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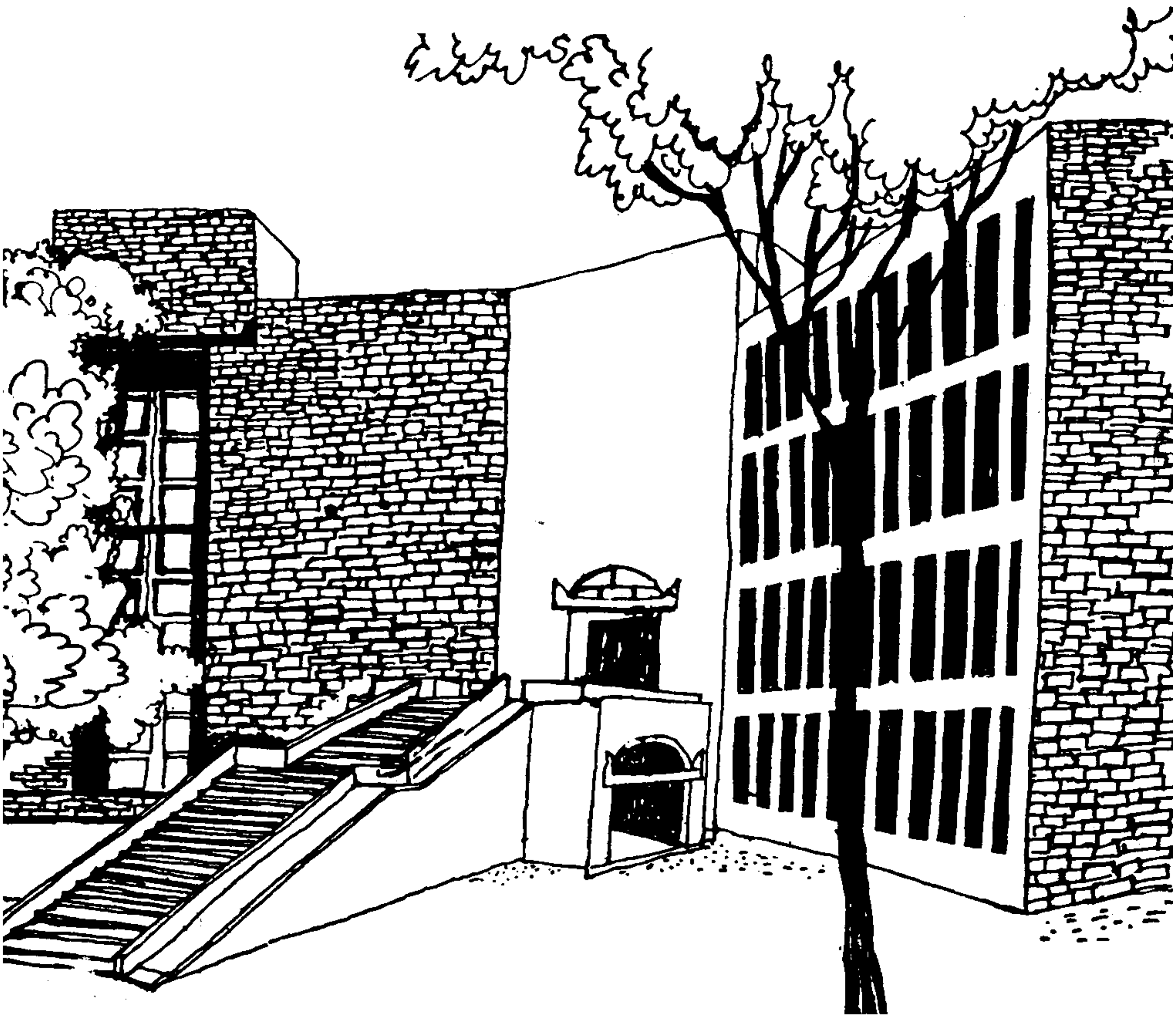

PROFESSIONALISM IN CO-OPERATIVES FOR RURAL CREDIT

By

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Content

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I. Introduction and Framework

Dictionary meaning of "profess" is faith, while that of "professionalism" is vocation that is education and skill-oriented. Both these together would imply scientific temper. Faith gives the conviction or sense of purpose, while education and training are a means to achieve it.

Having faith in co-operatives is as much important as having education and training in co-operation. Equally important are faith and education in rural credit and banking in general by the co-operatives.

While the co-operators have ample faith, their education is more experienced-based which when combined with formal knowledge and skills can be an unparallel asset to make their institution dynamic and growth-oriented. This is so also for their rural banking.

Another important context that needs understanding is co-operative "as a form of organisation". Co-operative is an "institution" of its members, for its members, and by its members. But co-operative is also an "enterprise" that has "business functions". While the former implies co-operative has "institutional objectives" such as members' prosperity and participation, the latter implies it has "enterprise goals" like maximising business

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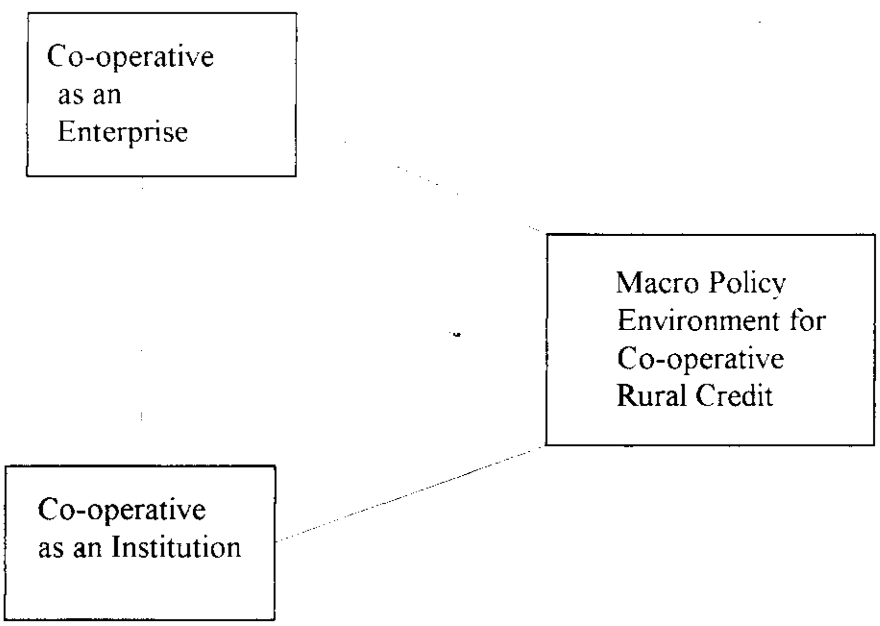
♣ Faculty Member, Centre for Management in Agriculture, Indian Institute of Management, Ahmedabad. The paper was prepared at the invitation of NABARD for its national conference on Cooperatives in Rural Credit to be held at New Delhi on April 28 and 29, 1998. The author is grateful to some non-official Directors and Senior Managers of NABARD, Gujarat State Co-operative Bank, Gujarat State Co-operative Agricultural and Rural Development Bank, Surendranagar, Banaskantha and Surat District Central Co-operative Banks, and Dhuli and Takervada PACS for the valuable discussions he had with them. The usual disclaimers to these personnel who are too numerous to individually mention, however, apply. The author is also grateful to NABARD for financing the field-trips that facilitated preparation of this paper.

turnover, loan recovery, and financial viability (Gupta and Gaikwad 1986, Seetharaman and Mohanan 1986, and Seetharaman and Desai 1992). These two sets of goals are not in conflict when both co-operation and rural banking are "depoliticised and accountable". But there may at times be dilemma in striking a balance between them. Professionalism facilitates resolving this dilemma when and if it arises.

Achieving professionalism requires recognising yet another management dimension that is common to any form of organisation. This is the "macro rural credit policy environment" in which the co-operative functions. This environment mainly relates to Co-operative Law, Banking Regulation Act, interest rates, and institutional development. Policy-making for these instruments also must be professional in the sense in which it is stated earlier. This is because such a policy making would have a synergistic impact that will better harnessing the potential created by professionalism in co-operatives. It is also because it will enhance the credibility of professionalism preached and assisted by the policy makers and academics alike.

Considering the preceding as a conceptual backdrop the co-operatives for rural credit have three dimensions that need professional management. These are shown as a flow chart below.



Planning, implementing and monitoring, and evaluating for future are the three functions of these management dimensions. This paper discusses them for each of these three management dimensions. The issues considered for professionalising co-operatives as an "enterprise" and as an "institution" are role and approach of (1) leadership and top management, (2) middle management, and that of (3) human resource development. Section II discusses these considering co-operative as a business "enterprise", while Section III discusses them considering co-operative as an "institution" of its members. Section IV is on earlier stated four macro rural credit policy instruments. Customary concluding section follows these. Co-operatives at each level in both the short-term (ST) and long-term (LT) credit structures are considered.

ST structure is three-tier with Primary Agricultural Co-operative Credit Societies (PACS) at the village level which are federated to the District Central Co-operative Banks (DCCBs) at the district level which are in turn federated to the State Co-operative Banks (SCBs) at the State level. LT structure is of two types; it being federal with Primary Co-operative Land Development Banks (PLDBs) at the field level, District Co-operative Land Development Banks (DLDBs) at the district level and State Co-operative Land Development Banks (SLDBs) at the State level, while the other being unitary with SLDB having their branches at the tehsil level.

In 1994-95 at the grassroots level ST co-operatives had a share of 59 per cent (90783 PACS) in total number of credit institutions, 27 per cent (Rs.14,453 crore) in rural loans outstanding, and 27 per cent (Rs.34,436 crore) in rural deposits. The corresponding shares of LT co-operatives are 1.34, 16.36 and 0.82 per cent.

II. Co-operative as an "Enterprise"

Professionally managed co-operative credit organisation must be based on identification of socio-economic activities that its farmer-members demand and prefer. This then forms the basis to organise the enterprise into certain divisions. Past experiences suggest that they can be (1) Share Capital/Debentures and Reserves, (2) Deposits, (3) Borrowings and Loan Recovery, (4) Loans and Advances, (5) Investments, and (6) Cash and Bank Transactions. While first three are sources of funds, the rest three are uses of funds. Two additional divisions that can service these six functional divisions are (7) Rural Banking Development and Statistics,[1] and (8) Infrastructure and Administration.

Furthermore, there may be two sections each under Borrowings and Loan Recovery, and Loans and Advances for ultimate member-level (a) credit operations, and for (b) non-credit operations such as farm input sales, consumer goods sales, and agricultural produce marketing. Just as borrowing and lending for credit operations facilitate members' "demand" for inputs these for the non-credit operations facilitate "supply" of these inputs. It is very crucial to recognise this distinction as those PACS which have cash credit facilities from the DCCBs for these operations have better financial viability and are truly multi-purpose (for some evidence, see Desai and Namboodiri 1996a, and Desai, Gupta and Tripathi 1989).

Restructuring existing departments/sections/cells along these eight/ten divisions may be accomplished through their participative role to own the new structure and its division of labour.

Leadership and management in co-operative credit when organised through these eight/ten divisions in a bank would become "member-driven". But this requires paradigm shifts in planning, implementation and monitoring, and evaluating for future in the role, and approach of leadership, management, and human resource development of the "Enterprise". These are discussed for each of these in what follows.

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1 The functions of this division could be conducting technical, financial (including inspection and audit) and social science related studies on rural banking with a view to develop synergy in credit, technology and organisation at farmer-members' level. It could also include preparing and monitoring DAPs and MOUs in addition to collecting and analysing statistics on rural banking and feeding all these to the functional divisions. This service division may have three sections; one each for planning, computerisation, and inspection and audit.

II.1 Leadership and Top Management: This consists of Board of Directors (BOD), Chief Executive Officer (CEO), and the General Managers. Three questions that need to be addressed are: (1) Who constitutes them? (2) What are their functions? and (3) How are these implemented?

On the first question some BOD are at present elected by the members, and some are nominated by the State Government. The former must be from those who are not loan defaulters and members of public offices like Parliament, Assembly, Corporation and Panchayati Raj Bodies. Further, the board must have a representation of weaker sections/areas and women to achieve inter-class/region and gender equity. Nominees of the government may be two; one each representing Co-operative Registrar and Technical Department like Agriculture and allied Agriculture, Irrigation etc. NABARD and one professional co-operative banker who are not represented now may be nominated on the board. These nominees may be selected by NABARD in consultation with the concerned bank. The tenure of the Board may be five years to deglamorise elections and to sustain and develop relationships--an aspect that is crucial to any banking business.

All the nominated Directors on the Board must work together with elected Directors to create a collegial rather than elite culture.

The nomenclatures for heads of the BOD, and CEOs at various levels may be standardised. For SCBs and SLDBs they could, respectively, be Chairman and Managing Director (MD), while for DCCBs/sub-district levels they could be President and General Manager (GM) and for the PACS they could be President and General Secretary (GS). MD, GM and GS must be ex-office members of their respective Board of Directors (BOD).

A related issue of size of board also need to be considered. This size may not exceed 25/30. But in some of the state co-operative banks (SCBs) it is very large. Large board results from providing representation of all the District Central Co-operative Banks

(DCCBs). But this makes board unwieldy and dysfunctional. For all such large boards the members may first elect a representative general body and that in turn may elect the board of directors (BOD). This representative general body may be elected by dividing all the DCCBs into some contiguous areas of their operations so that their homogeneity as well as diversity are represented. This organisational innovation to elect a BOD has been quite successful in Farmers' Service Co-operative Banks in Kerala (see, for example, Desai and Namboodiri 1996b, and 1993).

On the second question of functions of board they must be policy-making rather than day to day management of the bank/co-operative. Policy-making must relate to each of the eight/ten divisions stated earlier. Furthermore, it must aim at improving (a) business, (b) financial performance as it relates to loan recovery, NPAs and viability in general that are a part of DAPs and MOUs, and (c) internal organisational structure and process through decentralisation, delegation, and appropriate HRD. Each of these three must be monitored by suitable Management Information System (MIS). And their strengths and weaknesses must be discussed in the Board and Annual General Body meetings and highlighted in Annual Report. This MIS must be prepared by CEO with the assistance of General Managers and Divisional Managers. It must also be computerised at State, and District level banks.

On the third question of how the BOD may implement its functions while at present there are its several sub-committees, they seem to need change in number, rationalisation of functions and powers, and interface with the (middle-level) management and the members. These committees could be eight/ten to oversee the Divisions stated earlier. Their functions also should relate to policy-making and not day to day management. And they must be chaired by Chairman with CEO and GMs as members and respective Divisional Managers as member-secretary. While these changes are appropriate at SCBs/SLDBs and DCCBs/sub-district level co-operatives, at the Primary Agricultural Credit Co-operatives (PACS) level, the Board may be sub-divided into four management committees for (1) Share Capital, Reserves and Borrowings, (2) Deposits,

(3) Loan and its Recovery, and (4) Input Sales, Consumer Goods Sales and Produce Marketing.

Policies formulated by various committees must be implemented through the process of management that has adequate decentralisation and delegation for recurring and routine decision-making as it relates to, for example, loan appraisal, deposits mobilisation, expenditures right up to the branch level.

To conclude, the approach of leadership and top management must be functional, accountable for the business, transparent, and participative rather than top-down heavy, parochial or feudalistic, and centralised in nature. Such an approach would facilitate institutionalising VISION of inspirational, motivational, and service-oriented style of leadership and top-management (for some evidence on this see Desai and Namboodiri 1996b).

II.2 Middle Level Management: This may constitute the eight/ten Divisional Managers, Section Heads, and up to the junior officers level. They may be oriented to be the second line of command in their respective divisions and sections. This tends to be weak now due to tendencies of centralisation and bureaucratisation. Adequate delegation for decision-making related to each of the eight/ten divisions is thus essential. Unless this is done accountability of the middle level management cannot be infused nor expected. But with decentralisation and delegation this can be achieved in addition to enhancing capacity to manage various banking functions such as loan appraisal, investing surplus funds, and borrowing and purchases.

Decentralisation should also be encouraged through "pro-active" role of the middle level management. And this may be accomplished by regular meetings that each Divisional Manager would organise for his/her Division to prepare its time bound action plans. Cross-fertilisation of these plans may be achieved by a Committee that is represented by each Division. This Committee may be chaired by the CEO and the GMs may be member-secretary on a rotation basis. While this is appropriate at the state/district/sub-district level banks, at the PACS level the four Managing Committees together and the General Secretary are required for this purpose.

This Committee should aim at the same three goals that are stated for BOD, namely, (a) business development, (b) financial performance,[2] and (c) appropriate organisational structure and processes. Issues such as imbalances within and between sources and uses of funds, new opportunities, loan recovery and NPAs, inspection and audit, staff productivity, interest rates etc. may also be dealt with by this Committee.

To conclude, the overall style of management must be more participative and counselling-oriented rather than top-down heavy and spoon-feeding type that seems to be more common now. It should also have greater decentralisation and delegation that are accountable.

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2 Financial performance may be measured by (1) growth in owned funds, loans & advances, and deposits, (2) share of owned funds, and deposits in loanable (i.e. working) capital, (3) share of crop loans in total loans, (4) share of low cost deposits, (5) loan recovery as a percentage of demand, (6) NPAs as a percentage of loans and advances, (7) capital adequacy, and (8) financial viability. While this viability is obvious from whether there is profit or not, its planning and monitoring could be improved by analysing (a) transaction (TRC) and financial (FC) costs each as a percentage of working capital (i.e. unit TRC and unit FC), and (b) total revenue and profit/loss each as a percentage of working capital (i.e. unit revenue and unit profit/loss). When UTRC and UFC decline it suggests (I) scale economies in costs, (ii) increase in unit profit/decline in unit loss, (iii) future viability improvement requires expansion, and (iv) cost-based pricing does not require increases in interest rates (for some evidence on all this see Desai 1994, Desai and Namboodiri 1996b, 1996c, and 1997a, and Desai 1998a). Scale economies arises when growth in business is larger than that in costs. Thus, these ten measures of financial performance must constitute the MIS which can then serve as a basis for better informed decision-making on such aspects as business development, interest rates, loan recovery etc.

II.3 Human Resource Development (HRD): From the preceding discussion it is clear that HRD must aim at developing and multiplying human capabilities at individual, team, inter-team and organisational levels. Human resource is sum-total of inherent abilities, knowledge and skill. And inherent abilities comprise creativity, talent, values, aptitude, and attitude all of which must be harnessed to combine with formal knowledge and skill.

The success of HRD efforts mainly depends on the commitment of the leadership and top management. And this commitment must have organisational development initiative that changes organisational culture through participative management that is problem-solving and accountable. Since co-operative is a democratic organisation participative process is often found. But it is perhaps much less internalised and/or transparent in respect of HRD policies. Five major aspects requiring these policies are (1) manpower plan, (2) recruitment and placement, (3) career path, evaluation and feedback, (4) incentives and facilities, and (5) training. Each of these is briefly discussed below.

II.3.1 Manpower Plan: This must flow from each of the eight/ten divisions/four committees (in the case of PACS) stated earlier. It must also have relation to DAPs and MOUs in vogue. It should further include staff strength and profile required at various levels from top management to support staff levels such as clerks and helpers. A norm of officers to clerks ratio of 1:3 or so that is common to banking industry may be aimed by the banks through both new recruitment and upgradation of existing personnel. Job description of the personnel at each level also needs to be developed along with its powers/rights. Manpower plan should also provide for early warnings on retirements at various levels so that the organisation is not caught unawares.

II.3.2 Recruitment and Placement: Most co-operatives have some formal system for these, but it leaves much room to be desired. First pre-requisite is that all the staff must be recruited by the Selection Committee of the Bank with representation of the Board rather than the government as is often the case (for at least some positions). Thus, MD, GMs, and GS must be appointed by the BOD rather than the Government as in Gujarat and Maharashtra. This is not only because the institutions are autonomous but also to achieve proper line of command that has no dual/multiple controls.

Secondly, recruitment of CEOs may be by a Search Committee constituted from amongst the BOD. NABARD may be represented on this Committee. CEOs of banks must have a strong background in finance/banking and/or agricultural and rural development in addition to co-operation and graduate-level degree.

Thirdly, other recruitments must be through open competition from amongst both external and internal candidates that satisfy the minimum qualifications. These qualifications could be formal and/or informal through relevant experience in addition to some degree/school-level education. Relevant experience/qualification must relate to banking and finance/accounts, social sciences, co-operation and agriculture and rural sector. Prescribing such minimum qualifications would ensure some professional knowledge and skill required for rural banking, besides creating opportunities for both the government employees and non-governmental candidates. Fourthly, the placement of all recruits must have a match between the job description and qualifications.

And lastly, PACS employees should also be recruited through these policies rather than expecting honorary services from them. But the requirement of formal education in their case beyond middle school level may be considered preferable but not required. Such institutionalised policies would provide much-needed incentives for them in addition to ensuring their accountability better.[3] Since many PACS may not have adequate finances a fund created from their (token) incrementally growing contribution must be developed by the upper tiers through their finances rather than government to ensure

3 Current norm of PACS staff salary being linked to loan outstanding may be replaced by a regular pay-scale that is commensurate with their qualifications. This is because this norm has built-in disincentive to maximise loan recoveries.

proper line of command and counselling.[4] NABARD may also make a contribution to this fund though eventually each organisation under its tier must be self-financed within a reasonably time-bound period. Unless PACS personnel are under such regular employment conditions this grassroots level organisation would continue to remain weak and inimical to the growth of the entire structure.

II.3.3 Career Path, Evaluation and Feedback: Both vertical and lateral growth opportunities are a must in any organisation. The former could be through promotions. But even these should be by open competition for selection from amongst both internal and external candidates that satisfy the minimum qualifications. Lateral growth opportunities could be from job rotations, changes in job requirements, etc. Evaluation of personnel should be regular. It should also be participative in which its sharing and self-appraisal constitute this process. Staff transfers except at PACS level could be every three/five years.

II.3.4 Incentives and Facilities: While regular pay scales must constitute this for all employees in both the short-term and long-term co-operative credit structure, a culture of incentives and service conditions that equip the personnel better also needs to be evolved. The former may be attempted through instituting best branch award, various allowances such as for house, travel, and for remote and difficult postings, besides loan facilities on easier terms etc. And the latter could be in the form of ready reckoner tables to compute interest revenue/costs, calculators, personal computers, cash-box, staff library, picnics and rooms, etc.

II.3.5 Training: While this has been promoted almost since the inception of the co-operative credit movement it needs five-fold changes. One of these relates to organising training for both the leadership and management. Second, while the leadership needs

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4 Government financed cadre of PACS is inappropriate for it did not ensure this and instead encouraged government controlled employment that diluted member-driven management culture.

more exposure to rural banking and its financial viability (including NPAs) in particular, the management personnel needs both knowledge and skill-oriented training in organisational development initiatives, accountancy and financial viability, in addition to loan cycle and its appraisal, and marketing of agricultural and rural development related banking services.

Three, the pedagogy for training should shift from theory only to both theory and practice/applied knowledge building, from classrooms only to field and classroom based, and from mainly lectures to case studies and experience sharing that emphasises problem-solving approach.

Four, both in-house and external training may be combined for leadership as well as management at various levels. In-house training would require appropriate internal organisational changes and infrastructure like black-board, overhead projector, screen, calculators, etc. at state and district level banks where personnel of both branches and PACS could be trained. Moreover, job descriptions and opportunities for those who get trained must also change to ensure progression in their utility for them and for the organisation.

And lastly, training at various national-level institutions must have a synergy which at present seems to be weak. This synergy could be on the above stated contents and pedagogy. Equally important is to change the mindset from training being a paid holiday to it being an opportunity to make job more effective and relevant in future.

III. Co-operative as an "Institution"

"Member rather than government or NABARD driven" co-operatives have three basic "institutional" objectives. These are member participation, member self-regulation, and member prosperity. Both leadership and management must therefore also function around these goals. This will facilitate developing leadership for the future and making its organisation relevant for those for whom it is meant. Question is what role and approach the leadership, management and HRD should have for this.

III.1 Leadership and Top Management: The Board, CEO and the GM who constitute this generally share the above stated three "institutional" goals. Professionally managed co-operatives must combine this "empathy" with knowledge and skills so that the "harmony" of these goals with the "enterprise" objectives is achieved and sustained.

Among the three institutional goals which seem to have taken maximum toll in recent times are member self-regulation, and sustaining member-prosperity. This seems to be because elections in co-operatives have become glamorised. But the leadership must distinguish its role for the co-operative from that its role for whatever political affiliations it has. This will facilitate self-regulation of the leadership itself. Once this is achieved and demonstrated it will have demonstration effects on both the management and members in general.

To illustrate, when leadership promptly repays its loans the loan repayment ethics gets established; when it promotes rural banking business that common members need and prefer rather than what its "self-centered" interests need or its political affiliation wants the institutional loyalty as well as members prosperity and participation get facilitated; when both leadership and management publicly display its banking facilities with its own organisation "transparency, accountability, and integrity" are built; and when they further decide that such an access to the organisation requires them to contribute to share capital and/or other resources of the institution it suggests their willingness to share the costs and responsibility in general (for some evidence, see Desai and Namboodiri 1993 and 1996b).

To conclude, the role and approach of the leadership and top management should be to practise the "institutional" goals for themselves as a part of general membership. In other words, leadership and top management must be collegial, pluralistic and collectively accountable. A prominent advantage of this role is that it builds member relationship that constitutes equally important, if not more, component of identifying credit-worthy clientele.

III.2 Middle Level Management: Middle level managers are no exception to the role just described for they also often share the "institutional" goals stated earlier.

Consistent with these goals these managers must (1) mobilise maximum membership, (2) promote credit-worthy borrowing membership, and (3) implement multi-purpose functions of the co-operative in its rural banking services.

While first two are obvious for the co-operatives in both short-term and long-term credit structures, the last one needs to be viewed differently for the short-term structure vis-a-vis long-term. For the grassroots level PACS it would mean just not disbursing credit but also undertaking non-credit operations such as extension services, procurement and sale of farm inputs, procurement and sale of consumer goods, and agricultural marketing services like prospective buyers, price information, and trade practices in general. Such multi-purpose services of PACS would require DCCBs and SCBs to promote credit and other banking services not only for farmer-level loaning but also for their (i.e. PACS') non-credit operations.

The co-operatives in long-term credit structure on the other hand may undertake location-specific diversified farm-level loaning, farm extension services, credit for large agricultural infrastructure such as godowns, cold storage, chilling centers, regulated markets, and agro-processing in general. The farm-level loans would encourage "demand" for inputs and services including marketing, while the loans to these supportive infrastructure would facilitate their "supplies". Even their role in Block/District/State level Co-ordination Committees for both of these would be highly desirable.

Lastly, the middle level managers especially in Rural Banking Development and Statistics and Infrastructure and Administration Divisions can play meaningful role by documenting and sharing the information and studies on business growth and diversification, and member-level impact assessment, besides that on potential for building such banking infrastructure as cash counters, godowns, cash-box, safety lockers etc. with the branches and/or PACS. Meaningful feeding of these into MIS that the top management discusses would provide better informed policy making in the co-operatives.

To conclude, the middle level management should be supporter, planner and implementor of the "institutional" goals through multi-purpose rural banking which has a high potential to enhance member prosperity and participation (for some evidence on this see Desai and Namboodiri 1993, 1996a and 1996b, and Desai, Gupta and Tripathi 1989).

III.3 Human Resource Development: HRD vis-a-vis "institutional" objectives must be oriented towards (member) education and training. While such efforts on the principles of co-operation are quite a tradition in co-operative credit institutions, they need strengthening in four respects.

One of these relates to the education and training in co-operation especially at middle level management. Second is to sensitise leadership, management and general membership that co-operative form of organisation has an economic advantage through scale economies in borrowing and lending, farm inputs procurement and marketing, etc. These economies arise from a collective action of pulling the demand of innumerably small clientele.

Third is to sensitise the leadership and general membership that high loan repayment ethics is in their own interest. Disseminating policy of penal interest rate when delinquency occurs is also necessary as it could prove disincentive to lack of discipline. Similarly, provision of interest rate discount for prompt repayment could be an attractive incentive. A related issue on these is to also assist the membership to view its role as a member of the "institution" separately from that as a citizen of a larger community or political party.

And lastly, the pedagogy for all this education must include experience sharing, brain storming, and visits to successful credit co-operatives, besides leaflets, books or other literature in local language especially.

IV. Macro-policy Environment

As stated earlier this mainly includes Co-operative Law, Banking Regulation Act, interest rates, and institutional development. Each of these is discussed briefly.

IV.1 Co-operative Law: The Co-operative Societies Act and its recent amendments under the Model Co-operative Societies Act varies from State to State as Co-operation is a State subject. The discussion here is thus restricted to what the Act may aim at and permit? These are discussed separately for following six aspects. Before this is discussed four imperatives may be stated.

One, the role of the Registrar must shift from a 'dry nurse' to an 'empowering nurse' to make the co-operative "member-driven" rather than "government-driven". Two, all the provisions in the Act which tantamount to interference rather than "macro" policy-intervention must be discontinued. Three, the government should urgently provide adequate funds to clean the balance sheet and strengthen the capital base of the co-operative credit institutions. And four, RBI/NABARD and state governments must work out mutually agreeable alternatives to remove provisions that are conflicting Banking Regulation Act vis-a-vis Co-operative Societies Act.[5] Concerned co-operatives may also be consulted in this process.

IV.1.1 Registration and Membership: Co-operative credit institutions that are registered must be recognised as a separate and specific sector under the Constitution. The required number of members to form a credit co-operative must neither be exceedingly

[5] In Gujarat such provisions seem to relate to investments, contribution towards public purpose, and NPA norms vs. appropriation of profits.

small nor large. Lastly, the existing non-members of the PACS/any tier of co-operative (credit) institution which have access to non-credit services such as farm inputs, consumer goods etc. or non-fund based credit must be enrolled as members by requiring them to pay the membership fee.

IV.1.2 Election: All the members who are not defaulters of loan and also not members of public offices such as Panchayat, Assembly etc. should only be eligible to contest the election for Managing Committee/Board of Directors. While some proven experience in the management of a co-operative/rural credit operations/agricultural and rural development programmes may be considered necessary qualification to contest the election, formal education up to at least high school level may be "preferred" for electing Chairman/President of the co-operative credit institution at all levels.

Nominees of the State Government could be two; one of which should be representative of the Co-operative Department and the other that of the Agriculture and related Departments. These nominees may be selected from amongst a panel of senior officers from these departments. Moreover, neither of these nominees should have voting rights.

The Boards of co-operative banks in both short-term and long-term structure at state, district and primary levels (except PACS) must have a nominee from each other's Board at the respective levels.

Super-session of the elected Board/Managing Committee which seems to be quite common must be on the basis of mismanagement of the institution rather than extraneous factors. Moreover, this must be decided by a committee representing Registrar of Co-operative Societies (RCS), NABARD, and the upper-tier institution in consultation with the co-operative in question. And this Committee should also decide on a time-bound period for holding a new election.

IV.1.3 Financial Assistance and Borrowing Powers: Government share capital should be in the nature of a "seed capital" to germinate a co-operative. And it should be retired by having members subscribing to it in a reasonable time period. Any other financial assistance from the government must be in the form of a grant or loan. And this should be for specific purposes related to infrastructure.

Borrowing powers of the co-operative credit institutions at various levels need to be raised keeping in view the debt-equity ratio. This is especially required at the upper tier-level to enable them to borrow from NABARD, RBI and the depositors, since borrowing from the state will be time and purpose-specific only.

IV.1.4 Business Operations: While the Act may require that these may be in consonance with the overall State Plan for agriculture it may not determine specific priorities as they tend to be location-centered.

On investment by the co-operatives the Act may permit them to deploy surplus funds in PSUs, besides government securities and/or State Bank of India. But there may be a reasonable ceiling on its relative (i.e. percentage) share as well as maturity period. SCBs must also be required to provide guidance to DCCBs for investment of their surplus funds.

The reserves required under the Act for welfare activities should also be restricted to education and training rather than all and sundry such activities.

IV.1.5 Loan Recovery: The Act should prohibit a moratorium on loan and interest waivers by the government. Moreover it should require the co-operative to publicly declare the names of loan defaulters. And existing loan policies may be utilised to deal with the loan delinquencies.

Co-operative credit institutions must also have revenue powers for recovering their loan dues from the members.

IV.1.6 Audit and Personnel: The audit of the co-operative credit institutions may be done by either (a) government or (b) panel of professionally qualified and registered auditors approved by RCS, NABARD and RBI, or (c) independent Chartered Accountants. This flexibility is proposed due to wide variety of experiences that co-operative credit institutions have with the government audit whose costs tend to be high.

The Co-operative Department may also develop specialists in Co-operation, (Rural) Banking and Finance, Agricultural and Rural Development, and Social Sciences in general.

IV.2 Banking Regulation Act: Government guarantee for the co-operatives for their loans from refinancing agencies may be discontinued, as the State's share capital in future is in the nature of "seed capital" that will even retire in due course and replaced by long-term funds from NABARD. It may be discontinued to also make the co-operatives "member-driven" rather than "government-driven".

Provisions required for NPAs may be spread over five instead of two years. District Central Co-operative Banks may also be recognised as scheduled banks on a case by case basis by suitably relaxing the minimum capital required by them. This eligibility of DCCBs may also be linked to their deposits from individuals being some proportion of total deposits rather than working capital. Moreover, the staff of such DCCBs must be simultaneously trained in new banking business that become permissible under the Act.

DICGC coverage for deposits may also be extended to PACS as well as State Co-operative Land Development Banks to further enable them to mobilise rural deposits.

IV.3 Interest Rates: These rates are now deregulated with prescribed minimum lending interest rate of 12 per cent and minimum deposit interest rate of 4 per cent on savings account. Hence they need not form a part of macro rural credit policy. But two reasons guide us to consider them here. One of these is that they are linked to larger market and environment. And two, lending interest rates of the nationalised commercial banks (NCBs) who are competitors are only partially deregulated. Following four issues need consideration to evolve this policy that is conducive to both the "Enterprise" and "Institutional" role of the co-operatives.

One, though initially lending interest rates of co-operatives after deregulation did not rise they have risen now, and are higher than those of NCBs. Apparently, this was aimed at when they were deregulated as it was widely held that there is subsidy on interest rates[6] and the costs of servicing are high. Former is not the case and the latter is an inappropriate justification. It is inappropriate because high costs does not necessarily mean rising costs as it could be on EITHER left-hand OR right-hand side of the U-shaped average/unit cost curve. Evidence suggests that it was not the latter meaning thereby that these costs were not rising i.e. scale diseconomies (Desai and Namboodiri 1996c, Desai 1998a, and Desai 1998b).[7] The financial viability of co-operatives through changes in interest rates for loans is, however, not guaranteed even after these unwarranted increases. This is because their deposit interest rates tend to be higher than those of the competing institutions for deposits. But the co-operatives do not have similar loan opportunities that the NCBs have. As a result they may be compelled to perpetually raise interest rates on agricultural credit. But this is neither justified as stated earlier nor desirable for the

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6 Such a subsidy exists when nominal interest rate is lower than some measure of expected inflation. Considering this universally accepted definition of this subsidy agricultural credit had such interest rate in only eight years since 1950-51 when the inflation shot up due to severe droughts, oil crisis and such other exogenous shocks (Desai and Namboodiri 1996c).

7 This is the case even for RRBs which exclusively served the poor until 1994, besides NCBs (Desai 1994).

growth in their loan business as farmers' demand for agricultural credit has now become interest rate sensitive (Desai and Namboodiri 1997b, and Desai and Mellor 1993).

Two, the issue of high costs and low or negative financial margin which has been oft-repeated has not only the above stated limitation to justify change in interest rates on loans but also other serious limitations. To illustrate, the approach underlying financial margin as a basis to determine interest rates for loans suffers from an assumption that there is no scale economies in financial/interest costs nor in transaction costs. This assumption does not bear out from reality as stated earlier. Another limitation is that ACRC's findings based on this approach suffers from such weaknesses as ignoring non-interest revenue, assuming loan maturity period of five years though most loans are much shorter in duration, and sample size being miniscule (Desai and Namboodiri 1996c).

Three, while initially after deregulation government did not seem to have interfered in interest rates, of late co-operatives are required to take a sanction of the Registrar of Co-operative Societies. This may become a vehicle to politicise this policy. Thus, freeing interest rates of co-operatives does not guarantee their freedom nor depoliticisation. On the contrary it has a potential to politicise this policy as their leadership is alleged to be closer to polity rather than membership.

And last but not the least in importance, the new structure of interest rates for the three tiers/slabs of loan amount (i.e. up to Rs.25,000; Rs.25,001 to 2,00,000 and above Rs.2,00,000) is neither in tune with making co-operatives viable nor with the borrowers ability to pay interest rates. Most loans in agriculture in 1994-95, on an average, were under the first tier/slab.[8] As a result co-operatives would have uniform margins from serving small as well as larger farmers. This also implies that interest rates for these

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8 All 94 borrowers of Dhuli and 168 borrowers of Takervada PACS that were visited had crop loans that did not exceed Rs.25,000. Data of PACS during 1994-95 in eight states show that only 8 per cent of borrowers had loans that exceed Rs.25,000. This percentage does not exceed 20-25 in the case of LDB loans.

clientele are same. Thus, under the new policy both a tenant-farmer/marginal owner-farmer and a larger farmer pay the same interest rates (Desai 1998a and 1998b).

What follows from the preceding is four-fold policy changes. One of these is that the increases in (lending)[9] interest rates must be withdrawn to restore earlier rates so that the scale economies that exist can be fully harnessed. Secondly, partial deregulation that the nationalised banks apparently prefer should also be the case for the co-operatives (and RRBs) to make the field level playing. Alternatively, regulation of interest rates that prevailed prior to reforms may be restored especially because there was no subsidy which usually is the justification for deregulation. Incidentally, such guided market rates policy is quite common for critical sectors like agriculture, infrastructure, and exports. Thirdly, suitable additional tiers/slabs must be prescribed under the first two slabs of loans with corresponding commensurate interest rates (for some suggestions on this see Desai 1998a and b). And fourthly, all RFIs must exercise restraint on increases in interest rates on both loans and deposits in view of the evidence on scale economies and absence of subsidy/tax on these rates. These policy suggestions are broadly also consistent with the nature of demand for rural credit that has now become interest-elastic unlike deposits in general (Desai and Namboodiri 1997b, and Desai and Mellor 1993).

IV.4 Institutional Development: Past suggests that macro rural credit policies for this have aimed at six principles of (1) multi-agency, (2) form of organisation, (3) vertical structure from grassroots to apex level, (4) density of field level institutions, (5) reach/coverage of clientele, and (6) growth and diversification of rural banking services (Desai and Mellor 1993). While earlier discussion has dealt with the principles of reach/coverage and growth and diversification of business, the second principle of form of organisation is not relevant except in the sense of making co-operatives "member-driven" which has been already discussed.

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9 Increases in deposit interest rates are also unwarranted as they are positive in real terms for term deposits, besides the finding that the deposits are not sensitive to these rates (Desai and Mellor 1993, and Desai and Namboodiri 1997b).

Thus, what is proposed to be discussed is the remaining three principles of multi-agency, vertically organised structure, and density of primary institutions as they relate to the co-operatives. The issues considered for the first one are integration of short-term and long-term credit structure, and that of credit and commodity-based co-operatives. Issues considered for the remaining two are NABARD's initiative of DAPs and MOUs, guidelines for minimum involvement (MI), crop-loans and unit costs of investment, and RBI discontinuing its contributions to agricultural credit Long-term (Operations and Stabilisation) Funds. Each of these is discussed briefly.

IV.4.1 ST and LT Structures: Many committees have recommended to integrate these two types of institutions so that there is a single window where farmers can turn to for both types of credit. While this is one option, two other options which can serve the same goal are (a) both institutions may dispense short-term as well as long-term credit, and (b) co-ordination of the two organisations being institutionalised through, for example, sharing the information on those who borrow from LDBs with the DCCBs and PACS, and vice-versa, and BOD of both the structures at State and District/Sub-district levels are represented on each other's Board.

Macro policy should provide for all these three options rather than prescribing one of them. This is because institution building being highly situation-specific organisational phenomenon it requires flexibility rather than straight jacketed solutions. While Andhra Pradesh has merged the two institutions, the other states may be required to choose one of the three options as a part of their DAPs and MOUs.

IV.4.2 Credit and Commodity-based Co-operatives (CBCs): Of late CBCs have become important grassroots level co-operatives for sugarcane, cotton, horticulture, oilseeds, paddy-rice and milk. While they form an important clientele for DCCBs and SCBs credit for their procurement, processing and marketing operations, these credit co-operatives loans to them to on lend to the farmer-members are not eligible for refinance from NABARD/RBI. Another problem is that CBCs input sales and credit operations overlap with the PACS such business. These problems may be resolved by requiring the CBCs to concentrate only on commodity procurement, processing, and marketing. This may be preferred where PACS are relatively strong. And wherever this is not the case CBCs may undertake all the business and DCCBs/SCBs farmer-level loans may also be considered eligible for refinance. Such flexible policies would further make interest rates of PACS and CBCs more comparable and competitive.

IV.4.3 DAPs and MOUs Initiative: The approach of Development Action Plans (DAPs) and Memorandum of Understanding (MOUs) represents a "paradigm shift" in institution building from "top-down and external agency lead" to self-directed and bottom-up. This is what it ought to be now that the wealth of experience in institutional rural credit is gained. Another positive feature is that the co-operatives are being encouraged to improve their financial viability through enhanced resource-base (especially low cost deposits), loaning and other business, and loan recoveries and performing assets. Such a quality-oriented expansion is consistent with the evidence on scale economies stated earlier. Third positive feature is that the co-operatives are required to undertake organisational changes in their management. What is proposed in Sections II and III are instrumentalities to achieve these. Their implementation would lead to X-efficiency (i.e. use as distinct from allocative efficiency) of the resources of these institutions. All these positive features of the new initiatives would fructify better with some strategic policy changes.

One set of such policies refers to interest rates, Co-operative Law and Banking Regulation Act that are discussed earlier. Yet another one includes making DAPs and MOUs a part of NABARD's Potential Linked Plans (PLPs) for credit, and Service Area Plans (SAPs) of all the rural financial institutions (RFIs). And thirdly DAPs and MOUs approach must be suitably extended to PACS with the assistance of the concerned DCCBs.

IV.4.4 Guidelines for Minimum Involvement (MI): NABARD/RBI requires DCCBs and SCBs to have minimum involvement of their funds in financing agricultural credit. This is pursued to develop the stake of these co-operatives and also to reduce their dependency on refinance. But those credit co-operatives that mobilise more deposits tend to get less refinance with consequent disincentive to undertake deposit services. Thus, a refinance policy that is neutral is required. And it may be promoted by linking minimum involvement to loan (potential) that the co-operatives may target rather than their deposits.

IV.4.5 Guidelines for Crop Loans and Unit Costs of Investment: District Technical Committee formulates the guidelines for crop loans. They are generally represented by all the RFIs, relevant government departments, and some leading farmers. But NABARD and State Agricultural Universities may also have representation on this Committee. Three additional changes are required. One of these is to include imputed costs of labour also as a part of cash component of crop-loans. This will not only ease the current problem of under-financing of crop-loans but also implicitly address to the need for consumption (loans). Such an approach to this type of credit need without making it a consumption loan would be socially as well as financially desirable. It would also be for those whose such needs are most in addition to promoting both seed and resource-centered technical change that is land as well as labour-augmenting. Secondly, some flexibility in the practice of the ratio of cash and kind components may be recommended by this Committee. And thirdly, scales of finance for various crops may be separately fixed for more as distinct from less developed areas in the district.

Unit costs of investments also need to be separately fixed for more as against less developed areas. Further, these costs are not perceived by RFIs as a guideline but mandatory. This guideline is generally communicated by circulars from NABARD. But circulars neither speak nor build skills. Thus, there is a need to improvise the implementation process. One option could be to discuss the PLPs in a district-level seminar every year.

Another problem is that the LDBs are not eligible for refinance of projects whose unit-cost-investment exceeds certain amount (Rs.10 lakh in Gujarat, for example). This ceiling seems to deter the growth of their business with consequent X-inefficiency as well as allocative-inefficiency. Such credit ceilings on project-size is not necessary.

IV.4.6 National Agricultural Credit LT (Operations and Stabilisation) Funds: These funds have been built from RBI surpluses to "refinance" agricultural credit operations of the RFIs. This is an innovation in macro-rural credit policy by international standards. But since 1992 it has been discontinued and surpluses are pre-empted by the GOI to reduce its fiscal deficit.

While this problem of public finance is perhaps eased the credit institutions are deprived of their need for "refinance". Such need arises due to, among other factors, mismatch in the time profile of deposits and loans that is inherent in agriculture. This constraint is more acute for co-operatives. Moreover, private investment in agriculture which has a decelerating tendency for quite sometime would also be adversely affected. Thus, these contributions of RBI must be restored.[10] And the solution to the problem of fiscal deficit must be found through suitable fiscal rather than (agricultural) credit policies.

V. Concluding Observations

Professionalism in rural credit co-operatives entail both faith and education and training in co-operation as well as rural banking. Achieving such professionalism requires viewing co-operative as a business "enterprise", as distinct from an "institution". It also needs "enabling" macro rural credit policy environment.

Leadership, management and members must view their role for their organisation as distinct from that for a larger community or political affiliation.

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10 These funds accounted for barely about 17 per cent of loans outstanding in 1994-95. Thus, these loans are largely funded by the RFIs own resources.

Approach of leadership and management for the co-operative as a business enterprise" must be functional, accountable for the performance, and participative through greater decentralisation and delegation. HRD policies must aim at developing and multiplying human capabilities at individual, team, inter-team, and organisational levels. Aspects that require internalising these policies relate to constitution of the Board and its Committees, reorganisation of the existing departments, manpower planning, recruitment and placement, career path, evaluation and feedback, incentives and facilities, and training in rural banking and organisational development initiatives for both leadership and management.

Approach of leadership and management for the co-operative as an "institution" must be collegial, transparent, and counselling-oriented to improve member participation, member self-regulation, and member prosperity through multi-purpose rural banking services that are accountable. HRD vis-a-vis these institutional goals must be oriented to (member) education and training in economic and non-economic advantages of collective action.

Garnering the potential created through these paradigm shifts would require Co-operative and Banking Laws that empower the co-operative to be "member-driven" rather than "government or NABARD-driven". It would also need interest rates policy that is more conducive to both the "Enterprise" and "Institutional" roles of co-operatives. Partially deregulated lending interest rates/fully regulated interest rates and instituting some suitable additional tiers/slabs under loans up to Rs.25,000 and those in Rs.25,001 to Rs.200,000 with commensurate interest rates are required for this. Additionally, restraint on increases in interest rates is also needed. On institution building policies what is required is to make co-operatives self-directed and bottom-up through greater decentralisation, appropriate links with loan potential, and sustained financial contributions of RBI/NABARD for their refinance that has multiplier impacts. It also requires better integration of ST and LT credit structures, and that of credit and commodity-based co-operatives for agricultural development.

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