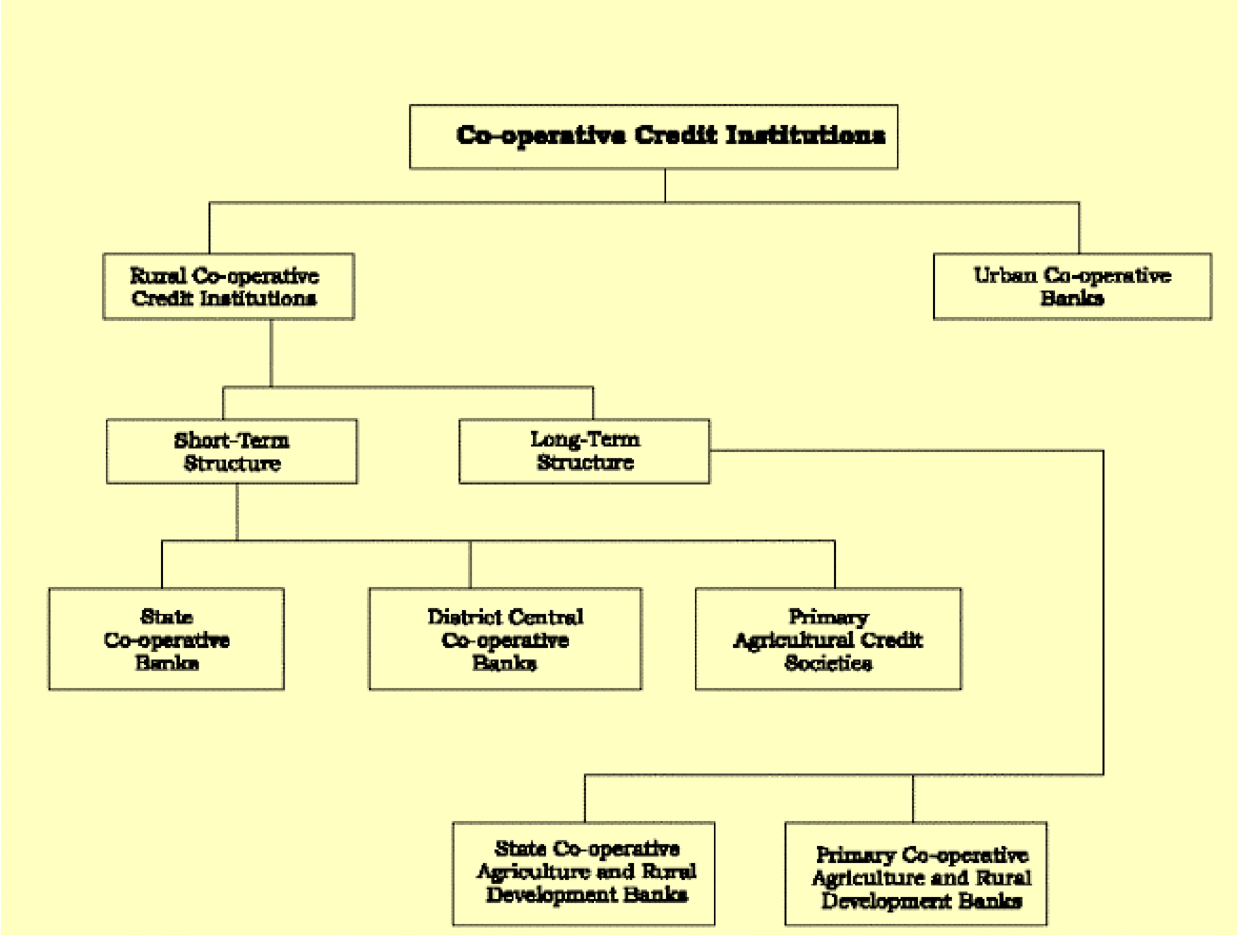
Chapter III

Developments in Co-operative Banking

1 Progress of the Co-operative banks
2 Health Status of Rural Co-operatives
3 NABARD and its Role in Rural Credit

Co-operative credit institutions occupy an important position in the financial system of the economy in terms of their reach, volume of operations and the purpose they serve. Rural co-operative banks play a pivotal role in the rural credit delivery system with credit co-operatives forming almost 70 per cent of the rural credit outlets. Rural co-operative banks account for around 30 per cent of rural deposits and 44 per cent of the outstanding loans and advances of the banking system for agriculture and rural development. About 55 per cent of the short-term production loans for the agriculture sector come from co-operative credit institutions. Urban co-operative banks (UCBs), on the other hand, aim at mobilisation of savings from the middle-and low-income urban groups and purvey credit towards the weaker sections. The majority of credit from UCBs is channelised towards priority sector segments. The organisational structure of co-operative credit institutions is given in Chart III.1.

Chart III.1: Organisational Structure of the Co-operative Credit Institutions



Overview of the Recent Policy Measures on Co-operative Credit Institutions

3.2 In order to examine the functioning and the constraints being faced by co-operative banks and the rural credit system, a High Power Committee (HPC), a Task Force and an Expert Group were appointed in recent years. The objectives of setting up these Groups were to devise ways to improve the efficiency of the credit co-operatives and to make the credit delivery system of these credit institutions viable. Notwithstanding certain differences in their focus, the three Groups identified *inter alia* many common constraints being faced by different types of credit co-operatives and gave recommendations to improve the co-operative credit system (Box III.1). In line with the recommendations of these Groups, policy changes for the co-operative banks have been framed with a view to improving the credit delivery mechanism of co-operative banks and introducing various prudential measures for strengthening the financial health of these institutions.

3.3 Major initiatives relating to co-operative credit institutions and the rural credit system undertaken since 2000-01 include the launch of a new tranche of Rural Infrastructure Development Fund (RIDF), enhancement of the reach of the schemes relating to *Kisan* Credit Cards (KCCs), Self-Help Groups (SHGs) and micro credit. There has also been significant change in the prudential and operational norms relating to UCBs.

3.4 Introduced in 1998-99, KCCs have been popular among both farmers and bankers. Recently, the National Bank for Agriculture and Rural Development (NABARD), in consultation with the Reserve Bank, has dispensed with the floor limit of Rs. 5,000 for the KCC. This would enable small and medium farmers to take advantage of the facility. The Union Budget 2001-02 proposed the introduction of accident benefit scheme for KCCs holders. The Budget further proposed to accelerate issue of KCCs by banks so as to bring all eligible farmers within its scope in the next three years, *i.e.,* by March 31, 2004.

3.5 The RIDF has played an important role in the development of rural infrastructure, especially in the context of projects relating to irrigation and rural connectivity. In order to reduce the gap between the amounts sanctioned and disbursed under RIDF, the interest rate charged by NABARD on RIDF loans was reduced from 11.5 per cent to 10.5 per cent. A further allocation of Rs. 5,000 crore as net corpus of RIDF-VII was announced in the Union Budget 2001-02. It was proposed that during the current year, NABARD would link an additional 1 lakh SHGs to enable an additional 20 lakh families to access credit.

3.6 While NABARD has so far been extending refinance to the rural co-operative credit institutions, subject to certain conditions, the facility has been extended to scheduled UCBs also, against both farm and non-farm rural credit extended by these banks.

3.7 In the context of improving the health of the co-operative credit institutions, revised Entry Point Norms (EPNs) for UCBs were announced during August 2000. With an aim to align the prudential norms applicable to the urban co-operative banks with those prevailing for the commercial banks, UCBs have been advised to achieve capital to risk-weighted asset ratio (CRAR) at par with the levels applicable for commercial banks in a phased manner between

2002 and 2005.

3.8 In view of certain developments in the urban co-operative banking sector during March 2001, the monetary and credit policy for the first half of 2001-02 announced some reform measures relating to this sector (Box III.2). These measures included, *inter alia*, ban on lending by the UCBs to the equity market, limits on their access to borrowings from call/notice money markets, ban on UCBs in keeping term deposits with other UCBs and revision in the form in which UCBs can maintain their Statutory Liquidity Ratio (SLR) reserves. In response to representations received from UCBs and their federations, the Mid-term Review of October 2001 has proposed to allow UCBs to grant loans to individuals against security of shares, subject to certain conditions. The Policy also proposed to modify the time-frame for achieving the prescribed levels of SLR holding (Box I.1). The existing major differences between UCBs and commercial banks in terms of reserve requirements and funds deployment are given in Box III.3.

1. Progress of the Co-operative Banks

(a) Urban Co-operative Banks

Licensing and Inspection

3.9 Licensing policy for UCBs was revised in August 2000, in consonance with the recommendations of the HPC. The thrust of the new policy is on strong start-up capital, professionalisation of boards of management and corporate governance. The revised EPNs are based on population criterion. According to the new norms, UCBs should have minimum capital of Rs. 4 crore and membership of at least 3,000 if the population of the place where the UCB is being established is more than 10 lakh. For population between 5-10 lakh, the minimum share capital and membership requirements are Rs. 2 crore and 2,000, respectively. For population between 1-5 lakh the corresponding minimum requirements are Rs. 1 crore and 1,500, respectively. For towns with population less than 1 lakh, the corresponding minimum requirements are Rs. 25 lakh and 500, respectively. The number of licensed UCBs increased from 1,849 to 1,937 between end-March 2000 and end-March 2001. Between July 2000 and June 2001, licenses under Section 22 of the Banking Regulation (BR) Act, 1949 (As Applicable to Co-operative Societies (AACS)) were issued to 18 new banks and 17 existing unlicensed UCBs.

Box III.1: Recommendations of the Recent Committees on Co-operative Banks

The objective of co-operative banking is to create enduring and sustainable financial institutions, which remain responsive to the credit needs of the weaker sections. Concerns have been expressed that the financial health of a large number of co-operative credit institutions is extremely fragile. Keeping in view the primacy of the role of the credit co-operatives and the need to review and improve the functioning of the credit co-operatives, various groups and committees have been constituted from time to time. In the recent past three such groups/committees were formed. In 1999, a High Power Committee (Chairman: Shri. K. Madhava Rao) was appointed by the Reserve Bank to suggest ways to strengthen the urban co-operative banks in the country. The HPC submitted its report in November 1999. A Task Force (Chairman: Shri. Jagdish Capoor) was appointed by the Government of India to suggest measures to strengthen the co-operative credit system in the country. The Task Force submitted its report in August 2000. A Committee of Experts (Chairman: Professor V. S. Vyas) was formed by National Bank for Agriculture and Rural Development (NABARD) on rural credit system, which submitted its report in July 2001. All these Committees/Groups emphasised the need to revitalise the co-operative credit system in the country.

Some of the common financial problems faced by the co-operative credit institutions, which have been identified by the HPC, the Task Force and the Expert Group, include the following:

? Low capital base,
? Inadequate loan appraisal systems and credit planning,
? Poor recovery performance,
? Mounting overdues and non-performing assets (NPAs), and
? Low levels of diversification in business operations.

Since credit co-operatives constitute a major avenue for flow of credit to the priority sector in general and rural sector in particular, deterioration in the financial health of these institutions hampers the effective channelisation of credit. The initiation of financial sector reforms has posed new challenges for the cooperative credit institutions. First, the reform measures have substantially increased competition in the banking sector. Second, the structural changes in the Indian banking sector since the 1990s have increased the interdependence between financial institutions especially through inter-institutional exposures and payments and settlement channels. Therefore, the deterioration in the financial position of the cooperative banks can get easily transmitted to other segments of the financial sector, which might generate a systemic problem.

In light of their assessment of the co-operative credit system in the country, the HPC, the Task Force and the Expert Group have come out with various suggestions. Some of the important common points in their recommendations include the following:

? Functioning of co-operative credit institutions should be member-driven and democratic,
? In order to make the co-operative credit system sustainable and the underlying institutions viable, it is essential to introduce professionalism in the operations of these institutions, and they need to be run on the basis of sound business principles. Co-operative banks need to devise ways to adapt to the new situation arising from the introduction of the financial reform process by making themselves more competitive,
? Regulation and supervision mechanisms of the co-operative credit institutions need revamping and streamlining. There is need to explore possibilities to establish a suitable unified agency to supervise the co-operative credit institutions,
? Prudential norms are required for both transparency and healthy functioning of financial system. Compared to the commercial banks, the reach of such principles for the co-operative banks remains rather limited especially in the context of rural co-operative credit institutions. Over time, co-operative credit system has to be brought under the purview of these measures.

References :

Government of India (2000): *Report of the Task Force to Study the Cooperative Credit System and Suggest Measures for its Strengthening*, Mumbai (Chairman: Shri. Jagdish Capoor).
National Bank for Agriculture and Rural Development (2001): *Report of the Expert Group on Rural Credit*, Mumbai (Chariman: Shri. V. S. Vyas).
Reserve Bank of India (1999): *Report of the High Power Committee on Urban Co-operative Banks*, Mumbai (Chariman: Shri. K. Madhava Rao).

3.10 The Reserve Bank conducts on-site inspection of the UCBs under Section 35 of the BR Act, 1949 (AACS). The periodicity of inspection is one year for scheduled and weak UCBs. Well functioning non-scheduled UCBs would now be inspected once in three years and all other UCBs would be inspected once in two years. During 2000-01 (July-June), 877 UCBs were inspected as against 828 UCBs during the previous year.

Box III.2: Urban Co-operative Banks - Recent Regulatory Measures

During March 2001, certain UCBs faced liquidity and insolvency problems. A major factor behind the problem had been non-adherence by these UCBs to prudential norms prescribed by the Reserve Bank, such as lending to stockbrokers, exceeding prudential exposure to single party/group and the limit on unsecured advances and failure to meet inter-bank payment obligations. At the centre of the problem was a multi-state scheduled UCB, which witnessed a sudden withdrawal of deposits.

The Reserve Bank felt that in the interest of financial stability, it was important to take measures to strengthen the regulatory framework for the cooperative sector. Issues such as removal of 'dual' control of the UCBs, laying down of clear-cut guidelines for their management structure, enforcement of further prudential standards in respect of access to uncollateralised funds, lending by the UCBs against volatile assets, etc., were considered in this context. The Reserve Bank identified the following areas for immediate regulatory response: (a) the extent of access of the UCBs to call/notice money markets, (b) the asset-liability management system of the UCBs, (c) inter-bank exposure of the UCBs in the form of deposits maintained by one UCB with another and (d) the maintenance of SLR portfolio by the UCBs. In order to address these issues, the Reserve Bank has announced a series of measures relating to UCBs in the April 2001 monetary and credit policy statement. The salient features of these measures are given below.

Lending to Stock Market: It is important to point out that even before the policy changes were initiated in April 2001, co-operative banks were not permitted to invest directly in stock markets nor to lend to stock brokers. They could, however, lend to individuals against pledge of shares up to a certain limit. Available information revealed that a few UCBs ignored these guidelines and established a nexus with certain stockbrokers in order to operate in the stock market. In order to prevent any possible misuse in the future, Reserve Bank had put a stop on lending by UCBs directly or indirectly against also advised to unwind existing lending to stockbrokers or direct investment in shares on the contracted dates. In response to representations received from UCBs and their federations, the October 2001 Mid-term Review proposed to allow UCBs to grant loans to individuals against security of shares, subject to certain conditions (Box I.1).

Access to Call/Notice Money Markets: In order to reduce the excessive reliance of some UCBs in the call money market, it was announced that their borrowings in the call/notice money market on a daily basis should not exceed 2.0 per cent of their aggregate deposits as at end-March of the previous financial year. The freedom to lend in the call/ notice money market, however, continues.

Inter-UCB Term Deposits: As parking of funds by UCBs with other UCBs may pose a systemic risk, as a safety precaution, UCBs were advised not to increase their term deposits with other UCBs. The outstanding deposits with other UCBs as on April 19, 2001 have to be unwound before end of June 2002. UCBs may maintain current account balances at their discretion with other UCBs to meet their day-to-day clearing and remittance requirements.

Maintenance of SLR: UCBs are required to maintain their SLR equivalent to 25.0 per cent of net demand and time liabilities (NDTL). They can maintain it in the form of investments in government and other approved securities or as deposits with StCBs/CCBs. In the April 2001 policy statement, it was announced that with effect from April 1, 2003 all scheduled UCBs would need to maintain their entire SLR assets of 25.0 per cent of NDTL only in government and other approved securities and that compliance with CRR requirements on par with scheduled commercial banks would be prescribed in due course. All scheduled UCBs and non-scheduled UCBs with deposits of Rs. 25 crore and above now have to maintain investments in government securities only in Subsidiary General Ledger (SGL) Accounts with Reserve Bank or in constituent SGL Accounts with public sector banks, Primary Dealers (PDs), scheduled commercial banks,state co-operative banks and depositories. Non-scheduled UCBs with deposits of less than Rs. 25 crore would have the facility of maintaining government securities in physical or scrip form. The UCBs were required to achieve certain higher proportion of their SLR holding in the form of government and other approved securities as a percentage of their NDTL by March 31, 2002. In response to the representations received from UCBs and their federations it has been proposed to modify the time-frame for achieving the prescribed levels of SLR holding (Box I.1).

Apart from initiating the policy changes, the Reserve Bank has also addressed the issue of dual control of UCBs. At present, three authorities are involved in regulatory and promotional aspects concerning the UCBs – the Central Government (in case of banks having multi-State presence), State Governments and the Reserve Bank. Doing away of dual control entails amendments to the Constitution of India, which can be a long drawn legislative process. In view of this, the Reserve Bank felt that one of the options that deserves to be seriously considered is setting up of a new apex supervisory body which can take over the entire inspection/supervisory functions in relation to scheduled and non-scheduled UCBs. This apex body could be under the control of a separate high-level supervisory board consisting of representatives of the Central Government, State Governments, the Reserve Bank as well as acknowledged experts in the areas of co-operative banking, etc. The body may be given the responsibility of inspection and supervision of UCBs and ensuring their conformity with prudential, capital adequacy and risk-management norms laid down by the Reserve Bank.

Much before the incidence of irregularities in the UCBs discussed above, the Reserve Bank had appointed a HPC (Chairman: Shri. K. Madhava Rao), 1999, to review the performance of the UCBs and to suggest necessary measures to strengthen this sector. The Committee submitted its Report in the same year.

The salient features of the major recommendations of the Committee and the action taken by the Reserve Bank on these recommendations are outlined below.

	Recommendations	Action taken
I. Licensing Policy of New Urban Co-operative Banks		
1)	The Committee felt that entry point norms (EPN) should be on par with peer groups like Local Area Banks and RRBs whose clientele and area of operation are broadly similar to UCBs. The Committee also felt that the existing low EPN is one of the major causes for weakness of UCBs. The Committee, therefore, recommended 5 grades of increased EPN compared to the then existing 3 grades.	Accepted with slight modification in classification of centres and entry point capital.
2)	Good corporate governance is critical to efficient functioning of an entity and more so for banking entity. The Committee, therefore, suggested that at least2 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 institutions or banks and should not have any association with *chit fund*/NBFC/co-operative bank or commercial bank in the capacity of Directors on the Board of Directors.	Accepted and implemented.
II. Policy on Unlicensed and Weak Urban Co-operative Banks		
1)	All the UCBs which were brought under the purview of Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) in 1966 should be licensed by March 31, 2002, if they comply with norms of the Reserve Bank, failing which their application for licences should be rejected and they should be stopped from doing banking business.	Accepted and being implemented.
2)	Such of the primary credit societies which became eligible to convert themselves into banks after March 1, 1966, should be licensed by March 31, 2002 or within five years from the date of commencement of their banking business, whichever is later. Such of those which do not comply with these norms within the said time frame, their licence application should be rejected The Reserve Bank should give notices to this effect to all the unlicensed banks indicating its policy posture.	Accepted and implemented. Unlicensed banks have been suitably advised.
3)	Norms for licensing unlicensed banks should be objective and precise based on (a) minimum regulatory level of CRAR, (b) net NPAs less than 10 per cent, (c) profitability during each of the last 3 years and (d) compliance with statutory framework of Banking Regulation Act/directions issued by the Reserve Bank from time to time.	Accepted and implemented.
4)	Primary Credit Societies which intend to convert themselves into Urban Co-operative Banks in future should be granted licences only if they satisfy the entry point norms. Licences should be granted or rejected within a period not exceeding six months from the date when application for licence is made. Pending grant of licence, such societies must not be permitted to carry on	Accepted and implemented.

	banking business.	
5)	The Committee has recommended classification of banks having unsatisfactory financial position as:	
	Weak Banks: If CRAR falls below the level of 75 per cent of the minimum prescription or net NPA of 10 per cent or more but less than 15 per cent of loans and advances outstanding as on 31st March or showing net losses in operation for two years out of the last three consecutive financial years, and	Accepted and implemented.
	Sick Banks: If CRAR falls below the level of 50 per cent of the minimum prescription and net NPA 15 per cent or more of loans and advances outstanding as on 31st March or showing net losses in operation for the last three consecutive financial years.	Accepted and implemented.
III. Application of Capital Adequacy Norms to Urban Co-operative Banks		
1)	Both Scheduled UCBs and non-scheduled UCBs should maintain CRAR at par with commercial banks, in a phased manner by March 31, 2003 and March31, 2004, respectively.	Recommendation has been accepted with a modification that the scheduled and non-scheduled UCBs may be required to maintain CRAR at par with commercial banks in a phased manner by March 31, 2004 and March 31, 2005, respectively.
2)	Until an Urban Co-operative Bank attains the required CRAR norms: (a) It should transfer not less than 50 per cent of its net profits to the Reserve Fund; (b) It should not, without permission of Reserve Bank of India, declare dividend in any year in excess of 20 per cent.	Accepted and implemented.
IV. Dual Control		
The Committee is of the opinion that the only way to address the problem of dual control is to carry out amendments in the State Co-operative Societies Act, Multi- State Co-operative Societies Act and Banking Regulation Act, 1949. Accordingly, it has demarcated banking related functions to be regulated by the Reserve Bank and co-operative functions to be regulated by Registrar of Co-operative Societies(RCS) of concerned State.		The Reserve accepted the recommendation. As Amendments are to be mooted to State and Central Acts, it is in consultation with the Union Government.Bank
V. Amendments to Banking Regulation Act, 1949		
The committee has proposed amendments to Sections 5 (ccv), 7, 11,30, 31 and 45 of BR Act to strengthen the Reserve Bank's regulatory powers over UCBs.		The Reserve Bank has finalised necessary amendments to the Act and the same have been forwarded to the Government of India

References :

Capoor, Jagdish (2001): *'Urban Co-operative Banks: Agenda for Future Reforms'*, Key Note Address, Seminar on Urban Co-operative Banks: Future Reforms, organised by the Federation of Indian Chambers of Commerce and Industries, (May 10).

Reserve Bank of India (1999): *Report of the High Power Committee on Urban Cooperative Banks* (Chairman: Shri.

K. Madhava Rao).
- (2001): *Statement on Monetary and Credit Policy for the year 2001-2002*, April.

Box III.3: Major Differences between UCBs and SCBs in terms of Reserve Requirements and Credit Deployment

Cash Reserve Ratio (CRR): Till recently the scheduled UCBs needed to maintain CRR at 6 per cent of NDTL as against the requirement of SCBs to maintain 7.5 per cent of NDTL. With effect from the fortnight begining November 3, 2001, the CRR requirement is uniformly 5.75 per cent of NDTL for both SCBs and scheduled UCBs and effective from the fortnight begining December 29, 2001, the CRR requirement will be uniformly 5.5 per cent for both.

Deployment of SLR: Commercial banks need to deploy their SLR funds in the form of government and other approved securities. Subject to the deployment of a minimum portion of SLR fund in government/approved securities, the UCBs can place the rest of SLR fund as deposits with StCBs/CCBs. Though the scheduled UCBs would be brought out of the purview of this facility with effect from April 1, 2003, non-scheduled UCBs would continue to enjoy this facility.

Interest on Deposits: In order to facilitate deposit mobilisation by UCBs, they are allowed to offer higher interest rates on savings and current accounts by 1.0 per cent and 0.5 per cent, respectively, *vis-à-vis* the commercial banks.

Entry Point Norms: The UCBs have much lower start-up capital requirements than the commercial banks entry capital prescription.

Priority Sector Targets: UCBs need to deploy 60 per cent of credit to the priority sector (of which 25 per cent should go to weaker sections) as against 40 per cent prescription for commercial banks.

Deployment of Funds: While the commercial banks can deploy up to 5 per cent of their outstanding loans and advances to the equity market – either directly or indirectly, UCBs can grant loans to individuals against security of shares within the overall limit of 20 per cent of owned fund of the bank, subject to certain parameters. There are also special restrictions on UCBs on lending to non-banking financial companies.

Advances: UCBs can not extend unsecured credit beyond Rs. 50,000 per borrower.

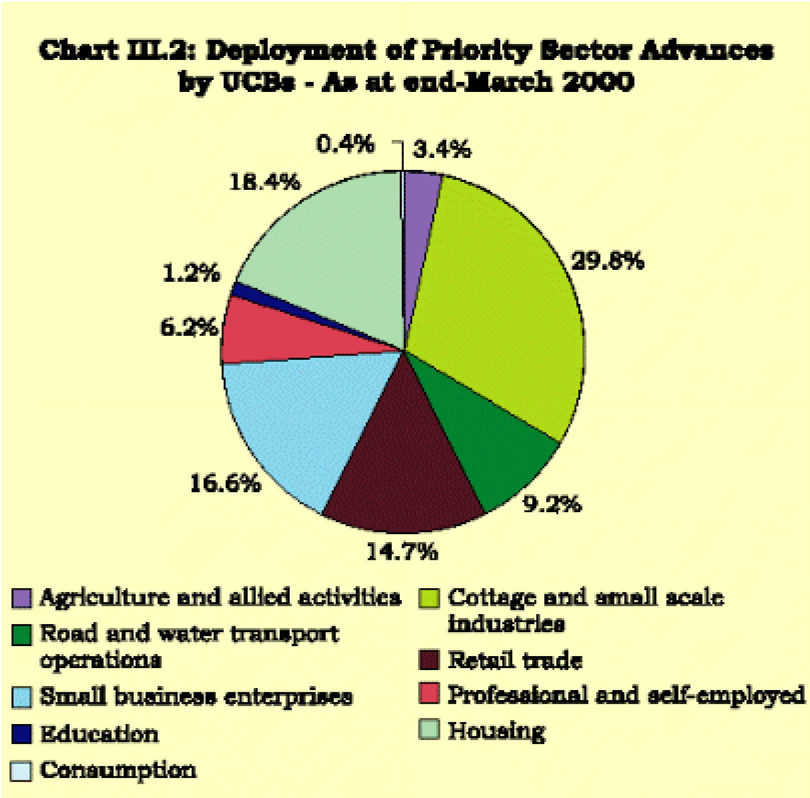
Reach: UCBs area of operation mostly confines to a single district or the adjoining districts. Only UCBs with Rs. 50 crore net owned fund or above can extend their area of operation to the entire country.

Refinance Facilities

3.11 Under Section 17(2)(bb) read with Section 17(4)(c) of the Reserve Bank of India Act, 1934, the Reserve Bank extends refinance at the Bank Rate to UCBs against the advances granted by them to the tiny/cottage industries. Demand for such funds is, however, declining in the recent period mainly on account of the comfortable liquidity position. Three UCBs availed of refinance during 2000-01, with an aggregate limit of Rs. 3 crore.

Priority Sector Lending

3.12 The UCBs are required to extend 60 per cent of their total advances to priority sector, of which, 25 per cent needs to be deployed to the weaker sections. Information on lending of UCBs towards priority sector and weaker sections as at end-March 2000 was available for 1,467 banks. Of this, 1,266 fulfilled the priority sector target and 990 banks fulfilled the target for lending to weaker sections. Out of the 51 scheduled UCBs, 42 achieved the target of 60 per cent. It may be mentioned that there is no penal provision for non-attainment of targets to priority sector and weaker sections. As an indirect incentive, however, facilities such as branch expansion, expansion of areas of operation, attainment of scheduled status, etc., are dependent on the attainment of priority sector/weaker section targets by the banks. Out of the total priority sector advances of Rs. 26,321 crore extended by the reporting UCBs, cottage and small scale industries received 30 per cent, followed by housing (18 per cent), small business enterprises (17 per cent) and retail trade (15 per cent) (Chart III.2).



Weak Banks

3.13 Based on certain parameters of their performance, UCBs are classified into weak and strong banks (Box III.4). There were 261 weak banks as at end-June 2001.

Liquidation

3.14 On account of fragile financial position, orders were issued for liquidation of 15 UCBs between July 2000 and June 2001. As at end-June 2001, 118 UCBs were under liquidation.

Complaints and Frauds

3.15 Between July 1, 2000 and June 30, 2001, 1,476 complaints were received against UCBs. Furthermore, 149 cases of frauds involving Rs. 27 crore were reported. All the complaints and fraud cases were investigated or taken up with the concerned banks and the Registrar of Cooperative Socieities (RCS), wherever required, for necessary action.

Financial Performance of UCBs

3.16 At the end of March 2001, the number of UCBs stood at 2,084 including 90 salary earners' banks. The latest information on major banking aggregates on UCBs is available up to end-December 2000, encompassing 1,826 reporting UCBs, *i.e.*, around 88 per cent of the total.[1] The outstanding deposits of UCBs increased by 27.6 per cent as at end-December 2000, while loans outstanding increased by 26.2 per cent and owned fund increased by 23.2 per cent. Owned fund and deposits remained the major source of funds for UCBs. Borrowings by UCBs have increased by 8.9 per cent during the period. As at end-December 2000, the credit-deposit ratio was at 64.6 per cent (Table III.1).

Box III.4: Weak Urban Co-operative Banks

One of the most important requirements for the resilience of a financial system relates to its ability to identify early warning signals on the financial health of the constituent financial institutions. Once the weakness is identified, prompt corrective action needs to be initiated to improve the conditions of the affected institutions on the one hand and on the other, immediate steps need to be initiated to contain the spread of weakness to other constituents through inter-institutional exposure and other kinds of interdependence. Keeping these issues in view, the Reserve Bank identifies weakness among the UCBs during the statutory inspection or on annual review of bank's financial results. An UCB is classified as weak bank, if:

? the bank's own funds are eroded to the extent of 25 per cent or more by unprovided for bad and doubtful debts and other bad assets or its overdues exceed 50 per cent of the outstanding loans and advances; and

? the bank does not comply with the provisions on minimum share capital set out in Section 11(1) of the B.R. Act, 1949 (AACS), *i.e.*, if the real or exchangeable value of the paid-up share capital and reserves of the bank has fallen below Rs. 1 lakh.

Once a bank is identified as weak, it is advised to draw up a time bound action plan for revival. As per existing policy, if a weak bank (a) is under rehabilitation programme for more than five years or (b) under rehabilitation programme for more than two years but does not show any perceptible indication of becoming viable, or (c) the bank fails to satisfy Section 11 (1) of the B.R. Act, 1949 (AACS), then steps should be taken for either merger of such banks with stronger banks or their liquidation, as the case may be.

The HPC on UCBs (Chairman: Shri. K. Madhava Rao) observed that the present system for identification of weak UCBs does not capture the incipient sickness of UCBs. The Committee felt that under the present criterion, by the time sickness of a bank is identified, the concerned UCB has already reached the point of "no return". Based on parameters such as capital adequacy, non-performing assets and profitability, the Committee recommended that UCBs, which are not strong, should be classified into two groups-weak and sick (Recommendation II.(5) in Box III.2). Pertinently, the HPC recommended that if an UCB exhibits even one of the three symptoms laid down to identify a weak bank, it should be classified as weak. Further, if the condition of the UCB deteriorates even further in terms of either NPA or profitability along with capital adequacy, then the UCB should be classified as sick as the interests of the depositors are endangered.

The HPC recommended that the weak banks themselves should draw up their revival package with the aid of experts. The Reserve Bank and the RCS should monitor the implementation of the programme. The Committee suggested that the sick UCBs should be liquidated in a time bound manner because functioning of a large number of financially weak banks is detrimental to both the growth of UCBs and the interests of the depositors. The Committee recommended that once an UCB is declared sick it should be put under moratorium. During the period of moratorium, the UCB should either be reconstituted or amalgamated with another UCB failing which its licence should be cancelled.

The recommendations of the HPC on classification of financially fragile UCBs into weak and sick categories have been accepted by the Reserve Bank and would come into effect from March 2002. Although the recommendation of the HPC on placing the sick banks under moratorium/liquidation have been accepted in principle, the decision to wind up the operations would be based on the merits of each case.

3.17 Information on the financial performance of UCBs relating to profits/losses during 1999-2000 are available for 1,747 banks, which roughly cover 84 per cent of the total UCBs. Of these UCBs 1,499 banks registered profits while the rest incurred losses. Information on NPAs, for the year ended March 31, 2000, has been reported by 1,866 UCBs. The gross NPAs of the reporting UCBs as a percentage of total advances decreased marginally from 12.2 per cent as at end-March 1999 to 12.1 per cent by end-March 2000 (Table III.2).

Scheduled UCBs

3.18 As on March 31, 2000, there were 51 scheduled UCBs and this number remained unchanged on March 31, 2001. Total deposits and advances of the scheduled UCBs as at end-March 2001 were Rs. 33,164 crore and Rs. 21,511 crore, respectively (Table III.3).

3.19 Between end-March 2000 and end-March 2001, deposits increased by 17.7 per cent and formed 76.1 per cent of the total liabilities of the scheduled UCBs. The share of other liabilities in the total liabilities of the scheduled UCBs at 10.4 per cent as at end-March 2001, declined by 2.9 percentage points over the year while net reserves increased by 3.0 per cent.

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

(Per cent)

Item	Financial Year			April-June	
	1998-99	1999-2000	2000-01 *	1999**	2000**
1	2	3	4	5	6
Owned Funds	22.3	27.2	23.2	5.8	5.1
Deposits	29.5	35.1	27.6	6.9	1.1
Borrowings	17.5	41.7	8.9	-6.0	-0.9
Loans Outstanding	23.0	34.4	26.2	4.1	0.2
C.D. Ratio@	65.0	64.6	64.6	63.3	64.0

* December 2000 over December 1999.

** June over March.

@ As at the end of period.

Table III.2: Gross Non-Performing Assets of Urban Co-operative Banks

As on March 31	Number of Reporting UCBs	Gross NPAs	
		Amount (Rs. crore)	Per cent to Total Advances
1	2	3	4

1997	1,318	2,839.04	13.2
1998	1,474	3,305.98	11.7
1999	1,748	4,534.60	12.2
2000	1,866	5,589.00	12.1

Note: Figures are provisional.

3.20 During 2000-01 (April-March) the share of loans and advances in total assets of the scheduled UCBs increased by nearly 3 percentage points to 49.3 per cent while the share of investments remained almost unchanged (Table III.3).

Financial Performance of the Scheduled UCBs

3.21 The total income of the scheduled UCBs increased by 17.2 per cent during the financial year 2000-01. Interest income contributed 93.3 per cent of the total income of the scheduled UCBs (Table III.4).

3.22 The total expenditure of the scheduled UCBs increased sharply by 49.7 per cent in 2000-01. While the share of interest expended in total expenditure reduced considerably by 13 percentage points to 58.0 per cent and that of operating expenses declined by 5 percentage points to 14.8 per cent, the share of provisions and contingencies to total expenditure increased by 18 percentage points during the year (Table III.4).

Table III.3: Composition of Liabilities and Assets of Scheduled Urban Co-operative Banks

(Rs. crore)

Item		As on March 31 of	
		2000	**2001**
1		2	3
Liabilities			
1.	Capital	362.65	442.02
		(1.0)	(1.0)
2.	Reserves	2,780.46	4,591.16
		(7.5)	(10.5)
3.	Deposits	28,181.95	33,164.18
		(76.3)	(76.1)
4.	Borrowings	673.93	885.19
		(1.8)	(2.0)
5.	Other Liabilities	4,922.82	4,525.07
		(13.3)	(10.4)
	Total Liabilities	**36,921.81**	**43,607.62**
		(100.0)	**(100.0)**
Assets			
1.	Cash	2,116.93	2,252.60
		(5.7)	(5.2)

2.	Balances with Banks	2,503.12 (6.8)	2,558.35 (5.9)
3.	Money at call and Short notice	435.86 (1.2)	347.30 (0.8)
4.	Investments	9,691.42 (26.2)	11,482.08 (26.3)
5.	Loans and Advances	17,286.89 (46.8)	21,510.94 (49.3)
6.	Other Assets	4,887.59 (13.2)	5,456.35 (12.5)
Total Assets		**36,921.81** **(100.0)**	**43,607.62** **(100.0)**

Notes: 1. Figures in brackets are percentages to total liabilities/assets

2. For details see notes to Appendix Table III.4.
3. Components may not add-up to the aggregates due to rounding off.

Source:Balance sheet of respective banks

3.23 During 2000-01, operating profit of the scheduled UCBs increased by 4.7 per cent, while net profit turned out negative mainly because of a single scheduled UCB which had to make provisioning to the tune of Rs. 1,255 crore. Number-wise, 48 out of the 51 scheduled UCBs made net profit during the year. As a percentage of total assets, the operating profit of the scheduled UCBs declined from 1.8 per cent in 1999-2000 to 1.6 per cent in 2000-01 while the net profit declined from 0.8 per cent in 1999-2000 to a negative 2.1 per cent in 2000-01. As percentage of total assets, provisions and contingencies, other income and interest expended of the scheduled UCBs increased during 2000-01, interest income, operating expenses and wage bill declined. The net interest income to assets, measured as the difference between interest income and interest expended as a proportion of total assets, declined from 3.2 per cent in 1999-2000 to 2.8 per cent in 2000-01 (Table III.4). Bank-wise details on the major financial performances of the scheduled UCBs have been given in Appendix Table III.4.

(b) State Co-operative Banks

3.24 The growth in deposits of the StCBs during 2000-01 at 10.6 per cent was lower than 14.6 per cent registered during 1999-2000. Growth in loans outstanding also decelerated from 17.4 per cent to 16.9 per cent. The CD ratio improved from 87.0 per cent to 91.9 per cent (Appendix Table III.1). At the all-India level, the recovery performance of the StCBs as a percentage to demand during 1999-2000 improved to 83 per cent from 81 per cent registered during the previous year. StCBs in Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh, Punjab, Rajasthan, Sikkim, Tamil Nadu and Uttar Pradesh achieved recovery rates of 90 per cent and above during 1999-2000 (Appendix Table III.2).

3.25 The details of assets and liabilities of StCBs are currently available as at end-March 2000. Deposits accounted for 62.1 per cent of the total liabilities followed by borrowing, which accounted for 22.8 per cent as at end-March 2000. On the asset side, loans and advances accounted for 54.0 per cent of the total assets of StCBs, while investments formed 32.3 per cent (Table III.5).

Financial Performance of StCBs

3.26 The total income of StCBs during 1999-2000 (April-March) grew by 17.6 per cent and expenditure by 11.2 per cent. The operating profit of StCBs increased by 77.0 per cent as against a 14.3 per cent decline in 1998-99. Interest income forming about 95 per cent of the total income increased by 16 per cent during the year while "other income" with the relative share of 5.2 per cent increased by about 57 per cent. On the expenditure side, interest expenditure accounted for 78.7 per cent of the total expenditure of StCBs. As against the previous year, while the share of interest expenditure in total expenditure declined, those of provisions and contingencies and operating expenses increased. Almost the entire increase in the amount of operating expenses was due to the increase in wage bill (Table III.6).

Table III.4: Financial Performance of Scheduled Urban Co-operative Banks

(Amount in Rs.crore)

Item	1999-2000	2000-01	Variation of Col. (3) over Col. (2)	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**4,228.26 (100.00)**	**4,954.33 (100.00)**	**726.07**	**17.17**
i) Interest Income	3,957.81 (93.60)	4,619.95 (93.25)	662.14	16.73
ii) Other Income	270.45 (6.40)	334.38 (6.75)	63.93	23.64
B. Expenditure (i+ii+iii)	**3,918.16 (100.00)**	**5,864.85 (100.00)**	**1,946.69**	**49.68**
i) Interest Expended	2,794.76 (71.33)	3,399.13 (57.96)	604.37	21.63
ii) Provisions and Contingencies	348.93 (8.91)	1,600.22 (27.28)	1,251.29	358.61
iii) Operating Expenses	774.47 (19.77)	865.50 (14.76)	91.03	11.75
Of which : Wage Bill	449.82 (11.48)	498.22 (8.50)	48.40	10.76
C. Profit				
i) Operating Profit	**659.03**	**689.70**	**30.67**	**4.65**
ii) Net Profit	**310.10**	**-910.52**	**-1,220.62**	**-393.62**
D. Total Assets	**36,921.81**	**43,607.62**	**6,685.81**	**18.11**
E. Financial Rations (per cent) @				
i) Operating Profit	1.78	1.58	-0.20	-
ii) Net Profit	0.84	-2.09	-2.93	-
iii) Income	11.45	11.36	-0.09	-
iv) Interest Income	10.72	10.59	-0.13	-
v) Other Income	0.73	0.77	0.03	-

vi)	Expenditure	10.61	13.45	2.84	-
vii)	Interest Expended	7.57	7.79	0.23	-
viii)	Operating Expenses	2.10	1.98	-0.11	-
ix)	Wage Bill	1.22	1.14	-0.08	-
x)	Provisions and Contingencies	0.95	3.67	2.72	-
xi)	Spread (Net Interest Income)	3.15	2.80	-0.35	-

@ Ratios to Total Assets.

Notes:. 1 For details see notes to Appendix Table III.4.

2. Figures in brackets are percentage shares to the respective total.
3. Components may not add-up to the aggregate figures due to rounding off.

Source: Balance sheet of respective banks.

Table III.5: Composition of Liabilities and Assets of State Co-operative Banks

(Rs. crore)

Item	As on March 31	
	1999	**2000 (P)**
1	2	3
Liabilities		
1 Capital	583.59	636.25
	(1.40)	(1.34)
2 Reserves	3,950.76	4,267.00
	(9.46)	(8.97)
3 Deposits	25,788.13	29,556.63
	(61.78)	(62.12)
4 Borrowings	9,739.00	10,858.76
	(23.33)	(22.82)
5 Other Liabilities	1,679.31	2,260.47
Total Liabilities	**41,740.79**	**47,579.11**
	(100.00)	**(100.00)**
Assets		
1 Cash and Bank Balance	2,297.46	2,663.21
	(5.50)	(5.60)
2 Investments	13,011.34	15,342.78
	(31.17)	(32.25)
3 Loans and Advances	21,909.33	25,708.95
	(52.49)	(54.03)
4 Other Assets	4,523.22	3,864.17
	(10.84)	(8.12)
Total Assets	**41,741.35**	**47,579.11**
	(100.00)	**(100.00)**

P Provisional.

Note: Figures in brackets are percentages to total Liabilities/assets.

Source: NABARD.

3.27 As a proportion of assets, operating profits of StCBs increased to 1.68 per cent in 1999-2000 from 1.08 per cent in 1998-99. The spread (net interest income as a ratio to total assets) of StCBs increased by 0.46 percentage points to 1.92 per cent in 1999-2000 over the previous year.

In net terms, StCBs reaped positive return of 0.31 per cent to total assets in 1999-2000 as against a negative return of 0.26 per cent in 1998-99. While non-interest expenditure of StCBs as a percentage of assets increased it was more than offset by the larger fall in the ratio of interest expenditure to total assets. This coupled with increase in both interest and non-interest income, resulted in improvement in the profitability of StCBs during 1999-2000 (Table III.6).

(c) Central Co-operative Banks

3.28 Deposits of the CCBs during 2000-01 (April-March) increased by 6.2 per cent as against 18.8 per cent growth registered in the previous year. The growth in borrowings by the CCBs decelerated from 14.0 per cent to 8.0 per cent. The loans issued in 2000-01 declined by 3.3 per cent as against a growth of 14.8 per cent in 1999-2000 (Appendix Table III.1). The recovery performance of the CCBs deteriorated albeit marginally from 70 per cent as at end-March 1999 to 69 per cent as at end-March 2000. Notwithstanding the overall trend, recoveries by CCBs in Himachal Pradesh and Madhya Pradesh improved significantly during 1999-2000. In Haryana, Kerala, Punjab, Rajasthan, Tamil Nadu and West Bengal, CCBs recovered more than 70 per cent of their demand in 1998-99 as well as 1999-2000 (Appendix Table III.2).

3.29 The latest information on the details relating to the assets and liabilities of CCBs are available up to end-March 2000. On the liability side, deposits accounted for about two-thirds of the total liabilities of CCBs while the share of borrowings in total liabilities was over 17 per cent. On the asset side, loans and advances accounted for 52.6 per cent of the total assets and investments for 26.8 per cent. During 1999-2000, loans and advances and investments by CCBs increased by 19.5 per cent and 11.8 per cent, respectively. The cash and bank balance which increased significantly by 34.1 per cent during 1999-2000, accounted for 9.0 per cent of the total assets of CCBs (Table III.7).

Table III.6: Financial Performance of State Co-operative Banks

(Rs. crore)

Item			1998-99	1999-2000	Variation of Col. (3) over Col. (2)	
					Absolute	Percentage
	1		2	3	4	5
A.	**Income (i+ii)**		**4,194.28**	**4,932.72**	**738.44**	**17.61**
			(100.00)	**(100.00)**		
	i)	Interest Income	4,031.94	4,678.08	646.14	16.03
			(96.13)	(94.84)		
	ii)	Other Income	162.34	254.64	92.30	56.86
			(3.87)	(5.16)		
B.	**Expenditure (i+ii+iii)**		**4,301.87**	**4,785.05**	**483.18**	**11.23**
			(100.00)	**(100.00)**		
	i)	Interest Expended	3,424.19	3,765.37	341.18	9.96
			(79.60)	(78.69)		
	ii)	Provisions and Contingencies	558.25	650.18	91.93	16.47
			(12.98)	(13.59)		

	iii)	Operating Expenses	319.43 (7.43)	369.50 (7.72)	50.07	15.67
		of which: Wage Bill	237.63 (5.52)	286.23 (5.98)	48.60	20.45
C.	**Profit**					
	i)	**Operating Profit**	**450.66**	**797.85**	**347.19**	**77.04**
	ii)	**Net Profit**	**-107.59**	**147.67**	**255.26**	**-237.25**
D.	**Total Assets**		**41,741.35**	**47,579.11**	**5,837.76**	**13.99**
E.	**Financial Ratios (per cent) @**					
	i)	Operating Profit	1.08	1.68	0.60	-
	ii)	Net Profit	-0.26	0.31	0.57	-
	iii)	Income	10.05	10.37	0.32	-
	iv)	Interest Income	9.66	9.83	0.17	-
	v)	Other Income	0.39	0.54	0.15	-
	vi)	Expenditure	10.31	10.06	-0.25	-
	vii)	Interest Expended	8.20	7.91	-0.29	-
	viii)	Operating Expenses	0.77	0.78	0.01	-
	ix)	Wage Bill	0.57	0.60	0.03	-
	x)	Provisions and Contingencies	1.34	1.37	0.03	-
	xi)	Spread (Net Interest Income)	1.46	1.92	0.46	-

@ Ratios to total Assets.
Note : Figures in brackets are percentage shares to the respective total.
Source : NABARD.

Financial Performance of CCBs

3.30 The income and expenditure of CCBs during 1999-2000 increased by 16.0 per cent and 17.4 per cent, respectively. The slower growth in income relative to expenditure resulted in a net loss of Rs. 67 crore for CCBs in 1999-2000 as against a net profit of Rs. 39 crore during the previous year. A part of the increased expenditure during 1999-2000 was on account of the 28.8 per cent increase in provisions and contingencies. The operating profit of CCBs during 1999-2000 increased by 18.6 per cent over the previous year. Interest income of CCBs accounted for 94.8 per cent of the total income. Interest expenditure accounted for almost two-thirds of the total expenditure of CCBs during the last two years. There was a decline in the share of operating expenditure by about two-percentage points in total expenditure and one percentage point increase in the share of provisions and contingencies (Table III.8).

3.31 As a percentage of total assets, the net profit of CCBs shifted to a marginal net loss of 0.08 per cent in 1999-2000 from a small net profit of 0.05 per cent in 1998-99. The operating profit as a percentage of assets, increased to 1.62 from 1.60 per cent. As a percentage of assets both components of income- interest income and other income - were lower in 1999-2000 than in 1998-99. Expenditure also declined marginally between these two years. Compared to the previous year, the spread of CCBs decreased by 0.07 percentage points in 1999-2000 (Table III.8).

(d) Primary Agricultural Credit Societies

3.32 It is the PACS which deal directly with the individual farmers, provide short- and medium-term credit, supply agricultural inputs, distribute consumer articles and also arrange for marketing of produce of its members through a co-operative marketing society. As at end- March 1999, there were approximately 92,000 PACS with membership of more than 10 crore. The number of borrowing members is, however, much lower at 4.4 crore i.e. borrowing members constitute around 43 per cent of the total members. The high level of overdues faced by many PACS makes a large portion of the members ineligible for fresh borrowings. As at end-March 1999, deposits mobilised by PACS at Rs. 7,035 crore increased by 7.9 per cent as against an increase of around 15 per cent registered during the previous year. Most of the PACS are dependent on the finance provided by CCBs. In case the CCBs are weak, the PACS are starved of finance, which affects the expansion of both the credit and non-credit functions of PACS. The outstanding borrowings of the PACS as at end-March 1999 at Rs. 16,924 crore, however, was lower by a percentage point over that at end-March 1998. The loans outstanding for PACS increased by 16.1 per cent to reach Rs. 21,108 crore as at end-March 1999.

Table III.7: Composition of Liabilities and Assets of Central Co–operative Banks

(Rs. crore)

Item		**As on March 31**	
		1999	**2000 (P)**
1		2	3
Liabilities			
1	Capital	2,511.00	2,826.00
		(3.49)	(3.34)
2	Reserves	6,197.00	7,208.00
		(8.62)	(8.51)
3	Deposits	45,536.00	54,195.00
		(63.35)	(64.02)
4	Borrowings	12,773.00	14,661.00
		(17.77)	(17.32)
5	Other Liabilities	4,860.00	5,764.00
		(6.76)	(6.81)
	Total Liabilities	**71,877.00**	**84,654.00**
		(100.00)	**(100.00)**
Assets			
1	Cash and Bank Balance	5,678.00	7,613.00
		(7.90)	(8.99)
2	Investments	20,285.00	22,677.00
		(28.22)	(26.79)
3	Loans and Advances	37,272.00	44,528.00

		(51.86)	(52.60)
4	Other Assets	8,642.00	9,836.00
		(12.02)	(11.62)
Total Assets		**71,877.00**	**84,654.00**
		(100.00)	**(100.00)**

P Provisional.

Notes:. 1 Figures in brackets are percentages to total liabilities/assets.

2. Profit and Loss credit balance, if any, included under Reserve.

Source : NABARD.

Table III.8: Financial Performance of Central Co-operative Banks

(Rs. crore)

Item		1998-99	1999-2000 (P)	Variation of Col. (3) over Col. (2) Absolute	Percentage
1		2	3	4	5
A. Income (I+ii)		**7,949.92**	**9,221.04**	**1,271.12**	**15.99**
		(100.00)	**(100.00)**		
i)	Interest Income	7,465.04	8,744.46	1,279.42	17.14
		(93.90)	(94.83)		
ii)	Other Income	484.88	476.58	-8.30	-1.71
		(6.10)	(5.17)		
B. Expenditure (i+ii+iii)		**7,910.64**	**9,288.41**	**1,377.77**	**17.42**
		(100.00)	**(100.00)**		
i)	Interest Expended	5,226.92	6,171.80	944.88	18.08
		(66.07)	(66.45)		
ii)	Provisions and Contingencies	1,113.80	1,434.57	320.77	28.80
		(14.08)	(15.44)		
iii)	Operating Expenses	1,569.92	1,682.04	112.12	7.14
		(19.85)	(18.11)		
	Of which: Wage Bill	1,173.97	1,306.70	132.73	11.31
		(14.84)	(14.07)		
C. Profit					
i)	**Operating Profit**	**1,153.08**	**1,367.20**	**214.12**	**18.57**
ii)	**Net Profit**	**39.28**	**-67.37**	**-106.65**	**-271.51**
D. Total Assets		**71,877.20**	**84,654.13**	**12,776.93**	**17.78**
E. Financial Ratios (per cent) @					
i)	Operating Profit	1.60	1.62	0.01	-
ii)	Net Profit	0.05	-0.08	-0.13	-
iii)	Income	11.06	10.89	-0.17	-
iv)	Interest Income	10.39	10.33	-0.06	-
v)	Other Income	0.67	0.56	-0.11	-
vi)	Expenditure	11.01	10.97	-0.03	-
vii)	Interest Expended	7.27	7.29	0.02	-
viii)	Operating Expenses	2.18	1.99	-0.20	-
ix)	Wage Bill	1.63	1.54	-0.09	-
x)	Provisions and Contingencies	1.55	1.69	0.15	-
xi)	Spread (Net Interest Income)	3.11	3.04	-0.07	-

@- Ratio to total Assets.
Note: Figures in brackets are percentage shares to the respective total.
Source: NABARD.

(e) State Co-operative Agriculture and Rural Development Banks

3.33 With the exception of PACS, deposits constitute the most important source of funding for short-term rural co-operative credit institutions. Even for the PACS, deposits account for nearly one-third of its total liabilities. Long-term rural co-operative banks, on the other hand, are predominantly dependent on borrowings for their financial resources. Previously, SCARDBs were not allowed to raise public deposits but subject to certain conditions, they raise long-term public deposits. The scheme, however, has not been very popular as yet. As at end-March 2001, deposits mobilised by SCARDBs at Rs. 483 crore increased by 26.4 per cent over end-March 2000. Borrowing at Rs. 13,117 crore increased by 6.0 per cent as against 11.9 per cent increase registered during the previous year (Appendix Table III.1).

3.34 On the asset side, loans extended by the SCARDBs as at end-March 2001 at Rs. 2,524 crore increased marginally by 0.8 per cent over the previous year. Loans outstanding of the SCARDBs at end-March 2001 at Rs. 12,375 crore increased by 6.7 per cent, over the year as compared with 11.1 per cent increase during the previous year. During 1999-2000, out of the 18 reporting SCARDBs, 9 registered profit and 9 others were in loss. As on March 31 2000 the accumulated losses of SCARDBs stood at Rs. 779 crore, constituting 6.3 per cent of the total loans outstanding.

(f) Primary Co-operative Agriculture and Rural Development Banks

3.35 As at end-March 2001, deposits mobilised by PCARDBs at Rs. 302 crore increased by 36.7 per cent as against 30.8 per cent registered as at end-March 2000. As in the case of SCARDBs, PCARDBs are heavily dependant on borrowing as their source of funds. Borrowings by PCARDBs, as at end-March 2001 at Rs. 8,208 crore increased by 7.2 per cent as against an increase of 12.0 per cent in 1999-2000.

3.36 Loans extended by PCARDBs at Rs. 1,754 crore during 2000-01, declined by 3.7 per cent as against an increase of 7.7 per cent registered during 1999-2000. Loans outstanding as at end-March 2001 at Rs. 8,070 crore increased by 6.2 per cent as against 11.5 per cent during the year ended March 2000. As at end-March 2000, accumulated losses of the PCARDBs stood at Rs. 891 crore.

2. Health Status of Rural Co-operatives

Non-Performing Assets

3.37 The asset quality and recovery mechanism of the rural co-operatives have a crucial bearing on the viability of the overall credit system and in particular the viability of co-operative banks. Given the financial constraints faced by the rural co-operative banks, the Reserve Bank allowed such banks providing short-term credit to implement the provisioning norms in a phased manner till 1999-2000. From 1999-2000, however, cooperative banks are required to maintain a general provision of at least 0.25 per cent against standard assets. As at end-March 2000, the aggregate NPAs of StCBs estimated at Rs. 2,758 crore accounted for 10.7 per cent of the total outstanding loans. Out of the total NPAs, around 45 per cent are sub-standard assets, 50 per cent are doubtful assets and 5 per cent are loss assets (Table III.9). During 1999-2000, out of the 29 StCBs, 4 banks had NPAs below 5 per cent of outstanding loans and advances, 10 banks reported NPAs between 5 to 15 per cent and 8 StCBs reported NPAs higher than 30 per cent (Table III.10).

3.38 For CCBs, NPAs as at end-March 2000 at Rs. 7,543 crore accounted for 17.2 per cent of the total outstanding loans. Sub-standard, doubtful and loss assets comprised 49 per cent, 39 per cent and 12 per cent, respectively, of the total NPAs. For the SCARDBs, aggregate NPAs at Rs. 2,157 crore accounted for 18.7 per cent of their outstanding loans at end-March 2000. Among the PCARDBs, NPAs at Rs. 1,519 crore were at 20.0 per cent of loans outstanding at end-March 2000 (Table III.9).

3.39 Co-operative banks extend credit directly to the ultimate borrowers as well as to institutions at the different tiers of the co-operative banking structure. A need has been felt to work out a mutually agreed system of recovery whereby the proceeds of the settlement as well as the cost of recovery/losses would be shared by various concerned tiers of co-operative banks. Consequently, NABARD, in consultation with the Reserve Bank has framed guidelines for one-time settlement of chronic NPAs/overdues of the cooperative banks. The guidelines would cover NPAs under all loans and advances and would remain operative up to end-March 2002.

Table III.9: Composition of Gross NPAs

(As on March 31, 2000)

(Rs. crore)

Asset Quality	**StCBs**	**CCBs**	**SCARDBs**	**PCARDBs**
1	2	3	4	5
Substandard Assets	1,247.82	3,723.33	1,210.85	867.91
Doubtful Assets	1,373.95	2,918.85	937.49	613.97
Loss Assets	136.51	901.25	8.45	36.99
Total NPAs	**2,758.28**	**7,543.43**	**2,156.79**	**1,518.87**
Percentage of NPAs to loans and Advances outstanding	10.73	17.15	18.66	19.98

Source: NABARD.

Table III.10: Frequency Distribution of StCBs, CCBs & SCARDBs according to levels of Gross NPAs

(As on March 31, 2000)

NPAs as percentage to outstanding Loans and Advances	Agency		
	StCBs	CCBs	SCARDBs
1	2	3	4
0-5	4 (14)	42 (11)	4* (22)
5-10	4 (14)	52 (14)	0 (0)
10-15	6 (21)	43 (12)	1 (6)
15-20	2 (7)	55 (15)	2 (11)
20-25	3 (11)	39 (11)	2 (11)
25-30	1 (4)	26 (7)	1 (6)
Above 30	8 (29)	110(30)	8 (44)
Total number of Reporting banks	28 (100)	367(100)	18 (100)
Total number of banks	29	367	19

* Haryana and Punjab SCARDBs have reported nil NPAs.

Note : 1. Figures in brackets represent percentage to total number of reporting banks.

2. Corresponding figures for PCARDBs are not available.

Source: NABARD.

Capital Adequacy

3.40 All commercial banks are required to maintain a minimum CRAR of 9 per cent. These norms have not as yet been extended to rural co-operative banks. The Task Force on cooperative banks (Chairman: Shri. Jagdish Capoor), however, felt that being an important part of the rural credit system, co-operative banks should also conform to the CRAR standards set for commercial banks albeit in a phased manner. These proposals have not as yet been implemented. The latest information shows that as at end-March 1999, among the reporting StCBs, 22.2 per cent had negative CRAR, 14.8 per cent had positive but less than 8 per cent CRAR and the remaining 63.0 per cent had CRAR of more than 8 per cent.

Compliance with Section 11(1) of B.R. Act, 1949 (AACS) - Position as on March 31, 2001

3.41 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, 2001, 139 CCBs and 6 StCBs have defaulted in complying with the above provision. In respect of a majority of these 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 share capital base of these banks, helping them in their recovery efforts, etc. To maintain uninterrupted flow of credit in the area of operation of the defaulting CCBs, NABARD continued to sanction short-term credit limits on behalf of such banks, subject to certain conditions. Furthermore, in case of first-time default, CCBs continued to obtain access to credit limits from NABARD for 2000-01 subject to certain conditions.

3.42 The Board of Supervision (for StCBs/ CCBs and RRBs) set up in NABARD as a Committee of its Board of Directors to give direction and guidance to NABARD in supervision-related matters, has been reviewing the financial health of the cooperative banks, based on the inspection findings on an ongoing basis. The Board of Supervision (BoS) has been, *inter alia*, discussing the financial position of the weak cooperative banks particularly those which have had a high level of erosion in their deposits. As per the decisions of the BoS, various preventive, revival and punitive measures in respect of the banks which are showing signs of weakness have been initiated.

3. NABARD and its Role in Rural Credit

3.43 NABARD has been playing a pivotal role in the channelisation of bank credit to the rural sector. NABARD provides refinance and augments resource base of the institutions providing credit to the rural sector. NABARD also undertakes supervision of the rural co-operative banks.

3.44 The focus of policy initiatives by NABARD during 2000-01 continued to aim at augmentation and smoothening of the ground level rural credit flows. Certain reorientation was introduced in the lending and refinance policies to capture the changing financial requirements of the varied segments of the rural economy. NABARD enhanced the coverage of rural credit institutions by bringing in areas of non-traditional agriculture and new ventures in non-farm activities under their purview. Steps were also taken to restructure the institutional rural credit system in line with recommendations of the Task Force on the cooperative credit system, 2000.

Resources Mobilised by NABARD

3.45 The net accretion to resources of NABARD during 2000-01 has been Rs. 5,449 crore as compared with Rs. 4,381 crore in the previous year (Table III.11). Out of the total net accretion during 2000-01, major contributions were by the Rural Infrastructure Development Fund (RIDF) deposits (34 per cent), National Rural Credit (Long Term Operations (NRC (LTO)) (21 per cent), reserves and surplus (6 per cent) and market borrowing through bonds and debentures (27 per cent). Between 1999-2000 and 2000-01, contribution of the borrowings from the Reserve Bank to net resource accretion increased from 5 per cent to 13 per cent.

Refinance from NABARD

3.46 The total outstanding refinance by NABARD increased sharply by 21.4 per cent from Rs. 6,151 crore as at the end-June 2000 to Rs. 7,464 crore as at end-March 2001 (Table III.12). The largest increase during 2000-01 (July-March) was in refinance to StCBs, which increased by 28 per cent. As regards, the term structure of refinance provided by NABARD during 2000-01 (July-March), 88 per cent was of short-term in nature. Of the short-term credit limit sanctioned by NABARD, that to StCBs was Rs. 7,169 crore, of which seasonal agricultural operations (SAO) accounted for Rs. 6,400 crore. Similarly, of Rs. 1,312 crore credit limit sanctioned to Regional Rural Banks (RRBs) for short-term purposes, SAO accounted for Rs. 1,114 crore. Refinance availed by the banks in the North-Eastern region continued to be low despite certain relaxation extended by NABARD in respect of refinance support to co-operative banks in that region. NABARD sanctioned long-term loans to 12 State Governments aggregating Rs. 68 crore during 2000-01 (July-March) for contribution to the share capital of co-operative credit institutions. The Task Force constituted to study the co-operative credit system had recommended that co-operatives should be self-reliant and member driven. NABARD asked the State Governments to reduce their participation in the capital of the co-operatives and thus reduce borrowing from NABARD for contributing to the share capital of co-operatives.

Table III.11: Net Accretion to the Resources of NABARD

(Rs. crore)

Item		April-March 1999-2000	April-March 2000-01
	1	2	3
1	Capital	0	0
2	Advance received from Reserve Bank and Central Government towards Capital	0	0
3	Reserves and Surplus	128	311
4	NRC(LTO) Fund	1,021	1,151
5	NRC (Stabilisations) Fund	151	51
6	Deposits	41	-28
7	Bonds and Debentures	509	1,472
8	Borrowings from Government of India	-86	-20
9	Borrowings from Reserve Bank	235	716
10	Short-term Borrowings	203	-203
11	Foreign Currency Loans	-18	-9
12	RIDF Deposits	1,817	1,826
13	Other Liabilities	380	182
	Total	**4,381**	**5,449**

Source: NABARD.

Table III.12: NABARD's Credit to State Co-operative Banks, State Governments and Regional Rural Banks

(Rs. crore)

Category	1999-2000 (July-June)				2000-2001 (July-March)			
	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	6,962.16	7,938.51	7,852.68	4,141.05	7,168.96	6,299.16	5,026.51	5,413.70
	(1.70)	(3.90)	(12.30)	(2.10)	(2.97)	(-20.65)	(-35.99)	(30.73)
B Medium-term	193.92	52.15	188.31	351.59	267.37	110.13	127.01	334.71
	(-54.90)	(-85.10)	(46.00)	(27.90)	(37.88)	(111.18)	(-32.55)	(-4.80)
Total (a+b)	7,156.08	7,990.66	8,040.99	4,492.64	7,436.33	6,409.29	5,153.52	5,748.41
	(1.60)	(0.00)	(12.90)	(-1.10)	(3.92)	(-19.79)	(-35.91)	(27.95)
2 State Government								
Long-term	91.07	48.78	40.16	507.90	67.78	58.23	66.78	499.35
	(39.40)	(19.40)	(-28.90)	(1.70)	(-25.57)	(19.37)	(66.28)	(-1.68)

3	**Regional Rural Banks**								
A	Short-term	1,202.95	1,097.97	1,149.17	1,085.28	1,312.33	938.28	850.65	1,172.91
		(-2.80)	(-5.50)	(17.50)	(-4.50)	(9.09)	(-14.54)	(-25.98)	(8.07)
B	Medium-term	7.53	5.58	41.23	65.02	11.03	10.15	31.72	43.45
		(-84.20)	(-87.20)	(-4.40)	(-35.40)	(46.48)	(81.90)	(-23.07)	(-33.17)
	Total (a+b)	1,210.48	1,103.55	1,190.40	1,150.30	1,323.36	948.43	882.37	1,216.36
		(-5.90)	(-8.40)	(16.60)	(-7.00)	(9.33)	(-14.06)	(-25.88)	(5.74)
	Grand Total	**8,457.63**	**9,142.99**	**9,271.55**	**6,150.84**	**8,827.47**	**7,415.95**	**6,102.67**	**7,464.12**
	(1+2+3)	**(-2.00)**	**(-1.00)**	**(13.10)**	**(-2.00)**	**(4.37)**	**(-18.89)**	**(-34.18)**	**(21.35)**

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

Rural Infrastructure Development Fund

3.47 RIDF was set up with NABARD under the initiative of the Central Government in 1995-96 to provide loans to State Governments for financing rural infrastructure projects. Since then, six tranches of allocations have been made towards the Fund and the Union Budget 2001-02 has enhanced the allocations under the VII tranche of the Fund. The commercial banks make contributions towards the Fund in accordance with the shortfall in their priority sector lending. Since 1999-2000 (RIDF-V), the scope has been widened to enable utilisation of loans by *Panchayati Raj* institutions, self-help groups, non-government organisations, etc.

3.48 As at end-March 2001, the total corpus of the fund under the tranches I to VI of the RIDF aggregated to Rs. 18,000 crore. A further allocation of Rs. 5,000 crore as corpus of RIDF-VII has been announced in the Union Budget 2001-02. During 2000-01, deposits mobilised under RIDF increased by Rs. 2,654 crore and the total deposit mobilisation between 1995-96 and 2000-01 stood at Rs. 8,698 crore (Table III.13). The cumulative amounts sanctioned and disbursed under the different tranches till end-March 2001 were at Rs. 18,545 crore and Rs. 9,251 crore, respectively (Table III.14).

3.49 Between end-March 2000 and end-March 2001, the ratio of funds disbursed to funds sanctioned under RIDF increased from 43.6 per cent to 49.9 per cent while utilisation ratio (amount disbursed as a proportion of amount phased) increased from 59.4 per cent to 64.4 per cent. Notwithstanding these improvements, the ratio of disbursement to sanction and to utilisation under RIDF is not very high. Various factors have been attributed to explain this situation, which include high interest cost of funds allocated through RIDF, lack of matching funds with State Governments and other procedural hardships. NABARD has initiated several measures to make the loans under RIDF more attractive and to increase the reach of such loans. The interest rate on RIDF loans has been reduced from 12.0 per cent to 11.5 per cent per annum and further to 10.5 per cent. Apart from State Governments, other institutions and groups such as *Panchayati Raj* institutions can now implement RIDF projects. The scope of the projects eligible for RIDF loans has been enlarged to include innovative projects such as information technology enabled services and new activities such as system improvement and mini hydel under power sector, construction of primary school buildings, primary health centres, etc.

3.50 Purpose-wise utilisation of RIDF funds indicates high concentration towards irrigation and rural connectivity, which together account for around 80 per cent of the aggregate sanctions till end-March 2001 (Table III.15). State-wise distribution of RIDF funds reflects that as at end-

March 2001, five States namely Andhra Pradesh, Gujarat, Madhya Pradesh, Maharashtra and Uttar Pradesh taken together accounted for around 50 per cent of both aggregate sanctions and disbursements (Appendix Table III.3).

Policy Initiatives by NABARD

Kisan Credit Card

3.51 KCC scheme introduced in 1998-99 is popular among both farmers and issuing bankers. Farmers have the flexibility to avail of production credit and also avoid procedural delays in getting credit sanctioned. For bankers, the need for repeated processing of credit applications is avoided. Against the target of 75 lakh KCC to be issued by banks in 2000-01, cooperative banks and RRBs issued 63 lakh KCCs involving a credit limit of Rs. 10,812 crore. Cumulatively since 1998, 102 lakh KCCs involving credit limits of Rs. 15,660 crore as at the end of March 2001 were issued. 27 Public Sector Banks had issued 36 lakh KCCs as at the end-of March 2001, since the inception of the Scheme. For 2001-02, the Union Budget has announced a target of an additional 1 crore KCCs to be issued by the banking system comprising all co-operative banks, RRBs and commercial banks. Furthermore, to ensure that small and medium farmers are not denied access to KCC facility, NABARD, in consultation with the Reserve Bank dispensed with the floor limit of Rs. 5,000 earlier suggested for coverage under the Scheme. The loans disbursed under KCC Scheme were also brought under the *Rashtriya Krishi Bima Yojana* of the General Insurance Corporations and personal accident insurance cover of Rs. 50,000 for death and Rs. 25,000 for disability from 2001-02 would be provided to KCC holders.

Table III.13: Deposits Mobilised under RIDF

(Rs. crore)

Year	RIDF-I	RIDF-II	RIDF-III	RIDF-IV	RIDF-V	RIDF-VI	Total
1	2	3	4	5	6	7	8
1995-96	350	-	-	-	-	-	**350**
1996-97	842	200	-	-	-	-	**1,042**
1997-98	188	670	149	-	-	-	**1,007**
1998-99	140	500	498	200	-	-	**1,338**
1999-2000	67	539	797	605	300	-	**2,307**
2000-01	-	161	412	440	850	790	**2,654**
Total	**1,587**	**2,070**	**1,856**	**1,245**	**1,150**	**790**	**8,698**

Source: NABARD.

Table III.14: Cumulative Sanctions and Disbursements
(As on March 31, 2001)

(Rs. crore)

RIDF Tranche	Corpus	Amount Sanctioned*	Amount Phased	Amount Disbursed
1	2	3	4	5
RIDF-I	2,000	1,898.64	1,898.64	1,742.45
RIDF-II	2,500	2,588.78	2,588.78	2,092.41

RIDF-III	2,500	2,665.34	2,665.34	1,885.14
RIDF-IV	3,000	3,119.86	3,119.86	1,382.22
RIDF-V	3,500	3,639.34	2,763.44	1,189.44
RIDF-VI	4,500	4,632.67	1,328.37	959.63
Total	**18,000**	**18,544.63**	**14,364.43**	**9,251.29**

* Excluding schemes withdrawn.
Sosurce : NABARD.

Table III.15: Purpose–wise Amount Sanctioned under RIDF
(As on March 31, 2001)

(Rs. crore)

Purpose	RIDF–I	RIDF–II	RIDF–III	RIDF–IV	RIDF–V	RIDF–VI	Total (2 to 7)	Percentage Share
1	2	3	4	5	6	7	8	9
Irrigation	1,783.99	1,221.97	937.32	923.69	1,072.56	1,241.32	**7,180.85**	38.70
Rural Bridges	24.82	369.87	385.09	548.84	575.81	537.66	**2,442.09**	13.20
Rural Roads	3.39	888.33	1,201.11	1,440.01	1,791.25	2,112.07	**7,436.16**	40.10
Others*	86.44	108.61	141.82	207.32	199.72	741.62	**1,485.53**	8.00
Total	**1,898.64**	**2,588.78**	**2,665.34**	**3,119.86**	**3,639.34**	**4,632.67**	**18,544.63**	**100.00**

* Others include : watershed development, flood protection, market yard /godown, CADA, drainage, cold storage, fisheries, forest development, inland waterways, primary schools, rubber plantations, public health, seed/ agriculture/horticulture farms, rural drinking water, soil conservation, citizen information centres, food park and system improvement.
Source:. NABARD

Interest Rates on Refinance

3.52 Effective November 1, 2001 NABARD has revised interest rates on refinance to commercial banks, RRBs and co-operative banks (Table III.16).

Short-term - Seasonal Agricultural Operations

3.53 The refinance policy of NABARD on short-term Seasonal Agricultural Operations (SAO) for co-operative banks and RRBs for 2000-01 included, *inter alia*, augmentation of the ground-level credit flow through adoption of region-specific strategies and rationalisation of the lending policies and procedures. The policy of sanctioning special lines of credit exclusively for financing tribals at concessional rates of interest with relaxation of norms relating to ceiling on credit was continued. The existing concessions in the rate of interest, relaxation in minimum involvement norms, minimum recovery norms, etc., were continued for banks in the North-Eastern States and in Sikkim and Jammu and Kashmir.

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

(per cent per annum)

	Rates Effective from			
	May 1, 2000		November 1, 2001	
Loan Size	**Minor Irrigation**	**Purpose Other than**	**Minor Irrigation**	**Purpose Other than**

	(MI*)	MI@	(MI*)	MI@
1	2	3	4	5
A. StCBs/ SCARDBs				
Upto Rs.25,000	7.0	7.0	7.0	7.0
Rs.25,001 - Rs.2 lakh	8.5	9.0	8.0	9.0
Above Rs.2 lakh	8.5	10.5	8.0	10.0
B. RRBs				
Upto Rs.25,000	7.5#	7.5#	7.5	7.5
Rs.25,001 - Rs.2 lakh	8.5	9.0	8.0	9.0
Above Rs.2 lakh	8.5	10.5	8.0	10.0
C. Commercial Banks/UCBs				
Upto Rs.25,000	8.5	8.5	8.0	8.0
Rs.25,001 - Rs.2 lakh	8.5	9.5	8.0	9.0
Above Rs.2 lakh	8.5	10.5	8.0	10.0

* Excludes MI under *Swarnjayanti Gram Swarozgar Yojana* for which rates shown under 'others' is applicable.

@ Excludes MI/wasteland, SHGs, cold storage and storage of horticulture products under Government of India Capital investment subsidy scheme.

\# Effective July 1, 2001.

Notes: (1) The rate of interest on refinance against loans extended to SHGs would be 7.0 per cent for co-operative Banks and 7.5 per cent for RRBs and commercial banks.

(2) Rates of interest on refinance for financing cold storage and storage of horticulture produce under capital Investment subsidy scheme of the Government of India would be 8.5 per cent.

(3) Rate of interest on refinance for rural housing finance for loans up to Rs. 50,000, Rs. 50,001 to Rs. 2 lakh And above 2 lakh has been fixed at 8.5 per cent, November 1, 2001. Previously, the Respectively.

(4) In respect of externally aided projects, the rate of interest as per provisions contained in the relative agreement Would apply.

Source: NABARD.

Short-term - Other than Seasonal Agricultural Operations

3.54 With a view to boosting credit flow for marketing of crops and encouraging StCBs/ CCBs to extend credit to farmers against the pledge of their agricultural produce, NABARD modified the existing scheme for providing refinance to StCBs/CCBs for financing marketing of crops, by increasing quantum of loans and reducing rate of interest on refinance from 10 per cent to 8.5 per cent. During 2000-01, NABARD opened a separate window of refinance for StCBs and scheduled commercial banks for financing working capital requirements of State Handicrafts Development Corporations (SHnDCs). By supplementing banks' efforts in financing SHnDCs, NABARD aims at improving credit flow to handicrafts sector especially to artisans and craftsmen operating outside the co-operative fold.

Supervision

3.55 NABARD is the supervisory authority for StCBs, CCBs and certain other State-level cooperative institutions such as SCARDBs. Accordingly, NABARD undertakes periodic on-site inspection of these organisations and since 1998-99 this has been supplemented by a system of off-site surveillance. During 2000-01, NABARD inspected 175 co-operative banks - 11 StCBs, 11 SCARDBs and 153 CCBs - and 11 apex institutions. Some of the deficiencies observed include high levels of NPAs and overdues, high transaction costs, low margins, poor quality of loan appraisals, inadequate internal checks and balances, etc.

Micro Finance Innovations

3.56 NABARD has been spearheading the promotion and linkage of SHGs to the banking systems through refinance support, capacity building of stakeholders and initiating other proactive policies and systems. During 2000-01, 1,70,680 SHGs were financed by banks including 21,630 which received repeat finance, as against the target of 1,00,000 SHGs proposed in the Union Budget, 2000-01. The cumulative number of SHGs credit-linked to the banks aggregated 2,63,825 out of which 2,13,213 were refinanced by NABARD, as at end-March 2001.

3.57 The significant increase in the number of SHGs linked during the year was possible due to the active involvement of 1,030 NGOs, 314 banks and many other agencies including developmental departments of different State Governments. The credit-linkage programme covered 412 districts in 27 States and Union Territories. A notable feature of the same was that more than 90 per cent of the groups formed were exclusively of women members.

3.58 NABARD continued to provide 100 per cent refinance assistance to banks at an interest rate of 7 per cent per annum for financing SHGs. During the year, an amount of Rs. 288 crore was disbursed to SHGs by various banking institutions against which refinance support by NABARD was to the tune of Rs. 251 crore. Cumulatively, till end-March 2001, bank loans disbursed to SHGs aggregated Rs. 481 crore while NABARD refinance availed by banks aggregated Rs. 401 crore.

3.59 NABARD has also been providing grants on a selective basis to NGOs, primarily for promoting and nurturing SHGs. NABARD sanctioned grant assistance of Rs. 2 crore to 126 NGOs during 2000-01 for promotion and linkage of 20,033 SHGs. With this, the cumulative grant assistance sanctioned till end-March 2001 for promotion and linkage of SHGs aggregated Rs. 4.6 crore to 198 NGOs for promoting 36,944 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. During 2000-01, more than 1,000 training and awareness programmes were conducted or facilitated for training 36,370 bank officials, NGOs and Government agencies.

3.60 As announced in the Union Budget 2000-01, a Micro Finance Development Fund (MFDF) has been constituted in NABARD with a startup contribution of Rs. 100 crore comprising Rs. 40 crore each from Reserve Bank and NABARD and balance Rs. 20 crore from select commercial banks. This would be utilised for scaling up the SHG-linkage programme and supporting other micro credit initiatives. Accordingly, both on-lending funds and capacity building support would be extended to eligible institutions from this Fund. Special emphasis will be provided for building the capacities of the poor with particular emphasis on vulnerable sections including women, scheduled tribes and scheduled castes.

Extension of Refinance Facilities to Scheduled UCBs

3.61 In response to requests received for extending refinance facilities to UCBs and considering that UCBs are an important segment of the multi-agency banking system, refinance facilities were extended to scheduled UCBs by NABARD for financing both farm and non-farm activities in rural areas.

[1] The numbers of reporting UCBs vary from year to year. Furthermore, during the same financial year, the banks reporting in terms of various indicators such as financial performance, NPAs, etc., are also not uniform.