

A STUDY OF THE ACTION PLAN SUGGESTED BY THE VAIDYANATHAN COMMITTEE WITH SPECIAL REFERENCE TO THE IMPLEMENTATION STATUS IN SATARA DISTRICT AT THE GRASS ROOT LEVEL

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Abstract

The Short Term Cooperative Credit Structure (STCCS) has playing an important role in meeting the growing credit needs of agriculture in India. Due to unsatisfactory performance of these institutes, various study groups have been appointed time to time to suggest remedial actions. All the efforts in this case have spoiled due to improper implementation process. Taking into consideration the outreach of these societies to the rural population which has not become possible to any other financial institute; once again Government of India has appointed a Task Force chaired by Prof. A. Vaidyanathan in 2004 for suggesting an implementable Action Plan (AP) for the revival of the STCCS. The action plan is in implementation process all over in India. Therefore an attempt has been made in this paper to examine the AP and the implementation status of the AP in Satara District at Primary Agricultural Credit Societies' (PACSS) level as these societies are working at the grass root level of the STCCS.

INTRODUCTION

The cooperative movement in India is now more than ten decades old. It has been spread nearly in all fields of the Indian economy. In view of the predominance of agriculture in Indian economy, agricultural credit was the first activity, organized on cooperative basis. The first Cooperative Credit Societies Act was formulated on 25th March, 1904 and the requirement of legal and administrative system for co-operatives was fulfilled. As per this Act the credit co-operative societies were formed to provide cheap credit to farmers and save them from exploitation by money lenders.

In the year 1914 the Maclagen committee recommended a Three Tire Co-operative Credit Structure for agriculture credit. The STCCS consist of the State Cooperative Bank (SCB) at State level, the District Central Co-operation Banks (DCCBs) at District level and the Primary Agricultural Credit Societies (PACS) at Grass Root Level. During recent years PACS are being

converted into Multipurpose Societies. While introducing such type of societies it was thought that these societies should become the centers of all activities of the village life and the society itself would become financially viable and self-reliant. But in the present scenario most of the PACSs are working only as an intermediary between the society members and the DCCB and only disbursing and recovering the loans granted by the DCCBs. In Maharashtra the PACSs have been converted into Multipurpose Societies since 1958 following the Nagpur Congress Resolution and have been renamed in Marathi as VIKAS Seva Societies (Vividh Karyakari Sahakari Seva Societies).

In India the PACSs have not been originated from the grass-roots but have been promoted by the governments as an instrument of rural development. Hence the principles of cooperation have not properly inculcated in the rural masses many problems are crept in. The quantitative growth of PACSs became possible by applying various means. But the performance of the PACSs is very poor. For the qualitative improvement of the PACSs the Government of India has appointed a Task Force under the chairmanship of Prof. A. Vaidyanathan to recommend an implementable action plan.

OBJECTIVES:

An attempt is made in this paper:

- To provide an overview of the AP and
- To examine the implementation status of the AP in Satara District at PACSs

level.

RESEARCH METHODOLOGY:

The paper has totally depended on the secondary data available from the books, Report of Vaidyanathan Committee, Implementation Report of the Satara District Cooperative Bank. Report of Satara District Deputy Registrar Cooperatives (DDR) and the Website of NABARD. It is a case study of Satara District having 950 PACSs in the year 2011. The present study is totally depended on the secondary data and for coming to the conclusion simple statistical techniques such as tabulation, percentages are used by the researcher.

WHY THE IMPLEMENTABLE ACTION PLAN:

Taking into consideration the outreach of the STCCS to the rural population, since from pre-independence period various study groups have been appointed by the Government

to examine the position of the cooperatives and to suggest remedial measures. Some of the notable study groups related to PACSs are Sir Edward Law committee (1901), Maclagan Committee (1915), Royal Commission on Agriculture (1928), Mehta committee (1937), Agricultural Finance Sub-Committee (1945), Saraiya Committee (1946), All India Rural Credit survey Committee (1951), Expert Committee on Co-operative Credit (1959), Bawa-Team (1971), Banking commission (1972), Narsimham Committee (1975), National Commission on Agriculture (1976), Dantawala Committee (1978), Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (1979), Kelkar Group (1986), Agricultural Credit Review Committee (1986), Jagdish Capoor Committee (1999), Vyas Committee (2000) and Vikhe Patil Committee (2001).

The various committees have suggested remedies for making the PACS financially strong, self-reliant, autonomous and democratic institutions. But the progress in the process of implementation was very little. The common recommendations suggested by the various study groups related to PACS were:

1. Restoring democratic management by holding free and fair elections.
2. Reducing the scope of government interference.
3. Improving the professional ability of the staff.
4. Creating a healthy environment for prudent management.
5. Increasing the service area of Primary Cooperatives.

A committee chaired by Prof. A. Vaidyanathan has been appointed for suggesting an implementable action plan based on the above recommendations for the revival of STCCS. The basic philosophy of the action plan was "As the PACS were borrower centric, the members were not risk bound and had limited accountability in the management of funds. The Boards of Directors were not held accountable for granting and monitoring loans, it results in poor quality of loan portfolios and high default rates. The reason for the losses could be traced to the overall business levels of each of the cooperative tiers." Therefore the committee has suggested the Revival Package evolving suitable serial of actions having legislative and policy support. The amendments in different acts should be made in such a way that a legal environment would be created for working the cooperatives as an autonomous and member driven institutions.

EXPLANATION OF THE REVIVAL PACKAGE IN BRIEF:

The task force submitted its report in February 2005, and implemented across the country in January 2006. The Financial Assistance has to be provided as a onetime package to clean up the Balance sheet of these institutions. The Revival Package suggested by the Committee is therefore divided into three parts:

1. Financial Assistance to wipe out accumulated losses and to strengthen the capital base. Every cooperative at each level has to be conduct the special audit for the year ending on 31st March 2004 and the amount of accumulated losses should be decided.
2. Introduction of legal and institutional reforms necessary for the democratic, self reliant and efficient functioning of each and every institute in the STCCS.
3. Qualitative improvement in personnel and in management in all tires through providing training to the human resources for capacity building, accepting Common Accounting System, Management Information System and providing basic infrastructure for carrying out business.

All PACS having at least 30% recovery level as on 30 June 2004 will qualify to cover under the revival package and to receive financial assistance. Every institute on each level has to sign the MoU (Memorandum of Understanding) which will make each and every clause in the Action Plan mandatory to the signing institute. The Task Force allowed to the state governments and the credit cooperative to implement the revival package in a phased manner and within a period of 3 years the legal and institutional reforms envisaged.

It was also decided how to share the accumulated losses and the liabilities arising while increasing the CRAR (Capital to weighted Risk Assets Ratio) and reducing the share of the State Government in the share capital. The sharing pattern was based on the origin of loss and existing commitments as follow:

1. The losses arising out of direct agricultural credit business will bear by Central Government;
2. The losses on account of non-credit businesses will bear by the State Government and
3. The credit cooperative itself will have to bear the losses arising out of activities like direct advances taken up on their own risk and losses due to frauds etc.

IMPLEMENTATION MECHANISM

NABARD has been designed as a Nodal Implementing and Pass through Agency (NIPTA) to coordinate and monitor the progress of the plan. NABARD was authorized to enter into an agreement with individual banks or societies and operate funds earmarked by the government. For approving the roadmap for implementation and monitoring the implementation process the **National Level Implementing and Monitoring Committee, State Level Implementation and Monitoring Committee and District Level Implementation and Monitoring Committee** would be set up for the Nation, for each State and for each District respectively.

BENCHMARK ACTIVITIES:

Participation of the states in RP was optional and the Scheme was kept open for two years from its original announcement in 2006 to enable the State Governments to decide latest by 31st March, 2008. Moreover, release of financial assistance was back-ended and linked to achievement of predefined benchmarks. The key points in the benchmark activities were:

1. Signing of MoU by the State Governments with Government of India,
2. Signing of MoU by the PACS/DCCB/SCB with Implementation Committees,
3. Completing the special audit,
4. Conducting of Elections wherever due,
5. Either electing or co-opting professionals on the General Body,
6. Appointment of professional CEOs,
7. Amendments in the Cooperative Societies Act or incorporation of special chapter,
8. Adoption of a sound system of internal checks and controls by SCBs/DCCBs and
9. Signing of Development Action Plans.

IMPLEMENTATION STATUS OF THE ACTION PLAN

• Implementation Status at National Level

On the national level as on 31st March 2013, Twenty-five States have signed the MoU and completed the Special audit of PACSs. Recapitalization Assistance has been released in seventeen States. Twenty-three States have amended their respective State Cooperative Societies Act. The bye laws of PACSs have been amended in fourteen States. Human resources training for 83,452 PACS' secretaries in 21 states and 1, 27.350 elected members' in 18 states have been completed.

• **Implementation Status at State Level**

The Maharashtra State Government has signed the MoU on 13th November, 2006. On 31st March, 2013 there were 20914 PACSs out of which the Special Audit has been completed in 20,805 PACS. Recapitalization Assistance Rs. 1576.86 lakhs has been released to the 14,769 PACS. Maharashtra Cooperative Societies Act, 1960 amended through Maharashtra Cooperative Societies (Amendment) Act, 2008. Business Development Plans have been prepared by 10445 PACS for increasing the income.

• **Implementation Status at Satara District:**

Satara district is located in the western part of Maharashtra. The District has eleven Taluks having 950 VIKAS Seva Societies as on 31st March, 2011. The co-operative movement started in this district at the beginning of the 20th century. The first Cooperative Credit Society was registered at the village Bodhe in Man taluka in 1907. In the year 2004 when the special audit was conducted there were 927 Societies and all the societies signed the MOUs with Satara District Cooperative Bank (DCCB) and the District Level Implementation Committee (DLIC). Following are the key points in the implementation Process of the Action Plan.

1. Recapitalization Assistance

In the year 2004 there was 927 societies in the district for which the special audit has been conducted for examining the eligibility status of the PACSs for receiving the Financial Assistance. The PACSs divided in three categories namely A, B and C, as per the recovery status. The following table shows the details:

(Amounts are in lakhs)

| Table showing Release of Recapitalization Assistance to Eligible PACS For the Year ending 31 st March 2011 | | | | | | |
|--|------------------------|--------------------|---|-----------------------------------|---------------------------------|---------------------|
| Category | Percentage of Recovery | Total No. of PACS. | No. of PACs eligible for Financial Assistance | Share of Central Government (Rs.) | Share of State Government (Rs.) | Share of PACs (Rs.) |
| A | Above 50% | 863 | 240 | 439.43 | 7.84 | 189.44 |
| B | Between 30% to 50% | 41 | 12 | 22.85 | 0.93 | 7.52 |
| C | Below 30% | 23 | 9 | 67.71 | 0.07 | 3.62 |
| Total | | 927 | 261 | 529.99 | 8.84 | 200.58 |

Source: Report of the Satara District Cooperative Bank.

The eligible PACSs falling in the 'Category A' received the amount of Financial Assistance in the same year in one installment. It was decided that the PACS falling in Category B will receive the Financial Assistance in three annual installments at the beginning of each succeeding year only if the particular PACS have achieved an incremental increase in the recovery rate by at least 10% against the benchmark recovery achieved on 30 June 2004. It was also decided that as and when any PACS in this category achieves 50% recovery level, the entire amount of financial assistance will be released without waiting for the year to year recovery benchmarks. The PACS from the category C having the recovery level below 30% are not eligible for financial assistance. For these PACS it was decided that they have to be liquidated or to be merged in the nearby PACS. At the end of October 2009 all the amount appeared in the table has been received and distributed among the PACS. In the sample district not a single PACS from the Category C has liquidated or merged. Each and every PACS in this Category has increased its performance to the satisfactory level in the given period and became eligible for the Financial Assistance.

2. Training to Secretaries and Elected members:

Training programmes for Secretaries and Elected members of the societies has been organized in the district. The training programmes were compulsory for all the societies including the newly established. The societies participated in these training programmes were 940. Following table shows the details about the status of Training Programmes.

| Table showing the status of Training Programme For the year ending 31 st March 2011 | | | | |
|---|-----------------|--|--------------------------|--------------------------|
| Object of Training | Trainee | No. of Societies participated in the Programme | No. of batches conducted | No. of Trainees attended |
| To inculcate the Cooperative Principles and to inform the Revival Package | Elected Members | 940 | 77 | 1867 |
| To inform the Revival Package and to Introduce about the CAS and MIS. | Employees | 940 | 44 | 1088 |
| To assist for preparing the BDP | Employees | 943 | 29 | 733 |
| TOTAL | | | 150 | 3688 |

Source: Report of the Satara District Cooperative Bank.

3. IMPLEMENTATION STATUS OF THE REVIVAL PACKAGE:

The Revival Package suggested by the committee was conditional. After signing the MOU each and every clause in the Action Plan has become mandatory to the signing institute. Following are the main clauses in the AP and all the PACSs including newly registered have to fulfill the conditions in the subsequent years:

- A. To reduce the share of the State Government in the share capital below 25% of the paid up capital of the institute.
- b. To Adopt the New Bylaws.
- c. To maintain the accounts as per Common Accounting System (CAS) for bringing the uniformity in the Book Keeping and Accounting producer followed by the PACSs.
- d. To increase the Capital to weighted Risk Assets Ratio (CRAR) up to 12%.
- e. To Conduct the Elections whenever due.
- f. To Make the Provision for Non Productive Accounts (NPAs) every year.
- g. To prepare the Business Development Plan (BDP), for increasing the business of societies through mobilizing deposits and by starting non-credit business.

| STATUS REPORT ON IMPLEMENTATION OF REVIVAL PACKAGE In SATARA DISTRICT AS ON 31 ST MARCH, 2011 | | | |
|--|--|--|------------|
| Reform Agenda | Total No. of Societies as on 31 st March 2011 | No of Societies implemented the Reform | PERCENTAGE |
| 1. Reducing the share of the State Government. | 950 | 950 | 100% |
| 2. Amendments of Rules and Adoption of Bye-laws | | 950 | 100% |
| 3. Status of Holding Elections in time. | | 941 | 99.05% |
| 4. Common Accounting System (CAS) and Management Information System (MIS) | | 950 | 100% |
| 5. Increase in CRAR up to 12%. | | 670 | 70.52% |
| 6. Making Provision for NPAs. | | 476 | 50.1% |
| 7. Preparing BDP | | 779 | 82% |

Source: Report of DDR Cooperative Satara District.

On a careful perusal of the data available as on 31st March, 2011 following facts emerge out:

- Above data shows that 100% of the societies have reduced the share of State Government in the Share capital, amended the rules and adopted the Byelaws and are keeping the records as per CAS. Printed material regarding CAS is available at Satara District Cooperative Bank and it has been provided to 904 societies from category A and B and 39 societies from category C and newly established societies.
- In case of holding elections in time the percentage is 99.05 as the term of the directors of the newly established Societies has not been expired.
- The percentage of the Societies which have increased the CRAR up to 12% is 70.52. Before the recommendations of the Committee all the Cooperative Credit Institutions were outside the CRAR Framework. As it is compulsory to increase the CRAR up to 12% all the societies will try to increase it in the subsequent years.
- Only 50% of the societies in the District are making Provision for NPA. The percentage is comparatively more satisfactory as in 2004 it was only 5%.
- In case of BDP the percentage is 82 but actual number of societies doing non-credit business is very less. Out of 950 Societies only 18 societies are mobilizing deposits, 72 societies are selling chemicals, fertilizers and seeds and 96 societies have increased their business through ration shops. In the district 166 societies have their own Godowns.
- There are 190 societies in the district having 100% recovery on their member level.
- In the District 206 societies are fully computerized.
- Out of 950 societies 774, i.e. 81% societies are in profit.

CONCLUSION

Even though the Action Plan recommended by the committee has been implemented successfully in Satara District till now the PACSs are not enjoying full freedom. Due to the three tier structure of the STCCS there are some restrictions on the PACSs while taking the decisions on affiliating with or abstaining from a federal structure of their own choice or choosing the borrowing agency or agency for keeping deposits, sanctioning of loans in its own capacity, taking the decisions about rate of interest etc., The Action Plan has suggested to provide full freedom to the PACSs in all the above cases, which will make the PACS economically strong and viable and self reliant institute. The byelaws are also amended in this direction. On this stage the only factors which would become helpful to ensure the PACS to be Self-reliant are:

1. Liberal policy of DCC Bank;
2. Strong willingness of the members and employees; and
3. Good leadership between the members and employees.

References

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3. Performance report of the DCC Bank Satara.
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