

APPENDIX NO. III

Brief review of Prof. A Vaidhanathan Committee (Task Force for Rehabilitation of Rural Credit Institutions)

India is a land of agriculture; nearly 75% of Indian population is living in Rural areas. Therefore rural economy is most important in Indian economy. In our country most of the rural economy is covered by Co-operative Credit Structure (CSS). Now in India there are 105735 PACS, out of which nearly 22000 PACS are in the Maharashtra State. Therefore PACS are backbone of Indian Rural Economy. There is lack of banking habit among rural poor people, so PACS cannot mobilize more resources for financing activities in the rural areas. PACS is largely depending on refinance from DCCB & SCB. The loans are given by PACS for agriculture purpose is mostly used for non productive purpose. Therefore, the recovery of loans is reduced and the PACS NPAs are increased. So, PACS, DCCBs and SCBs are suffering from losses and all the CCS come into the difficulties. At the same time the NPA of agriculture advances are increased heavily. From the following T.No.5.13 the financial performance of the CCS will be more clear.

Table No. 5.13**Financial Results of the Co-operative Credit Structure**

Tier		2000-01	2001-02	2002-03
No. of SCBs		29	30	30
	No. in Profits	24	24	25
	No. in Losses	5	6	5
	No. that have eroded net worth	6	9	8
	Total accumulated Losses (Rs. in Crores)	492	567	281
No. of DCCBs		367	368	367
	No. in Profits	247	243	237
	No. in Losses	120	125	130
	No. that have eroded net worth	139	139	144
	Total accumulated Losses (Rs. in Crores)	3177	3770	4401
PACS (Total No. approx. one lakh) *	No. in Profits	46807	45292	58683
	No. in Losses	41991	43511	53626

(Since norms of income recognition and prudential norms are not applied to PACS, the data presented for PACS may not present an absolutely true and fair picture of the state of affairs.)

The reason for the losses can be mainly due to increasing NPAs and poor recovery performance. Form the following T.No.5.14 the recovery rates and NPAs will be more clear.

Table No. 5.14

Recovery Norms and NPAs of Co-operative Credit Structure

Tier		2000-01	2001-02	2002-03
SCBs	Recovery %	82	82	79
	NPA %	13	13	18
DCCBs	Recovery %	67	66	61
	NPA %	28	22	20
PACS	Recovery %	65	67	62
	NPAs *	---	---	---

* NPA norms have been specified for PACS .

Therefore Government of India decided to appoint Task Force under the Chairmanship of Prof. A. Vaidhanathan with the following terms of reference and composition.

- a) To recommend and implement able action plan for reviewing the Rural Co-operative Banking Institutions (CCS), by taking into consideration the recommendations made by various committees on this CCS.
- b) To suggest an appropriate regulatory framework and the amendments which may be necessary for the purpose in the relevant laws.
- c) To make an assessment of the financial assistance that the Co-operative Banking Institutions (CCS) will require for revival, the mode of such assistance, its sharing pattern and phasing.
- d) To suggest any other measures required for improving the efficiency and viability of Rural Co-operative Credit Institutions.

Taking into considerations the reports of the earlier committees such as both the Capoor and Vikhe Patil committee,

the task force submitted report to the Government of India on 15th Feb., 2005. The task force agrees & with their central approach and trust that the CCS needs:

- 1) Special financial assistance to wipe out the accumulated losses and strengthen its capital base.
- 2) Institutional restructuring to make for democratic, member driven, autonomous and self-reliant institutions.
- 3) Radical changes in the legal framework to empower the RBI to take action directly in matters and to the extent deemed appropriate for prudent financial managements of banks.
- 4) Qualitative improvements in the personnel in all tiers and at all levels through capacity building and other interventions, leading to an increase in overall efficiency.

In short the task force recommended that to give special financial assistance to wipe out the accumulated losses and strengthen capital base of CCS. The task force has suggested that the amount of special financial assistance is Rs.14839 crores out of which nearly Rs.1800 crores will be get Maharashtra State and the said amount of financial assistance to SDCCB will be get approximately Rs.2631.40 Lakhs.

Thus it is golden opportunities to CCS to clean its Balance Sheet and wipe out of accumulated losses and strengthen the capital base through the special financial assistance given by the Government on certain conditions.
