

NATIONAL FEDERATION OF STATE COOPERATIVE BANKS LTD.



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NAFSCOB/R-4/2021-22/ 38

Date: 26-05-2021

1. The Chairman/Chief Executive
All Member State Cooperative Banks
2. The Chairman/Chief Executive
All District Central Cooperative Banks

Dear Sir /Madam

**Sub: Amalgamation of District Central Co-operative Banks (DCCBs)
with the State Co- operative Bank (StCB).**
**Ref: RBI circular:RBI/2021-2/42DOR.RUR.REC.No.17/19.51.007/2021-22
dated May 24,2021 addressed to All State and Central Cooperative Banks.**

The Reserve Bank of India, vide its letter RBI/2021- 22/42 DOR. RUR. REC. No. 17/19.51.007/2021-22 dated May 24, 2021 has suo-motto i.e. without any study or recommendation of any committee or request to cooperative banking sector issued guidelines for amalgamation of (a) Amalgamation of (all) District Central Cooperative Banks (DCCBs) with State Cooperative Banks (StCBs), (b) amalgamation of one or more DCCBs in a State with the SCB, or amalgamation of one DCCB with another DCCB.

These guidelines appear to have been formulated by RBI to be considered by the State Governments for delayering their Short-term Co-operative Credit Structure (STCCS) in their states. Considering that in all states with two tier structure (i.e. no DCCBs but StCBs and PACS) the flow of funds from SCB to PACS is minimal, highlighting that delayering has implications for flow of credit to members of various primary societies.

In this connection we may briefly recall that the Maclagen Committee (1914) had envisaged a three tier cooperative credit structure with Primary Agricultural Credit Societies (PACS) at the grass root level, Central Cooperative Banks at District/intermediary level (DCCBs) and State Cooperative Banks (SCBs) at State level. The All India Rural Credit Survey Committee, 1954 (A. D. Gorwala Committee) recommended an integrated approach to cooperative credit and emphasised the need for viable credit cooperative societies by expanding their area of operation, encouraging rural savings and diversifying business. The All India Rural Credit Review Committee (1969) under the Chairmanship of Shri. Venkatappiah had clearly mentioned the role of SCBs to be played in improved recovery performance in three tier structure.

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COOPERATIVES : DEMOCRACY & PEACE

The Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) under the Chairmanship of Shri. B. Sivaraman in 1981 had also approved the three tier structure for larger states and two tiers for smaller states.

As you may kindly appreciate, efforts are being made since then at the highest level during the last three decades to delay and destabilise the 3 tier STCCS. Therefore, the following committees have been constituted to help them to proceed with delayering:

1. The Agricultural Credit Review Committee (ACRC) 1989 by AM Khusro
2. The Task Force (1999) to study the Cooperative Credit System and suggest measures for its strengthening which has been set up under the Chairmanship of Shri Jagdish Capoor, former Deputy Governor, RBI (1999)
3. Expert Committee on Rural Credit (ECRC) under the Chairmanship of Shri V.S. Vyas (2001)
4. Joint Committee on Revitalisation Support to Cooperative Credit Structure (Vikhe Patil Committee) 2001
5. Task Force on Revival of Rural Cooperative Credit Institutions (Prof. A. Vaidyanathan) 2005
6. Expert committee on ST CCS -RBI by Prakash Bakshi (2012).

None of the committees have recommended delayering.

The recommendations of the above committees to continue with 3 tier STCCS in major states/bigger states have been accepted by RBI, NABARD, State Governments and Govt of India. It may be very much pertinent to recall the **following recommendations of ACRC which are valid even today:**

“the ACRC did not favour the suggestion and observed that in the Indian context, the district was a viable unit for planning, implementation and monitoring. Given the large territorial and population size of the major states in the country, which are in fact larger than many countries in the world, the Committee expressed that supervision and guidance of the primary level units directly from the apex level may not prove to be a viable and practicable proposition. The Committee further observed that purely in terms of cost aspects, there was not much scope for saving since in the absence of secondary level organization, the state organization will have to depend on regional and zonal offices for discharging its role and functions for effective monitoring and supervision as also providing leadership. Study conducted by the Committee had revealed that savings consequent upon eliminatory of any of the tiers of existing structure may not be more than 0.25 per cent of the total cost incurred by the system. The Committee was, therefore, of the firm view that the intangible advantage that accrued to the system under the existing three tier structure far outweighed this meagre saving and came to the conclusion that there was no advantage in abolishing any of the tiers. In fact, there were positive advantages in continuing with the three tier structure as it existed.”

It may be noteworthy to note that by accepting the recommendations and by opting to bring reforms in terms of Structure, Governance & Management 25 State governments have entered into MOUs and availed recapitalisation support. This also assisted them to wipe out the accumulated losses of the gross root level cooperatives in both 3&2 tier short term cooperative credit structure. There are few state governments who have neither entered into MOU nor availed recapitalisation support. One such government opted to bring in drastic changes in the well-conceived 3 tier short term cooperative credit structure due to the reasons known to them only. There is not even a single national level reputed committee which recommended delayering in the 3 Tier short term cooperative credit structure except in smaller states for exceptional reasons, if any.

Pl note that the identified weaknesses, if any in the short term cooperative credit structure are mostly due to external reasons. Such weaknesses continue to exist even in the 2 tier cooperative credit structure and also in the states where mergers/delaying has been forcefully brought into force or encouraged to merge their intermediary organisations i.e. DCCBs. The delaying cannot be an answer to address the external weaknesses and for strengthening the STCCS.

We will be able to assist you to identify more areas of likely impact of delaying in case you decide to convene consultation meetings of your Boards of Management and DCCBs to resolve to impress upon the State Government not to approach RBI with the proposal to amalgamate DCCBs with SCBs or delaying of STCCS. Please take up the issue with the State Government, if need be, so that unnecessary delaying can be avoided and the flow of credit to the farmer ensured.

The proposal for amalgamation of DCCBs does not have justified advantageous reasons. There is no advantage in merging DCCBs with SCBs. The delaying may result into destabilisation and dismantlement of the 3 tier STCCS.

Thanking You

Yours faithfully



(Bhima Subrahmanyam)
Managing Director

Enclosures:

1. Copy of the Guidelines issued by RBI
2. Letter shared with SCBs/DCCBs in 2015.