The magnitude of the increase in 2005-06 was 4.67 times more that of the previous year. The absolute figure for 2005-06, i.e. 852.26 lakhs, stood unchanged till the year 2009. This shows that the growth of equity capital was due to infusion of equity share from the state government. In fact this infusion increased the state's share from 52 percent to 80 percent, and the state's share has remained unchanged in total capital. Thus the recommendation of the task force to limit the state's share in the total capital to less than 25 percent of the total capital has not been adhered to. Further, the total borrowing of the DCCB has shown large variation across the time period. It is evident from table 6.2 that the borrowings, which stood at Rs 784 lakh in 2004-05, came down drastically to 38.14 lakh in 2005-06, but shot up to Rs 150 lakh in 2007-08.

The total deposit has also revealed a fluctuating scenario over the years even though the average annual growth rate has been more than 2 percent. Loans and advances showed a fluctuating trend as well but on an average between 2004-05 and 2008-09, there was a substantial decline (-23%). The proportion of total investment has been increasing for the banks and the increase has been substantial over the years.

Table 6.2 Financial Particulars of DCCB Magadh (Rs. In lakhs)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	AAGR
Number of Branches (in numbers)	10	10	10	10	10	0.00
State Share Capital	182.26	852.26	852.26	852.26	852.26	91.90
Total Share Capital	346.74	1019.82	1057.30	1059.98	1061.75	49.55
State share capital	52	83	80	80	80	0
Total Reserve Fund	10.50	10.56	10.62	10.68	10.76	0.61
Total Deposits	2018.40	2128.96	2104.35	1819.16	2140.26	2.11
Total Borrowings	784.31	38.14	7.27	150.50	-	-448.52
Total Investment	339.50	658.74	720.37	531.89	808.81	32.32
Total Loan and Advances	865.26	289.49	329.79	373.78	172.88	-23.26
Total Loan Outstanding	1509.31	1339.42	1249.31	1383.82	1089.72	-7.12

AAGR: Annual Average Growth Rate (percent increment)
Source: Data Collected from DCCB Magadh

Quality of assets of a bank is a reflection of its performance. Table 6.3 presents the distribution of total assets in terms of asset classifications. It can be seen that over the years the share of standard assets has increased and reached 40 percent during 2010, starting from 27% during 2006. Of the different types of unpaid bad loans, substandard assets are less problematic than doubtful assets. It may be noted here that the share of substandard assets has increased while the share of doubtful assets has declined. Doubtful loans are classified in terms of their degree of risk as D1, D2 and D3. D1 are those assets in which the banks make a provision of 20 percent; 30 percent provision is made in the case of D2, and in case of D3, a total (100 %) provision is usually made as these loans are considered totally risky 'bad loans'[1]. Among the doubtful assets, the D1 and D2 have now been completely reduced to a negligible proportion. However, the percentage of D3 category assets has been very volatile, and account for a significant share in the total doubtful assets, (Table 6.3) which is a matter of serious concern.

Table 6.3 Assets Classification in Percentage

Particulars	2006	2007	2008	2009	2010
Standard Assets	27.39	20.62	27.89	29.71	39.83
Sub-Standard	6.63	4.68	5.82	6.99	14.04
Doubtful Debts					
D1	7.26	4.17	1.71	0.66	1.47
D2	0.01	8.77	7.61	0.15	-
D3	58.72	61.75	53.75	62.49	44.66
Grand Total	100.00	100.00	100.00	100.00	100.00

Source: DCCB Magadh

[1] See http://www.slideshare.net/apurvgourav/non-performing-assets-npa

6.3. Revival Assistance

All 345 PACS affiliated with Magadh DCCB were eligible for assistance under the revival package. Further, the total amount claimed for assistance was Rs 1,702 lakh, but the amount released was Rs only 1,320 lakh, out of which Rs 1,215 lakh came from the Government of India and Rs. 104.9 lakh from the state government. The average amount earmarked for each PACS was Rs 3.83 lakh. Table A6.1 in the Appendix presents details of the total amount received by the DCCB under the scheme across each block. The amount received by each block varied because of variation in accumulated losses in each block.

6.4. Assistance Received by Selected PACS

All the PACS barring 2 were granted assistance under the revival package. As mentioned earlier, the nature of losses to be covered by the central and state governments are determined on the basis of the kind of business activities which gave rise to the losses. More precisely, the Government of India (GOI) provides assistance to wipe out the accumulated losses due to credit related activities, whereas the state government provides help to wipe out the accumulated losses from non-credit activities. In our sample, a few PACS did not get assistance from GOI as well as the government of Bihar (GOB) (Table A6.2 in the Appendix). Of the total assistance to the PACS, the maximum amount received was by Air Ghure Parsa and the lowest was by Bodhgaya. Bodhgaya PACS is located near Gaya town and it has been well regulated and consequently repayment has also been satisfactory. The sample includes a couple of PACS carved out from other districts, so the financial statements by these PACS needed to be subsequently developed; this was done with the help of an auditor of Gaya district. Most of the selected PACS have share capital of less than Rs 1 lakh, of which the share of state’s equity is more than 25 percent which is sought to be remedied as per the directions of the revival committee report. Of the total PACS selected, eight have more than 25 percent of the state’s equity share capital, while four do not have the state’s share capital at all, and it was informed during our survey that at the time of bifurcation, the PACS had shared the state’s available equity among themselves. The other details of selected PACS such as size and business are presented in the following section.

6.5. Features of the PACS

The size of membership is important for the operation and expansion of business of the PACS. The size of membership in the sample PACs varied between a minimum of 280 and a maximum of 620. For example, about 11 percent of PACS in the sample have over 500 individuals as members, in 55 percent of PACs the membership varied between 250 and 500, while 33 percent of PACS have less than 250 individuals as members (see table A6.3 in the Appendix). On bifurcation, the then membership was redistributed across PACS based on panchayat jurisdiction. As far as their services to the lower section of the farmers are concerned, PACS are supposed to serve the small and marginal farmers of the concerned villages; it is observed that the share (in total number of members) of marginal and small farmers on an average is 35 percent which is rather small. Distribution-wise the percentage share of membership of small and marginal farmers across PACS varies from 29 to 62.

Further, we could also identify the number of PACS running profitably over the years from audit reports. It is seen that 70 percent of the PACS were profitable during 2004, whereas the share of profit-making PACS had fallen to 60 percent in 2008.

6.6. Governance Issues

As per the guidelines of the task force, the governance of the primary level institutions has to be made more autonomous and member centric. To achieve these goals, certain norms are prescribed in the committee report under which annual and biannual meetings of the general body are to be conducted regularly. Further, for bringing about improvement in governance, the task force stipulates that the elected chairman should be an individual with a proven track record. It was observed that close to 30 percent of the CEOs were selected from the traditional cadre system, which goes against the guidelines of the task force. The rest, though selected from outside the cadre system, were not according to the prescribed fit and proper criteria. It was also revealed that the annual meetings at the PACS level were not held as frequently as required under the guidelines of the task force. Thus as far as governance is concerned, improvement in several aspects is necessary to put a sound system in place.

6.7. Capacity Building Programme

The task force has emphasized that for bringing about improvement in overall efficiency, it is imperative that qualitative improvement in PACS personnel is achieved through organizing various capacity building measures and programmes, and that the primary level institutions be given special consideration and focus in capacity building measures. It is also ascertained that certain programmes were organized to achieve this goal which include capacity building training programmes intended to equip employees for the adoption of new accounting and information systems.

During our survey, an attempt was made to evaluate the effectiveness of these training programmes. As revealed from our discussions with the trainees, the programmes were not as useful as intended to be. There are a number of reasons behind such an outcome: most prominently, the training was given in classrooms with large/unwieldy batches of trainees and not as per individual requirements and also keeping in view the absorption capacity of the trainees who were essentially PACS officials. Based on our survey it can be concluded that training needs to be imparted in smaller batches incorporating hands-on exercises and more frequently so that the individuals can benefit from the training and adapt to the changes at the grass roots level.

6.8. Implementation of CAS and Computerization

The common accounting system (CAS) which involves double entry book keeping and netting concepts have been adopted in certain PACS as per the guidelines of the committee. However, various external and internal factors were found to act as roadblocks in the total adoption of CAS. First, the books of accounts had not been printed at the time of our survey; however, the process has now begun. As the adoption of CAS itself was behind schedule, the management of information system (MIS) which involves computerization of all accounts related data has yet to be initiated. Non-computerization of PACS is the reason behind such delay.

6.9. Human Resources: Fit and Proper Criteria

The Task force feels that adhering to the fit and proper criteria in the selection of CEOs at the DCCB and selection of a chairman at the level of the PACS is absolutely necessary. These institutions have to follow the fit and proper criteria which ensure certain eligibility requirements of officials in terms of education and other factors at the time of selection. The traditional cadre system of appointing the CEOS and the chairman will no longer be applicable in selecting the officials in these cooperative institutes. However, the data points to the fact that around 30 percent of the CEOs were appointed through the traditional cadre system. The rest of the CEOs, though appointed from outside the cadre system, were not selected as per the fit and proper criteria. There has to be urgency and earnestness in ensuring that the fit and proper criteria are adhered to by these authorities in selecting professional functionaries at senior levels.

6.10. Concluding Remarks

Gaya is a key district in the state of Bihar as it is home to a large number of small and marginal farmers and hence the cooperative movement in the district ought to be strong and healthy.

The district has already received funds under the revival package and initiated the reform process. In many vital areas of intervention, the achievements are found to be satisfactory and in the right direction; however, in some aspects special attention of the authorities is necessary.

While examining the performance of the DCCBs it was observed that improvements were necessary especially in the share capital structure which was heavily dependent on state capital. Slowly the DCCBs need to adhere to the task force recommendation to bring down the state’s share to less than 25 percent. The state government, for its part, has to gradually withdraw its capital from the DCCB in Gaya in line with norms of the revival package, and provide the needed autonomy to these institutions. Deposits have also registered a marginal increase over the years. Ironically total loans and advances show a fluctuating trend, with an overall negative growth. Further, it should be borne in mind that an increase in the D3 category NPAs (doubtful debts) invariably leads to financial distress, and can impair the smooth functioning of the banks.

As far as the PACS are concerned, several recommendations of the task force need to be fully implemented. Like in the case of DCCBs, PACS too have a high share of state capital. In particular, around 40 percent of the PACS in the sample have a state share capital of over 25 percent. The implementation of CAS and computerization has started but it needs to be followed up with strategies such as capacity building, effective governance norms that can lead to some degree of rejuvenation, as has been envisaged in the task force report. For this to happen, the appointment of CEOs and the chairman has to done as per the fit and proper criteria. In terms of capacity building measures, it is necessary that the training programmes are conducted regularly and the employees attending are able to learn the skills necessary for them to achieve professionalism.

APPENDIX

Table A6.1 Block wise Details of Claims for Recapitalisation (Rs. in lakhs)

Name of Block	Specially audited PACS (number)	Losses as per audit	CRAR	Contribution		Total
				GOI	GOB	
Tekari	16	17.3	0.54	12.71	3.27	16.52
Belaganj	13	47.49		32.91	1.86	34.77
Parayia	20	97.17		76.56	5.98	82.54
Konch	14	63.68		56.73	3.15	59.88
Bodh Gaya	15	47.32		36.85	1.43	38.28
Khisar Sarai	11	179.76		148.72	0.37	149.09
Wazir Ganj	18	103.96		95.35	1.5	96.85
Fatehpur	15	55.07		31.25	1.82	33.07
Atri	19	189.55		163.66	3.84	167.5
Manpur	10	79.99		63.35	1.47	64.82
Town	9	20.9		14.82	1.16	15.98
Amas	10	30.41		23.16	2.33	25.49
Gurua	11	39.54		28.6	1.2	29.8
Sher Ghati	14	77.15		59.89	4.24	64.13
Mohanpur	11	32.78		22.2	5.08	27.28
Bara Chatti	11	48.24		36.92	2.21	39.13
Imamganj	11	50.25		34.11	3.96	38.07
Dumariya	8	14.42		6.98	1.14	8.12
Jehanabad	12	35.73		14.18	3.08	17.26
Ghoshi	19	32.39		17.86	5.2	23.06
Kako	9	41.92	0.06	25.85	6.03	31.94
Makhdumpur	18	90.65	0.62	55.29	6.34	62.25
Arwal	23	226.79		125.03	27.16	152.19
Karpi	16	46.66		25	6.9	31.9
Kurtha	12	23.13		7.56	4.14	11.7
District Total	**345**	**1692.25**	**1.22**	**1215.52**	**104.86**	**1321.6**

CRAR: Capital to risk asset ratio
Source: Data collected by authors from DCCB Magadh

Table A6.2 Assistance Received and Share of State's Equity Capital for Selected PACS

Name of the PACS	Total Claims (Rs. in lakhs)		Total Received (Rs. in lakhs)	Total Share Capital (Rs. in lakhs)	Percentage Share of State Govt.
Air Ghure Parsa	5.77	0.86	6.64	0.61	16.51
Asni	2.49	0	2.49	3.93	0.00
Bagdaha	0	0.03	0.03	0.96	31.38
Basadhi	2.68	0.11	2.79	3.91	0.00
Bhusiya	0.28	0	0.29	3.77	6.63
Bijubigha	1.58	0.11	1.69	4.07	6.15
Bodhgaya	0	0.07	0.07	0.54	47.36
Dhusari Karjani	7.74	0.26	8	0.37	0.00
Fatehpur	0.73	0.33	1.12	0.40	0.00
Indil	2.49	2.03	4.52	3.41	0.00
Kachnawan	2.83	0.05	2.87	1.09	22.86
Kachudi	1.45	0.04	1.49	0.62	41.89
Karpi	0.3	0.36	0.65	1.55	76.94
Khajwati	4.31	0.08	4.38	3.99	6.27
Mau	1.38	0	1.38	1.64	61.16
Nishkha	0	0.01	0.01	4.31	18.57
Rampur	4.06	0.04	0.37	0.74	53.72
Rampur Chap	0.37	0	4.1	0.65	38.40
Sahdeo Khap	0	0.11	0.11	0.34	0.00
Tilori	2.71	0	2.71	4.25	0.00

Source: Data collected by authors from DCCB Magadh

Table A6.3 Distribution of PACS According to Members

Number of Members	Percentage of PACS
Less than 250	33.33
250-500	55.56
More than 500	11.11
Total	100

Source: Field Survey

CHAPTER 7

The Impact of Revival Package on STCCS of Vaishali District

7.1. General Profile of the District

The term ‘Vaishali’ literally means ‘ancient city’. The history of Vaishali district is thus very ancient, and has been mentioned in the Indian classic *Mahabharata*, as well as in *Buddhist* and *Jain* cultures and traditions. The district is bound by Muzaffarpur in the north, Samastipur in the east, by the River Ganga in the south and the River Gandak in the west. Vaishali district was carved into a separate district from Muzaffarpur in 1972. This district is a part of Tirhut division and the district headquarters is based in Hajipur town. The district is administered through three sub-divisions and 17 blocks. Demographically, gender ratio and population density are high compared to the state average (see Table 7.1).

Table 7.1 Profile of Vaishali District

Area (Sq. km)	2036
Population (2001)	27,12,389
Males	14,12,276
Females	13,00,113
Population density (per square km)	1332
Gender Ratio	921
Literacy Rate %	51,63
No. of Sub-Division	3
No. of Blocks	17

Source: http://www.biharonline.in/Profile/districts/vaishali.asp

The economy of Vaisahali revolves around agriculture. Agriculture is the main economic activity and banana, paddy, wheat, maize and lentils are the major crops produced in this area. The sugar industry is the major industry in this district.

7.2. Performance of DCCB

As mentioned earlier, this DCCB is located in Hajipura town, which is the district headquarters and hence various other government offices are also located in this town. The DCCB has 12 branches.

Moving on to the financial indicators, it was observed that the equity share capital of the DCCB increased from Rs 319 lakhs during 2004-05 to Rs 711 lakhs in the year 2005-06, and remained unchanged during the period 2005-06 to 2008-09. Further, an increase of Rs. 62 lakhs in the total share capital was witnessed in the year 2009 due to an increased reserve fund. It can be observed from Table 7.2 that the share of state capital has remained significantly higher than 25 percent of the total capital throughout the given period, which is at variance to the recommendations of the Prof Vaidyanathan committee. Importantly, the average annual growth rate of the state equity share was higher than the total equity share capital; this shows that the total share capital has increased primarily due to the increase of the state's equity share in the DCCB. In fact, in 2008-09 certain noteworthy changes were noticed. There was an increase in the total equity fund followed by an increase in reserve funds and deposits, with a simultaneous decline in borrowings and loans outstanding. In this, the decline in loans outstanding could be due to the support from the ADWDRS programme.

Table 7.2 Financial Particulars of DCCB (Rs. in lakhs)

Particulars	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**AAGR**
Number of Branches	6	12	12	12	12	---
State Share Capital	139	388	388	388	388	44.78
Total Share Capital	319	711	711	711	773	32.90
States share (per cent)	43	54	54	54	50	0
Reserve Funds	23	44	44	44	56	29.64
Deposits	1070	1027	1027	1027	2284	29.59
Borrowings	1501	1195	1195	1195	145	-27.06
Investment	43	43	43	43	43	0.00
Loan and Advances	431	1474	1474	1474	310	40.76
Loan Outstanding	1776	1901	1901	1901	644	-14.77

Source: Records of DCCB Vaishali

Coming to the quality of outstanding loans, as can be seen from Table 7.3, the performance of the DCCB is not impressive. For instance, during 2006 the share of standard assets was 71 percent which has subsequently declined to 55 percent. From Table 7.3, it can be further observed that in last two years the proportion of sub-standard and doubtful assets has increased. Thus, in summary, in the last couple of years there was a perceptible increase in the proportion of state equity and an increase in sub-standard and doubtful assets as well.

Table 7.3 Classification of Assets of the DCCB (in percentage)

Particulars	**2006**	**2007**	**2008**	**2009**	**2010**
Standard Assets	71.0	82.6	30.5	57.6	55.2
Sub-Standard	5.2	4.6	49.3	13.3	23.9
Doubtful Debts					
D1	3.0	0.3	6.1	0.6	4.2
D2	7.7	1.0	0.0	0.4	0.7
D3	13.0	11.6	14.1	28.1	15.9
Grand Total	100.0	100.0	100.0	100.0	100.0

Source: Records of DCCB Vaishali

Given the decline in the volume of standard assets and the rise in the level of D3 type doubtful assets, one would like to know the size of recapitalization assistance received by the DCC.

7.2.1. Recapitalization Assistance

There has been no financial assistance from either the central or state governments to the DCCBs so far. However, the 166 PACS affiliated with DCCB have already received assistance package from the central and state governments. Table 7.4 provides information on the amounts received by the PACS through DCCB from GOI and government of Bihar (GOB) (barring contribution of the respective cooperative). As per the task force guidelines, the formula for arriving at the extent of contribution is that the unpaid debt on credit related activities of the banks will be borne by the central government whereas non credit activity related losses are to be borne by the state government. Therefore, the GOI share is much higher than the GOB share due to the fact that a large proportion of the primary level institution businesses are engaged in credit related activities. It is also important to highlight that not all the PACS carry out non-credit activity, and hence there is no question of them incurring loss on that account.

Table 7.4 Block wise Recapitalisation Assistance Provided (in lakhs)

Name of the Blocks	GOI's Contribution	State's Contribution	Cooperative's Contribution	Assistance under the revival package
Hajipur	63.85	19.64	15.89	99.38
Lalganj	18.62	5.36	10.58	34.56
Vaishali	17.49	6.51	15.14	39.14
Goraul	114.19	20.17	11.04	145.40
Mahua	360.93	69.62	53.87	484.42
Patepur	34.86	5.08	6.91	46.84
Biddupur	91.31	0.51	4.53	96.35
Jandaha	101.60	4.82	36.25	142.66
Mahnar	56.03	4.08	5.90	66.01
Sahdei	33.96	4.46	4.59	43.00
Raghopur	1208.57	146.99	207.89	1563.45

Source: DCCB Vaishali

7.3. Features of the Selected PACS

The selection of PACS was done in consultations with the CEO of DCCB and DDM of NABARD; 20 PACS from different blocks were identified to constitute the study sample. These are: *Sahatha, Saripur, Fatehpur, Lagurawn Bilandpur, Bishunpur, Hiraram, Baikunthpur, Jurabanpur, Rampur, Khashrah, Bherokhara, Chandpurfatah, Malpur, Raghopur, Bisulpur, Panapurlanga, Dedhna, Gashpur, Laoho, Muleindpur and Malni.*

The PACS situated in Lagurawn Bilandpur has received an assistance of Rs. 95.04 lakh. This was the highest assistance given to any of the PACS in the sample. In contrast, the assistance package received by the PACS situated in Laoho was the lowest at Rs. 0.26 lakh. The assistance so claimed by each of the other PACS is proportionate to its accumulated loss. As mentioned, the selected PACS have claimed assistance under two accounts, credit and non-credit losses. Across PACS, the share of state equity capital varied between 93 percent and nil. It is found that over 50 percent of the selected PACS do not have state equity share capital (See table A7.1 in the Appendix for details).

7.3.1. Membership

Membership size varies across PACS within the district. For instance, 18 percent of PACS have less than 600 members, and close to 65 percent of the PACS have membership between 600 and 1200, and 18 percent of the PACS have membership strength exceeding 1200. The average membership size in this district is higher than in other districts. Moreover, *it is heartening to note that almost all members of the PACS in the district are small and marginal farmers. The data concerning membership have been given in Table A7.2 in the Appendix.*

7.4. Governance Issues

The task force has recognized that the cooperative societies need to take up certain measures that may lead to improved governance of the cooperatives at the primary levels. Adoption of prescribed fit and proper criteria for selection of officials, prescribing minimum qualifications for the CEOs, adhering to provision of capital adequacy norms for reducing riskiness, and following standard accounting procedures to bring better accountability are some of the important measures that are considered necessary to improve governance and performance.

The primary level institutions have made a certain degree of progress in implementation of these norms but there still remains a lot to be done to fully implement the recommendations.

7.5. Capacity Building Programmes

The task force under Prof. Vaidyanthan has given considerable emphasis to capacity building measures for PACS officials, as with existing capacity it was not possible to implement its recommendations. Similar to the other districts, in Vaishali two-day training programmes were conducted for the elected members as well as staff for creating awareness on the revival package.

The training programme were also conducted to cover the concepts of CAS and MIS However, our discussions with the officials have revealed that the training given under the programme was insufficient for adopting CAS and MIS. All the officials interviewed were of the view that they needed *long term, practical hands-on training.*

7.6. Implementation of CAS and Computerization

As mentioned above, the adoption of a common accounting system includes the adoption of double entry book keeping, netting concepts, and prudential norms like asset classification and capital adequacy. Adoption of such time-tested methods is necessary to implement standard accounting procedures and rules in these institutions and ensure better governance. However, the CAS has not been adopted so far by the primary level institutions, but these institutions have now realized the need for a standard accounting procedure for better governance and management. Though there were training programmes to make the officials acquainted with the standard accounting procedures, as *mentioned above, these programmes were not found adequate. This in this area which needs special attention.*

7.7. Human Resources: Fit and Proper Criteria

The fit and proper criteria for the officials, which have been mandated by the RBI, are applicable across all three levels of the cooperative institutions. Fit and proper criteria prescribe, among others, the necessary qualifications for PACS officials. For example, the task force has emphasized that at least a graduate level degree is necessary to become eligible for the CEO post of the cooperatives.

As revealed by our survey, PACS personnel in Vaishali district were more qualified and educated than staff in other districts. One fourth of the PACS were managed by CEOs who have completed their graduation, and the remaining CEOs have studied up to secondary school level. Given the better educational background of the staff, much can be achieved in terms of new business promotion activities and project appraisal, if proper training is imparted to them.

7.8. Concluding Remarks

Vaisahli district is one among the important agricultural districts in the state since most of the economic activities in this district revolve around the agriculture sector. Considering this, further improvements in the cooperative banks are a must for improved prospects for agriculture in the district. The revival package has the potential to initiate a recovery process for the cooperative banking system which can aid especially the small and marginal farmers. A complete evaluation of its performance at this stage would be premature and impulsive. However, the study leaves no points which can be ignored as these considerations form an indispensable input in granting the financial assistance package.

First, the figures in Table 7.2 indicate that there has been no effort to reduce the proportion of the state’s share in the total share at the DCCB, which, as per the figures, stand close to 50 percent of the total share capital. This goes against the guidelines of the Prof. Vaidyanathan committee report which stipulates the state’s share capital to be less than 25 percent.

Secondly, in terms of proportion of assets of different quality, the figures clearly reveal volatile trends as can be seen from the proportion of standard assets in the district level cooperative banks. This volatility can be observed across the substandard assets and doubtful debts as well. Such volatility brings uncertainty; therefore it is inevitable to remedy the situation. This apparently unstable composition of the assets can be potentially threatening for the long term sustainability of the banks. It is highly necessary for DCCBs to stabilize their standard assets as it would improve their long term performance.

Thirdly, it is heartening to note that the share of the state equity in most of the primary level institutions has been at acceptable levels as per the Prof. Vaidyanathan committee report. All but five PACS in the sample had proportions of state share capital less than 25 percent of total capital. Fourthly, the reforms that have been initiated in matters of governance, capacity building, CAS and computerization have shown progress. These reforms have to be pursued further with more seriousness. For example, under the fit and proper criteria, a minimum qualification of graduation is required for appointment as CEO; however, only 25% of the selected PACS have been able to adhere to this. Induction of not so competent persons can seriously dilute the quality of human resources in the PACS. In addition to coercing PACS to recruit only qualified staff in future, the mandated capacity building training needs to be imparted compulsorily. Thus while the cooperative institutions at different levels have accomplished certain goals, it is only with sustained efforts that the reforms of the cooperative institutions as mandated by the task force can be achieved.

APPENDIX

Table A7.1 Recapitalization Assistance to the Selected PACS in Vaishali DCCB (Rs. in lakhs)

Sl. No	Name of the PACS	Contributions of GOI	GOB	Total	Total share capital	State's share
1	Baikunthpur	1.92	0.52	2.44	2.05	48.78
2	Bherokhara	2.02	0.01	2.03	0.25	0
3	Bishunpur Hiraram	1.92	0.52	2.44	0.91	0
4	Bisulpur	3.33	0.8	4.13	0.8	0
5	Chandpurfatah	2.48	0.01	2.49	0.23	0
6	Dedhna	1.21	0.45	1.66	2.9	70.34
7	Fatehpur	5.04	0.48	5.52	1.37	18.25
8	Gashpur	5.83	0.08	5.92	0.78	0
9	Jurabanpur	40.41	0.06	40.47	4.67	0
10	Khashrah	0.44	0.2	0.64	NA	NA
11	Lagurawn Bilandpur	48.05	46.99	95.04	18.53	11.01
12	Laoho	0.18	0.08	0.26	5.31	66.67
13	Malni	2.28	-	2.28	0.56	0
14	Malpur	1.74	0.08	1.82	0.48	0
15	Muleindpur	0.5	0.07	0.56	2.05	48.78
16	Panapurlanga	1.75	0.21	1.96	1.55	23.87
17	Raghopur	2.72	0.13	2.84	NA	NA
18	Rampur	4.3	0.82	5.12	NA	NA
19	Sahatha	0.34	0.12	0.46	2.71	93.73
20	Saripur	5.13	0.44	5.58	4.06	0

Note: GOB: Government of Bihar
Source: Data Collected by authors from DCCB Vaishali

Table A7.2 Distribution of PACS According to Members

Number of Members	Percentage of PACS
Less than 600	17.65
600 to 1200	64.71
Above 1200	17.65
Total	100

Source: Field Survey

CHAPTER 8

Impact of Revival Package on STCCS of Bhojpur District

8.1. General Profile of the District

Bhojpur is one of the important districts in the western region of Bihar state. Arah town (also known as Ara) is the administrative headquarters of the district. Prior to its formation in 1992, the district was part of the erstwhile Shahabad district, which was divided into Bhojpur and Rohtas in 1972. Earlier Buxar was a sub-division of the old Bhojpur district but in 1992, Buxar became a separate district, and the rest of Bhojpur district now has three sub-divisions: Ara, Sadar, Jagdishpur and Piro.

The most important town in the district is Ara which is also the largest town in the district. The Rivers Sone and Ganga are the perennial sources of surface water, providing irrigation to a major portion of agricultural lands. The irrigated portion of the total cultivated land in the district is 74.66 percent which is a significant percentage. Most of the irrigated as well as rain-fed areas in the district are cultivated, though some insignificant acreage of hilly terrain is not under cultivation for obvious reasons. Even some of the large ponds and *Jhils* have been drained to cultivate “Boro crops” reflecting the high level of agricultural activities in the district. Further, intensive agriculture is also being attempted under what is popularly known as the “Package Programme”. The Block Development Authorities are making all efforts to enhance agricultural activities and thereby increase crop output. To this end, the remodeled Sone Canal System has been put in place so that some of the earlier unused land can be brought under cultivation. The main crops that are produced in the district are rice, wheat, macca and gram.

After bifurcation of the old Shahabad district into the two new districts of Bhojpur and Rohtas, most of the large-scale industries came under the latter district. However, Bhojpur still has different types of small and cottage industries besides some agro-based industries. This district is administered through three divisions and 14 blocks. The population density is 903 persons per square km and the literacy rate is close to 60 percent (Table 8.1). Importantly, the district has a good financial infrastructure as evidenced by the higher presence of bank branches.

Table 8.1 District Profile

Particulars	Statistics
Area (sq. km)	2474
Population (2001)	2233415
Males	1175333
Females	1058082
Population density (sq. km)	903
Gender Ratio	900
Literacy Rate	59.71
No. of Sub-Division	3
No. of Blocks	14
No. of Post Offices	120
No. of Banks	44
Average rainfall (mm)	913.4
Main Crops	Rice, Wheat, Macca, Gram

Source: http://bhojpur.bih.nic.in

8.2. Financial Indicators of DCCB

With a total of 24 branches of DCCB spread across the district, the density of the banking network in the district is greater than in other districts of the state; thereby it has been providing efficient and extensive banking services to the people. The total equity share capital of these banks has increased moderately over the years, the growth rate being 7.65 percent from 2004-05 to 2009-10. Compared to other DCCBs, the equity share capital infused by Ara DCCB during the last five years is small. For instance, during 2007-08 and 2008-09, only a few lakhs of rupees were infused as equity share capital. The share of the state's equity capital in the total capital declined marginally by 3 percent in the year 2008, though it is still much above the level prescribed by the Prof. Viadyanathan committee (see Table 8.2).

Total deposits at the DCCB level showed an annual negative growth rate of 15 percent from 2004-05 to 2009-10. From Table 8.2 it is clear that the deposits had shown a positive growth rate till the year 2008. However, the year 2009 saw the deposits going down by a very large amount, and this has made the annual growth negative.

The total loans and advances of the DCCB were stable for the first three years, but subsequently fell by a very large percentage and resulted in a negative growth rate of 10 percent. The loans and advances had fallen by a very large amount in 2007-08 and have not had any change in magnitude since then. The total loans *outstanding* of the banks have increased over time. The annual growth rate of loans outstanding has been over 12 percent indicating the possible incidence of non repayment. *Thus some of these important financial indicators reveal that the performance of the DCCB is far from satisfactory though a fewer indicators show an encouraging picture.*

The growth rate of 3.8 percent in the reserve fund is only marginal. However, the reserve fund as a percentage of total capital has been consistently over 10 percent. As a result, the percentage of the reserve fund as a proportion of the total capital of the banks is at an adequate level. As can be seen from Table 8.2, investment of the bank has seen a very significant growth rate of 19 percent over the years. In particular, investments of DCCB increased by almost 100 percent in 2009 over that of 2005.

Table 8.2 Financial Particulars of DCCB (Rs in lakhs)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	AAGR
Number of Branches	24	24	24	24	24	0.00
State Share Capital	166	166	166	203	204	5.70
Total Share Capital	387	387	387	496	508	7.65
Total Reserve Funds	98	98	98	112	113	3.79
Total Deposits	9202	9202	9202	12700	158	-15.19
Total Borrowings	0	0	0	1172	561	-26.07
Total Investment	7331	7331	7331	11271	14008	19.51
Total Loan and Advances	2790	2790	2790	1586	1586	-10.79
Total Loan Outstanding	2158	2158	2158	3195	3195	12.01

Note: AAGR: Annual Average Growth Rate
Source: National Federation of State Cooperative Banks Ltd. and DCCB.

8.3. Features of the PACS in the District

Given our overall interest in the revival package, the assistance received by PACS under the revival package is analyzed to gauge the overall efficacy of the package. Though the DCCB did not receive any assistance under the revival package, 366 affiliated PACS did receive assistance. The PACS had claimed a total amount of Rs 1,287 lakh as assistance under the package but the amount recommended for disbursal by State Level Implementation Committee (SLIC) was Rs 975 lakhs. Two PACS in our sample of twenty have not received any amount under the package possibly due to the fact that they had not incurred losses. Further, the general trend of the credit related business yielding greater losses (as observed in case of other districts) seems to be evident in this district as well. The losses owing to non credit business of the banks have been insignificant. As mentioned earlier, assistance given by the GOI is for the loss due to credit related business and the state government gives support for the loss of non credit business. Consequently, the share of assistance of the Government of India (GOI) has been much higher than the state's share (see Table A8.1 in the Appendix**).**

Another interesting aspect is that 15 out of 20 PACS do not have state equity share. Therefore, the proportion of the state's equity share is high at the level of the district cooperative banks, but relatively low at the level of primary agricultural credit societies (Table A8.1).

8.3.1. Membership

The membership of the PACS was found to be in the range of 360 (low) to 1250 (high) individuals, the average being 820 individuals. The distribution of membership is classified under three categories and is presented in table A8.2 in the Appendix. As can be observed from the table, 36 percent of the PACS have less than 600 members, while 45 percent PACS have membership within the range of 600 to 1200 members, and 18 percent PACS have members in excess of 1,200. The proportion of the membership of small and marginal farmers is 63 percent, reflecting their considerable presence in the PACSs.

8.4. Governance Issues

One of the important provisions of the revival package is to conduct a financial audit of the PACs, which was mainly due to the fact that earlier financial practices of these institutions were not up to the mark. We observe from our sample that the finances of these PACS have now been audited.

As far as adhering to the administrative reforms as suggested by the Prof. Vaidyanathan committee report is concerned, we find both achievements as well as shortcomings. For example, appointment of the CEO was not done as per the recommended 'fit and proper' criteria. On the positive side, most of the staff members were found to be relatively qualified.

8.5. CAS, MIS and Computerization

As mentioned in the previous chapters, one of the important recommendations of the committee was to adopt a common accounting system (CAS), in order to ensure the application of double entry accounting, netting concepts, asset classification and capital adequacy norms. Also the relevant information was to be computerized and maintained through a proper MIS system. For these acts to be performed, PACs officials were also given training.

Although the common accounting system has been introduced in the district, implementation process appears to be slow. Any change in the existing system always meets with a certain amount of resistance, and this has happened in the case of CAS and MIS as well. Further, it is necessary to build capacity of the existing staff to make such a new system of financial practices work. The problems of training modules as discussed in the case of the other districts (see Chapter 6) holds good for Bhojpur as well.

8.6. Concluding Remarks

The district of Bhojpur is one of the most dynamic districts in the state with a mix of both agriculture and small scale industries, on which the population of the district mainly comprised of small and marginal farmers and artisans, depend for their livelihood. The agricultural sector along with the small scale manufacturing sector provides employment opportunities to most of the population in the district. The role of the cooperatives, therefore, in this particular district is significant.

The performance of the DCCB in terms of deposit growth and growth of total loans and advances has not been quite satisfactory. The decline in deposit and borrowings should present a significant concern for the DCCB. Importantly, like most of the districts (except Pataliputra), the proportion of state capital, which currently stands at 40 percent, has to be brought down to below 25 percent, in order to conform to the Prof. Vaidyanathan committee report. However, a significant achievement of the DCCB is that in their financial records over the last 5 years they have been maintaining a stable reserve fund and also sustaining a healthy investment fund.

The Primary Agricultural Credit Societies (PACS) have performed relatively better in Bhojpur than most of the other districts that have been analyzed in the preceding chapters. All the eligible PACS have received assistance under the revival package as well as ADWDRS. But barring four PACS within the sample, the rest have not maintained the required level of state share capital in the total share capital. Of the selected PACS, 91 percent conduct both credit and non-credit business.

The governance reforms have seen a number of significant steps involving an audit of financial records, and expansion in the non credit business. But, fulfillment of the recommendations of the task force with regards to governance still has some way to go. CAS and MIS are not adopted fully and there are a number of problems in computerization of the finances at the PACS level. As the financial practices to be adopted at the PACS level are rather complex, proper training needs to be imparted. These trainings have to be individual based and on a continuous programme until capacity building is achieved at the required level.

APPENDIX

Table A8.1 Assistance from Revival Package and ADWDRS (Rs. in lakhs)

Sl. No	Name of the PACS	Assistance released		Total	ADW DRS	Total share capital	State's share
		GOI	GOB				
1	Bagar	0.71	0	0.71	1.22	0.09	0
2	Belaur	2.96	0.04	3	1.4	0	0
3	Bibiganj Bampali	0.04	0	0.04	1.73	0.32	0
4	Chari Bhalai	0.97	0	0.97	1.67	0.64	1.56
5	Choti Sasaram	1.1	0.01	1.11	2.11	0.31	0
6	Dev	3.23	0.32	3.55	6.48	0.82	60.98
7	Dhamar	3.58	0	3.59	6.84	0.58	0
8	Doghira	0.5	0.04	0.55	13.4	1.94	60.82
9	Firangi	0	0.02	0.02	5.59	0.6	0
10	Gidha	2.53	0	2.53	2.07	0.21	57.14
11	Hasanpura	-	0	0	3.08	1.15	0
12	Jamira	-	0	0	4.45	0.53	0
13	Kesheowpur	0	0.36	0.36	3.6	0.41	0
14	Kusuma	3.22	0.02	3.24	3.42	2.11	0
15	Majholia	0	0.01	0.01	9.21	0.32	65.63
16	Nawadaben	0.31	0.02	0.33	1.61	0	0
17	Nawanagar	1.56	0.04	1.6	1.84	1.21	0
18	Pawana	1.55	0.01	1.56	6.89	0.78	0
19	Piyaniya	0.81	0.05	0.86	1.94	0.2	0
20	Teteriyan	1.1	0.05	1.16	1.57	0.26	0

Source: Data collected by authors from the records of DCCB Arah

Table A8.2 Members in the PACS

Number of Members	Percentage of PACS
Less than 600	36
600 – 1200	45
Above 1200	18
Total	100

Source: Field Survey

CHAPTER 9

Impact of Revival Package on STCCS of Nalanda District

9.1. Introduction[1]

Nalanda is famously known as an ancient seat of learning, for it was the site of the world's most ancient university. The main town in the district is Bihar Sharif located in the central region of Bihar. The district is bounded in the north by Patna, in the south by Gaya, in the east by Luckeesarai and in the west by Jahanabad district. The district is comprised of three sub-divisions and 20 blocks covering 248 village panchayats. The sub divisions in the district are Bihar Sharif, Rajgir and Hilsa.

Nalanda district was a part of Patna division until the year 1976. The administrative headquarters of this district is Biharsharif town. The sub-division of Biharsharif in the old Patna district was given the status of an independent district on November 9, 1972. The district of Nalanda is spread over an area of 2367 sq km, and has a population of 23, 68,327.

Nalanda has been identified by the Ministry of Panchyati Raj, Government of India (GOI) as one of the 250 most backward districts in the country. This district also receives its share of funds from the Backward Regions Grant Fund Programme (BRGFP).[2] This district is heavily dependent on agricultural production especially of paddy and potato, and 85 percent of the population lives in rural regions. The district is home to some small scale industries related to handlooming and weaving. The Ministry of Defense, Government of India, has established an Indian Ordnance Factory to manufacture artillery shells in the district. The population density in the district is higher than the state average, and the literacy rate is 53 percent (Table 9.1).

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[1] Information collect from 'nalanda.bih.nic.in/Database/jcp/district%20profile.pdf'

[2] Information gathered from Wikipedia.

Table 9.1 District at a Glance Nalanda

Particulars	**Statistics**
Area (sq. km)	2367
Population (2001)	23,68,327
Males	12,36,467
Females	11,31,860
Rural Population (%)	85.1
Population density (per sq. km)	1006
Gender Ratio	915
Literacy Rate %	53.64
Agriculture	Rich Paddy Fields, Potato, Onion.
Industry	Handloom weaving.

Source: nalanda.bih.nic.in

9.2. Features of DCCB, Nalanda

We first concentrate on the financial performance of Nalanda DCCB. It is observed that the financial performance of the District Central Cooperative Banks (DCCBs) has improved over the last five years in some of the parameters which the Task Force identified in its recommendations for the cooperative institutions. A notable improvement is that there has been no increase in the share of the state capital in the total capital over the last five years under consideration while there has been an increase in the total capital of the bank. This has resulted in the proportion of the state share coming down over the years. However, the percentage of the state's share capital still continues to be over 25 percent (which is against the norm), and this has to be brought down to prescribed level of 25%.

The figures in Table 9.2 indicate that the state capital has remained stagnant for the period for which the data were collected. The total share capital has increased steadily over the years and its annual average growth rate has been 3.3 percent. The proportion of state share capital to the total capital for the period has been around 40 percent.

The reserve fund of the bank is indicative of the magnitude of the surplus of the banks. The data from Table 9.2 highlight that the bank has kept a substantial amount of reserve funds (more than Rs 200 lakhs). The total reserve fund registered a marginal increase of Rs 1 lakh from the year 2004 to 2008-09. The total deposit, in spite of going down in the year 2005, picked up from 2006-07 onwards and has shown substantial increase till 2008-09. On the other hand, the yearly figures for total borrowings seem to suggest a high level of volatility over the years, though the average growth rate (percent increment) for the same has been 2.18 percent. The total investment of the banks, though, recorded an average rate of increase of 11 percent during 2004-05 to 2008-09, and the magnitude of total investment is much less than deposits or loans. It is also to be noted that total loans and advances declined by 64 lakhs in 2008-09 compared to 2004. Lastly, the total loans outstanding has had a negative growth rate of 2 percent on an average during the period.

The asset classification shows that the proportion of standard assets was lower for the first two years, but it increased steadily thereafter. The standard assets have shown a high level of volatility for the time period under consideration; unfortunately, the proportion of sub standard assets increased drastically in the year 2010 which should be a cause of concern. The doubtful debts over the years have fallen considerably, which is expected to lead to a decrease in its nonperforming assets (NPAs). The complete reduction of D1 and D2 category doubtful debts represents the high standard of management of outstanding loans which as mentioned above is seen to have declined. The proportion of D3 category debts also has been decreasing. Such a decrease in nonperforming assets of the banks is likely to have positive impacts on the banking business and should encourage them to increase their lending activities and credit in the districts.

Table 9.2 Financial Particulars of DCCB Nalanda (Rs. in lakhs)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	AAGR
Number of Branches	13	13	13	13	13	0.00
State Share Capital	153	153	153	153	153	0.00
Total Share Capital	360	363	373	407	409	3.30
State Share Capital to Total Share Capital (%)	42.50	42.15	41.29	37.59	37.41	-
Total Reserve Funds	210	210	210	210	211	0.12
Total Deposits	5748	5426	6019	6560	7087	5.59
Total Borrowings	592	617	397	625	517	2.18
Total Investment	58	53	72	75	86	11.52
Total Loan and Advances	1904	1904	976	1840	1840	9.95
Total Loan Outstanding	3042	2636	2360	3052	2634	-2.05

Note: AAGR: Annual Average Growth Rate in terms of percent increment
Source: NAFSCOB and Balance Sheet of the DCCB

Table 9.3 Asset Classifications (in percent)

Particulars	2006	2007	2008	2009	2010
Standard Assets	34.17	28.56	57.15	68.32	40.54
Sub Standard	15.7	14.96	10.14	7	45
Doubtful Debts					
D1	11.54	3.92	0.84	-	-
D2	6.1	16.43	4.26	-	-
D3	32.49	36.13	27.61	24.65	13.91
Grand Total	100.00	100.00	100.00	100.00	100.00

Source: DCCB Balance Sheet Nalanda

9.3 PACS Performance

9.3.1. Recapitalization Assistance and Financial Performance

While assessing the impact of the revival package, it is essential as a first step to examine whether the assistance under the package has reached the PACS or not. There are 217 PACS in 13 different blocks in the Nalanda district. The block-wise distribution is presented in Table A9.1 in the Appendix. As we know, the assistance is shared by GOI and the respective state government on the basis of accumulated losses arising due to credit vs. non credit businesses. At the time of our survey, it was seen that the recapitalisaton assistance to the DCCB had not yet been granted. However, all the PACS have since submitted their claims for recapitalization assistance and also received the amount. As revealed by our survey, both the GOI and GOB have released the amount claimed and approved by SLIC to the PACS.

Under the assistance package to selected PACS, the highest amount claimed by a single PACS was Rs 27 lakh and the lowest Rs 95,000. Further, 5 PACS did not claim any amount. Of the select PACS, only 10 have accumulated losses on account of non-credit activity, whereas 15 PACS had accumulated losses due to credit related business.

Apart from the recapitalization drive under revival committee recommendations, another source of funds for the PACS was from ADWDRS. Among the selected PACS, all except 4 have benefited from ADWDRS. Under the debt waiver programme funds were released to the respective PACS and not to the beneficiary farmers directly. The PACS that have benefited from this programme are found to have used the money to recycle advances.

In regard to the financial performance of the PACS, it is seen that nine PACS out of the total sample do not have any equity from the state government, while some among the remaining PACS have a state equity share as high as

40%. More importantly, the PACS are not generally aware that the share of state equity capital has to be brought down to 25 percent under the norms of the revival assistance. Thus, awareness of the revival package has not reached the bottom strata of the system. PACS-wise information regarding the amount received under the revival package is presented in Table A9.2 in the Appendix.

Further, we also found out the proportion of profit making PACS over the years from audit reports. Of the selected PACS, about 70 percent were showing marginal profit until 2004, but the share of profit making PACS had come down by 2008, a trend which needs to be reversed.

9.3.2. Members and Borrowing Members

The minimum membership per PACS was found to be 280 and the maximum 1620, revealing wide variations across PACS. It is discovered that out of the 20 selected PACS, around 6 percent have membership strength of less than 400; 33 percent have membership strength in the range of 400 to 800; 33 percent have membership strength in the range of 800-1200, and the remaining 26 percent have over 1,200 members. On bifurcation of the PACS, even the members were redistributed across PACS based on panchayat jurisdiction. The details of the distribution of the membership in the PACS are given table A 9.2 in the Appendix.

Ascertaining a good proportion of small and marginal farmers in the total membership assumes importance as this is the target group that should benefit most from the cooperative banking system. As revealed by our survey the share of marginal and small farmers (on average across the selected PACS) is 54 percent, though PACS-wise it varies from 29 to 62 percent. Also, 75 percent of members in the sample PACS are found to be regular borrowers.

9.4. Governance Issues

The recommendations of the task force highlight the need for primary institutions to be prudent in their credit related activities, to adhere to the proper fit and proper criteria in the selection of the CEO and other employees and to conduct an election for offices in an autonomous fashion without the involvement of the state government.

To ensure that these changes are brought in, it is necessary that new laws are put in place. In this regard it is observed that the competent authority has yet to approve the new bylaws required to bring various changes in the day-to-day functioning of the PACS. Such delay indeed slows down the process of reform.

According to the new norm, management of the PACS should make appointment of staff following the criteria put in place. But it is observed that while some members are appointed by the management committee of the PACS, a few persons appointed on the basis of the earlier cadre system are still in service. Further, appointments have not taken place as per task force recommendations, i.e. in conformity with the norms of the fit and proper criteria. Therefore, the capacity of the staff is not adequate to realize the expected results in accounting methods and other aspects as made mandatory by the package. Nonetheless, education levels of the staff are better compared to other states[3]. On an average, 90 percent of the staff members have secondary level and above education with 50% of them being graduates.

For capacity building purposes, certain training programmes were held but our discussions with members revealed that not much was achieved through these programmes.

9.5. CAS, MIS and Computerisation

The main aim of the application of CAS in the primary level institutions is to adopt proper income recognition criteria, follow proper asset classification norms and have provisions for non performing assets. Computerisation is essential to follow sophisticated accounting practices as mandated through CAS and MIS.

In the implementation of the above, this DCCB is found to be not different from others. This DCCB also initiated printing of ledgers even before the completion of CAS implementation. Implementation of MIS is held up for want of completion of CAS. Further, computerisation is yet to be initiated. Thus, in revamping the accounting system there is still a lot more to achieve.

9.6. Concluding Remarks

Nalanda is one of the renowned districts in the state. There are major tourist attractions like the ruins of the Nalanda University that draw tourists from far and wide. Such tourist traffic generates significant revenues for the state government. It nevertheless remains one of the backward regions of the state and the cooperative credit societies have a significant role to play in the revival of the district. As far as cooperative banking is concerned, the financial performance of the DCCB is found to be mediocre. The state's share capital still remains high and loans and advances also show a fluctuating trend, though deposits have shown some improvements over the years. As far as PACS are concerned, they seemed to cater to the small and marginal farmers to a great extent.

However, for their long term sustainability it is necessary that the recommendations of the revival package fully are carried out. During the time of our survey we found that the model bylaws have yet to be approved and new accounting systems are still not in place. Only when these changes are brought

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[3] This assertion is made on the basis of our study in the state of Madhya Pradesh and Andhra Pradesh. See Veerashekharappa , Rajeev et al. (2011a, b, c)

in can one expect these village level institutions to serve the poor in a sustainable manner.

APPENDIX

Table A9.1 Amount Received under ADWDRS (Rs. Lakhs)

Name of the PACS	Amount claimed		Total	Equity capital	State's share (%)	Total ADWDRS (Rs. In lakhs)
	GOI	GOB				
Imamganj	NA	NA	0			
Margiachak	11.15	1.95	13.1			
Andwas	1.97	0.26	2.23	2.18	34.38	3.17
Mudausa	-	-	0	1.45	0	NA
Keshopur	NA	NA	0	-	-	4.76
Chabilapur	25.63	1.54	**27.17**	-	-	21.07
Rukhai Garh	9.96	0.9	10.86	-	-	NA
Kachariya Juri	17.35	2.94	20.29	4.48	65.7	NA
Meghi Nagar	NA	NA	0	4.9	21.43	2.22
Telmer	0.95	-	***0.95***	1.1	0	0.44
Burdihi Islampur	1.09	-	1.09	1.61	0	1.46
Mobarakpur	0.95	0.18	1.13	1.97	55.73	4.37
Dhekwaha	8.5	-		-	-	2.56
Meyar	1.41	0.2	1.61	-	-	2.37
Bhadwa Rahuai	2.52	0.2	2.72	1.06	0	0.49
Faridabad	1.57	0.2	1.77	1.47	0	1.06
Barai Amnawa	0.22	-	0.22	1.4	57.2	1.25
Supasang	1.15	0.57	1.72	1.57	0	1.98
Muzaffarpur	NA	NA	0	1.85	64.56	2.7
Satsauraha	6.51	0.27	6.78	1.9	13.16	8.09

Source: Information collected from PACS

Table A9.2 Distribution of PACS According to Members

Number of Members	Percentage of PACS
Less than 400	6.67
400-800	33.33
800-1200	33.33
More than 1200	26.67
Total	100

Source: Field Survey

CHAPTER 10

Concluding Remarks and Policy Suggestions

In the state of Bihar, penetration of the banking system is much below the national average. It is particularly so in the rural areas where a large proportion of people continue to live and are largely dependent on agriculture for sustenance. The Short Term Cooperative Credit Structure (STCCS) was initiated in the undivided state of Bihar in 1914 which has evolved over time in the state. The bifurcation of the state and the resultant division of STCCS has brought about several changes in its structure and operation. Today, STCCS in Bihar is a three-tier system. The APEX Bank or The Bihar State Cooperative Bank, which came into being in March 1914, operates at the state level with 9 branches. At the district level are 25 District Central Cooperative Banks (DCCBs) functioning under the APEX Bank, while at the lowest level, 5,342 Primary Agricultural Credit Societies (PACS)[1] operate to provide credit and non-credit services to the rural populace. Thus, cooperative banks have been playing an important role in the state, and made access to credit possible for a large number of small and marginal farmers.

Like in the other states, in Bihar too the cooperative institutions were plagued by financial crisis mainly due to mismanagement. In March 2007, the rival package of STCCS was accepted for implementation by the state government, with a view to rescuing the ailing cooperative movement in the state. However, the actual implementation of the programme was delayed due to the state's effort in reorganizing the credit cooperative structure at the grass roots level. In fact, the state today has one cooperative bank in every panchayat at the grass roots level. This initiative of the government to enhance the level of financial inclusion is indeed unique. In regard to implementing the terms of the revival package, the progress achieved is quite visible in that elections have been held for DCCB board members (though the elections for both chairman and executive committee had yet to be completed during the time of our survey). In fact, the delay was due to litigations initiated by certain elected members of the DCCB. The government has subsequently superseded some of the boards by appointing administrators. The inclusion of professional directors has not taken place due to the legal battle cited above.

We discuss below some of the major achievements as well as the goals that have yet to be achieved. To conclude, we discuss the way forward in light of insights gained from our field observations.

[1] After the new 2008 Act, the strength has increased to 7,682.

Achievements

i. As observed earlier in the study, the Bihar government has increased the number of cooperative credit societies by revamping the earlier system. This step has enabled rural people to access cooperative credit. Many earlier PACSs were either fully or partially bifurcated in order to constitute a PACS at each panchayats level. Therefore, the new data and information reflect the position after the revamping exercise, i.e., 2009

ii. The government of Bihar accepted the revival package and executed an MOU with the Government of India (GOI) and NABARD on March 15, 2007. According to the MOU, the period of implementation expired on March 14, 2010. However, the SLIC has already extended the period of implementation for another year (14/3/2011). However, our research shows that this is going to be a continuous process and will not end soon.

iii. Since the execution of the MOU, the state has brought a couple of legal reforms, such as making amendments to the Bihar Cooperative Societies Act and Bihar Cooperative Societies Rules. The amendment to the bylaws of Bihar State Cooperative Banks (BSCB) and DCCB have been approved by their respective boards and forwarded to the Registrar of Cooperative Societies for approval.

iv. A fresh election as per the amended Bihar Cooperative Societies Act, 2008 was held by the Election Authority appointed by the government of Bihar. Thus, a strong democratic process has replaced the old system. However, as mentioned above some DCCBs have failed to elect their chairman due to litigation on account of some minor procedural lapses. The onstitution of SLIC and DLIC has been completed. Since then, the SLIC has held several meetings to deliberate/decide on various issues, including recommendation of recapitalisation assistance. At the DCCB level, meetings were held though the number of such meetings varied across DCCBs.

v. Based on special auditing, the recapitalisation amount for the DCCBs and PACS taken together has been estimated at Rs 811 crores. Of this, the Government of India (GOI) was required to give Rs 609.93 crores, while the share of the state government was estimated at Rs.42.90 crores; the STCCS were required to pay Rs 158.75 crores.

vi. The total loss is shared by the GOI and state government based on a verifiable sharing formula: the GOI contributes for losses arising out of all the credit business of the PACS and the state government covers the losses on account of non-credit businesses (such as the Public

Distribution System (PDS), sale of fertilisers and seeds, procurement). This rule is followed on the grounds that such non-credit business is largely driven by the state.

vii. The PACS are affiliated with 22 DCCBs (other than the 3 liquidated DCCBs). Based on eligibility, the recapitalisation assistance for all eligible PACS in the 22 DCCBs has been approved by SLIC.

viii. The amount claimed by the PACS was Rs 292.10 crores. The amount has already been released in respect of 6,633 reorganised PACS (erstwhile 4,763 PACS). As mentioned above earlier, the total number of PACS was lower at 4763. After introduction of the norm of having one PACS in each panchayat, the number of PACS has increased.

ix. The 93 PACS left out have undergone a special audit. An effort is under way for indirect recapitalisation. In the SLIC meeting it was decided that the claim of left out PACS/MPCS would be considered until November 2010.

x. The pattern of utilisation shows that out of the total assistance received, most of the PACS have used a major portion it towards adjustment of the dues of PACS and the balance has gone towards the CRAR/PACS shares and business activities.

xi. To ascertain the status of financial assistance to DCCBs, an exercise was carried out based on the special audit. In 22 DCCBs the revival package assistance has already been finalised and approved by the DLIC and SLIC. Out of these, Patliputra and a couple of liquidated DCCBs have not claimed any amount.

xii. Around 8,722 personnel of the PACS had been trained in CAS/MIS at the time of our survey.

To be Achieved

I. Bylaws of DCCBs and SCB have yet to be approved, and the criteria of co-option of a Professional Director have yet to be finalised, as these processes are interlinked.

II. CAS/MIS has not been grounded at the PACS level although the printing of registers and other processes have been completed in a couple of districts. Some of the PACS, particularly the newly-formed PACS, have not yet collected the registers due to lack of manpower. Thus complete implementation of CAS, MIS and computerisation will take some time in the state, but the processes have already began. Given the myriad steps involved in the total revamping of the system, sufficient time needs to be allowed for the implementation of several incidental requirements under the revival package.

III. Depositors have yet to be given voting rights; it is expected to be given during elections in 2012. However, there is a need to disseminate this information among depositors.

IV. The release of recapitalisation assistance has been very slow. Most of the PACS received assistance from the state government in 2009, and from the central government account in the middle of 2010.

V. Currently the staff strength at the PACS and DCCB levels is inadequate, and needs augmentation. Also several earlier vacancies have not been filled to date, and it has hampered their smooth functioning. Therefore it is important to fill the existing vacancies as also to create new positions to carry out the additional tasks of the PACS as per the norms of RP. The new PACS that emerged after the Act of 2008 need to be streamlined and strengthened.

VI. The process of appointment of executive staff as per “fit and proper criteria” is yet to be completed at all the levels, including at the DCCB level.

VII. Share of state government’s equity capital in CCS units beyond 25 percent has not been converted into grant. In other words, the state share in equity capital has gone up due to fresh infusion of equity capital in recent years.

VIII. The DCCBs are functioning with increasingly more borrowings and the overdue currently is around 85 percent, showing that DCCBs are unable to recycle funds. This has reduced the profit to the DCCBs and they are therefore unable to meet the credit requirement of the PACS.

IX. In several districts, most of the PACs have not computed the CRAR values. Many of the PACS are also not classifying the overdue loans into various NPA categories, such as standard, substandard, etc. This could be due to the lack of adequately trained staff.

X. As far as autonomy is concerned, the present dual control of PACS both by the department and DCCB has created some problems. Despite this, the government still has nominees on the boards of DCCBs and SCB. The PACS still face constraints in the selection of businesses that are profitable to them, while some PACS carry out certain non credit activities on behalf of the state. The dual control system needs to be revisited, and the revival package should include provisions for autonomy to the PACS in all administrative and financial matters.

XI. Inadequate computerisation was noticed even at DCCBs level. Most of the DCCBs have one or two computers at the official level, and due to this, the present level of computerisation of operations is very low.

Way Forward

The functional and operational changes of cooperatives in the state of Bihar during the last couple of years have shown overall improvement. This was due to reforms initiated at the institutional level to bring about change in the governance structure. To ensure better governance at the institutional level, the Bihar Cooperative Societies Act was amended and efforts are being made to amend the bylaw of BSCB and DCCBs. Currently the bylaws are at the approval stage. With such initiatives the process of reform is certain to continue in the future and make the cooperative institutions sustainable.

At the DCCB level, the share capital has improved; the improvement is not due to infusion of equity capital by DCCBs themselves, but due to pumping of equity capital by the state government aimed at strengthening the capital base of the DCCBs. Even though it was specifically mentioned during the June 2010 NIMC meeting that it was necessary to convert state equity in excess of 25 percent into a grant, this decision has not been strictly followed in the state. This needs to be addressed early in order to conform to the norms of the revival package.

At the PACS level, there is not much improvement in the equity capital due to the bifurcation and restructuring that had taken place. However, with the disbursal of the amount under ADWDRS, business has been picking up and it is expected that in the near future most of the PACS may start earning profits on their investment. The PACS chairmen are eager to start a number of credit and non credit businesses, but they need handholding for some time to overcome initial troubles. The analysis above shows that several weak PACS which otherwise would have been liquidated, are operating till today due to financial support received under the ADWDR scheme. Unlike in other states, it is heartening to note that in Bihar, 80 percent of lending is being made exclusively to small and marginal farmers. Further, it is found that newly formed PACS have shown interest in diversifying their lending to non-agriculture activities as well, and they are moving towards these activities with due consideration for sustainability and profitability of business. This trend needs to continue in the future.

The impact of revival package assistance to STCCS is slowly beginning to show up, and it will take some time before we get a clear enough picture to critically evaluate the status of the implementation process. For instance, legal and institutional reforms are under way in Bihar. However, in view of the complete restructuring of the cooperative system under way in the state, unlike in other states, grounding of the programme may take relatively more time, but once it begins achievement may be faster. This observation is made on the basis of our field experiences, as we could notice reforms initiated in various sectors yielding good results due to better governance.

We observed a lot of enthusiasm on the part of chairpersons of PACS for implementation of reforms, particularly the CAS/MIS and computerisation. However, most chairpersons of the PACS were expressing the need for better designed training programme, keeping in mind the requirements of the trainees. They also advised re-examining the need for writing and maintaining such large numbers of ledgers under CAS.

The PACS should insist on adopting a target oriented approach in terms of achieving a business level matching with their expected administrative expenditure. Only such strict financial discipline will help them to survive, especially those who have been revived with substantial RP assistance. The time taken to arrive at a sustainable level of operation also depends critically on the availability of quality manpower in these organisations.

Computerization of all PACS, devising a suitable HR policy and retaining autonomy are essential measures to make these PACS commercially viable. In this context, it is to be noted that computerisation has not taken place properly in many of DCCBs. Hence, extracting and/or updating of the information are currently cumbersome and time-consuming. Therefore, immediate attention needs to be given to upgrading of skills and technology in the functioning of the DCCBs and PACS. Given the current state of affairs, it is essential to formulate a special package of policies, programmes and funding for this purpose, in the absence of which the requirements of RP cannot be met comprehensively in the state, and consequently the entire exercise carried out under RP runs the risk of being futile.

It is seen that the Business Development Plans prepared by certain number of PACS were devoid of any technical inputs. Owing to this fact many of the BDPs were not up to the mark and were not approved by DLIC.

Most importantly, the present dual control of PACS both by the department or ROC and DCCB other states and particularly in Bihar should be seriously revisited; otherwise the basic objective of RP will be defeated and the efforts already put in will become unproductive and PACS will continue to blame other entities for their poor performance. Therefore, autonomy and responsibility need to be given to the PACS to ensure better functioning.

Thus, from the above discussion we observe that the revival package has to take grounding in the state, in various dimensions. Once it is implemented properly, there will be visible improvement in the functioning of the credit cooperative system in all its facets. Strengthening and sustaining credit institutions is necessary, considering the present low density of the banking network in Bihar compared to other states of India. In fact, the statement of AIRCRC 1969 that “credit cooperatives must for development of rural economy” is valid even today, and the state should work towards the goal of making financial resources accessible to the poor through ground level institutions like cooperative banks. While the new norm of one pachayat, one PACS will help financial inclusion, one needs to think ways of making these institutions sustainable. For this to happen proper financial accounting is a must which will enable the members to understand the financial position of their organisation and take appropriate measures well ahead of time. The second task then is to improve the financial position through proper business development plans and operating without interference in a professional manner. Both these acts need skilled manpower which is the major problem. Thus on the one hand the number of institutions has increased while on the other hand there is not enough human capital to take them forward. This gap needs to be filled quickly with professional and effective training. Only then will this entire effort be fruitful.

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Reforming Cooperative Credit Structure in India for Financial Inclusion

Labor and Globalization | Volume 6

Veerashekharappa, Meenakshi Rajeev, Soumitra Pramanik

In the drive for financial inclusion in India, cooperative banks assume prime importance as they are much more accessible to the rural poor than commercial banks. While more accessible, cooperative banks' financial health is rather poor and, therefore, might not be able to serve the needy in a sustained manner. A committee led by Prof. Vaidyanathan has outlined a revival package for cooperatives. Besides suggesting an infusion of funds, it called for the adherence to certain stringent norms to ensure the financial viability. The recommendations provided in the committee's report are under various stages of implementation in India.

The book examines the progress of this reform drive in Bihar, a state in Eastern India. It discusses the background for appointing the committee and its recommendations and also presents the findings of a field study conducted in this regard. The findings inform further policy suggestions which are of general interest to the drive for financial inclusion also in other countries.

Key Words: Short Term Cooperative Credit Societies, Vaidyanathan Committee Report, Primary Agriculture Credit Societies, Common Accounting System

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