Chapter III
Developments in Co-operative Banking

The co-operative banks[1] having extensive networks, with reach in remote areas, play a significant role in the Indian economy, especially in creating banking habits among the lower and middle-income groups and in rural credit delivery. This sector with uneven geographical spread and detailed stratification (Chart III.1) has substantial heterogeneity in both financial position and performance within and across different strata. While many cooperative banks are healthy and conduct their business efficiently within the confines of the regulatory norms, some others are confronted with many constraints. Major concerns facing the co-operative sector, *inter alia,* include high levels of loan delinquency, erosion of capital base, paucity of funds for fresh deployment, high level of dependence on other agencies for funds, lack of professionalism in conduct and management, inadequate internal controls, governance structure and non-adherence to norms and regulations. Measures for improving the overall health and conduct of the cooperative banking system here become imperative.

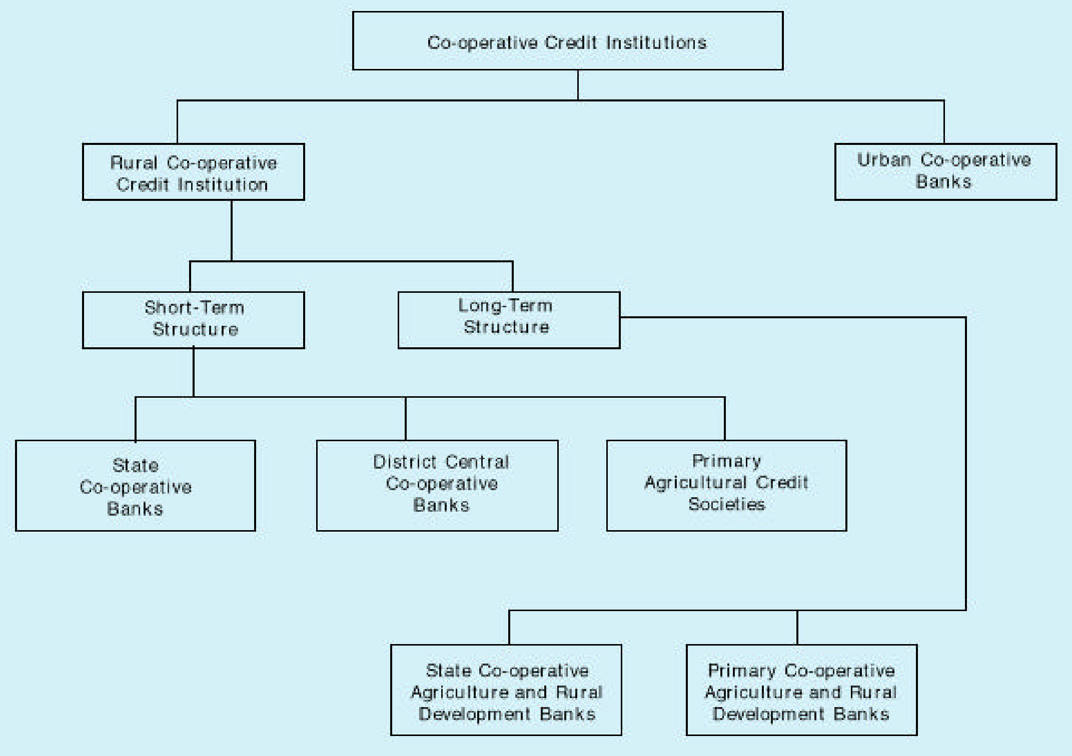
3.2 Several committees have, in the recent past, explored the possibilities for rejuvenation of co-operative banks through appropriate initiatives and suitable reforms. Many issues have surfaced from the deliberations of such committees. First, existence of a large number of weak banks in this sector does not augur well for the healthy growth of the financial sector. There is an impending need to improve the financial position of potentially viable institutions and to deal suitably with the non-viable ones. Second, for institutional and systemic viability, it is essential that such banks adhere to prudential discipline and guidelines framed, keeping in view the specific characteristics of the sector. Third, effective and co-ordinated regulation and supervision is a *sine qua non* for improvement of these institutions. They are, however, under the regulatory control of multiple authorities like State Governments, the Reserve Bank of India (RBI), the National Bank for Agriculture and Rural Development (NABARD) and also in certain cases the Central Government. Such multiplicity of control, regulatory overlap and lack of coordination are impediments to the revitalisation of the sector. Addressing the issue of dual/multiple control thus, assumes paramount importance for reforming cooperative banks.

Overview of the Recent Policy Measures on Cooperative Credit Institutions

3.3 Several steps have been taken to recast the co-operative credit system and place it on a viable and sustainable path. These can be classified into three broad categories. First, while recognising the differences between commercial and co-operative banks, it has been emphasised that some of the prudential norms introduced for commercial banks should be extended to co-operative banks as well, *albeit* in a phased manner. In particular, efforts have been made to improve the capital base of co-operative banks. Second, policies have been framed to contain the systemic risk emanating from the co-operative banking sector. Lastly, duality/multiplicity of control of co-operative banks has been recognised as an irritant to their effective regulation and supervision and measures have been initiated to address this issue.

3.4 In the Central Government Budget for 2002-03, a decision was taken to recapitalise co-operative banks with financial support from the Central and State Governments. The recapitalisation formula suggested is 60:40 between the Central and State Governments along with increases in share capital of members. In order to start the process, a token provision of Rs. 100 crore has been made and depending on the pace of reform, provision of additional funds would be considered.

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



3.5 A beginning in the direction of prudential regulation has been made with the introduction of a time bound programme for capital to risk-weighted asset ratio (CRAR) for Urban Cooperative Banks (UCBs). Similarly, efforts are on to conduct statutory audit of the UCBs through chartered accountants rather than Government officials. Further, entry point norms (EPNs) have been recast for the UCBs. Measures have also been taken to ensure that the minimum capital requirement as specified by the Banking Regulation (B.R.) Act, 1949 [as applicable to co-operative societies (AACS)] is met by rural co-operative banks.

3.6 Systemic implications of health and conduct of co-operative banks remain an issue for concern. Steps are being initiated to restrict the potential spillover effects of disturbances emanating from certain credit co-operatives to others in the same segment as also to other segments of the financial sector. Accordingly, various exposure limits and related norms have been formulated. UCBs have been instructed to unwind their cross-exposures in the form of term deposits with other UCBs. UCBs are allowed to maintain a part of their reserves for the purpose of statutory liquidity ratio (SLR) in the form of deposits with State Co-operative Banks (StCBs) and District Central Co-operative Banks (CCBs). In a bid to reduce such cross exposures and to maintain liquidity of these institutions, UCBs have been advised to increase the proportion of SLR holding in the form of government and other approved securities. Exposure of co-operative banks to capital market and inter-bank money markets has also been restricted. The norms for granting permission to a UCB to extend its area of operation beyond the State of incorporation have been tightened. Supervisory efforts have been strengthened and an effective off-site surveillance mechanism is being put in place for both UCBs and rural co-operative banks.

3.7 Duality/multiplicity of control of the credit co-operatives comes in the way of effective regulation and supervision of co-operative banks. The major issue in this context is the overlapping jurisdiction of the State Governments and the RBI. Successive committees have recommended that there should be clear demarcation of areas of regulatory responsibilities between the State Governments and the RBI. It has also been recommended that the RBI should regulate and supervise the banking operations of the UCBs. Although the RBI has concurred with such recommendations and advised the State Governments to undertake suitable legislative amendments, the issue has not been resolved so far. Given the serious implications of the lack of clear-cut jurisdiction over regulation of cooperative banks, it has been proposed by the RBI to rationalise this system by establishing an appropriate unified regulatory authority for UCBs with representatives of Centre, States and other interested parties. The Central Government, in turn, view that the issue be resolved through appropriate amendments in the B.R. Act, 1949 rather than through amendment of respective State Co-operative Societies Acts. Subsequently, RBI has submitted a draft Bill which is under consideration of the Government. This important issue was examined recently by a Commitee (Chairman : Honorable Minister of State for Finance). While RBI will do its best in implementing the final decisions of the Government in this regard, in case immediate measures are not taken to remove duality of control, it will be difficult to make the supervisory system effective.

3.8 In order to align with SCBs and to increase the operational autonomy of UCBs, the practice of fixing floor interest rates chargeable on loans and advances made by UCBs has been discontinued. UCBs now have to internally decide their own lending rates taking into account the cost of funds, transaction cost, etc. with the approval of the managing committee. In order to ensure transparency co-operative banks have to publish the minimum and maximum lending rates and display such information in every branch. Furthermore, cooperative banks are encouraged not to pay any additional interest on the savings bank accounts over and above what is payable by commercial banks. In addition, co-operative banks are encouraged not to pay interest on current accounts.

1. Progress of the Co-operative Banks

(a) Urban Co-operative Banks (UCBs)

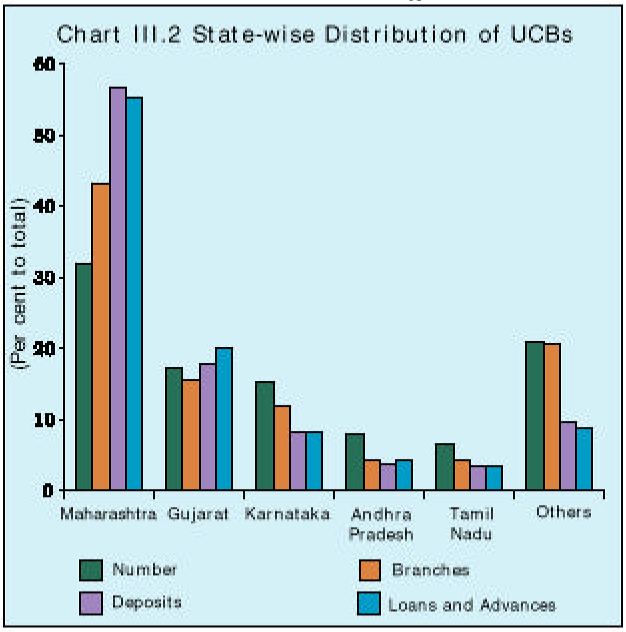
3.9 UCBs are registered under Co-operative Societies Act of the respective State Governments. Prior to 1966, UCBs were exclusively under the purview of State Governments. Effective March 1, 1966 certain provisions of the B.R. Act, 1949 (AACS) have been made applicable to these banks. Consequently, the RBI became the regulatory and supervisory authority of UCBs for their banking related operations. Managerial aspects of such banks continue to remain with the State Governments under their respective Cooperative Societies Act. UCBs with multi-state presence are also regulated by the Central Government and registered under the Multi-state Co-operative Societies

Act.

Licensing

3.10 The High Power Committee (HPC) on UCBs (Chairman: Shri K. Madhava Rao), 1999 recommended revisions in the entry point norms (EPNs) for UCBs. Accordingly, EPNs for UCBs were revised linking the minimum capital requirements to the population of the place of incorporation and membership. Depending on the parameters, the minimum start-up capital requirement for UCBs has been fixed between Rs. 25 lakh to Rs. 4 crore. Granting license to UCBs is also contingent upon fulfilment of specific experience/ qualifications by the Board of Directors and the Chief Executive Officer.

3.11 The RBI has constituted an Advisory Screening Committee comprising of eminent experts for overseeing the individual applications for licensing of UCBs. Based on the recommendations of the Committee, during 2001-02, the RBI granted 'in principle' approvals for setting up 7 new UCBs, while 63 applications were rejected. In addition, 51 'in principle' applications granted earlier were withdrawn during 2001-02 due to failure of promoters of such proposed banks to comply with the stipulated requirements. The number of UCBs has increased from 2,084 as at end-March 2001 to 2,090 as at end-March 2002. The state-wise distribution of UCBs is given in Chart III.2.



Inspection

3.12 The on-site inspection cycle for scheduled UCBs and weak UCBs is once a year, while well managed non-scheduled UCBs are inspected once in three years. All other UCBs are inspected once in two years. The mechanism of evaluating performance on the basis of supervisory ratings based on CAMELS (capital adequacy, asset quality, management, earnings, liquidity and systems) parameters are already in place for commercial banks. A similar rating system has been finalised for UCBs. Initially, such supervisory ratings would be made applicable for scheduled UCBs and the same would be extended to other UCBs in a phased manner. This would be implemented on trial basis for scheduled UCBs from March 2003. During 2001-02, the RBI conducted 833 statutory inspections of UCBs as against 914 inspections conducted during the previous year.

3.13 Due to increased number of UCBs, the existing on-site inspection system has come under severe strain. Consequently, a system of continuous off-site supervision has been put in place through a set of periodical prudential returns from UCBs. The returns cover asset and liability position, profitability, non-performing assets (NPAs), details on credit portfolio and large exposures, etc. During the first phase of implementation of off-site supervision, scheduled UCBs were advised to submit quarterly returns commencing with their financial position as on March 31, 2001. It has been observed that in the past, some UCBs developed serious financial problems soon after they received licenses. Various measures such as close monitoring of the submission of statutory returns by the banks, special scrutiny of their books of account in case of default in maintaining CRR/SLR, etc. have been initiated to step up supervisory efforts towards such banks.

3.14 Financial audit is a key supervisory tool for monitoring implementation of various prudential norms including accounting, income recognition, asset classification, provisioning, etc. For UCBs, however, supervision of audit function falls within the purview of the respective State Governments. A Committee was set up in 1995 to review the system and procedures associated with audit of UCBs (Chairman: Shri Chitale). The recommendations of the Committee included professionalisation of audit, mandatory concurrent audit for large banks, mandatory setting up of audit committee for all UCBs, conduct of statutory audit by chartered accountants rather than government officials, etc. The RBI has accepted the recommendations and advised the State Governments to implement them. To review the supervisory framework of UCBs on a regular basis and to recommend suitable steps to strengthen the existing system, a Task Force has also been formed which is headed by an Executive Director of the RBI.

3.15 In view of certain irregularities observed in a few UCBs in the recent past (Box III.1), it is increasingly recognised that focus of supervision of UCBs should be on prevention of irregularities rather than taking penal actions after their occurence. Accordingly, definite steps have been initiated to evolve an interactive mechanism between the Central Office and Regional Offices of the RBI. This mechanism places emphasis on improving market intelligence to pick up early warning signals, setting up code of responsibility of the auditors of UCBs, revising the guidelines for statutory audit, rating system, etc. The RBI has advised the State Governments to appoint professional chartered accountants.

Box: III.1: Co-operative Banks: Supervisory Actions

In the past few years, it has been repeatedly indicated that the existence of a multi-agency approach towards supervision of co-operative bank, results in certain supervisory gaps and ambiguities. Some co-operative banks have been conducting business contrary to the spirit of cooperation, while some others have flouted specific regulatory norms in the transactions relating to government securities.

The approach followed by the RBI to address the systemic issues arising from the irregularities has been to protect the interests of the depositors of the banks concerned and to ensure that action was taken against the erring management of these banks under the applicable law of the land. Wherever necessary, the RBI imposed graded penalty on the erring banks, based on the gravity of the violations.

All scheduled UCBs and some other UCBs with high level of transactions in government securities were advised by the RBI to conduct special audits by chartered accountants to ensure that dealings in government securities were transacted within prescribed regulatory norms. All competent authorities including Registrar of Co-operative Societies (RCS) have also been requested to oversee the audit of these co-operative banks and to initiate appropriate action. Depending on the gravity of regulatory violation by the erring co-operative banks, the RBI in conjunction with the respective RCSs initiated graded action including supersession of the Board of Directors, issuing show cause notices, filing of criminal cases, etc.

Instructions were issued by the RBI that all transactions in government securities should be through Subsidiary General Ledger (SGL)/ Constituent's Subsidiary General Ledger (CSGL) account or through dematerialised account. Trading in government securities in physical form through brokers has been prohibited. UCBs have also been advised to have their holdings of investments certified by concurrent auditors every quarter to confirm that the investments reported are in fact owned/held by the UCBs. Investments of UCBs not having concurrent auditor are to be verified by auditors appointed by the RCS.

Against this background, initiatives have also been taken to establish a unified supervisory authority for co-operative banks.

Prudential Norms

3.16 In order to ensure financial stability at both micro and systemic levels, it would be necessary to extend some of the prudential measures introduced for commercial banks to co-operative banks as well, notwithstanding the recognition of various differences in terms of operations and culture of commercial and co-operative banks. Accordingly, important policy changes have been initiated for UCBs in areas such as asset classification, income recognition, capital adequacy, asset liability management (ALM), etc.

3.17 As a move towards international best practices on asset classification, the current arrangement of recognising an asset as NPA if income and/or principal remain overdue for 180 days is being replaced by the 90-day norm. Though this norm would be effective from March 31, 2005, in order to ensure smooth transition, UCBs were advised to make additional provisions for such loans starting from March 31, 2002. Banks have also been advised to move over to a system of charging interests on monthly rests.

3.18 A definite time frame has been worked out for introduction of CRAR for UCBs. The time schedule is as under:

Date	**CRAR for Scheduled UCBs**	**CRAR for Non-Scheduled UCBs**
March 31, 2002	8 per cent	6 per cent
March 31, 2003	9 per cent	7 per cent

March 31, 2004	As applicable for commercial Banks	9 per cent
March 31, 2005		As applicable for commercial banks

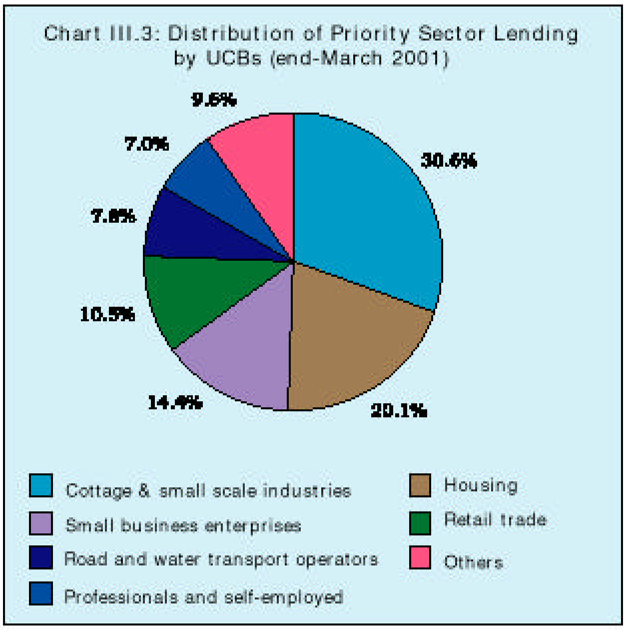
Refinance Facilities

3.19 The RBI extends refinance to UCBs at bank rate against their advances to tiny and cottage industrial units. Sanctioned limit for such refinance amounted to Rs. 3 crore during 2000-01 as well as 2001-02. Since 2000-01, NABARD has designated scheduled UCBs as eligible institutions for drawing refinance in respect of loans issued for rural non-farm sector, including rural housing and for other agricultural activities.

Priority Sector Lending

3.20 UCBs are required to channelise 60 per cent of total loans and advances towards priority sector. Furthermore, within the priority sector lending, lending to weaker sections should constitute 15 per cent of the total loans and advances of UCBs. Fulfilment of priority sector lending targets by individual UCBs are taken into consideration by the RBI while granting permission for branch expansion, expansion of areas of operation, scheduled status, etc.

3.21 The latest available data on priority sector lending by UCBs relate to end-March 2001. During 2000-01, out of the 1,617 reporting banks, 1,397 UCBs achieved the overall target for priority sector lending, while 1,093 achieved the target of lending towards weaker sections. For the same year, out of the 51 scheduled UCBs, 43 achieved the overall priority sector lending target while 18 achieved the sub-target for lending towards weaker sections. The sector-wise distribution of priority sector lending by UCBs during 2000-01 reflects that 30.6 per cent of the total priority sector lending was channelised towards cottage and small scale industries while 20.1 per cent was for housing. UCBs also granted sizeable loans and advances under priority sector lending to small business enterprises, retail trade, road and water transport operators and professional and self-employed persons (Chart III.3).



Weak Banks

3.22 An important purpose of micro-prudential measures is detection of incipient weakness of individual banks and initiation of prompt corrective action for addressing such problems. Towards this end, the RBI is following a mechanism to identify weak UCBs. Until March 2002, the criterion for identification was based on the extent of erosion of own funds of the UCB and impairment in its equity capital relative to statutory floor. In line with the recommendations of the HPC, criteria for categorising weak banks have been revised and UCBs are categorised as weak if the financial position is unsatisfactory beyond specific threshold limits in terms of CRAR (below 75 per cent of the statutory minimum) or NPA (above 10 per cent but below 15 per cent of outstanding loans and advances) or profitability (net losses for two years out of last three consecutive years). Weak banks are required to draw up a time bound revival package, the implementation of which would be monitored by the RBI and the Registrar of Co-operative Societies (RCS). Further worsening of the financial position of a weak UCB beyond certain limits in terms of either NPA or profitability along with CRAR, would result in it being classified as sick. On a case-by-case basis, sick UCBs would be put under moratorium or liquidation. As on March 31, 2002 there were 285 weak UCBs as compared to 249 weak banks identified in the previous year. During 2001-02, 119 weak banks could not comply with the minimum capital requirement as laid down by Section 11 (1) of the B.R. Act (AACS), 1949.

Liquidation

3.23 The HPC had recommended that sick UCBs be placed under moratorium/liquidation as also their automatic winding up. The RBI accepted the suggestions of the HPC in principle, though winding up of the operations of sick UCBs would depend on individual cases. During 2001-02, 13 banks were placed under liquidation.

Complaints and Frauds

3.24 UCBs are required to report to the RBI details of any fraud taking place within one week from the detection. UCBs are also required to submit a quarterly statement to the RBI detailing the outstanding cases of frauds. Until recently, there was no uniformity in taking up such cases with the concerned RCS. In February 2002, it was decided that instances of frauds in UCBs, which come under the notice of the RBI either through reports submitted by UCBs or during statutory inspection, would be reported in detail to RCS. During 2001-02, 1,703 complaints were received and 158 cases of frauds were reported by 98 banks involving Rs. 26 crore.

Financial Performance of UCBs[2]

3.25 Data relating to the financial performance of UCBs for 2001-02 is available for 1,854 reporting banks as against corresponding figures for the previous year in respect of 1,618 banks (Appendix Table III.1). Comparison of the performance of the reporting UCBs indicates that as at end-March 2002 owned funds increased substantially by 27.4 per cent over end-March 2001. During the same period outstanding deposits and loans increased by 15.1 per cent and 14.1 per cent, respectively. The credit-deposit (CD) ratio as at end-March 2002 was almost unchanged at the previous year's level of 67 per cent (Table III.1 and Chart III.4). Out of 1,854 reporting UCBs, 1,629 made profits during 2001-02. The percentage of profitable UCBs among the reporting banks increased to 87.9 per cent during 2001-02 from 83.9 per cent in the previous year.

3.26 Information on NPAs of UCBs during 2001-02 is available for 1,342 banks, while 1,942 banks reported their NPA positions during the previous year. Notwithstanding this difference, the gross NPAs at the aggregate level deteriorated progressively since 1999. The ratio of gross NPAs to total advances increased from 16.1 per cent as at end-March 2001 to 21.9 per cent as at end-March 2002 (Table III.2 and Chart III.5). The significant increase in gross NPAs was, to a large extent, due to very high NPAs of a few large UCBs situated in Gujarat. For example, the ratio of gross NPAs of 152 reporting UCBs from the State to total advances was 47.0 per cent as at end-March 2002. Excluding these banks, the ratio of gross NPA to total advances for other reporting UCBs was much lower at 15.8 per cent.

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

(Per cent)

Items	Financial year		
	1999-2000	**2000-01**	**2001-02P**
1	2	3	4
Owned Funds	27.3	16.2	27.4
Deposits	35.3	13.6	15.1
Borrowings	41.8	40.3	N.A.
Loans Outstanding	34.6	18.2	14.1
C.D. Ratio@	64.6	67.3	66.7

@ As at end-March. P - Provisional, N.A. - Not available.

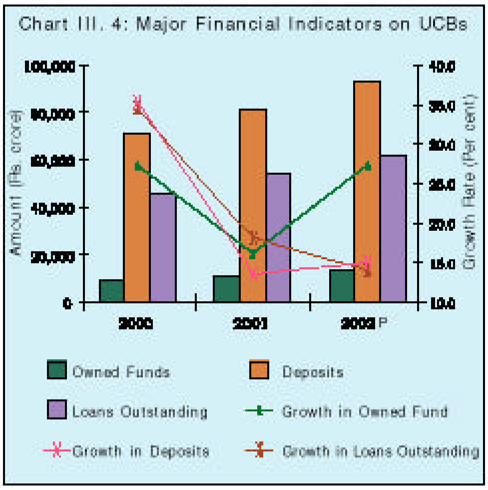
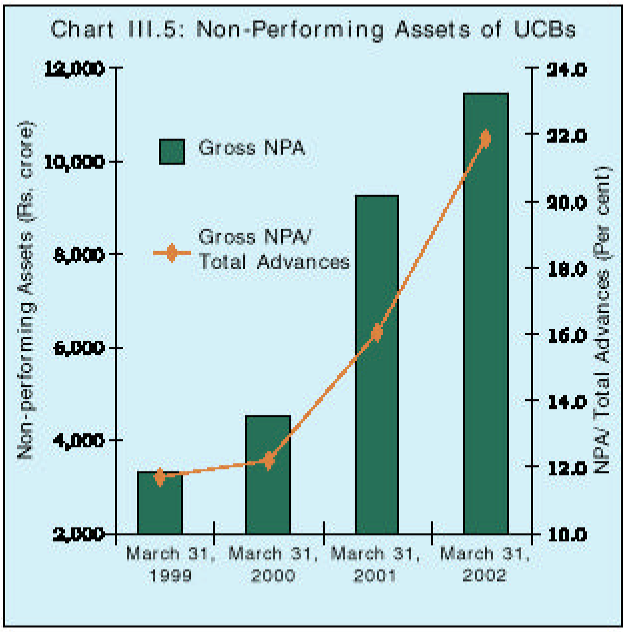


Table III.2: Gross Non-Performing Assets of Urban Co-operative Banks

As on	Number of Reporting UCBs	Gross NPAs (Rs. Crore)	Gross NPA as a Percentage of Total Advance
1	2	3	4
March 31, 1999	1,474	3,306	11.7
March 31, 2000	1,748	4,535	12.2
March 31, 2001	1,942	9,245	16.1
March 31, 2002*	1,342	11,472	21.9

* Figures are unaudited.



Scheduled UCBs

3.27 UCBs are included in the second schedule of the RBI Act, 1934, if their net demand and time liabilities (NDTL) are at least Rs. 100 crore and their overall functioning in terms of select parameters are satisfactory. As on March 31, 2002 there were 52 scheduled UCBs compared with 51 scheduled UCBs in the previous year.

3.28 The composition of liabilities of scheduled UCBs as on March 31, 2002 underwent some changes compared to that prevalent on March 31, 2001. In particular, the share of reserves and other liabilities to total liabilities increased by 1.7 percentage points and 2.6 percentage points, respectively, while that of deposits declined by 3.7 percentage points. The composition of assets also underwent changes. The share of other assets and investments in total assets increased by 3.2 percentage points and 0.7 percentage point, respectively. The shares of loans and advances and balance with banks declined by 1.7 percentage points and 1.2 percentage points, respectively (Table III.3).

Financial Performance of the Scheduled UCBs

3.29 During 2001-02, income of scheduled UCBs increased by 2.6 per cent while their expenditure declined by 9.9 per cent. As a result, operating profits of scheduled UCBs increased by 1.3 per cent. Though scheduled UCBs at the aggregate level continued to register a net loss for the second year in succession, the amount of net loss declined to Rs. 304 crore in 2001-02 from Rs. 1,023 crore in 2000-01. For scheduled UCBs, interest income declined by 2.9 per cent during 2001-02 while other income increased sharply by 86.7 per cent. The fall in expenditure during 2001-02 was on account of a sharp fall in provisions and contingencies by 41.6 per cent (Table III.4). Select financial ratios (as a percentage of assets) for UCBs, StCBs and CCBs have been presented in Table III.5. Bank-wise major indicators for UCBs have been presented in Appendix Table III.2.

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

(Rs. crore)

Item	As on March 31	
	2001	2002 P
1	2	3
Liabilities		
1. Capital	442	531
	(1.0)	(1.1)
2. Reserves	4,658	5,854
	(10.7)	(12.4)
3. Deposits	33,183	34,236
	(76.2)	(72.5)
4. Borrowings	887	640
	(2.0)	(1.4)
5. Other Liabilities	4,368	5,955
	(10.0)	(12.6)
Total Liabilities	**43,538**	**47,217**
	(100.0)	**(100.0)**
Assets		
1. Cash	2,183	2,001
	(5.0)	(4.2)
2. Balances with Banks	2,552	2,200
	(5.9)	(4.7)
3. Money at call and short notice	376	318
	(0.9)	(0.7)
4. Investments	11,544	12,848
	(26.5)	(27.2)
5. Loans and Advances	21,480	22,469
	(49.3)	(47.6)
6. Other Assets	5,402	7,381
	(12.4)	(15.6)
Total Assets	**43,538**	**47,217**
	(100.0)	**(100.0)**

P Provisional
Notes : 1. Figures in brackets are percentages to total liabilities/assets.
2. For details see notes to Appendix Table III.2.
3. Components may not add-up to the aggregate figures due to rounding off.
Source: Balance sheet of respective banks.

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

(Rs.crore)

Item	2000-01	2001-02P	Variation of Column (3) over (2)	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**4,916**	**5,045**	**129**	**2.6**
	(100.0)	**(100.0)**		

i) Interest Income	4,613	4,479	-134	-2.9
	(93.8)	(88.8)		
ii) Other Income	303	566	263	86.7
	(6.2)	(11.2)		
B. Expenditure (i+ii+iii)	**5,939**	**5,349**	**-590**	**-9.9**
	(100.0)	**(100.0)**		
i) Interest Expended	3,384	3,426	42	1.2
	(57.0)	(64.0)		
ii) Provisions and Contingencies	1,705	995	-710	-41.6
	(28.7)	(18.6)		
iii) Operating Expenses	849	928	78	9.2
	(14.3)	(17.3)		
of which : Wage Bill	498	537	38	7.7
	(8.4)	(10.0)		
C. Profit				
i) Operating Profit	**683**	**691**	**9**	**1.3**
ii) Net Profit	**-1,023**	**-304**	**718**	**—**
D. Total Assets	**43,538**	**47,217**	**3,679**	**8.5**

P Provisional - Not Applicable.
Note : 1.Figures in brackets are percentages to total liabilities/assets.
2.For details see notes to Appendix Table III.2.
3.Components may not add-up to the aggregate figures due to rounding off.
Source : Balance sheet of respective banks

Table III.5: Select Financial Ratios of Co-operative Banks*

(per cent of assets)

Item	Scheduled UCBs		StCBs		CCBs	
	2000-01	2001-02	1999-2000	2000-01	1999-2000	2000-01
1	2	3	4	5	6	7
Operating Profit	1.60	1.50	1.68	1.71	1.60	1.71
Net Profit	-2.30	-0.60	0.29	0.39	-0.11	0.07
Income	11.30	10.70	10.37	10.28	10.86	10.71
Interest Income	10.60	9.50	9.83	9.90	10.31	10.14
Other Income	0.70	1.20	0.54	0.37	0.55	0.57
Expenditure	13.60	11.30	10.07	9.88	10.98	10.64
Interest Expended	7.80	7.30	7.91	7.86	7.27	7.18
Operating Expenses	2.00	2.00	0.78	0.71	1.99	1.82
Wage Bill	1.10	1.10	0.60	0.53	1.54	1.41
Provisions and Contingencies	3.90	2.10	1.39	1.31	1.72	1.64
Spread (Net Interest Income)	2.80	2.20	1.92	2.05	3.04	2.96

* As ratio to total assets.

Table III.6: Composition of Liabilities and Assets of State Co-operative Banks

(Rs. crore)

Item	As on March 31	
	2000	2001P
1	2	3

Liabilities		
1. Capital	636	695
	(1.3)	(1.3)
2. Reserves	4,275	5,142
	(9.0)	(9.8)
3. Deposits	29,557	32,606
	(62.1)	(62.2)
4. Borrowings	10,859	11,685
	(22.8)	(22.3)
5. Other Liabilities	2,260	2,315
	(4.7)	(4.4)
Total Liabilities	**47,587**	**52,443**
	(100.0)	**(100.0)**
Assets		
1. Cash and Bank Balance	2,644	2,285
	(5.6)	(4.4)
2. Investments	15,362	16,168
	(32.3)	(30.8)
3. Loans and Advances	25,709	29,848
	(54.0)	(56.9)
4. Other Assets	3,872	4,142
	(8.1)	(7.9)
Total Assets	**47,587**	**52,443**
	(100.0)	**(100.0)**

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

(b) State Co-operative Banks (StCBs)

3.30 Composition of the liabilities of the State Co-operative Banks (StCBs) in terms of major constituents (namely, capital, reserves, deposits, borrowings and other liabilities) as at end-March 2001 remained broadly unaltered compared with end-March 2000 position. The share of reserves in total liabilities increased by 0.8 percentage point while that of borrowings declined by 0.5 percentage point (Table III.6). The decline in deposit growth of StCBs witnessed during 2000 continued in 2001 also. As at end-March 2001, the deposit growth of StCBs decelerated from 14.6 per cent to 10.3 per cent. The asset portfolio of StCBs underwent some changes as at end-March 2000 compared to the position prevailing at end-March 2001. While the share of loans and advances in total assets increased by nearly 3 percentage points, the corresponding shares of all other constituents of assets (namely, cash and bank balance, investments and other assets) declined (Table III.6). Loans and advances by StCBs increased by 16.1 per cent as on March 31, 2001. Provisional data available for March 31, 2002 indicate that as compared with March 31, 2001 outstanding deposits and loans of StCBs increased by 10.2 per cent and 9.5 per cent, respectively, while borrowings declined by 1.8 per cent.

3.31 Recovery performance of StCBs as a proportion of demand[3] at the all India level improved from 83 per cent in 1999-2000 to 84 per cent in 2000-01.

Financial Performance of StCBs

3.32 The total income of StCBs during 2000-01 increased by 9.2 per cent while expenditure increased by 8.1 per cent. During the same year, operating profit and net profit of StCBs increased by 12.2 per cent and 48.6 per cent, respectively. As a proportion of assets, profitability of StCBs improved both in net and gross terms. On the income side, while interest income increased during 2000-01, other income recorded a decline. On the expenditure side, StCBs were able to contain the growth in operating expenditure and in particular, the wage bill (Table III.7). During 2000-01, out of 30 StCBs, 23 made profits while 6 made losses (Chart III.6).

(c) Central Co-operative Banks (CCBs)

3.33 The composition of the liabilities of district Central Co-operative Banks (CCBs) remained broadly unaltered as at end-March 2001 compared to the position prevailing as at end-March 2000. Deposits and borrowings continued to account for nearly two-thirds and one-sixth of the total liabilities, respectively, although reserves of CCBs increased by 24.2 per cent. The change in asset portfolio was, however, pronounced. In the total assets, share of cash and bank balances declined, while those of investments and loans and advances increased (Table III.8). Investments by CCBs increased by 22.2 per cent as on March 31, 2001 as compared to the previous year. According to provisional data for March 31, 2002 deposit growth rate of CCBs declined substantially from 13.9 per cent to 5.1 per cent. There was a decline in the growth rate of borrowings also.

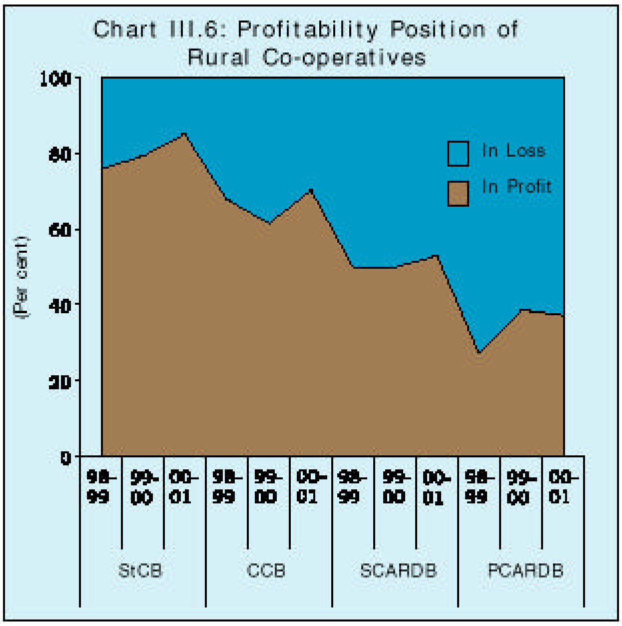
Table III.7: Financial Performance of State Co-operative Banks

(Rs.crore)

Item	1999-2000	2000-01(P)	Variation of Column (3) over (2)	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	**4,933 (100.0)**	**5,389 (100.0)**	**456**	**9.2**
i) Interest Income	4,678 (94.8)	5,194 (96.4)	516	11.0
ii) Other Income	255 (5.2)	195 (3.6)	-60	-23.6
B. Expenditure (i+ii+iii)	**4,794 (100.0)**	**5,183 (100.0)**	**389**	**8.1**
i) Interest Expended	3,765 (78.5)	4,120 (79.5)	355	9.4
ii) Provisions and Contingencies	659 (13.8)	689 (13.3)	30	4.5
iii) Operating Expenses	370 (7.7)	373 (7.2)	4	1.0
of which: Wage Bill	286	280	-7	-2.3

		(6.0)	(5.4)		
C.	**Profit**				
	i) Operating Profit	**798**	**895**	**97**	**12.2**
	ii) Net Profit	**138**	**206**	**67**	**48.6**
D.	**Total Assets**	**47,587**	**52,443**	**4,855**	**10.2**

Notes : 1)Figures in brackets are percentage shares to the respective total.
P Provisional
2)Totals may not tally due to rounding off.
Source : NABARD



3.34 At the all-India level, recovery performance of CCBs as a proportion of demand declined from 70 per cent in 1999-2000 to 67 per cent in 2000-01 (Appendix Table III.3).

Financial Performance of CCBs

3.35 During 2000-01, income and expenditure of CCBs increased by 12.7 per cent and 10.8 per cent, respectively, over the previous year. Interest income continued to account for nearly 95 per cent of the total income, while interest expenditure accounted for nearly two-thirds of total expenditure. The growth rate of operating expenditure of CCBs during 2000-01 remained low at 4.7 per cent (Table III.9). During 2000-01, out of 367 CCBs, 245 made profits while 112 CCBs made losses. Profitability situation of CCBs improved during 2000-01 both in terms of number of profitable CCBs and amount of total profit (Chart III.6).

Table III.8: Composition of Liabilities and Assets of Central Co-operative Banks

(Rs. crore)

Sr.	Item	As on March 31

No.		2000	2001(P)
1		2	3
Liabilities			
1	Capital	2,826	3,124
		(3.3)	(3.2)
2	Reserves	7,290	9,056
		(8.6)	(9.4)
3	Deposits	54,248	61,786
		(64.1)	(63.9)
4	Borrowings	14,658	16,935
		(17.3)	(17.5)
5	Other Liabilities	5,554	5,774
		(6.6)	(6.0)
Total Liabilities		**84,576**	**96,675**
		(100.0)	**(100.0)**
Assets			
1	Cash and Bank Balance	7,731	5,848
		(9.1)	(6.0)
2	Investments	22,594	27,612
		(26.7)	(28.6)
3	Loans and Advances	44,538	52,491
		(52.7)	(54.3)
4	Other Assets	9,713	10,724
		(11.5)	(11.1)
Total Assets		**84,576**	**96,675**
		(100.0)	**(100.0)**

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

(d) Primary Agricultural Credit Societies (PACS)

3.36 Primary Agricultural Credit Societies (PACS) are the grassroot level arms of the short-term co-operative credit structure. PACS deal directly with individual borrowers, grant short-to medium-term loans and also undertake distribution and marketing functions. According to estimates nearly 1 lakh PACS existed as on March 31, 2001 with membership of approximately 10 crore. As on the same date, outstanding deposits and loans outstanding of PACS were Rs. 13,481 crore and Rs. 34,522 crore, respectively. A large number of PACS, however, face severe financial problems primarily due to significant erosion of own funds, deposits, and low recovery rates. Various policies such as financial support for computerisation, steps towards better effective recovery performance, human resource development, etc. have been adopted to improve the financial health of the PACS. NABARD has been extending funds to develop the infrastructure for PACS.

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

3.37 State Co-operative Agriculture and Rural Development Banks (SCARDBs) constitute the upper-tier of long-term co-operative credit structure in India. Though long-term credit cooperatives have been allowed to access public deposits subject to certain conditions, such deposits constitute a relatively small proportion of their total liabilities. SCARDBs are mostly dependent on borrowings for on-lending. As on March 31, 2002, as against deposits of Rs. 536 crore, outstanding borrowings of SCARDBs were Rs. 14,888 crore. On the same date, their loans outstanding were Rs. 14,000 crore (Appendix Table III.1). At the all-India level, there was deterioration in the recovery performance of SCARDBs from 62 per cent in 1999-2000 to 58 per cent in 2000-01 (Appendix Table III.3). During 2000-01, out of the 17 reporting SCARDBs there were 10 profit making and 7 loss making SCARDBs and in the aggregate, SCARDBs incurred a loss of Rs. 126 crore during this year.

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

3.38 PCARDBs are the lowest layer of long-term credit co-operatives. As in the case of SCARDBs, PCARDBs are primarily dependent on borrowings for their lending business. As on March 31, 2002, deposits and borrowings of PCARDBs were at Rs. 251 crore and Rs. 9,077 crore, respectively, while loans extended by them was of the order of Rs. 8,960 crore (Appendix Table III.1). During 2000-01, recovery performance of PCARDBs worsened to 53 per cent from 58 per cent during the previous year (Appendix Table III.3). During 2000-01, there were 284 profit making and 448 loss making PCARDBs and in aggregate they registered a loss of Rs. 158 crore.

Table III.9: Financial Performance of Central Co-operative Banks: 1999-2000 and 2000-01

(Rs.crore)

	Item	1999-2000	2000-01(P)	Variation of Column (3) over (2) Absolute	Percentage
1		2	3	4	5
A.	**Income (i+ii)**	**9,187** **(100.0)**	**10,356** **(100.0)**	**1,168**	**12.7**
	i) Interest Income	8,718 (94.9)	9,807 (94.7)	1,089	12.5
	ii) Other Income	469 (5.1)	549 (5.3)	79	16.9
B.	**Expenditure (i+ii+iii)**	**9,283** **(100.0)**	**10,290** **(100.0)**	**1,007**	**10.8**
	i) Interest Expended	6,149 (66.2)	6,942 (67.5)	794	12.9
	ii) Provisions and Contingencies	1,453 (15.7)	1,588 (15.4)	134	9.2
	iii) Operating Expenses	1,681 (18.1)	1,760 (17.1)	79	4.7
	of which: Wage Bill	1,301 (14.0)	1,360 (13.2)	59	4.6

C. Profit				
i) Operating Profit	1,357	1,653	296	21.8
ii) Net Profit	-96	66	162	-
D. Total Assets	**84,576**	**96,675**	**12,099**	**14.3**

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

2. Health Status of Rural Co-operatives

Non-Performing Assets (NPAs)

3.39 Among credit co-operatives the proportion of gross NPAs as per cent of loans outstanding is relatively higher for the lower tier institutions *vis-a-vis* the higher tier. As on March 31, 2001, gross NPAs of StCBs at Rs. 3,889 crore accounted for 13.0 per cent of their outstanding loans and advances. Nearly three-fifth of the gross NPAs consisted of substandard assets and more than one-third were doubtful assets. For CCBs, on the same date, gross NPAs were at Rs. 9,371 crore, which was equivalent to 17.9 per cent of their outstanding loans and advances. The proportions of substandard and doubtful assets in gross NPA of CCBs were approximately the same as that of StCBs. As on March 31, 2001, gross NPAs of SCARDBs and PCARDBs were at Rs. 2,567 crore and Rs. 2,005 crore, respectively, and were equivalent to 20.4 per cent and 23.9 per cent of their respective loans and advances (Table III.10).

Table III.10: Composition of Gross NPAs
(as on March 31, 2001)

(Rs.crore)

Asset Quality	StCBs	CCBs	SCARDBs	PCARDBs
1	2	3	4	5
Substandard Assets	2,178	4,994	1,557	1,156
Doubtful Assets	1,520	3,466	1,000	816
Loss Assets	191	911	11	33
Total NPAs	3,889	9,371	2,567	2,005
Percentage of NPAs to loans outstanding	13.0	17.9	20.4	23.9

Source: NABARD.

Table III.11: Frequency Distribution of StCBs, CCBs & SCARDBs according to levels of Gross NPAs (As on March 31, 2001)

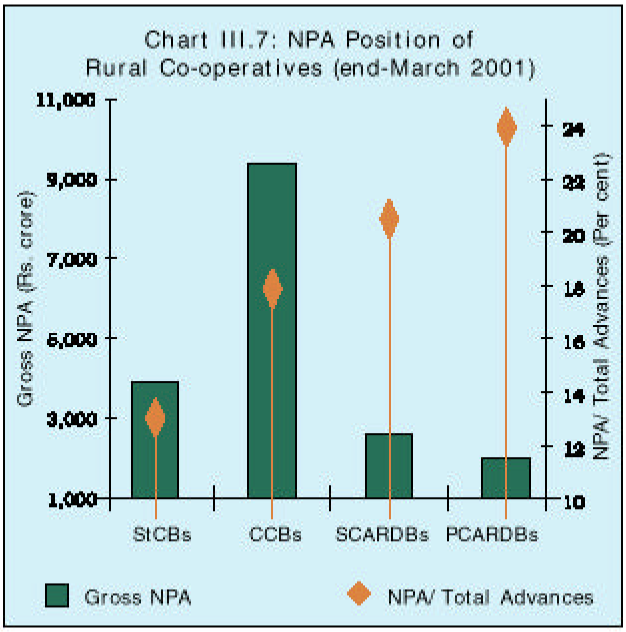
NPAs as Percentage to Outstanding Loans and Advances	Agency					
	StCBs		CCBs		SCARDBs	
	Number	% to Total	Number	% to Total	Number	% to Total
1	2	3	4	5	6	7
0-5	6	21	40	11	4	21
5-10	3	10	57	16	0	0
10-15	7	24	35	10	1	5
15-20	1	3	45	12	2	11
20-25	2	7	26	7	1	5

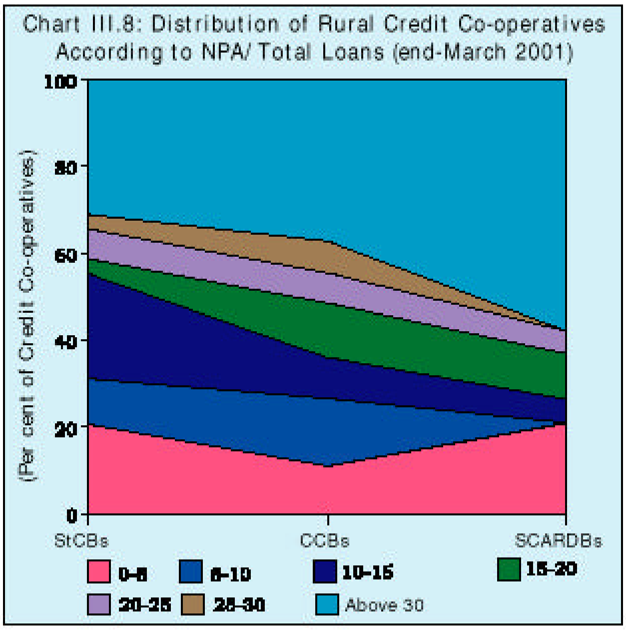
25-30	1	3	27	7	0	0
Above 30	9	31	136	37	11	58
Total number of reporting banks	**29**	**100**	**366**	**100**	**19**	**100**
Total number of banks	**30**		**367**		**19**	

Note : Haryana & Punjab SCARDBs have reported Nil NPAs.
Source : NABARD.

3.40 As on March 31, 2001, the NPA situation of all types of rural credit co-operatives worsened as compared with the previous year, both in absolute terms and as a proportion of loans outstanding. As has been observed over time, the problem of NPAs continued to be more acute for the long-term structure of credit cooperatives than the short-term structure. The number of StCBs, CCBs and SCARDBs, having NPAs above 30 per cent of the outstanding loans and advances increased between end-March 2000 and end-March 2001. As on March 31, 2001, the share of such credit cooperatives (i.e., NPAs above 30 per cent) among the reporting credit co-operatives were 31 per cent, 37 per cent and 58 per cent for StCBs, CCBs and SCARDBs, respectively (Table III.11 and Charts 7 and 8).

3.41 Various measures are being initiated to address the large NPA problems being faced by the credit co-operatives. In line with the one-time settlement (OTS) schemes for NPAs of commercial banks announced by the RBI, NABARD has finalised similar guidelines for credit co-operatives in consultation with RBI. The cut-off date for NPAs has been fixed at March 31, 1998 and the cut-off level amount at Rs. 5 lakh. The scheme was initially made operative up to March 31, 2002 and subsequently extended up to September 30, 2002. Credit co-operatives were instructed to follow the guidelines uniformly without any discrimination, as also to immediately pass on the recovered amounts to higher financing institutions. It was also clarified that for implementing the scheme, credit cooperatives would not receive financial support from the Government, the RBI or NABARD. With approval from the appropriate authorities, most of the credit co-operatives have adopted the scheme. Banks were given discretion to formulate OTS Scheme for NPAs above the cut-off limit and date with approval of their respective Boards and RCS. With a view to moving towards international best practices and to ensure greater transparency, 90 days norm for recognition of loan impairment has been extended to StCBs and CCBs from the year ending March 31, 2006. To facilitate smooth transition, banks are advised to move over to charging interest on monthly rests effective April 1, 2004.





Capital Adequacy

3.42 Since the introduction of prudential norms for co-operative banks in 1996-97, some improvement has been noticed in the capital structure of these banks. Under Section 11(1) of the B.R. Act, 1949 (AACS), co-operative banks need to maintain minimum capital which is linked to the place of incorporation and situation of business premises of the co-operatives. As on March 31, 2002, 9 out of 30 StCBs and 139 out of 367 CCBs were not complying with the minimum share capital requirement. Depletion of assets has eroded not only own funds but also affected deposits to the tune of Rs. 1,934 crore. Deposits in respect of 1 StCB and 14 CCBs had been fully eroded, while for 1 StCB and 26 CCBs, the erosion has been to the extent of 50 per cent and above. Of the 148 non-compliant cooperative banks, exemption from the provisions of Section 11 (1) of the B.R. Act, 1949 (AACS) has been granted to 74 banks (5 StCBs and 69 CCBs) by the Central Government and applications for grant of exemption in respect of 42 banks (1 StCB and 41 CCBs) have been recommended by NABARD to the RBI and the Central Government.

3. NABARD and its Role in Rural Credit

3.43 The basic emphasis of NABARD during 2001-02 had been to foster larger deployment of own funds by credit co-operatives and improvement in their recovery performance. In order to be eligible for facilities extended by NABARD, credit co-operatives need to satisfy certain norms in terms of minimum recovery performance and NPA level. Some of these norms were tightened during the year. In order to encourage farm mechanisation, schemes of refinance against such loans were liberalised. In addition, for technological upgradation of Indian agriculture, special schemes were framed for setting up agri-clinics and agri-business centres. A scheme for financing the purchase of land by small and marginal farmers, sharecroppers and tenant farmers was also made operational during the year.

Table III.12 : Net Accretion to Resources of NABARD (April-March)

(Rs. crore)

Sr. No.	Particulars	Financial Year 2000-01	2001-02
	1	2	3
1	Capital*	0	1,500
2	Advance received from RBI and Central Government towards Capital*	0	-1,500
3	Reserves and Surplus	159	655
4	NRC(LTO) Fund	1,151	531
5	NRC (Stab.) Fund	51	6
6	RIDF Deposits	1,825	2,474
7	Open market borrowings	1,473	2,464
8	Borrowings from Government of India	-19	-66
9	Borrowings from RBI	716	-100
10	Foreign currency loan	-9	9
11	Others	102	309
	Total	**5,449**	**6,282**

* In earlier years, sums aggregating Rs. 1,500 crore has been received from RBI and Government of India as advance towards capital. On issue of notification by Government of India during the financial year 2001-02 increasing the capital of NABARD, these amounts have been credited to capital account.

Note : 1. The balances lying under Watershed Development Fund, Micro Finance Development Fund and Interest Differential Fund have been included under item 11, *i.e.*, Others.

2. Deposits other than RIDF and short-term borrowings have also been included under item 11, *i.e.*, Others.

Source: NABARD.

Resources Mobilised by NABARD

3.44 Net accretion to resources of NABARD during 2001-02 at Rs. 6,282 crore was higher than that of Rs. 5,449 crore during the previous year (Table III.12). During 2001-02, as in the previous year, two largest sources of net accretion were RIDF deposits, closely followed by market borrowings. A significant portion of total market borrowings by NABARD was through the issue of Capital Gains Bonds and Priority Sector Bonds. NABARD cannot accept short-term public deposits and thus, since inception it is dependent on general line of credit (GLC) from the RBI for meeting short-term funding needs. Though NABARD's dependence on GLC from the RBI continues to be large, there was a decline from this source of financing during 2001-02 as compared to the previous year.

Refinance by NABARD

3.45 The aggregate refinance by NABARD during 2001-02 was Rs. 18,075 crore.

NABARD provides two types of refinance. The first is extended to Regional Rural Banks (RRBs) and apex institutions, namely, StCBs and State Governments. The other type of refinance is extended to augment resources for ground level deployment of rural credit.

Refinance to StCBs, State Governments and RRBs

3.46 The total outstanding refinance by NABARD for StCBs, State Governments and RRBs at Rs. 7,075 crore as at end-June 2002, was higher than Rs. 6,857 crore as at end-June 2001. The outstanding refinance to StCBs and RRBs at Rs. 5,353 crore and Rs. 1,234 crore as at end-June 2002, respectively, were higher than their corresponding levels as at end-June 2001. Outstanding refinance to State Governments at Rs. 488 crore as at end-June 2002, however, declined from its level as at end-June 2001 (Table III.13). The shares of StCBs, State Governments and RRBs in aggregate refinance limits sanctioned, as at end-June 2002 remained almost unaltered as at end-June, 2001. As compared to the position as at end-June 2001, the share of limit for short-term refinance to StCBs declined and the share of limit for medium-term refinance to StCBs increased considerably as at end-June 2002. It has been observed over the past few years that for the full year (July-June), drawal of refinance by StCBs for short-term purposes exceeded the limits sanctioned for such purposes. Since this category of refinance by NABARD accounts for about 80 per cent of the total refinance extended by NABARD to StCBs, State Governments and RRBs taken together, excess drawal of refinance by StCBs for short-term purposes result in drawal in excess of refinance limits sanctioned at the aggregate level as well. A similar trend continued for 2001-02 as well. NABARD advised the State Governments to reduce their participation in the capital of credit co-operatives and therefore, reduce borrowings from NABARD for contributing to the share capital of co-operatives. In line with this, refinance accessed by State Governments declined during 2001-02 (July-June).

Table III.13: NABARD's Credit to State Co-operative Banks, State Governments and Regional Rural Banks

(Rs. crore)

Category	2000-01 (July-June)				2001-02 (July-June)			
	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	7,277	8,254	7,562	4,832	7,289	9,146	9,068	4,910
b Medium-term	267	120	173	298	838	307	162	443
Total (a+b)	7,544	8,373	7,736	5,130	8,127	9,453	9,230	5,353
2 State Government	68	58	70	496	63	50	59	488
3 Regional Rural Banks								
a Short-term	1,314	1,214	1,110	1,189	1,381	1,257	1,246	1,200
b Medium-term	11	10	34	42	16	9	16	34
Total (a+b)	1,325	1,224	1,144	1,230	1,397	1,266	1,262	1,234
Grand Total (1+2+3)	**8,937**	**9,656**	**8,950**	**6,857**	**9,587**	**10,769**	**10,551**	**7,075**

Source: NABARD.

Refinance for Short-term - Seasonal Agricultural Operations

3.47 Augmentation of ground-level credit flow through adoption of region specific strategies and rationalisation of lending policies and procedures continued to remain major considerations in the refinance policy of NABARD towards credit cooperatives for short-term seasonal agricultural operations (SAO). For accessing refinance from NABARD, CCBs were required to have minimum loan recovery of 50 per cent or NPA not exceeding 20 per cent of outstanding loans and advances. Need based relaxation of the minimum eligibility norms were, however, granted for minor irrigation projects. In order to boost the recovery and thereby recycle funds, minimum recovery norms with seasonality discipline for CCBs were enhanced by 10 per cent.

Refinance for Short-term - Other than Seasonal Agricultural Operations

3.48 During 2001-02, NABARD reduced the rate of interest on finance provided for stocking and distribution of fertilizers and the credit limit for financing was fixed at an equivalent of 2 months' average sale of fertilizers/inputs in the preceding calendar year. For refinance against credit extended for production and marketing activities of weavers' societies and industrial cooperative societies, minimum eligibility norms in terms of NPAs were introduced.

Refinance against Investment Credit

3.49 Limits of refinance towards credit flows for farm mechanisation were raised in certain cases and specific norms on refinancing were liberalised during 2001-02. This was in pursuance of the policy of technology transfer in agriculture. Schemes were formulated for financing agricultural graduates for setting up agri-clinics and agri-business centres and for small and marginal farmers, sharecroppers and tenant farmers for purchase of land for agricultural purposes.

Interest Rates on Refinance

3.50 In response to reduction in PLR by commercial banks, NABARD reduced the interest rate on refinance provided to commercial banks across the board by 0.5 percentage point on January 14, 2002. Likewise, reduction was effected for loans amounting to more than Rs.25,000 extended by RRBs and co-operative banks for minor irrigation projects. In line with the objective of expediting rural technology transfer, interest rate on refinance was reduced from 10.0 per cent to 8.5 per cent on February 1, 2002 for loans above Rs. 2 lakh extended for rural godowns, farm mechanisation, agri-clinics and agri-business centres. On March 15, 2002, interest rates for minor irrigation investment under the Swarnjayanti Gram Swarozgar Yojana (SGSY) were brought on par with other minor irrigation projects (Table III.14).

Rural Infrastructure Development Fund

3.51 To provide loans to State Governments for the creation of rural infrastructure at reasonable rates, Rural Infrastructure Development Fund (RIDF) was set up in 1995-96 under the initiative of the Central Government. Under the scheme, the Central Government, through budgetary outlays, contributes to the corpus fund of RIDF. Commercial banks can, in turn, deploy their short-falls in priority sector lending target to the Fund. In order to encourage commercial banks towards direct lending to agriculture/priority sector, interest rates earned by commercial banks on RIDF deposits are kept inversely related to the shortfall in lending to agriculture. Furthermore, for ensuring parity in risk weights assigned to direct priority sector lending and RIDF deposits, credit risk weights for both types of fund deployments by commercial banks have been fixed at 100 per cent.

3.52 The corpus of RIDF I to VII taken together amounted to Rs. 23,000 crore as on March 31, 2002. It was announced that funds for RIDF VIII would be enhanced from Rs. 5,000 crore to Rs 5,500 crore (Central Government Budget, 2002-03). Cumulative amounts of deposits mobilised, loans sanctioned and fund disbursed under RIDF as on March 31, 2002 were Rs. 12,288 crore, Rs. 23,432 crore and Rs. 13,042 crore, respectively (Tables III.15 and III.16). In terms of purpose-wise amounts sanctioned under RIDF, projects related to rural connectivity - roads and bridges - and irrigation continued to account for nearly 90 per cent of the cumulative sanctions between 1995-96 and 2001-02 (Table III.17 and Chart III.9).

Table III.14: NABARD's Interest Rate Structure on Term-Loan Refinance

(per cent per annum)

		Rates as on					
		November 1, 2001		January 14, 2002		March 15, 2002	
	Loan Size	Minor Irrigation (MI*)	Purpose Other than MI@	Minor Irrigation (MI*)	Purpose Other than MI@	Minor Irrigation (MI)**	Purpose Other than MI@
	1	2	3	4	5	6	7
A.	**StCBs/ SCARDBs**						
	Upto Rs.25,000	7.0	7.0	7.0	7.0	7.0	7.0
	Rs.25,001 - Rs.2 lakh	8.0	9.0	7.5	8.5	7.5	8.5
	Above Rs.2 lakh	8.0	10.0	7.5	10.0	7.5	10.0
B.	**RRBs**						
	Upto Rs.25,000	7.5	7.5	7.5	7.5	7.5	7.5
	Rs.25,001 - Rs.2 lakh	8.0	9.0	7.5	8.5	7.5	8.5
	Above Rs.2 lakh	8.0	10.0	7.5	10.0	7.5	10.0
C.	**Commercial Banks/UCBs**						
	Upto Rs.25,000	8.0	8.0	7.5	7.5	7.5	7.5
	Rs.25,001 - Rs.2 lakh	8.0	9.0	7.5	8.5	7.5	8.5
	Above Rs.2 lakh	8.0	10.0	7.5	10.0	7.5	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.
** Wasteland development has also been extended these rates.
Note : 1. Interest rates on farm mechanisation, rural godowns, agri-clinics and agri-business has been fixed at 8.5 per cent with effect from February 1, 2002 and 9.5 per cent on loans for non-conventional energy investments for all disbursements made on or after January 24, 2002.
2. In respect of externally aided projects, the rate of interest as per provisions contained in the agreement would apply.
3. As on March 15, 2002 interest rates refinance against rural housing for loans up to Rs. 1 lakh, Rs. 1-2 lakh and above Rs. 2 lakh were 8.5 per cent, 9.5 per cent and 10.0 per cent, respectively.
Source: NABARD.

3.53 Low disbursement of RIDF funds compared to the sanctioned amounts has been an area of concern and, accordingly, several measures were initiated to address this issue. For example, apart from State Governments, *Panchayati Raj* institutions were made eligible to implement RIDF projects. New types of projects were also included within the scope of RIDF. The rate of interest on RIDF loans has been reduced from 10.5 per cent to 8.5 per cent. Simultaneously, a decision has been taken that, in future, interest on RIDF loans would be fixed at the prevailing bank rate plus 2 per cent. To encourage State Governments to introduce reforms in agriculture and rural sectors, assistance to States from RIDF would be linked to such reform efforts. With the result, the ratio of loan disbursed to loan sanctioned improved from 49.9 per cent as on March 31, 2001 to 55.7 per cent as on March 31, 2002. State-wise sanctions and disbursements under different tranches of RIDF are presented in Appendix Table III.4.

Table III.15: Deposits Mobilised under RIDF

(Rs. crore)

Year	RIDF-I	RIDF-II	RIDF-III	RIDF-IV	RIDF-V	RIDF-VI	RIDF-VII	Total
1	2	3	4	5	6	7	8	9
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
1999-00	67	539	797	605	300	—	—	2,307
2000-01	—	161	412	440	850	790	—	2,654
2001-02	—	155	264	—	689	988	1,495	3,591
Total	**1,587**	**2,225**	**2,120**	**1,245**	**1,839**	**1,778**	**1,495**	**12,288**

Source: NABARD.

Table III.16: Cumulative Sanctions and Disbursements under Different Tranches of RIDF (As on 31 March 2002)

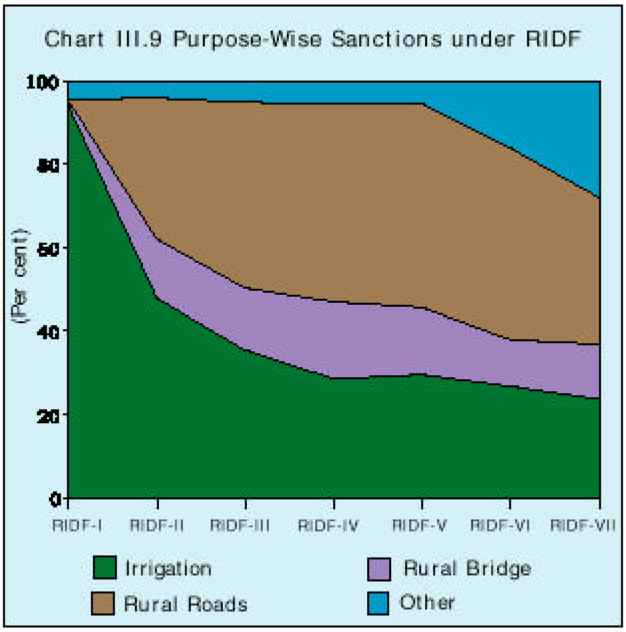
(Rs. crore)

RIDF Tranche	Corpus	Amount Sanctioned*	Amount Phased	Amount Disbursed
1	2	3	4	5
RIDF I	2,000	1,911	1,911	1,761
RIDF II	2,500	2,620	2,620	2,250
RIDF III	2,500	2,693	2,693	2,183
RIDF IV	3,000	2,988	2,988	1,863
RIDF V	3,500	3,568	3,568	1,969
RIDF VI	4,500	4,586	3,872	1,899
RIDF VII	5,000	5,066	1,479	1,117
Total	**23,000**	**23,432**	**19,131**	**13,042**

* Excluding schemes withdrawn.
Source: NABARD.

Supervision

3.54 Among the rural co-operative banks, only StCBs and CCBs are covered under the scope of the B.R. Act, 1949. The RBI is the regulatory authority for such banks, while their supervision has been entrusted to NABARD, which has concurrent power for the same. NABARD has constituted a Board of Supervision for the rural co-operative banks. In line with the CAMELS supervisory rating model for commercial banks, NABARD has introduced a CAMELSC (capital adequacy, asset quality, management, earnings, liquidity, systems/procedures and compliance) supervisory rating model for the rural co-operative banks. A mechanism for off-site surveillance has also been put in place since 1998-99.



3.55 During 2001-02, NABARD conducted statutory inspection of 17 StCBs and 184 CCBs. Inspection of 8 SCARDBs and one apex institution was also conducted during the year. Monitoring visits were also made in respect of 51 weak rural co-operative banks.

Table III.17: Purpose-wise Amount Sanctioned under RIDF (As on March 31, 2002)

(Rs. crore)

Purpose	RIDF-I	RIDF-II	RIDF-III	RIDF-IV	RIDF-V	RIDF-VI	RIDF VII	Total	Percent-age Share
1	2	3	4	5	6	7	8	9	10
Irrigation	1,796	1,255	954	853	1,053	1,227	1,196	8,333	35.6
Rural Bridges	25	369	398	548	575	509	666	3,090	13.2
Rural Roads	3	887	1,199	1,426	1,742	2,109	1,784	9,151	39.1
Others*	86	109	142	161	199	742	1,420	2,859	12.2
Total	**1,911**	**2,620**	**2,693**	**2,988**	**3,568**	**4,586**	**5,066**	**23,432**	**100.0**

* Others include : Watershed Development, Flood Protection, Market yard / Godowns, CADA, Drainage, Cold Storage, Fisheries, Forest Development, Inland Waterways, Primary Schools, Rubber

Plantations, Public Health, Seed/Agri/Horticulture Farms, Rural Drinking Water, Soil Conservation, Citizen Information Centres, Food Park, System Improvement.
Source : NABARD.

4. Other Major Developments on Rural Credit

Kisan Credit Card

3.56 The *Kisan* Credit Card scheme (KCC), introduced in 1998-99, has been successful in increasing credit to farmers. The personal insurance package linked to KCCs announced in the Central Government Budget 2001-02, has been operationalised. Loans disbursed under KCCs have also been brought under *Rashtriya Krishi Bima Yojana* of the General Insurance Corporation. Furthermore, KCC holders are being provided personal accident insurance cover of Rs. 50,000 for death and Rs. 25,000 for disability. Against the target of 1 crore KCCs to be issued during 2001-02, 93 lakh KCCs were issued, of which, 62.7 lakh cards were issued by cooperative banks and RRBs. Since inception till the end of March 2002, cumulatively more than 2.32 crore KCCs have been issued of which RRBs and co-operative banks issued 1.65 crore KCCs, involving credit limit of Rs. 33,994 crore. In order to ensure the access of small and medium farmers to facilities under KCC, the floor limit of Rs. 5,000 has been dispensed with from 2001-02. The annual policy Statement of April 2002 had proposed a survey for assessing the impact of the KCC Scheme on the benefeciaries. Accordingly, preparatory work has been initiated to conduct a survey with the help of an outside agency.

Micro Finance Innovations

3.57 Micro finance schemes in India have emerged as major avenues for bringing the poor within the purview of the organised financial sector. Such schemes also have distinct roles in eradication of poverty (Box III.2). The Central Government Budget for 2002-03 announced that the scheme of micro credit through Self Help Groups (SHG)-bank linkage would link one lakh additional SHGs to banks during 2001-02 and thereby take the total since inception to more than 3.5 lakh covering more than 70 lakh families.

3.58 NABARD assumes a key role in the development and promotion of SHGs and other micro finance institutions, and provides refinance at special rates. As against the target of providing bank loans to 1 lakh new SHGs during 2001-02, such loans were extended to nearly 2 lakh new SHGs. Moreover, the quantum of loan disbursed during 2001-02, at Rs. 545 crore, was much higher than the Rs. 288 crore disbursed in 2000-01. Refinance availed by banks against micro finance loans also increased to Rs. 396 crore in 2001-02 (Rs.251 crore in 2000-01). Since inception of the micro finance scheme till March 31, 2002, cumulatively 4.6 lakh SHGs covering 78 lakh poor households have been provided bank loans aggregating Rs. 1,026 crore. Refinance of Rs. 796 crore was provided against such loans.

Box III.2: Micro Finance: Emerging Issues

The access to credit for the poor from conventional banking is often constrained by lack of collaterals, information asymmetry and high transaction costs associated with small borrowal accounts. Micro finance has emerged as a viable alternative to reach the hitherto unreached for their social and economic empowerment through social and financial intermediation. It is well documented that timely and adequate access to credit can help alleviate poverty. Proponents of micro finance argue that by adapting to certain characteristics of informal credit markets, it is possible for even the organised financial intermediaries to lend to the poor at market determined interest rate with high rates of recovery and low transaction costs. Micro finance involves provision of thrift, credit and other financial services and products of very small amounts to the poor for enabling them to raise their income levels and thereby improve living standards. In operational terms, micro credit involves small loans, up to Rs. 25,000, extended to the poor without any collateral for undertaking self-employment project. The approach of the micro finance institutions (MFIs) is to build in an incentive compatible method to ensure high repayment rates and reduction in transaction cost. Group lending with peer monitoring is a common method applied by many MFIs to ensure such objectives.

The *Grameen Bank* model, developed originally in Bangladesh, is one of the most popular models of MFI and has been replicated in various parts of the world. Under this model, non-government organisations (NGOs) form and develop self-help groups (SHG) and provide credit to them. The dominant models of micro credit in India are, however, different from the *Grameen Bank* model. In India three main models of micro credit are being followed. Under the first model, banks themselves assume the role of Self Help Promoting Institutions (SHPIs) by promoting formation of SHGs and extending loans to them. Under the second model, groups are formed and nurtured by NGOs, Government Agencies or other community based organisations. These agencies act as facilitators. Banks open saving accounts of the SHGs formed and nurtured by the NGOs and provide them credit in due course of time. This is the most popular and wide spread model of micro credit in India. Under the third model the NGOs (SHPIs) promote formation of SHGs. Banks provide bulk assistance to these SHPIs for undertaking financial intermediation. NGOs, here, thus act as both facilitators and micro finance intermediaries. The share of this model in total micro finance in the country is much less than the first two models. However, in years to come, this model is likely to be found more convenient by banks when large number of SHGs would be required to be provided micro finance by small sized branches of banks.

Micro finance services are generally routed through the conduit of self-help groups (SHGs). SHGs have made rapid strides in India particularly in terms of number of SHGs. SHGs have exhibited tremendous scope for democratic set up, group dynamism, business like functioning and efficiency in recycling funds with excellent repayment culture. However, of late, some new issues and concerns have surfaced in the evolution of micro finance. The coverage of the poor is not satisfactory. The present average amount of loan at Rs. 1,360 per poor family is not sufficient to help the poor to cross the poverty line. MFIs are currently only credit providers and are unable to provide other services like savings, insurance, etc., which are critical in reducing vulnerabilities of the poor. Furthermore, the existing savings and loan products are not sufficient to suit the requirements of the poor *viz*, consumption, housing, education, etc. In addition, the spread of micro finance has been uneven across the States - five States *viz*, Andhra Pradesh, Tamil Nadu, Uttar Pradesh, Orissa and Maharashtra accounting for three fourths of SHGs.

The absence of quality agencies for social intermediation is limiting not only the spread but also the sustainability of micro finance. Capacity building of NGOs has become a huge task. Further, the adoption of SHG approach under Government sponsored programmes like SGSY with capital subsidy component has a dampening effect on micro finance. It has been argued that the operating costs of micro finance are generally high, leading to high interest rates for the poor.

Cross-country experiences are replete with well documented success stories from countries like Bangladesh, Sri Lanka and Zambia involving NGOs in the mission of helping the poor by organising and promoting self-employment projects like fisheries, garment industry, restaurants, rural bakeries, etc. In order to achieve this, it is often argued that there is need for higher and diversified financial assistance under micro finance, besides scaling up the same evenly across the States especially in underdeveloped areas. Another issue being deliberated upon is defining codes of conduct for NGOs, SHGs, etc. In order to reduce the transaction costs and to improve the operational efficiency, innovative technologies are suggested for adoption. Further, for enhancing the credibility of micro finance, the issues such as regulation, supervision, disclosure guidelines, capital adequacy, etc., are suggested. To start with, it is argued that self-regulatory organisation (SRO) should be promoted to take advantage of the informal set up of micro finance institutions. This apart, financial prudence parameters, uniform performance standards and reporting systems may also be evolved. The SHGs have to eventually graduate into viable enterprises to help members to cross the threshold of poverty.

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3.59 Following the past trend, Andhra Pradesh continued to lead in linking new SHGs to banks during 2001-02. Andhra Pradesh alone accounted for nearly 40 per cent of new SHG-bank linkages during the year. Other states, which accounted for a large portion of new linkages, include Tamil Nadu (15 per cent), Karnataka (9 per cent), Orissa (6 per cent) and Uttar Pradesh (6 per cent). Around 90 per cent of the SHGs linked to banks were exclusively women SHGs and evaluations show that repayments of loans by SHGs to banks were consistently over 95 per cent.

3.60 The number of Self-Help Promoting Institutions (SHPIs) participating in the linkage programmes more than doubled to 2,155 as on March 31, 2002, with 44 SCBs and 191 RRBs joining the linkage programme. Among credit cooperatives, 209 have already joined the scheme. During the current year 2002-03, RBI is planning a series of interactive sessions to review the progress made in this vital area and to put in place a more vibrant micro-finance delivery environment in the country where complementary and competitive models of micro-finance would be encouraged. Banks generally lend to SHGs against group guarantee without insisting on any security. Considering the high recovery rate in respect of banks' advances to SHGs and that this programme helps the poor, it has been decided that unsecured advances given by banks to SHGs against group guarantees would be excluded for the purpose of computation of prudential norms on unsecured guarantees and advances until further notice. The matter would be reviewed after a year in the light of growth in aggregate unsecured advances, and the recovery performance of advances to SHGs.

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1 Under the Banking Regulation (B.R.) Act, 1949 only Urban Co-operative Banks (UCBs), State Co-operative Banks (StCBs) and District Central Co-operative Banks (CCBs) are qualified to be called as banks in the co-operative sector. The discussion in this Chapter also covers issues relating to other credit co-operatives namely, Primary Agricultural Credit Societies (PACS) and the long-term structure of rural credit co-operatives.

2 The number 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. Accordingly, data for different periods need not necessarily be comparable.

3 Demand is amount due as on a particular date. It includes both interest and principal repayment due as on that date.