Chapter III

Developments in Co-operative Banking

The co-operative banking system has served a useful role of spreading banking habits throughout the country. However, a majority of co-operative banks is yet to achieve financial viability on a sustainable basis despite their long years of existence and hence attention is being paid to the reforms in both rural and urban co-operative credit system. In respect of the rural co-operatives, the Central Government constituted a Task Force in April 1999 under the chairmanship of Shri Jagdish Capoor, Deputy Governor of the Reserve Bank, to study the functioning of these institutions and to suggest a package for their revival/ restructuring. The Committee submitted its recommendations to the Central Government in July 2000. With a view to strengthening the primary (urban) co-operative banking sector, the Reserve Bank had constituted a High Power Committee in May 1999 under the chairmanship of Shri K. Madhava Rao, former Chief Secretary, Government of Andhra Pradesh, which submitted its Report in November 1999. The recommendations of the Committee are being examined by the Reserve Bank/Central Government. Based on the recommendations of the Committee, the Reserve Bank has revised the entry point norms (EPNs) of PCBs.

3.2 A number of policy initiatives have been undertaken in recent years to improve the financial strength of co-operative banks – both rural and urban. NABARD continued to bestow its focused attention in improving the rural credit delivery system. The ongoing Kisan Credit Card Scheme and the scheme of credit-linking the Self-Help Groups (SHGs) were pursued vigorously in 1999-2000. Several other initiatives were undertaken to augment the flow of credit to rural farm and non-farm sectors. Concerned with the financial weaknesses in the co-operative banks, NABARD also took several measures to sharpen its supervisory tools and laid stress on strengthening the audit process in these banks.

3.3 The Central Government, through the Union Budget 2000-01, has also announced a number of measures which would help in meeting the credit requirements of the rural sector. Important among them are : (i) creation of Micro Finance Development Fund in the NABARD with an initial contribution of Rs.100 crore from the Reserve Bank, NABARD, banks and other financial institutions, (ii) creation of Rural Infrastructure Development Fund-VI with a corpus of Rs.4,500 crore and reduction in the rate of interest on loans out of this fund, (iii) setting up of target coverage of one lakh SHGs by NABARD and SIDBI during 2000-01, (iv) creation of a fund in the NABARD for promoting genuine co-operative institutions, and (v) setting up of a target of issuing additional 75 lakh Kisan Credit Cards by the banking system during 2000-01.

3.4 The co-operative banking system in India is structured as follows: the urban areas are served by the Primary (Urban) Co-operative Banks (PCBs/UCBs) which includes salary earners' banks, whereas the rural areas are largely served by two sets of institutions dispensing short-term and long-term credit, respectively. The former group has a three-tier structure with the State Co-operative Banks (StCBs) at the apex level, the District Central Co-operative Banks (CCBs) at the intermediate level and the Primary Agricultural Credit Societies (PACS) at the grass root level. Under the long-term credit structure, State

Co-operative Agriculture and Rural Development Banks (SCARDBs) are at the apex level and the Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) are at the base level. Against this backdrop, this chapter reviews the progress of various segments of co-operative banking system in terms of their business growth and financial performance on the basis of the latest available data. The chapter also highlights the role of the NABARD in improving co-operative banking system.

1. Progress of Co-operative Banks

Primary (Urban) Co-operative Banks

3.5 Establishment of urban co-operative banks was perhaps the first ever attempt at micro-credit dispensation in semi-urban and urban areas. Initially, the State Governments under the provisions of their respective State Co-operative Societies Acts regulated/ monitored these co-operative banks. However, as the operations of the urban co-operative banks and their volume of deposits increased significantly, the need for regulating their activities in order to ensure their soundness as well as to protect the interests of depositors has been receiving increasing focus.

Major Policy Initiatives during 1999-2000

3.6 The norms relating to asset classification and provisioning, valuation of investments, credit exposure ceilings, which were prescribed for commercial banks were also extended in respect of Primary (Urban) Co-operative Banks (PCBs) during 1999-2000. Further, the ambit of priority sector advances was widened in line with that of commercial banks.

Licensing and Inspection

3.7 There was a significant rise in the number of licensed PCBs during the year 1999-2000. Out of the total 2,050 PCBs, the number of licensed PCBs stood at 1,849 as at the end of March 2000 as against 1,692 as at the end of March 1999. During the year, 114 new banks and 43 existing unlicensed banks were issued license under Section 22 of the B.R.Act, 1949 (as applicable to co-operative societies) (AACS).

3.8 The on-site financial inspection carried out under Section 35 of the B.R.Act 1949 (AACS), at annual intervals in respect of scheduled PCBs and weak banks and once in two years in respect of all other PCBs, is one of the main instruments of supervision over PCBs. During 1999-2000 (July-June), the Reserve Bank carried out statutory inspections of 828 PCBs, as against 636 PCBs during the corresponding period of the previous year.

3.9 Based on the recommendations of the High Power Committee on Urban Co-operative Banks (Chairman: Shri K. Madhava Rao), the Reserve Bank has revised the licensing policy of new PCBs. The main thrust of the policy is on strong capital and corporate governance. The Reserve Bank has revised the EPNs and prescribed four categories of EPNs based on population criteria. As per the new norms, PCBs should have share capital of Rs. 4 crore and membership of at least 3,000, if the population is over 10 lakh. A share capital of Rs. 2 crore and membership of at least 2,000 are required for population of 5-10 lakh, Rs. 1 crore and membership of at least 1,500 for population of 1-5 lakh and Rs. 25 lakh and membership of at least 500 for population of less than 1 lakh. The new PCBs will be required to achieve the prescribed share capital and membership before license is issued to them. PCBs which will remain unit banks have been prescribed a 50 per cent relaxation in the entry point capital. Norms for special category of banks will continue to be relaxed. Promoters cannot, however, seek multiple relaxation in EPNs on the grounds of special category and unit banks. As regards corporate governance, there should be at least two directors with suitable banking experience or persons with relevant professional qualifications.

Refinance Facilities

3.10 The Reserve Bank continued to extend refinance facilities in respect of advances granted by PCBs to tiny/cottage industrial units covered under 22 broad groups of industries at the Bank Rate. During 1999-2000, refinance facilities were sanctioned to the extent of Rs.4.0 crore to three PCBs, as against Rs.3.1 crore during 1998-99.

Priority Sector Lending

3.11 Data on priority sector lending for the period ended March 1999 were available only in respect of the 1,410 PCBs. The above data showed that 1,191 banks (84.5 per cent) achieved the stipulated target (60 per cent of their total advances) of priority sector lending and 963 (68.3 per cent) banks fulfilled the required level (25 per cent of total advances) of lending to weaker sections under priority sector.

Weak Banks

3.12 In order to have effective monitoring of the PCBs, they are classified as weak banks or strong banks based on certain performance criteria. The number of PCBs classified under weak category showed a marginal rise and stood at 261 as on March 31, 2000 as against 250 as at end March 1999. During 1999-2000, 104 weak banks could not comply with the requirement of Section 11(1) of B.R.Act 1949 (AACs).

Complaints and Frauds

3.13 During the period July 1, 1999 to June 30, 2000, 1,255 complaints and 219 cases of frauds were reported. All the complaint and fraud cases were investigated or taken up with the concerned banks and the Registrar of Co-operative Societies (RCS), wherever required for necessary action.

Financial Performance of PCBs

3.14 The number of PCBs stood at 2,050 as at the end of March 2000[1], inclusive of 90 salary earners' banks. Out of these, 2 salary earners' banks and 57 other PCBs were under liquidation as at end-March 2000. The latest available data on major banking aggregates pertaining to end-June 1999 are available only for 1,645 PCBs. The aggregate deposits of these PCBs increased by Rs.3,680 crore during the first quarter of 1999-2000 to Rs.56,297 crore as at end-June 1999 (Appendix Table III.1). The growth rate of deposits in the first quarter of 1999-2000 (7.0 per cent) was slightly lower than that recorded in the first quarter of the previous year (7.4 per cent)[2]. The outstanding advances of PCBs went up by Rs.1,442 crore and recorded a growth of 4.2 per cent to Rs.35,614 crore during the same period which was much higher than that of 0.9 per cent in the corresponding period of the previous year (Table III.1). Continuing the trend of the previous few years, the credit-deposit ratio of the PCBs fell further from 64.9 per cent as at end-March 1999 to 63.3 per cent as at end-June 1999.

3.15 The latest available data on financial results of PCBs pertaining to 1998-99 are available in respect of 1,629 PCBs[3]. The percentage of PCBs earning net profits showed some improvement during the year. While 1,408 (86 per cent) of the above PCBs made profits during 1998-99, the remaining 221 (14 per cent) banks made losses. Notwithstanding the improvement in profit performance, the

1. The number of PCBs stood at 2,064 as at end-June 2000.
2. The number of reporting PCBs varies from year to year.
3. There were 1,936 PCBs as at end-March 1999.

Table III.1: Variations in Major Aggregates of Primary Co-operative Banks

(Per cent)

Item	Financial year			April-June	
	1997-98	1998-99	1999-2000*	1998-99	1999-2000
1	2	3	4	5	6
Owned Funds	27.5	22.2	23.2	5.0	5.9
Deposits	32.5	29.3	28.8	7.4	7.0
Borrowings	43.0	17.4	39.1	-20.5	-5.9
Loans Outstanding	29.0	22.9	27.0	0.9	4.2
C.D. Ratio@	68.3	64.9	63.3	64.6	63.3

Note: 1. * June 1999 over June 1998.
@ As at end of period.

problem of non-performing assets continued to be a major issue concerning the operations of the PCBs. The gross non-performing assets (NPAs), which are available for 1,748 PCBs, aggregated Rs.4,534.60 crore as at the end of March 1999 constituting 12.2 per cent of their total advances. This was marginally higher than the figure of 11.7 per cent observed at the end of previous year (Table III.2).

Scheduled PCBs[4]

3.16 As on March 31, 1999, there were 29 scheduled PCBs. Twenty-two PCBs were added to the list during the year ended March 31, 2000, raising the total number of scheduled PCBs to 51. Of these, 34 are located in Maharashtra, 11 in Gujarat, 3 in Andhra Pradesh, 2 in Goa and 1 in Karnataka. Total deposits and advances of scheduled PCBs as at end-March 2000 aggregated Rs.28,182 crore and Rs.17,286 crore, respectively (Table III.3).

3.17 During the year ended March 2000, the composition of assets and liabilities of scheduled PCBs did not undergo much change. Deposits formed 76.8 per cent of the total liabilities of the scheduled PCBs as at the end of March 2000, which was marginally lower than 77.1 per cent observed as at end-March 1999. Based on the data reported in the balance sheets, deposit growth of scheduled PCBs at

Table III.2: Gross Non-Performing Assets of Primary Co-operative Banks: 1995-96 to 1998-99

As on	No. of Reporting PCBs	Gross NPAs (Rs. crore)	Gross NPAs as a Percentage of Total Advances
1	2	3	4
March 31, 1996	1,161	2,187.76	13.0
March 31, 1997	1,318	2,839.04	13.2
March 31, 1998	1,474	3,305.98	11.7
March 31, 1999	1,748	4,534.60	12.2

Note: Figures are provisional.

4. As data in respect of scheduled PCBs are available with lesser time lag, analysis pertains to a more recent period.

Table III.3: Composition of Liabilities and Assets of Scheduled Primary Co-operative Banks: 1998-99 and 1999-2000

(Amount in Rs. crore)

Item		As on March 31	
		1999	2000
1		2	3
Liabilities			
1.	Capital	296.38 (1.0)	362.65 (1.0)
2.	Reserves	2,259.39 (7.6)	2,734.20 (7.4)
3.	Deposits	22,856.98 (77.1)	28,181.96 (76.8)
4.	Borrowings	374.20 (1.3)	673.93 (1.8)
5.	Other Liabilities	3,842.22 (13.0)	4,758.47 (13.0)
	Total Liabilities	**29,629.17** **(100.0)**	**36,711.21** **(100.0)**
Assets			
1.	Cash	1,891.74 (6.4)	2,331.03 (6.3)
2.	Balances with Banks	1,988.62 (6.7)	2,359.96 (6.4)
3.	Money at call and short notice	539.83 (1.8)	389.86 (1.1)
4.	Investments	7,688.30 (25.9)	9,668.27 (26.3)
5.	Loans and Advances	13,785.64 (46.5)	17,285.51 (47.1)
6.	Other Assets	3,735.04 (12.6)	4,676.58 (12.7)
	Total Assets	**29,629.17** **(100.0)**	**36,711.21** **(100.0)**

Note: Figures in brackets are percentages to total liabilities/assets.
Source: Balance sheet of respective banks.

23.3 per cent during 1999-2000 was somewhat lower than that of 26.9 per cent in the previous year. Capital and reserves constituted 8.4 per cent of the liabilities and was marginally lower than that of 8.6 per cent for March 1999 (Table III.3). Borrowings showed a sharp rise of Rs.299.73 crore during 1999-2000 and amounted to Rs.673.93 crore as at the end of March 2000. Analysis of the asset portfolio of scheduled PCBs indicate that loans and advances constituted 47.1 per cent of the total, higher than 46.5 per cent recorded as at end-March 1999. The share of investments at 26.3 per cent as at end-March 2000 was also higher than 25.9 per cent recorded in the preceding year. The growth rate of loans and advances at 25.4 per cent during the year was higher than that of 21.4 per cent in 1998-99. The total assets of scheduled PCBs grew at a rate of 23.9 per cent over the year.

Financial Performance of Scheduled PCBs

3.18 The total income of the scheduled PCBs increased by 24.7 per cent to Rs.4,163 crore during 1999-2000 (Table III.4) as compared with that of 23.7 per cent recorded in the previous year. A significant portion of total income came from interest income (93.5 per cent). The total expenditure of scheduled PCBs increased by 23.5 per cent during 1999-2000 to Rs.3,810 crore as compared with that of 21.9 per cent during 1998-99. Of the total expenditure, interest expenditure accounted for 72.1 per cent, higher than 71.0 per cent recorded in the previous year. Interest expenses and operating expenses increased by Rs.559.2 crore (25.6 per cent) and Rs.130.5 crore (20.9 per cent), respectively. The provisioning requirements of the scheduled PCBs increased from Rs. 270.3 crore in 1998-99 to Rs.305.6 crore in 1999-2000. The higher order of growth in income as against that of expenditure enabled the scheduled PCBs to post a higher net profits of Rs.353.3 crore during 1999-2000 as compared with that of Rs.255 crore in the previous year. The operating profits at Rs.658.9 crore recorded an increase of 25.4 per cent in 1999-2000.

3.19 As a percentage to total assets, interest income of scheduled PCBs increased marginally by five basis points to 10.61 per cent in 1999-2000 while interest expenses rose by 10 basis points to 7.49 per cent. The decline in operating expenses by five basis points (partly due to a decline in wage bill by two basis points), *inter alia*, enabled scheduled PCBs to record a marginally higher operating profits at 1.79 per cent during 1999-2000 as against 1.77 per cent during 1998-99. An eight basis point decline in provisions, however, enabled the scheduled PCBs to post a 10 basis point rise in net profits from 0.86 per cent during 1998-99 to 0.96 per cent during 1999-2000.

State Co-operative Banks

3.20 The outstanding deposits of State Co-operative Banks (StCBs) at Rs.29,475 crore as at the end of March 2000, posted a lower growth of 14.3 per cent as compared with the growth of 16.2 per cent in the previous year (Chart III.1 and Appendix Table III.1). The growth rate in their borrowings decelerated to 8.8 per cent from 14.2 per cent in the preceding year. Loans extended by the StCBs in 1999-2000 increased sharply by 15.6 per cent to Rs.34,552 crore. However, the outstanding credit of StCBs at Rs. 24,119 crore recorded a lower growth of 10.1 per cent as compared with that of 11.8 per cent recorded in the previous year. The credit-deposit ratio of StCBs declined to 81.8 per cent as at end-March 2000 from 84.9 per cent as at end-March 1999. The recovery performance of StCBs (as percentage to demand) declined from 86 per cent in June 1997 to 84 per cent in June 1998 and further

Chart III.1: Growth Rates of Deposits and Credit of State Co-operative Banks: 1996-97 to 1999-2000

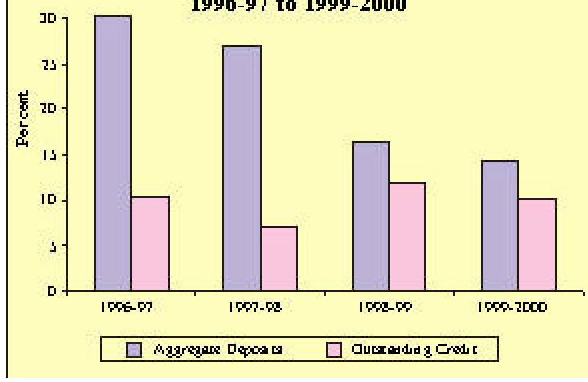

Table III.4: Financial Performance of Scheduled Primary Co-operative Banks: 1998-99 and 1999-2000

(Amount in Rs. crore)

Item			1998-99	1999-2000	Variation of Column (3) over (2)	
					Absolute	Percentage
1			2	3	4	5
A.	**Income (i+ii)**		**3,339.63** **(100.00)**	**4,162.98** **(100.00)**	**823.35**	**24.65**
	i)	Interest Income	3,128.62 (93.68)	3,893.84 (93.53)	765.22	24.46
	ii)	Other Income	211.01 (6.32)	269.14 (6.47)	58.13	27.55
B.	**Expenditure (i+ii+iii)**		**3,084.68** **(100.00)**	**3,809.71** **(100.00)**	**725.03**	**23.50**
	i)	Interest Expended	2,188.63 (70.95)	2,747.84 (72.13)	559.21	25.55
	ii)	Provisions and Contingencies	270.33 (8.76)	305.63 (8.02)	35.30	13.06
	iii)	Operating Expenses	625.72 (20.28)	756.24 (19.85)	130.52	20.86
		of which : Wage Bill	366.39 (11.88)	446.49 (11.72)	80.10	21.86
C.	**Profit**					
	i)	**Operating Profit**	**525.28**	**658.90**	**133.62**	**25.44**
	ii)	**Net Profit**	**254.95**	**353.27**	**98.32**	**38.56**
D.	**Total Assets**		**29,629.17**	**36,711.21**	**7,082.04**	**23.90**
E.	**Financial Ratios (per cent) $**					
	i)	Operating Profit	1.77	1.79	0.02	—
	ii)	Net Profit	0.86	0.96	0.10	—
	iii)	Income	11.27	11.34	0.07	—
	iv)	Interest Income	10.56	10.61	0.05	—
	v)	Other Income	0.71	0.73	0.02	—
	vi)	Expenditure	10.41	10.38	-0.03	—
	vii)	Interest Expended	7.39	7.49	0.10	—
	viii)	Operating Expenses	2.11	2.06	-0.05	—
	ix)	Wage Bill	1.24	1.22	-0.02	—
	x)	Provisions and Contingencies	0.91	0.83	-0.08	—
	xi)	Spread (Net Interest Income)	3.17	3.12	-0.05	—

Notes: 1. $ Ratios to total assets.
2. Figures in brackets are percentage shares to the respective total.

Source: Balance sheet of respective banks.

to 81 per cent in June 1999 (Appendix Table III.2). The continued deterioration in recovery performance is likely to adversely impact on the recycling of credit and on the financial health of the StCBs.

3.21 Detailed data on the components of assets and liabilities of the StCBs are available only up to 1998-99. As at the end of March 1999, share capital and reserves constituted 10.8 per cent of the total liabilities of the StCBs, while deposits and borrowings had shares of 61.8 per cent and 23.3 per cent, respectively (Table III.5). Loans and advances together with the investments formed more than 80 per cent of the assets of StCBs. During the year 1998-99, the share of loans and advances declined further from 54.1 per cent to 52.5 per cent and that of investments also declined marginally from 32.6 per cent to 31.2 per cent. Total assets with the StCBs grew by 15.2 per cent to Rs.41,731 crore as at the end of March 1999.

Table III.5: Composition of Liabilities and Assets of State Co-operative Banks: 1997-98 and 1998-99

(Amount in Rs. crore)

Item	As on March 31	
	1998	1999
1	2	3
Liabilities		
1. Capital	490.55 (1.4)	583.49 (1.4)
2. Reserves	3,439.84 (9.5)	3,942.93 (9.4)
3. Deposits	22,189.37 (61.2)	25,786.47 (61.8)
4. Borrowings	8,524.60 (23.5)	9,738.80 (23.3)
5. Other Liabilities	1,585.84 (4.4)	1,679.56 (4.0)
Total Liabilities	**36,230.20 (100.0)**	**41,731.25 (100.0)**
Assets		
1. Cash and Bank Balance	1,804.28 (5.0)	2,301.91 (5.5)
2. Investments	11,804.94 (32.6)	13,014.05 (31.2)
3. Loans and Advances	19,587.63 (54.1)	21,902.15 (52.5)
4. Other Assets	3,033.35 (8.4)	4,513.14 (10.8)
Total Assets	**36,230.20 (100.0)**	**41,731.25 (100.0)**

Note: Figures in brackets are percentages to total liabilities/assets.
Source: NABARD.

Financial Performance of StCBs

3.22 The total income of StCBs increased by 15.0 per cent to Rs.4,194 crore during the year 1998-99 as against 22.8 per cent witnessed during 1997-98 (Table III.6). Interest income accounted for 96.1 per cent of the total income. Interest and other operating expenses together grew at a much higher rate of 19.9 per cent to Rs.3,744 crore during the year. Thus, the operating profits of StCBs declined by 14.4 per cent from Rs.526 crore in 1997-98 to Rs.450 crore in 1998-99. The provisioning requirements of StCBs in 1998-99 were also much lower at Rs.554 crore as compared with Rs.655 crore in the previous year. StCBs as a group posted net losses for the second consecutive year; the net losses during 1998-99 amounted to Rs.104 crore, which was, however, lower than that of Rs.129 crore during 1997-98.

3.23 As a proportion of total assets, the total income of StCBs declined from 10.07 per cent as at end-March 1998 to 10.05 per cent as at end-March 1999. On the expenditure front, interest expenses increased by 47 basis points to 8.21 per cent during while the operating expenses declined by 10 basis points to 0.77 per cent. Thus, the operating profits declined from 1.45 per cent in 1997-98 to 1.08 per cent in 1998-99. The net profits of StCBs formed (-) 0.25 per cent of the assets in 1998-99 as compared to (-) 0.36 per cent in the previous year.

Central Co-operative Banks

3.24 Deposits constitute a major component of sources of funds of the CCBs. The total deposits of CCBs at Rs.53,319 crore as at end-March 2000 exhibited a lower rate of growth of 17.1 per cent as against 23.8 per cent during the previous year (Appendix Table III.1). The borrowings of CCBs at Rs.14,646 crore as at end-March 2000 recorded a growth of 14.7 per cent as against 10.4 per cent recorded in 1998-99. On the assets side, loans extended by CCBs declined by 1.8 per cent to Rs.39,367 crore as at end-March 2000. Loans outstanding at Rs.43,215 crore recorded a growth of 15.9 per cent during 1999-2000 as against that of 18.1 per cent in 1998-99 (Chart III.2). As per the latest available data pertaining to June 1999, the recovery performance (percentage to demand) of CCBs remained unchanged at the previous year's level of 70 per cent during 1998-99 (Appendix Table III.2).

3.25 Complete data on assets and liabilities of the CCBs are available only up to 1998-99, which indicate that as at the end of March 1999, deposits and borrowings accounted for 63.3 and 17.8 per cent, respectively, in the total liabilities of CCBs (Table III.7). Capital and reserves formed another 12.1 per cent. Loans and advances constituted 51.9 per cent of the assets. The share of investments in the total assets increased from 24.5 per cent as at the end of previous year to 28.1 per cent as at end-March 1999. Total assets with the CCBs grew at the rate of 20.7 per cent during 1998-99, as against 17.7 per cent observed in 1997-98.

Financial Performance of CCBs

3.26 There was a turnaround in the performance of CCBs during the year reflecting an improvement in income and a

Chart III.2: Growth Rates of Deposits and Credit of Central Co-operative Banks: 1996-97 to 1999-2000

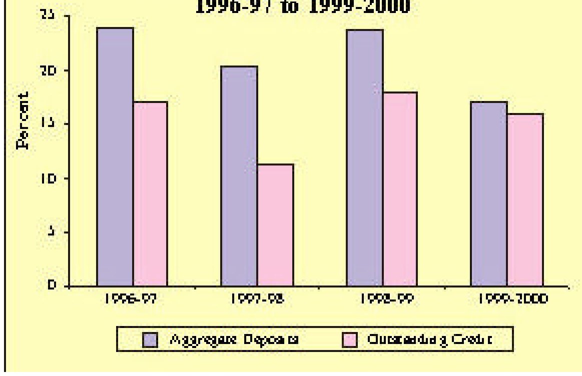

Table III.6: Financial Performance of State Co-operative Banks: 1997-98 and 1998-99

(Amount in Rs. crore)

Item			1997-98	1998-99	Variation of Column (3) over (2) Absolute	Percentage
1			2	3	4	5
A.	**Income (i+ii)**		**3,646.97 (100.00)**	**4,193.80 (100.00)**	**546.83**	**14.99**
	i)	Interest Income	3,534.20 (96.91)	4,031.42 (96.13)	497.22	14.07
	ii)	Other Income	112.77 (3.09)	162.38 (3.87)	49.61	43.99
B.	**Expenditure (i+ii+iii)**		**3,775.64 (100.00)**	**4,297.84 (100.00)**	**522.20**	**13.83**
	i)	Interest Expended	2,804.48 (74.28)	3,424.39 (79.68)	619.91	22.10
	ii)	Provisions and Contingencies	654.50 (17.33)	554.20 (12.89)	-100.30	-15.32
	iii)	Operating Expenses	316.66 (8.39)	319.25 (7.43)	2.59	0.82
		of which : Wage Bill	210.36 (5.57)	237.41 (5.52)	27.05	12.86
C.	**Profit**					
	i)	**Operating Profit**	**525.83**	**450.16**	**-75.67**	**-14.39**
	ii)	**Net Profit**	**-128.67**	**-104.04**	**24.63**	**—**
D.	**Total Assets**		**36,230.20**	**41,731.25**	**5,501.05**	**15.18**
E.	**Financial Ratios (per cent) $**					
	i)	Operating Profit	1.45	1.08	-0.37	—
	ii)	Net Profit	-0.36	-0.25	0.11	—
	iii)	Income	10.07	10.05	-0.02	—
	iv)	Interest Income	9.75	9.66	-0.09	—
	v)	Other Income	0.31	0.39	0.08	—
	vi)	Expenditure	10.42	10.30	-0.12	—
	vii)	Interest Expended	7.74	8.21	0.47	—
	viii)	Operating Expenses	0.87	0.77	-0.10	—
	ix)	Wage Bill	0.58	0.57	-0.01	—
	x)	Provisions and Contingencies	1.81	1.33	-0.48	—
	xi)	Spread (Net Interest Income)	2.01	1.45	-0.56	—

Notes: 1. $ Ratios to total assets.
2. Figures in brackets are percentage shares to the respective total.

Source: NABARD.

Table III.7: Composition of Liabilities and Assets of Central Co-operative Banks: 1997-98 and 1998-99

(Amount in Rs. crore)

Item		As on March 31	
		1998	1999
1		2	3
Liabilities			
1.	Capital	2,152.93 (3.6)	2,510.56 (3.5)
2.	Reserves	5,290.73 (8.9)	6,204.72 (8.6)
3.	Deposits	36,777.39 (61.7)	45,526.57 (63.3)
4.	Borrowings	11,574.23 (19.4)	12,772.91 (17.8)
5.	Other Liabilities	3,765.91 (6.3)	4,851.72 (6.8)
	Total Liabilities	**59,561.19** **(100.0)**	**71,866.48** **(100.0)**
Assets			
1.	Cash and Bank Balance	5,987.32 (10.1)	5,754.31 (8.0)
2.	Investments	14,583.80 (24.5)	20,204.96 (28.1)
3.	Loans and Advances	31,550.34 (53.0)	37,271.20 (51.9)
4.	Other Assets	7,439.73 (12.5)	8,636.01 (12.0)
	Total Assets	**59,561.19** **(100.0)**	**71,866.48** **(100.0)**

Note: Figures in brackets are percentages to total liabilities/assets.
Source: NABARD.

decline in provisions and contingencies. The total income of CCBs grew by 19.0 per cent to Rs.7,954 crore during the year 1998-99 as against 14.4 per cent in 1997-98 (Table III.8). Interest income accounted for 93.9 per cent of the total income. On the expenditure side, the total of interest and other operating expenses grew by 18.0 per cent to Rs.6,802 crore during the year and accounted for 86 per cent of the total expenditure. The operating profits of CCBs during 1998-99 amounted to Rs.1,152 crore and recorded a growth of 25.8 per cent. The provisioning requirements of the CCBs amounted to Rs.1,109 crore. Thus, the CCBs, as a group, posted net profits of Rs.44 crore during 1998-99 as against net losses of Rs.207 crore in the previous year.

3.27 As a proportion of total assets, the total income of CCBs decreased from 11.22 per cent during 1997-98 to 11.07 per cent during 1998-99. However, interest expenses also declined by 24 basis points to 7.28 per cent while the operating expenses went up marginally to 2.18 per cent. Thus, the CCBs were left with operating profits at 1.60 per cent of their assets

Table III.8: Financial Performance of Central Co-operative Banks: 1997-98 and 1998-99

(Amount in Rs. crore)

Item			1997-98	1998-99	Variation of Column (3) over (2): Absolute	Percentage
1			2	3	4	5
A.	**Income (i+ii)**		**6,681.53 (100.00)**	**7,954.17 (100.00)**	**1,272.64**	**19.05**
	i)	Interest Income	6,326.92 (94.69)	7,469.27 (93.90)	1,142.35	18.06
	ii)	Other Income	354.61 (5.31)	484.90 (6.10)	130.29	36.74
B.	**Expenditure (i+ii+iii)**		**6,888.60 (100.00)**	**7,910.34 (100.00)**	**1,021.74**	**14.83**
	i)	Interest Expended	4,476.71 (64.99)	5,232.05 (66.14)	755.34	16.87
	ii)	Provisions and Contingencies	1,123.15 (16.30)	1,108.64 (14.02)	-14.51	-1.29
	iii)	Operating Expenses	1,288.74 (18.71)	1,569.65 (19.84)	280.91	21.80
		of which : Wage Bill	990.61 (14.38)	1,173.92 (14.84)	183.31	18.50
C.	**Profit**					
	i)	**Operating Profit**	**916.08**	**1,152.47**	**236.39**	**25.80**
	ii)	**Net Profit**	**-207.07**	**43.83**	**250.90**	**—**
D.	**Total Assets**		**59,561.19**	**71,866.48**	**12,305.29**	**20.66**
E.	**Financial Ratios (per cent) $**					
	i)	Operating Profit	1.54	1.60	0.06	—
	ii)	Net Profit	-0.35	0.06	0.41	—
	iii)	Income	11.22	11.07	-0.15	—
	iv)	Interest Income	10.62	10.39	-0.23	—
	v)	Other Income	0.60	0.67	0.07	—
	vi)	Expenditure	11.57	11.01	-0.56	—
	vii)	Interest Expended	7.52	7.28	-0.24	—
	viii)	Operating Expenses	2.16	2.18	0.02	—
	ix)	Wage Bill	1.66	1.63	-0.03	—
	x)	Provisions and Contingencies	1.89	1.54	-0.35	—
	xi)	Spread (Net Interest Income)	3.11	3.11	0.00	—

Notes: 1. $ Ratios to total assets.
2. Figures in brackets are percentage shares to the respective total.

Source: NABARD.

in 1998-99, which were higher than that of 1.54 per cent in 1997-98. In respect of net profits, the CCBs could convert their net loss position (-0.35 per cent in 1997-98) to a marginally positive figure of 0.06 per cent in 1998-99. However, the spread remained unchanged at 3.11 per cent in 1998-99.

Primary Agricultural Credit Societies

3.28 There were around 92,450 Primary Agricultural Credit Societies (PACS) operating in the country as of end-March 1999, with the total membership of these PACS aggregating 1,016 lakh, and borrowing members at 440 lakh constituting around 43 per cent. The high level of overdues in many States has made a large number of members ineligible for fresh borrowings. Resource mobilisation continued to be a major area of weakness of the PACS. As at end-March 1998, deposits of PACS amounted to Rs.6,518 crore, representing a growth of 15 per cent over the previous year. Two States accounted for 71.3 per cent of these deposits. A majority of PACS depend on borrowings from higher financing agencies to fund their operations and have not yet been able to become self-reliant in respect of resources through deposit mobilisation, share linkage and share capital. Where the higher tier agencies themselves are weak, the PACS are starved of finance which affect their functioning. The outstanding amount of borrowings of all PACS stood at Rs.17,073 crore as at the end of March 1998. The loans issued amounted to Rs.16,081 crore, while the loans outstanding amounted to Rs.18,175 crore as at end-March 1998.

State Co-operative Agriculture and Rural Development Banks

3.29 In contrast to the short-term credit structure, the deposit resources of long-term credit institutions are meagre. With a view to strengthening the resource base of the State Co-operative Agriculture and Rural Development Banks (SCARDBs), they have been permitted to mobilise fixed deposits for terms of not less than 12 months, subject to the limit that outstanding aggregate deposits should not exceed their net owned funds as revealed in the latest balance sheet. However, the scheme has not yet taken off in many States as most of the State Governments are yet to decide about providing any guarantee to the depositors of SCARDBs. As at the end of 1999-2000, the outstanding deposits of SCARDBs increased to Rs.374 crore from Rs.240 crore as at the end of the previous year. Borrowings which constituted the major resource of SCARDBs at Rs.12,359 crore at the end of March 2000, rose by 11.4 per cent during 1999-2000 as against 13.4 per cent during 1998-99 (Appendix Table III.1). These borrowings were mainly financed by NABARD through subscription to the debentures floated by the SCARDBs.

3.30 On the assets side, the loans issued by SCARDBs during 1999-2000 at Rs.2,524 crore recorded a lower increase of 3.6 per cent than that of 6.2 per cent during the previous year. Loans outstanding at Rs.11,669 crore as at the end of March 2000 also registered a lower increase of 11.8 per cent as compared with 13.7 per cent during 1998-99.

3.31 During 1998-99, out of 19 SCARDBs, 9 SCARDBs were in profit , while 10 incurred losses. The losses partly reflected the implementation of prudential norms. The accumulated losses in SCARDBs amounted to Rs.569 crore as at end-March 1999. The recovery performance of SCARDBs (as percentage to demand) improved from 61 per cent in end-June 1998 to 62 per cent in end-June 1999.

Primary Co-operative Agriculture and Rural Development Banks

3.32 Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) are at the bottom layer of the long-term structure of co-operative credit institutions. The own resource base of these banks is weak. The resources for their operations are raised through borrowings from NABARD, NHB and other institutional investors, supplemented by owned funds comprising share capital, reserves and a small amount of deposits.

3.33 Deposits of PCARDBs rose from Rs.152 crore at the end of 1998-99 to Rs.179 crore at the end of 1999-2000 (Appendix Table III.1). Borrowings of PCARDBs as at the end of March 2000 at Rs.7,453 crore increased by 8.8 per cent as compared with an increase of 16.3 per cent during the previous year.

3.34 Loans extended by PCARDBs during 1999-2000 declined by 2.7 per cent to Rs.1,646 crore. Outstanding loans grew by 6.7 per cent to Rs.7,273 crore at the end of 1999-2000. The recovery performance of PCARDBs (as percentage to demand) improved from 55 per cent in end-June 1998 to 60 per cent in end June 1999.

2. Health Status of Rural Co-operatives

Non-Performing Assets

3.35 Asset quality is an important aspect of the evaluation of banks. Prudential norms relating to asset classification have been extended to the StCBs and CCBs since 1996-97 and to SCARDBs and PCARDBs since 1997-98. The asset classification norms for the co-operative banks have been further tightened from the year ended March 2000, in line with those for the commercial banks. The co-operative banks and RRBs are required to make a general provision on 'Standard Assets' at a minimum of 0.25 per cent of such assets, effective from 1999-2000. The asset classification and provisioning norms in respect of advances guaranteed by the State Government where guarantee has been invoked have also been introduced from April 1, 2000.

3.36 The aggregate gross NPAs of StCBs were estimated at Rs.2,748 crore and formed 12.6 per cent of their outstanding loans as at the end of March 1999 (Table III.9). This was marginally higher than the revised figure of 11.8 per cent for the year ended March 1998. Out of the 26 reporting banks, 6 banks were found to have NPAs which was less than 5 per cent of the outstanding loans and advances (Table III.10). As against this, 5 banks reported NPAs above 50 per cent of total loans and advances. The aggregate NPAs of CCBs were estimated at Rs.6,573 crore and formed 17.8 per cent of their outstanding loans as at the end of March 1999 which showed a marginal improvement from 18.1 per cent at end-March 1998. The share of NPAs (in total advances) of SCARDBs and PCARDBs were estimated at 19.4 and 16.8 per cent, respectively, during 1997-98. These figures declined marginally in the subsequent year. The total NPAs of SCARDBs as on March 31, 1999 was estimated at Rs.1,977 crore and constituted 19.2 per cent of their outstanding loans. Similarly, the aggregate NPAs of PCARDBs at Rs.784 crore formed 16.1 per cent of their outstanding loans as at the end of March 1999.

Capital Adequacy

3.37 At present, the co-operative banks are not subjected to any minimum capital adequacy norm. However, taking into account the initial stipulation of 8 per cent capital adequacy ratio for the commercial banks, it was observed that as on March 31, 1999, 135 of the 367 CCBs had CRAR of 8 per cent and more, while 116 CCBs had negative CRAR and the remaining 116 CCBs had CRAR ranging 0-8 per cent.

Table III.9: Composition of Gross NPAs (As on March 31, 1999)

(Amount in Rs. crore)

Item	StCBs	CCBs	SCARDBs	PCARDBs
1	2	3	4	5
Substandard Assets	1,445	3,360	1,097	441
Doubtful Assets	1,221	2,376	866	322
Loss Assets	82	837	14	21
Total NPAs	2,748	6,573	1,977	784
Percentage of NPAs to loans outstanding	12.6	17.8	19.2	16.1

Source: NABARD.

Table III.10: Frequency Distribution of Co-operative Banks According to Levels of Gross NPAs* (As on March 31, 1999)

Percentage of NPAs to Outstanding Loans and Advances	Bank-Group		
	StCBs	CCBs	SCARDBs
1	2	3	4
0 – 5	6 (23)	45 (12)	2 (17)
5 – 10	4 (15)	44 (12)	—
10 – 15	2 (8)	53 (15)	—
15 – 20	4 (15)	53 (15)	2 (17)
20 – 25	1 (4)	32 (9)	1 (8)
25 – 50	4 (15)	81 (22)	5 (41)
Above 50	5 (20)	54 (15)	2 (17)
Total number of reporting banks	26 (100)	362 (100)	12 (100)
Total number of banks	29	367	19

Notes : 1. * Corresponding figures for PCARDBs are not available.
2. Figures in brackets represent percentage to total number of reporting banks.

Source : NABARD.

Compliance with Sec.11(1) of B.R. Act, 1949 (AACS) - Position as on March 31, 2000

3.38 In terms of Section 11(1) of B.R. Act, 1949 (AACS), CCBs and non-scheduled StCBs should have minimum share capital of Rs.1 lakh each. The number of banks not complying with this provision has increased, especially after the introduction of prudential norms. As on March 31, 2000, 137 CCBs and 5 non-scheduled StCBs (all in the North-Eastern Region) defaulted in complying with the above provision. In respect of most of such banks, the erosion in the value of their assets was larger than their owned funds. To address this issue, NABARD impressed upon the respective State Governments to initiate measures like augmenting the share capital base of these banks, helping these banks in their recovery efforts, etc.

3. NABARD and its Role in Rural Credit

3.39 The National Bank for Agriculture and Rural Development (NABARD), established in 1982, plays a crucial role in meeting the credit requirements of the rural economy. An important aspect of NABARD's functioning is the provision of refinancing facility to the rural financial institutions to augment their resource base.

Resources Mobilised by NABARD

3.40 The flow (net) of resources to NABARD during 1999-2000 amounted to Rs.4,381 crore as against Rs.3,778 crore in the previous year (Table III.11). A substantial portion of this accretion was on account of RIDF deposits (Rs.1,818 crore). Contribution to NRC (LTO) fund from the surplus generated out of their operations during the year was also high at Rs.1,021 crore (while accretion to reserves and surplus amounted to Rs.128 crore). Market borrowings through the issue of bonds and debentures were higher by 93.2 per cent at Rs.508 crore in 1999-2000 as compared with

Table III.11: Net Accretion to the Resources of NABARD (April-March)

(Rs. crore)

Sr. No.	Type of Resource	1998-99	1999-2000
1	2	3	4
1.	Capital @	500	-
2.	Reserves and Surplus	89	128
3.	NRC (LTO) Fund	833	1,021
4.	NRC (Stabilisation) Fund	101	151
5.	Deposits	92	40
6.	Bonds and Debentures	263	508
7.	Borrowings from Central Government	-56	-86
8.	Borrowings from RBI		
	a) General Line of Credit	678	235
	b) ARDR Scheme 1990	-46	—
9.	Foreign Currency Loans	34	-18
10.	Term Money Borrowings	-	203
11.	RIDF Deposits	1,209	1,818
12.	Other Liabilities	81	381
	Total	**3,778**	**4,381**

Note : @ Advances towards capital.

Source : NABARD.

Rs.263 crore in 1998-99. Term money borrowings from financial institutions amounted to Rs.203 crore as at end-March 2000 as against total absence of such borrowings a year ago. Deposits with NABARD, mostly from tea companies and private sector commercial banks on account of shortfall in their priority sector lending target, increased by Rs.40 crore in 1999-2000 as against a rise of Rs.92 crore during 1998-99. Borrowings from the Central Government declined further by Rs.86 crore in 1999-2000 on top of a decline of Rs.56 crore in the previous year. Drawals under the General Line of Credit from the Reserve Bank, however, increased further by Rs.235 crore in 1999-2000 over and above a rise of Rs.678 crore in 1998-99.

Refinance from NABARD

3.41 The outstanding refinance from NABARD by StCBs, RRBs and State Governments decreased by 2 per cent from Rs.6,279 crore as at end-June 1999 to Rs.6,151 crore as at end-June 2000, mainly due to decrease in outstanding credit to RRBs from Rs.1,237 crore to Rs.1,150 crore in the above period. Outstanding credit to State Governments increased from Rs.499 crore in end-June 1999 to Rs.508 crore as at end-June 2000 (Table III.12). A major part of this outstanding refinance was for short-term (ST) purposes (Rs.5,226 crore or 85 per cent). Of the ST credit limit of Rs.6,962 crore sanctioned to the StCBs, ST credit limits for seasonal agricultural operations (SAO) aggregated Rs.6,095 crore. Similarly, of Rs.1,203 crore credit limit sanctioned to RRBs for ST purposes, SAO accounted for Rs.1,009 crore. Refinance availment by the banks in the North Eastern Region continued to be low despite certain relaxation in respect of refinance support to co-operative banks in that region extended by NABARD. NABARD sanctioned long-term loans to 13 State governments aggregating Rs.91 crore for contribution to the share capital of co-operative credit institutions.

Rural Infrastructure Development Fund

3.42 RIDF-I was established in 1995-96 with a corpus of Rs.2,000 crore with the major objective of providing funds to State Governments and State owned corporations to enable them to complete various types of rural infrastructure projects. This development scheme was continued in the subsequent years as RIDF-II in 1996-97 (Rs.2,500 crore), RIDF-III in 1997-98 (Rs.2,500 crore), RIDF-IV in 1998-99 (Rs.3,000 crore) and RIDF-V in 1999-2000 (Rs.3,500 crore). Under RIDF-V the scope of the scheme was widened so as to provide loans to Gram Panchayats, Self-Help Groups and other eligible organisations for implementing village level infrastructure projects. The Union Budget 2000-2001 announced the introduction of RIDF-VI with a corpus of Rs.4,500 crore. Out of this, a sum of Rs.500 crore has been earmarked for assistance to North-Eastern States and Sikkim and Rs.500 crore for financing through Panchayat Raj Institutions, Self-Help Groups, Non-Government Organisations, etc.

3.43 The corpus of RIDF is contributed by the scheduled commercial banks to the extent of the shortfall in their priority sector lending targets. The amount mobilised under the various RIDF schemes increased from Rs.3,737.29 crore as at end-March 1999 to Rs.6,043.92 crore as at end-March 2000 (Table III.13). The cumulative sanctions and disbursements of loans under RIDF increased to Rs.13,933.08 crore and Rs.6,074.44 crore, respectively, as at end-March 2000, from Rs.10,269.68 crore and Rs.3,796.89 crore, respectively as at end-March 1999. The progress of sanctions and disbursement under various RIDF tranches are given in Table III.14.

3.44 The proportion of disbursements in

Table III.12: NABARD's Credit to State Co-operative Banks, State Governments and Regional Rural Banks: 1998-99 and 1999-2000 (July-June)

(Amount in Rs. crore)

Category	1998-99				1999-2000			
	Limits	Drawals	Repay-ments	Out-standings	Limits	Drawals	Repay-ments	Out-standings
1	2	3	4	5	6	7	8	9
1. State Co-operative Banks								
a. Short-term	6,845.18	7,639.78	6,991.10	4,055.22	6,962.16 (1.7)	7,938.51 (3.9)	7,852.68 (12.3)	4,141.05 (2.1)
b. Medium-term	430.12	349.92	128.98	487.75	193.92 (-54.9)	52.15 (-85.1)	188.31 (46.0)	351.59 (-27.9)
Total (a+b)	7,275.30	7,989.70	7,120.08	4,542.97	7,156.08 (-1.6)	7,990.66 (0.0)	8,040.99 (12.9)	4,492.64 (-1.1)
2. State Governments								
a. Long-term	65.33	40.84	56.52	499.28	91.07 (39.4)	48.78 (19.4)	40.16 (-28.9)	507.90 (1.7)
3. Regional Rural Banks								
a. Short-term	1,238.11	1,161.93	978.02	1,136.48	1,202.95 (-2.8)	1,097.97 (-5.5)	1,149.17 (17.5)	1,085.28 (-4.5)
b. Medium-term	47.64	43.44	43.11	100.67	7.53 (-84.2)	5.58 (-87.2)	41.23 (-4.4)	65.02 (-35.4)
Total (a+b)	1,285.75	1,205.37	1,021.13	1,237.15	1,210.48 (-5.9)	1,103.55 (-8.4)	1,190.40 (16.6)	1,150.30 (-7.0)
Grand Total (1+2+3)	**8,626.38**	**9,235.91**	**8,197.73**	**6,279.40**	**8,457.63 (-2.0)**	**9,142.99 (-1.0)**	**9,271.55 (13.1)**	**6,150.84 (-2.0)**

Note : Figures in brackets are percentage changes over previous year.
Source : NABARD.

relation to sanctions increased from 37.0 per cent as at end-March 1999 to 43.6 per cent as at end-March 2000. The utilisation ratio (amount disbursed as a proportion of amount phased up to end-March 2000) stood at 59.4 per cent as at end-March 2000. The low level of utilisation of funds was mainly due to inadequate budget of the State Governments affecting timely flow of funds to the implementing departments, delays in completion of formalities relating to drawal of funds, and also delays in completion of preliminary work in respect of irrigation projects which involves land acquisition formalities, obtaining environmental clearance from the Central Government, tendering procedures, etc. In order to speed up disbursal from RIDF funds, a High Power Committee

Table III.13: Deposits Mobilised under RIDF

(Rs. crore)

Year	RIDF-I	RIDF-II	RIDF-III	RIDF-IV	RIDF-V	Total
1	2	3	4	5	6	7
1995-96	350.00	-	-	-	-	350.00
1996-97	842.30	200.00	-	-	-	1,042.30
1997-98	187.64	670.00	149.40	-	-	1,007.04
1998-99	139.95	500.00	498.00	200.00	-	1,337.95
1999-2000	66.67	538.55	796.80	604.61	300.00	2,306.63
Total	**1,586.56**	**1,908.55**	**1,444.20**	**804.61**	**300.00**	**6,043.92**

Source: NABARD.

Table III.14: RIDF Loans Sanctioned and Disbursed (end-March 2000)

(Rs. crore)

RIDF	Corpus	Amount Sanctioned	Amount Phased up to 31.03. 2000	Amount Disbursed
1	2	3	4	5
I	2,000	1,891.71	1,891.71	1,691.47
II	2,500	2,601.03	2,601.03	1,876.91
III	2,500	2,671.28	2,671.28	1,412.48
IV	3,000	3,118.29	2,162.44	675.55
V	3,500	3,650.77	898.91	418.03
Total	**13,500**	**13,933.08**	**10,225.37**	**6,074.44**

Source: NABARD.

has been constituted in each State, under the chairmanship of Chief Secretary/Development Commissioner of the State.

3.45 The repayment period of loans given to the State Governments was extended from five to seven years under RIDF-V and RIDF-VI. Further, the rate of interest on lending to State Governments was reduced by 0.5 percentage point to 11.5 per cent under RIDF-VI. A more detailed account of State-wise financial assistance provided under RIDF I-V till end-March 2000 is presented in Appendix Table III.3.

3.46 Loans under RIDF are given for various purposes like irrigation projects, watershed management, construction of rural roads and bridges, etc. Purpose-wise details of the amount sanctioned under various RIDF schemes are given in Table III.15. It may be observed that while in the initial tranches of the scheme, the accent was on sanctioning loans for various irrigation projects, in the later stage, construction of rural roads and bridges claimed the major portion of the fund. Irrigation projects accounted for as much as 43 per cent of the total amount. Of the total amount sanctioned under RIDF schemes as at end-March 2000, construction of rural roads and rural bridges accounted for about 38 per cent and 14 per cent, respectively.

Policy Initiatives by NABARD

3.47 During 1999-2000, NABARD oriented its policy initiatives to further augment the flow of credit to the rural sector by implementing the Kisan Credit Card Scheme and worked as a catalyst in linking SHGs to the banking system. As a part of the follow-up of the recommendations of the Expert Committee to Review the Supervisory Role of NABARD (Chairman: Shri U.K.Sharma), NABARD set up a Board of Supervision in November 1999 for supervision of StCBs, CCBs and RRBs. NABARD replaced the Credit Authorisation Scheme (CAS) with Credit Monitoring Arrangement (CMA), effective 2000-2001, to provide more freedom to the co-operative banks.

3.48 As per the extant guidelines from NABARD, banks/NGOs were required to charge an interest rate of 12 per cent per annum for their lendings to SHGs under 'SHG-bank linkage programme'. Effective June 1, 1999, these rates were freed and left to the discretion of concerned banks. Similarly, the rate of interest on bank loans to NGOs was also freed from the previous stipulation of 10.5 per cent per annum from the above date.

Kisan Credit Card Scheme

3.49 NABARD accelerated the pace of issue of Kisan Credit Cards (KCCs) by the co-operative banks and RRBs, initiated during the previous year. With the issue of 37.69 lakh KCCs involving credit limit of Rs.4,011.06 crore during 1999-2000, 39.30 lakh cards involving an aggregate credit limit of Rs.4,847.83 crore were issued as at end-March 2000. Further, 27 PSBs issued 13.7 lakh cards during 1999-2000 as against the target of 20 lakh cards fixed for the entire year. The Union Budget 2000-2001 has announced a target of an additional 75 lakh KCCs for 2000-2001 by the banking system comprising all co-operative banks, RRBs and commercial banks. The loans disbursed under KCC scheme were also brought under the Rashtriya Krishi Bima Yojna of the General Insurance Corporation.

Interest rates on Term-loan Refinance

3.50 The interest rates on term loan refinance (other than for minor irrigation) were reduced during 1999-2000 and 2000-01 so far, in the context of the reduction of the Bank Rate and consequent reduction in the PLR of commercial banks and financial institutions. The interest rate on term-loan refinance for loan size of over

Table III.15: Purpose-wise Amount Sanctioned under RIDF (end-March 2000)

(Amount in Rs. crore)

Purpose	RIDF-I	RIDF-II	RIDF-III	RIDF-IV	RIDF-V	Total	Percentage Share
1	2	3	4	5	6	7	8
Irrigation	1,777.06	1,234.22	940.55	925.00	1,077.21	5,954.04	42.7
Rural Bridges	24.82	369.88	385.09	548.84	575.81	1,904.44	13.7
Rural Roads	3.39	888.33	1,203.80	1,443.11	1,791.25	5,329.89	38.3
Others@	86.44	108.60	141.83	201.34	206.50	744.71	5.3
Total	**1,891.71**	**2,601.03**	**2,671.28**	**3,118.29**	**3,650.77**	**13,933.08**	**100.0**

Note : @ Other purposes include: Watershed Management, Flood Protection, Rural Market Yards, CADA, Drainage, Cold Storage, Fisheries, Forest Development, Inland Waterways, Primary Schools, Rubber Plantation, Public Health, Farms and Rural Drinking Water.

Rs.2 lakh in respect of StCBs/SCARDBs and RRBs was reduced by 0.5 percentage point to 11 per cent per annum on May 3, 1999 and further to 10.5 per cent, effective May 1, 2000. Further, the interest rate on term-loan refinance to scheduled commercial banks (SCBs) for loans exceeding Rs.2 lakh was reduced in two stages from a minimum of 11.5 per cent to a fixed rate of 10.5 per cent, effective May 1, 2000 (Table III.16).

3.51 The interest rate on refinance for minor irrigation investment was kept unchanged at 6.5 per cent for loans up to Rs.25,000 and 8.5 per cent for loans above Rs.25,000 in respect of RRBs, StCBs and SCARDBs. A uniform rate of 8.5 per cent, irrespective of loan size, is charged to the commercial banks.

3.52 The rates of interest on the short-term refinance to StCBs/CCBs and RRBs for SAO were revised upwards, effective October 1, 1999 in line with the upward revision of 1.5 percentage points in interest rates effected by the Reserve Bank from the same date on GLC I, which is the source for the NABARD for its short-term refinance support to co-operatives and RRBs.

Short-term Seasonal Agricultural Operations

3.53 The NABARD's refinance policy on short-term SAO for co-operative banks and RRBs for 1999-2000 laid emphasis on augmentation of the ground level credit flow through the adoption of region-specific strategies and rationalisation of the lending policies and procedures. To enable the CCBs to augment their lending to agriculture through increased efforts at recycling of funds, NABARD raised the minimum recovery norm for the banks by 5 percentage points and correspondingly reduced the permissible level of NPAs by 5 percentage points, whichever was beneficial to the bank concerned.

3.54 The policy of sanctioning special line of credit at concessional rates of interest for exclusively financing the tribals and with relaxation of norms relating to ceiling on credit was continued. The existing concessions in the rate of interest, reduced minimum involvement

Table III.16: NABARD's Interest Rate Structure on Term-loan Refinance

(Per cent per annum)

Size of Loan/Limit	Rates Effective from		
	Sept. 14, 1999	April 1, 2000	May 1, 2000
1	2	3	4
A. StCBs/SCBs/SCARDBs			
(i) Upto Rs. 25,000	6.5	7.5	7.0
(ii) Over Rs. 25,000 and upto Rs. 2 lakh	9.0	9.0	9.0
(iii) Over Rs. 2 lakh	11.0	11.0	10.5
B. Commercial Banks			
(i) Upto Rs. 25,000	8.5	8.5	8.5
(ii) Over Rs. 25,000 and upto Rs. 2 lakh	10.0	10.0	9.5
(iii) Over Rs. 2 lakh	11.0	11.0	10.5

Source : NABARD.

level, non-insistence on minimum recovery norms, etc., which were applicable for short-term SAO in the North-Eastern Region, were extended to the Sikkim StCB during 1999-2000. NABARD announced a special package of relief measures for Orissa in the aftermath of the severe cyclone that hit the State during the year. The Reserve Bank provided to the NABARD an additional General Line of Credit limit of Rs.400 crore for meeting the short-term refinance requirements of StCBs/CCBs and RRBs in Orissa.

Micro Finance Innovations

3.55 NABARD has been working as a catalyst in promoting and linking more and more SHGs to the banking system. In addition, awareness creation on SHGs, implementing special programmes and formulating appropriate development policies were other policy measures adopted by NABARD.

3.56 During the year 1999-2000, 81,780 additional SHGs were credit-linked to the banks, which far exceeded the target of 50,000 SHGs envisaged in the Union Budget 1999-2000. The cumulative number of SHGs credit-linked to banks and refinanced by NABARD aggregated, 1,14,775 and 94,645 respectively, as at end-March 2000.

3.57 The significant increase in the number of SHGs linked during the year was rendered possible because of the active involvement of 718 NGOs, 266 banks and many other agencies, including developmental agencies of different State Governments. This was further facilitated by the Reserve Bank guidelines in February 2000 bringing micro credit on par with other vital segments of bank credit and reckoning it as priority sector lending. Out of the 40 commercial banks which provided credit to SHGs, 13 were private sector banks. The credit-linking programme covered 362 districts in 24 States and Union Territories. A notable feature of the same was that more than 85 per cent of the groups formed were exclusively of women members. The repayment of bank loans issued to the SHGs was above 95 per cent of total loans issued during 1999-2000.

3.58 NABARD continued to provide 100 per cent refinance assistance to banks at an interest rate of 6.5 per cent per annum for financing SHGs. During the year, Rs.135.91 crore was disbursed to SHGs by various banking institutions. NABARD’s refinance support was to the tune of Rs.98.07 crore. Cumulatively till March 31, 2000, the bank loans disbursed to the SHGs aggregated Rs.192.98 crore while NABARD’s refinance availed of by the banks aggregated Rs.150.13 crore. (Table III.17).

3.59 NABARD has also been providing grant on a selective basis for capacity building of NGOs. Such assistance supplemented own resources of these NGOs for taking up credit linking activities as also for training of SHG members. NABARD sanctioned grant assistance of Rs.98.19 lakh to 40 such NGOs during 1999-2000. With this, the cumulative grant assistance sanctioned till March 31, 2000 for promotion and linkage of SHGs aggregated to Rs.2.48 crore, covering 72 NGOs and 16,911 SHGs. Additionally, NABARD continued to provide financial and other types of support for training of bank staff, NGOs and government agencies engaged in the field of micro-finance.

Credit Monitoring Arrangement

3.60 With a view to providing co-operative banks with more freedom and discretion to operate in an increasingly liberalized and competitive banking environment, NABARD, in consultation with the Reserve Bank, decided to replace the Credit Authorisation Scheme (CAS) with the Credit Monitoring Arrangement (CMA) with effect from the year 2000-2001. The banks

Table III.17: Cumulative Progress in SHGs Linkage Programme (up to March 31, 2000)

(Amount in Rs. crore)

Year	No. of SHGs linked	Bank loan	Refinance Assistance
1	2	3	4
1992-93	255	0.29	0.27
1993-94	620	0.65	0.46
1994-95	2,122	2.44	2.13
1995-96	4,757	6.06	5.66
1996-97	8,598	11.84	10.65
1997-98	14,317	23.76	21.39
1998-99	32,995	57.07	52.06
1999-2000	94,645	192.98	150.13

Source : NABARD.

will, however, have to follow prudence and exposure norms and have to satisfy themselves about the technical feasibility and financial viability of the proposals, credit-worthiness of borrowers, risk management, margin, security requirements, etc.

Refinance under Swarnajayanti Gram Swarozgar Yojana

3.61 NABARD had issued operational instructions to RRBs and co-operative banks with regard to implementation of Swarnajayanti Gram Swarozgar Yojana (SGSY) on similar lines as was issued by the Reserve Bank for commercial banks. Policy guidelines for refinance support under SGSY were also issued to all financing banks. Banks have been, *inter alia*, advised to evolve suitable norms for grading of SGSY groups at different stages of financing on the illustrative parameters indicated by NABARD.

Co-operative Development Fund

3.62 The Co-operative Development Fund (CDF) was set up by NABARD in 1993 with the objective of strengthening the co-operative credit institutions in the areas of organisational structure, human resource development, resource mobilisation, recovery position etc. The assistance is provided to StCBs/ SCARDBs/CCBs/PCARDBs by way of a grant or a soft loan or both. The soft loan is given at a maximum interest rate of 3 per cent. The utilization of resources available under the CDF was higher during the year 1999-2000. Cumulative grants/soft loan assistance amounting to Rs.33.63 crore was sanctioned from CDF as at the end of March 2000 for various purposes, while the disbursals amounted to Rs.24.00 crore.

Supervision

3.63 The performance of the co-operative banking sector has been a cause of concern in recent years in the context of financial sector reforms. Financial and managerial weaknesses of co-operatives have been in evidence. It has been, therefore, felt essential to extend the essential spirit of the regulatory and supervisory measures adopted for the commercial banks to the co-operative banks as well, with necessary adaptations to suit the circumstances in which co-operative banks operate (Box III.1).

4. Issues

3.64 The Central Government and other concerned authorities including the Reserve

Box III.1: Supervision of Rural Co-operative Banks

The co-operative banking system is an important segment of the banking sector in India, characterised by a relatively comprehensive network extending to the grassroots level. What distinguishes the co-operative banking sector from the commercial banking sector is the focus of the former on the local population and micro-banking among middle and low income strata of the society. Further, the element of heterogeneity and the large number of such banks vis-à-vis the commercial banking sector raises important supervisory issues. As compared to the 298 scheduled commercial banks, inclusive of RRBs, there were 2050 PCBs in the urban co-operative sector and over 90,000 primary agricultural credit societies (PACS) in the rural co-operative sector as on March 31, 2000.

As regards rural co-operative banks, NABARD is responsible for conducting inspections of StCBs and CCBs. Besides, NABARD has also been conducting periodic inspection of state level institutions like the SCARDBs on a voluntary basis. The Narasimham Committee (1998) suggested that all its recommendations relating to the regulation and supervision of commercial banks were to be adopted *mutatis mutandis* by NABARD after taking into account the special characteristics of the rural credit institutions under its supervisory jurisdiction. The Committee, however, noted that NABARD's supervisory and regulatory responsibilities should be ultimately vested with the proposed Board for Financial Regulation and Supervision.

While advocating the adoption of the CAMELS approach to the co-operative banks, the Expert Committee to Review the Supervisory Role of NABARD (Chairman: Shri U.K.Sharma) had emphasised the need for adoption of timely and adequate compliance to inspection reports as a criterion for judging the performance of banks. Accordingly, it recommended the CAMELSC (Capital Adequacy, Asset Quality, Management, Earning Capacity, Liquidity, Systems and Controls and Compliance) approach. Some of the recommendations which have already been implemented are: revisions of guidelines for on-site supervision of co-operative banks/RRBs, introduction of an Off-site Surveillance System for continuous monitoring, supplementary appraisals to complement the on-site inspections, setting up of the Board of Supervision in NABARD (for StCBs, CCBs and RRBs). Recommendation on extending capital adequacy norms to co-operative banks and RRBs are being examined in consultation with the Reserve Bank. To supplement the on-site inspection of these banks, the Expert Committee also recommended the introduction of certain additional instruments like systems study, portfolio inspection, commissioned audit and monitoring visits. Necessary guidelines have been developed to undertake such supplementary appraisals. As regards the recommendation relating to constitution of state level audit committees to bring about improvement in the quality and content of the audit, NABARD is pursuing the matter with the State Governments. Further, to make the system of supervision meaningful and effective, NABARD is laying necessary emphasis on the timely and adequate compliance of the inspection findings by the institutions concerned.

The Board of Supervision, set up in NABARD in November 1999 as an Internal Committee of the Board of Directors, is entrusted with, *inter alia*, the work of framing policy guidelines on matters relating to supervision and inspection, reviewing the inspection findings on co-operative banks and RRBs, and suggesting appropriate measures, identifying the emerging issues in the functioning of these co-operative banks and suggesting measures for strengthening the supervisory system in NABARD. The Board also decided to meet frequently to review the working of banks especially those whose owned funds have been eroded due to high level of accumulated losses, provision for NPAs, etc. With a view to giving special focus on the co-operative banking structure in individual states, the Board of Supervision has decided to make a state-wise review of the working of the co-operative banks for identifying the State's specific problems and taking up the matter with the concerned State Governments.

As per the recommendations of the Expert Committee, the on-site inspections of StCBs and SCARDBs hitherto carried out by the Head Office of the Department of Supervision, are being

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decentralised in a phased manner. In the first phase, the inspection of five StCBs and SCARDBs that were due in 1999-2000, was entrusted to the respective Regional Offices. During 1999-2000, in all 283 banks (14 StCBs, 4 SCARDBs, 175 CCBs 90 RRBs) and 2 apex institutions were inspected by NABARD. Major deficiencies observed related to high level of loan delinquencies, lack of operational flexibility and autonomy, non-viability, etc. Poor resource base, high transaction cost, inefficient loan appraisal procedures and poor loan supervision, inadequate internal corrective mechanism, excessive bureaucratization, etc. have contributed to the deteriorating financial health of co-operative banks.

In one area, where most of the co-operative banks are found to be deficient is in respect of internal control system. Thus, NABARD has laid special emphasis on strengthening the internal control systems in banks, particularly the inspection of branches and affiliates and on effecting reconciliation of long pending entries and balancing of books. The banks have also been advised to introduce/update operational manuals for improving the internal checks and control systems. Exhaustive guidelines have been provided by NABARD to the co-operative banks and RRBs on proper record maintenance. As internal audit and external audit are interrelated, bank managements were advised to strengthen their audit systems. To facilitate this, NABARD has been organising the conference of Chief Co-operative Audit officers of the State Governments every year. The conference discusses arrangements for audit of co-operative credit institutions, measures needed for improving the audit systems and strategies for ensuring compliance to audit findings.

Bank and NABARD are making continuous efforts to identify major issues having a bearing on the performance and strength of the co-operative sector. To facilitate this, a number of expert groups have been appointed to identify the issues / problems and suggest measures for ensuring financial soundness of this sector as well as to ensure that these institutions meet the desired objectives.

Urban Co-operative Banking System

High Power Committee on Urban Co-operative Banks

3.65 Since the submission of Marathe Committee report in May 1992, which reviewed the licensing policy of the Reserve Bank in regard to new PCBs and related issues, various developments have taken place in the financial sector, which impacted on the PCBs as well. In order to make a comprehensive review of activities and regulatory framework pertaining to PCBs, a High Power Committee was constituted by the Reserve Bank in May 1999 (Chairman: Shri K.Madhava Rao), to focus on the following issues: (i) to evolve objective criteria to determine the need and potential for organising urban co-operative banks; review the existing entry point norms and examine the relevance of special dispensation for less/least developed areas; (ii) to review the existing policy pertaining to branch licensing and area of operation of urban co-operative banks; (iii) to consider measures for determining the future set up of weak/ unlicensed banks; (iv) to examine the feasibility of introducing capital adequacy norms for urban co-operative banks; (v) to examine the need for conversion of co-operative credit societies into primary co-operative banks; and (vi) to suggest necessary legislative amendments to B. R. Act and Co-operative Societies Acts of various states for strengthening the urban banking movement.

3.66 The Committee submitted its report in November 1999 in which very useful recommendations have been made with regard to revision of licensing policy for new PCBs, branch licensing policy, extension of areas of operation, dealing with unlicensed and weak

PCBs, application of capital adequacy norms, conversion of co-operative societies into PCBs and reforms in State Co-operative Societies Acts, Multi-State Co-operative Societies Act and B.R.Act (Box III.2). The recommendations were aimed at: (a) reducing systemic risks to the financial system; (b) putting in place strong regulatory norms at the entry level so as to sustain and improve the operational efficiency of urban co-operative banks in a competitive environment; (c) evolving measures to strengthen the existing structure, particularly in the context of ever increasing number of weak banks; and (d) aligning the PCB sector with the other segments of the banking sector in the context of application of prudential norms and removing the irritants of dual control regime. The recommendations of the Committee are under examination of the Reserve Bank.

Box III.2: Recommendations of the High Power Committee on Urban Co-operative Banks

The major recommendations of the High Power Committee on Urban Co-operation Banks are as under:

Licensing Policy of New UCBs: The regulator should prescribe the twin criteria for entry i.e. a strong start-up capital and requisite norms for promoters' eligibility. The existing quantitative criteria for viability standards should be replaced by qualitative norms like CRAR, tolerance limit of NPAs and operational efficiency. The Committee prescribed five grades (depending on population size of centre) of entry point norms (EPN) based on centre-wise capital and membership.

Corporate Governance: At least two directors with suitable banking experience or relevant professional background should be present on the Boards of UCBs and the promoters should not be defaulters to any financial institution or banks and should not have any association with chit fund/NBFC/co-operative bank or commercial bank in the capacity of Director on the Board of Directors.

Branch Licensing Policy and Area of Operation: The Reserve Bank should extend to the UCBs the same freedom and discipline as is applicable to commercial banks in opening branches, if an UCB complies with the broad norms relating to capital adequacy, provisioning, net NPAs, profitability and priority sector advances. Further, it should not be in default of any of the provisions of the B.R. Act or RBI Act or Directives issued by the Reserve Bank. Every UCB must submit to the Reserve Bank an Annual Action Plan (AAP). Scheduled UCBs which satisfy the eligibility criteria would be given freedom to open new branches under the AAP. Non-scheduled UCBs should continue to obtain prior approval of the Reserve Bank after complying with the eligibility criteria.

Extension of Area of Operation: New UCBs can extend their area of operation to the entire district of their registration and adjoining districts. When the UCB desires to open a branch in a district in a State other than the district in which it is registered, it must have a net worth which is not less than the EPN prescribed for the highest category centre in that State. If an UCB desires to open a branch in a State other than the State in which it is registered, it must have a net worth of not less than Rs.50 crore.

Policy on Unlicensed Banks: Under the provisions of Section 5 (ccv) of B.R. Act, a primary credit society with paid-up capital and reserves of Rs.1 lakh and with main objective of carrying on banking business, automatically secures status of an urban bank. The Committee, therefore, recommended amendment to the Act so as to prevent such automatic transformation of primary credit societies into UCBs. The Committee also recommended that the license should be given to a bank if it (a) attains minimum level of CRAR prescribed by the regulator; (b) has net NPAs not in excess of 10 per cent; (c) has made profits during each of the last 3 years; and (d) has complied with the statutory framework of B.R.Act/Directive issued by the Reserve Bank.

Policy on Weak/Sick Banks: Separate objective criteria - based on CRAR, net NPA and history of losses - have been recommended for identification of weak and sick banks.

Application of CRAR to UCBs: UCBs should be subject to CRAR discipline in a phased manner with initially lower CRAR norms prescribed for non-scheduled UCBs as compared to scheduled UCBs. The committee has recommended uniform CRAR as applicable to commercial banks for scheduled UCBs

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and 9 per cent in case of non-scheduled UCBs by end-March 2003.

Conversion of Co-operative Credit Societies into UCBs: Such of the credit societies whose net worth is not less than the entry point capital prescribed for new banks in that given centre, which have been posting profits during each of the last 3 years, which have earned "A" audit rating and whose methods of operation are not detrimental to the interests of the depositors, may be allowed to convert themselves into UCBs.

Legislative Reforms in Central and States Statutes: The application of certain provisions of B.R. Act, 1949 to UCBs in 1966 initiated a regime of dual control resulting in the absence of clear cut demarcation between the functions of the State Governments and the Reserve Bank. Hence, the State Government Acts should be so amended as to categorise the banking related functions and the functions of the State Governments separately. Accordingly, Multi-State Co-operative Societies Act, 1984, State Co-operative Societies Acts and Banking Regulation Act should be amended.

Information Lacunae

3.67 Another issue of concern regarding UCBs is the non-availability of comprehensive and up-to-date information on account of delay and non-submission of returns within the stipulated time-frame. In particular, PCBs are required to submit two types of returns (statutory returns and control returns) to the Reserve Bank with a view to exercising supervision and control over them. Unfortunately, there is often a serious delay/ non-submission of these returns by individual banks, in spite of the stringent penal provisions in existence for non-submission of returns.

Rural Co-operative Banking System

Revitalisation of Rural Co-operative Banks

3.68 Co-operative credit institutions play a significant role in the deployment of credit for agriculture and rural sector and account for 45 per cent of the total credit for the rural sector. These institutions, however, lack professionalism, sound management system and autonomy in decision making. Low volume of business/low resource base, low borrowing membership, high incidence of overdues, and dual control have adversely affected the health of co-operative credit institutions. In addition, poor recovery performance has affected the ability of these institutions to cater to the credit needs of new and non-defaulting members and resulted in low paid-up share capital. The vital link in the short-term co-operative credit system *viz.*, the PACS at the grassroots level is weak. Their size is small and uneconomical and many of them are dormant. Co-operatives need to augment their resource base, especially the capital base and pay greater attention to specialisation and diversification of loan business, non-fund business, efficient financial intermediation, risk management and reduction in NPAs. In recognition of the importance of co-operative banks in the development process of the rural economy and the need for its revitalisation so as to make them efficient and cost effective instruments for delivery of rural credit, a Task Force (Chairman: Shri Jagdish Capoor) was constituted in April 1999 to study the co-operative credit system and suggest measures for its strengthening. The terms of reference of the Task Force were (i) to review the functioning of the co-operative credit structure and suggest measures to rationalise and improve and to make co-operatives as member-driven and professional business enterprises; (ii) to study aspects relating to costs, spreads and effectiveness at various tiers of co-operative credit structure; (iii) to study the financial performance of the co-operative banks with a view to improving their financial health so that they can become efficient and cost effective in the delivery of rural credit; and (iv) to review the existing supervisory and regulatory mechanism for co-operative credit institutions and suggest measures for strengthening the arrangements. The Task Force submitted its report to the Central Government on July 24, 2000. The major recommendations of the Task Force are given in Box III.3. The implementation of these recommendations will go a long way towards re-energising the co-operative sector.

Box III.3: Major Recommendations of the Task Force to Study the Co-operative Credit System and Suggest Measures for its Strengthening

The Central Government constituted a Task Force in April 1999 (Chairman: Shri Jagdish Capoor) to study the functioning of rural co-operative credit institutions and to suggest a package of measures for their strengthening. A summary of the recommendations contained in the report submitted to the Central Government on July 24, 2000 is provided below.

Resource Base: In view of the limited resources of co-operative banks, the Task Force has emphasised the need for strengthening the resource base, especially the capital.

Regulation and Control: The report recognised the need for reducing Government control over co-operatives, giving them maximum autonomy and making them ‘member driven’. The report encouraged State governments to adopt Model Cooperative Societies Act or dovetail the essential features of the Model Act in their respective State Cooperative Societies Acts so as to reflect the spirit of democratisation and self-reliance enshrined in the Model Act. Specific action plans need to be prepared to remove the overlapping of controls and endow functional autonomy and operational freedom to cooperatives. The duality of control between the state governments on the one hand and the Reserve bank/ NABARD on the other, has adversely affected the working of co-operative banks. In view of this, the bank-related functions should be exclusively brought under the purview of the BR Act, 1949 and regulated by the Reserve Bank.

Professionalism in Co-operative Banks: The co-operative banks should work like professional organisations on sound managerial systems. The banks’ boards should be professional and accountable ones. Co-operative banks will have to evolve sound personnel policies encompassing proper manpower planning and assessment. Banks should have objective and transparent policies for recruitment of staff.

Business Diversification: The Task Force emphasized diversification of business products as the prime need at all levels in the cooperative credit institutions. The diversified avenues may include, *inter alia*, housing loans, consumer loans, consortium financing, financing of services sector, distribution of insurance products, etc. Banks should upgrade their skills and technology to provide efficient and affordable services. The Task Force recommended that the cooperative banks may be permitted to lend up to 10 per cent of their deposits outstanding as at the end of the previous year for commercial and technology intensive projects outside the cooperative fold.

Costs and Margin and Funds Management: In the view of the Task Force, to ensure viability, co-operative banks will have to necessarily charge such rates of interest on their loans and advances as will cover the cost of raising funds, transaction and risk costs, and ensure a positive net rate of return. Interest rates offered by cooperative banks on deposits need to be market driven. No unremunerative business should be thrust upon the PACS and they should be allowed the discretion to accept or otherwise any non-credit business such as participation in Public Distribution System. Further, institution-specific investment policies need to be evolved taking into account, *inter alia*, composition of funds, maturity pattern of assets and liabilities, availability of money market instruments, exposure limits and efficient monitoring and control mechanism.

Delayering in Co-operative Banks: The Task Force is of the view that continuance of the existing three-tier structure in the short-term co-operative credit structure in bigger States is generally necessary. However, measures should be taken to strengthen co-operatives, if necessary, by voluntary amalgamation/merger based on economies of scale, particularly in areas where CCBs are unviable and are not in a position to ensure uninterrupted credit flow to agriculture. Further, the integration of ST and LT structures into a ‘single window’ organization may be an advantageous proposition. In case a merger is not possible, both types of institutions may be allowed to handle long

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term as well as short term credit.

Revitalisation Package: The Task Force expressed an urgent need to initiate measures for the rehabilitation of potentially viable co-operative banks. Strengthening of base level institutions would be the key for strengthening the entire structure. The revitalisation package for co-operative banks consists of a four-dimensional programme encompassing financial, operational, organizational and systemic aspects. The Central/State Governments need to take the lead in formulating the rehabilitation package, which should be unit-specific and not across the board and should be taken up after studying its viability and possibility of turnaround in five to seven years. Given the need to progressively reduce the State Governments' control over the co-operatives, the financial assistance from the State Governments should be by way of loans and not in the form of equity. The financial burden of rehabilitation will be shared by members contributing 20 per cent of the costs by mobilising additional share capital. The balance amount will be equally provided by the Central and respective State Governments by way of interest bearing bonds to be redeemed in a phased manner. In case of long term structure, the members' contribution will be 10 per cent and balance amount will be shared equally by the Central and concerned State Governments.

Co-operative Rehabilitation and Development Fund: A Co-operative Rehabilitation and Development Fund may be set up at NABARD by an initial contribution of Rs.500 crore from the Central Government for implementation of the rehabilitation package in States which fulfil the necessary pre-conditions for such plans, and also for certain other purposes.

Mutual Assistance Fund: Furthermore, Mutual Assistance Fund may be set up at the State level by contributions from co-operative institutions in the State for rendering assistance and providing soft loans to weak primary units to enable them to overcome temporary difficulties.

Capital Adequacy: The co-operative banks need to move in the direction of strengthening their capital base and conform to the applicable norms over a period of time.

Recovery Management: The Task Force suggests that the provisions of the existing DRT may be made applicable to co-operative banks also where loan size is more than Rs.1 lakh so as to expedite recovery of chronic overdues. There is a need to evolve compromise/settlement procedure for closing of long pending overdue loans. The government should support the co-operative banks in their recovery efforts and desist from providing across the board interest subsidy and making loan waiver announcements.

Internal Checks and Control and Audit: Lack of appropriate internal control systems like inspections, internal and concurrent audit and periodic branch visits by the higher tier officials in co-operative banks is a matter of increasing supervisory concern. This has led to poor MIS in these banks. These banks should strengthen their internal checks and controls and MIS so that supervision over these banks could be more effective. Audit of co-operative institutions should be conducted on a regular basis and the criteria for the audit classification should be uniform in all the States and be transparent. NABARD may formulate suitable guidelines for this purpose. The task force is of the view that audit at all levels may be entrusted to the firms of Chartered Accountants.

Branch Licensing of CCBs: Branch licensing of CCBs needs to be brought under the provisions of the Banking Regulations Act, 1949.

Transparency and Disclosure Norms: The apex cooperative banks and CCBs may be advised to disclose certain critical information in their balance sheets like movements in NPAs, provisions, return on assets, business per employee, profit per employee, etc.

Micro Finance

3.69 As mentioned in the last year's Report, a high-powered Task Force was set up by NABARD in November 1998 under the chairmanship of the Managing Director, NABARD to examine the critical issues involved in the orderly growth of the micro finance sector in the country and formulate supportive policy and regulatory framework.

3.70 The Task Force was of the view that the National Policy on micro finance should emphasise on (i) encouraging initiatives and participation of different types of institutions in micro finance; (ii) bringing the micro finance activities, irrespective of the type of institutions, within the framework of regulation and supervision by competent authorities; (iii) creating policy environment for closer linkages of the micro finance sector with the formal banking channels; and (iv) making available equity, start-up capital and capacity building funds for the existing and emerging institutions engaged in micro finance. Towards this end, the Task Force has defined micro finance as "provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards" and "microfinance institutions (mFIs) as those which provide thrift, credit and other financial services and products for the above".

Refinements in the Production-oriented System of Lending for Agriculture

3.71 During the year, certain modifications in the crop loan system were made applicable to the RRBs as well which were earlier introduced for StCBs/CCBs (in 1994-95 and modified in 1998-99), based on the recommendations of the Committee on Crop Loan System. The modification ps, such as, granting flexibility to credit institutions to disburse entire crop loans in cash and to fix due dates for repayment of crop loans, taking into account local factors and peak marketing season, are expected to streamline the crop loan system and improve the borrowers' access to credit.

Development Action Plans and Memoranda of Understanding

3.72 The exercise of preparing Development Action Plans (DAPs) and entering into Memoranda of Understanding (MoU) by the co-operative banks with NABARD, higher financing institutions and the State Governments are in operation since 1994-95. As there is still a wide scope in improving the financial health of co-operatives banks, fresh MoU were entered into during 1999-2000 by the co-operative banks.

3.73 NABARD has been formulating state-specific reform packages for co-operative banks since 1997-98 in order to help identify the problem areas in the reform process of co-operative banks and tackle them in a phased manner. Preparation and implementation of reform package envisage prioritsation of the agreed reforms with a committed time-frame. The formulation of the state reform package since 1997-98 has been completed in all States. To begin with, efforts will be concentrated in the States of Andhra Pradesh, Karnataka, Orissa, Madhya Pradesh, Gujarat and Rajasthan where the reform package has already been prepared and steps initiated for its implementation. NABARD has been urging co-operative banks and State Governments to expedite the implementation of the reforms package.