

## CHAPTER III

### DEVELOPMENTS IN CO-OPERATIVE BANKING

#### Overview

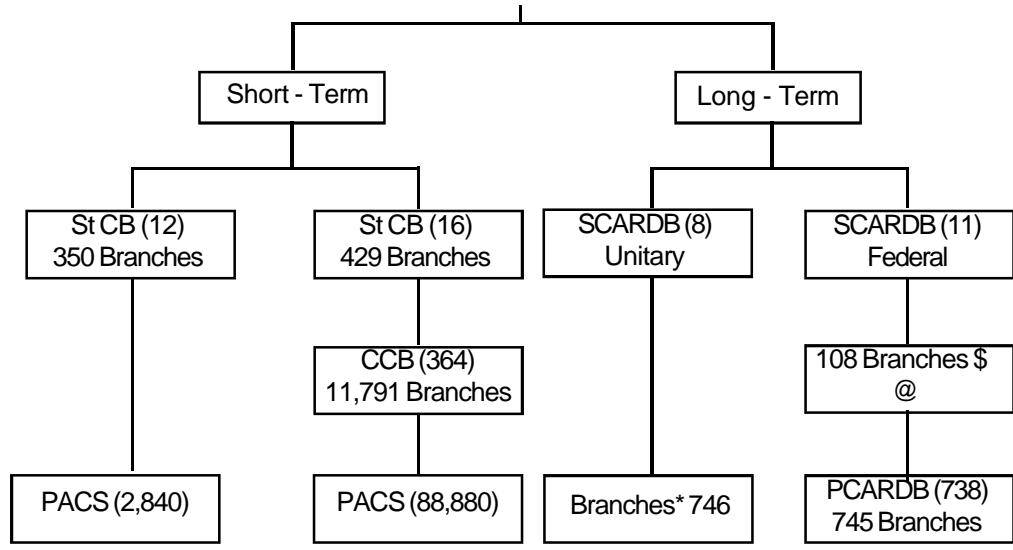
The functioning of co-operative banking institutions has not shown much improvement during 1996-97 and 1997-98. With deposits and credit indicating general deceleration, the overdue position of these institutions remained more or less stagnant. However, co-operative banks emulated the changing structure and practices of commercial banking sector in revamping their internal systems and practices, ensuring in the process, timely completion of audit and upgradation of their financial architecture. This chapter reviews the major developments in respect of co-operative banks viz., State Co-operative Banks (StCBs), Central Co-operative banks (CCBs), State Co-operative Agriculture and Rural Development Banks (SCARDBs), Primary Agricultural Credit Societies (PACS), Primary Co-operative Agriculture and Rural

Development Banks (PCARDBs) and National Bank for Agriculture and Rural Development (NABARD).

3.2 Chart I provides a synoptic view of the organisational frame-work of co-operative credit institutions in India and Table III.1 provides an overview of state-wise coverage of co-operative banks in India.

3.3 With a view to augment flow of funds through the co-operative banking segment, the resource position of the main refinancing agency, viz., the NABARD was enhanced substantially through (a) deposits under the Rural Infrastructure Development Fund (RIDF) placed by commercial banks, (b) enhancement of its capital base, and (c) increase in the General Line of Credit (GLC) by the Reserve Bank of India to NABARD.

**CHART III.1 : NETWORK OF CO-OPERATIVE CREDIT STRUCTURE**



\* Includes 17 District Offices (Gujarat).  
 @ 19 District Offices in Karnataka. \$ 14 ROs in Kerala.  
 Note : Figures in brackets indicate the number of the respective banks.

**Table III.1 : Network of Co-operative Banks in India**  
(As on March 31, 1997)

Sr. No.	State/ Union Territory	No. of Branches			
		StCB	CCB	SCARDB	PCARDB
1	2	3	4	5	6
1	Andaman & Nicobar	31	-	-	-
2	Andhra Pradesh	23	560	-	-
3	Arunachal Pradesh	31	-	-	-
4	Assam	68	21	19	-
5	Bihar	14	481	169	-
6	Chandigarh	9	-	-	-
7	Delhi	22	-	-	-
8	Goa	59	-	-	-
9	Gujarat	-	1008	198*	-
10	Haryana	13	291	-	-
11	Himachal Pradesh	117	114	25	9
12	Jammu & Kashmir	11	102	37	-
13	Karnataka	28	584	19@	-
14	Kerala	18	420	14\$	122
15	Madhya Pradesh	22	1035	9	445
16	Maharashtra	45	3516	29	-
17	Manipur	9	-	1	-
18	Meghalaya	37	-	-	-
19	Mizoram	9	-	-	-
20	Nagaland	22	-	-	-
21	Orissa	5	293	-	-
22	Pondicherry	19	-	2	-
23	Punjab	19	686	-	-
24	Rajasthan	9	377	-	113
25	Tamil Nadu	40	657	20	-
26	Tripura	34	-	4	-
27	Uttar Pradesh	28	1455	306	-
28	West Bengal	37	191	2	56
<b>ALL INDIA</b>		<b>779</b>	<b>11791</b>	<b>854</b>	<b>745</b>

\* Includes 17 District Offices.

@ 19 District Offices.

\$ 14 ROs.

Source : NABARD

## 2. Progress of Credit Co-operatives

### A. Primary Co-operative Banks

3.4 Primary (Urban) Co-operative Banks (PCBs) have been set up with the objective of providing banking facilities to lower and middle income groups. The aggregate

deposits of 1,416 reporting PCBs at end-March 1998 amounted to Rs.38,472 crore, recording an increase of 25.3 per cent in 1997-98 (27.1 per cent last year). Similarly, loans outstandings of PCBs aggregated Rs. 26,455 crore, a rise of 22.8 per cent as compared with Rs.21,550 crore (20.3 per cent) in the preceding year (Table III.2)<sup>1</sup>.

**Table III.2 : Primary (Urban) Co-operative Banks**

(Amount in Rs.crore)

Sr. No.	Item	As on March 31			Increases during Financial Year		
		1996	1997	1998*	1995-96	1996-97	1997-98*
1	2	3	4	5	6	7	8
1	Total Number of reporting PCBs	1,327	1,363	1,416			
2	Owned Funds	3,848	4,695	5,659	536 (16.2)	847 (22.0)	964 (20.5)
3	Deposits	24,165	30,714	38,472	4,064 (20.2)	6,549 (27.1)	7,758 (25.3)
4	Borrowings	758	619	839	181 (31.4)	-139 (-18.3)	220 (35.5)
5	Loans Outstanding	17,908	21,550	26,455	3,113 (21.0)	3,642 (20.3)	4,905 (22.8)

\* Figures are provisional.

**Note:** Figures in brackets are percentage variations.

<sup>1</sup> There were 1,811 Primary (Urban) Co-operative Banks (PCBs) (including 90 salary earners' banks, and 105 mahila banks) with a network of 5229 offices at end-March 1998. Two salary earner's banks and 53 other PCBs were under liquidation as at the end of March 1998.

### Analysis of scheduled Primary Co-operative Banks

3.5 The analysis of scheduled PCBs<sup>2</sup> also confirmed the deceleration in growth of deposits and credit (Table III.3). Aggregate deposits of scheduled PCBs showed a marked deceleration in deposit growth by 32.9 per cent in 1997-98 (60.5 per cent last year). Bank credit also decelerated during

the same period with the growth rate of 33.1 per cent in 1997-98 (44.4 per cent last year). However, growth in deposits and credit of scheduled PCBs were well above the corresponding figures of scheduled commercial banks<sup>3</sup>. Furthermore, the average credit-deposit ratio of 65.7 per cent as on March 27, 1998 was considerably higher than that of scheduled commercial banks (Table III.3).

**Table III.3 : Operations of Scheduled Primary Urban Co-operative Banks - 1995-96 to 1997-98**

(Amount in Rs. crore)

Sr. No.	Item	Outstandings as on					Increases during April-March		Increases during April-June	
		March 29, 1996	March 28, 1997	March 27, 1998	June 27, 1997	June 26, 1998	1996-97	1997-98	1997	1998
1	2	3	4	5	6	7	8	9	10	11
1.	<b>Aggregate Deposits</b>	<b>5,974.7</b>	<b>9,587.4</b>	<b>12,743.4</b>	<b>10,222.7</b>	<b>14,326.4</b>	<b>3,612.7</b> <b>(60.5)</b>	<b>3,156.0</b> <b>(32.9)</b>	<b>635.3</b> <b>(6.6)</b>	<b>1,583</b> <b>(12.4)</b>
2.	<b>Borrowings</b>	<b>5.3</b>	<b>28.4</b>	<b>55.6</b>	<b>28.9</b>	<b>57.0</b>	<b>23.1</b> <b>(35.8)</b>	<b>27.2</b> <b>(95.8)</b>	<b>0.5</b> <b>(1.8)</b>	<b>1.4</b> <b>(2.5)</b>
3.	<b>Assets with the Banking System</b> <b>Of which:</b>	<b>572.6</b>	<b>1,164.6</b>	<b>1,841.5</b>	<b>1,355.4</b>	<b>1,887.1</b>	<b>592.0</b> <b>(103.4)</b>	<b>676.9</b> <b>(58.1)</b>	<b>190.8</b> <b>(16.4)</b>	<b>45.6</b> <b>(2.5)</b>
	i) Balances with other Banks	320.8	775.2	1,306.3	765.4	1,350.9	454.4 (141.6)	531.1 (68.5)	-10.8 (-1.4)	44.6 (3.4)
	(ii) Money at call and short notice	195.2	237.9	203.3	432.0	282.6	42.7 (21.9)	-34.6 (-85.5)	194.1 (81.6)	79.3 (39.0)
4.	<b>Investments (a + b)</b>	<b>966.9</b>	<b>1,849.8</b>	<b>2,489.9</b>	<b>2,126.2</b>	<b>3,119.2</b>	<b>882.9</b> <b>(91.3)</b>	<b>640.1</b> <b>(34.6)</b>	<b>276.4</b> <b>(14.9)</b>	<b>829.3</b> <b>(33.3)</b>
	(a) Government Securities	761.1	1,415.3	1,872.6	1,561.8	2,558.2	654.2 (86.0)	457.3 (32.3)	146.5 (10.4)	685.6 (36.6)
	(b) Other approved Securities	205.8	434.5	617.3	564.4	761.0	228.7 (111.1)	182.8 (42.1)	129.9 (29.9)	143.7 (23.3)
5.	<b>Bank Credit</b>	<b>4,357.8</b>	<b>6,295.2</b>	<b>8,377.0</b>	<b>6,324.0</b>	<b>8,494.6</b>	<b>1,937.4</b> <b>(44.4)</b>	<b>2,081.8</b> <b>(33.1)</b>	<b>28.8</b> <b>(0.5)</b>	<b>117.6</b> <b>(1.4)</b>
<b>Memo Items</b>										
1.	Credit-Deposit Ratio (per cent)	72.9	65.7	65.7	61.9	59.3				
2.	Investment-Deposit Ratio (per cent)	16.2	19.3	19.5	20.8	23.2				

**Note :** Figures are provisional.

<sup>2</sup> This analysis is based on scheduled PCBs accounting for 33.1 percent of deposits of all PCBs as at the end of March 1998.

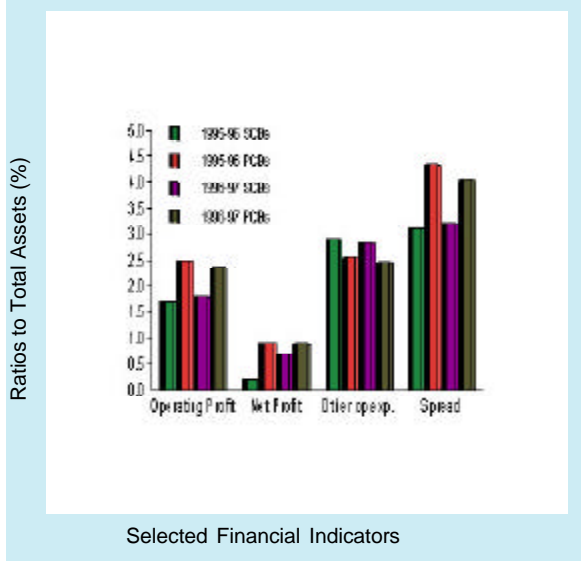
<sup>3</sup> During 1997-98, deposits and credit of scheduled commercial banks grew at the rate of 19.7 per cent and 16.4 per cent, respectively (see Chapter II, Table II.1).

3.6 During the first quarter of 1998-99 (*i.e.*, April-June, 1998), the operations of scheduled PCBs witnessed increases in both deposits and credit. While aggregate deposits as on June 26, 1998 at Rs. 14,326.4 crore recorded an increase of 12.4 per cent over March 27, 1998 (6.6 per cent in the preceding year), bank credit at Rs.8,494.6 crore rose by 1.4 per cent (0.5 per cent in the last year).

3.7 The financial performance of scheduled PCBs<sup>4</sup> *vis-à-vis* scheduled commercial banks for 1996-97 reveals certain interesting results. scheduled PCBs had comparatively underlined a higher operating and net profits ratios than scheduled commercial banks. Besides, these PCBs had a higher spread of around 4 per cent in 1996-97 as compared with around 3 per cent for schedule commercial banks during the same

period. As regards intermediation cost *i.e.*, other operating expenses constituting substantial component by way of wages to total assets, they are comparable with schedule commercial banks (Chart III.2).

**Chart III.2 : Trend in Selected Financial Ratios of SCBs and PCBs - 1995-97 (April - March)**



*Refinance Facilities*

3.8 PCBs are eligible for refinance facilities at Bank Rate under Section 17 (2)(bb) read with Section 17(4)(c) of RBI Act 1934 for advances granted to tiny/cottage industrial units. During 1997-98, refinance amounting to Rs.4.62 crore was granted to three banks.

*Non-Performing Assets*

3.9 The gross non-performing assets of PCBs<sup>5</sup> marginally increased to 13.3 per cent in 1996-97 from 12.9 per cent in 1995-96 (Table III.4). Preliminary data for 1997-98 shows that Gross NPA has come down to 11.0 per cent during 1997-98.

**Table III.4 : Gross Non-Performing Assets of PCBs - 1995-96 - 1997-98**

As on	No. of reporting PCBs	NPAs as a proportion of Total Advances (in per cent)
1	2	3
March 31 , 1995	832	13.9
March 31, 1996	1161	12.9
March 31, 1997	1363	13.3
March 31, 1998	179	11.0

**Note :** Figures are provisional.

<sup>4</sup> The analysis is based on data relating to only 23 scheduled PCBs.  
<sup>5</sup> Reporting PCBs vary year to year.

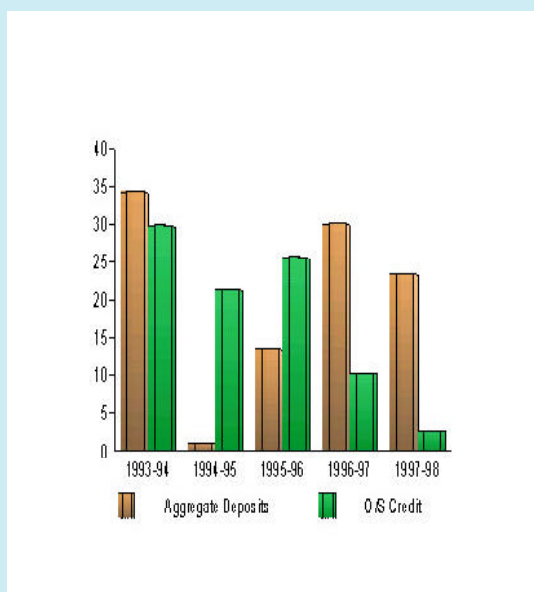
3.10 During 1997-98 (July-June), the Reserve Bank carried out statutory inspections of 823 PCBs under Section 35 of the Banking Regulation Act, 1949 (as applicable to Co-operative Societies) as compared with 786 PCBs in the preceding year.

**B. State Co-operative Banks**

3.11 The total deposits of StCBs at Rs.21,584 crore, as at end-March 1998, posted a lower growth of 23.4 per cent in 1997-98 as compared with Rs.17,489 crore in the preceding year (30.2 per cent in 1996-97) (Chart III.3 and Appendix Table III.1). The loans issued by StCBs during 1997-98 at Rs. 28,141 crore showed a decline of 2.7 per cent (as against an increase of 4.2 per cent in last year). Among the States, Maharashtra mobilised maximum deposits of Rs.6,630 crore (30.7 per cent of

total deposits), followed by Gujarat at Rs.2,322 crore (10.8 per cent) and Tamil Nadu Rs.1,635 crore (7.6 per cent). The outstanding credit of StCBs grew at slower pace of 2.7 per cent in 1997-98 as compared with a growth of 10.3 per cent in 1996-97. The CD ratio of StCBs also indicated substantial decline over the years. From 124 per cent in 1995-96, the CD ratio of StCBs declined to 87 per cent in 1997-98 (Appendix Table III.3). Borrowings from the Reserve Bank/NABARD during 1997-98 at Rs.8,617 crore were higher by 7.3 per cent than that of the preceding year-level of Rs.8,033 crore (1.6 per cent). The analysis of borrowings of StCBs showed that during 1997-98, Andhra Pradesh had the largest share of Rs.2,834 crore (32.9 per cent of total), followed by Gujarat with Rs.792 crore (9.2 per cent) and Madhya Pradesh at Rs.727 crore (8.4 per cent).

**Chart III.3 : Growth Rate of Deposits and Credit of State Co-operative Banks - 1993-94 to 1997-98**



3.12 As at the end of March 31, 1997, the 28 StCBs had a network of 779 branches (Chart III.1 & Table III.1). The available figures on profit and loss for 1996-97 showed that 5 StCBs recorded losses out of total 28 StCBs. The profit made by 23 StCBs amounted to Rs.162 crore in 1996-97 as compared with Rs.170 crore by 26 StCBs in 1995-96.

3.13 To bring transparency in the balance sheets of co-operative banks, prudential norms including provisioning were made applicable to the StCBs from the year 1996-97. During 1996-97, StCBs implemented the application of prudential norms including provisioning. The gross NPAs to total loans<sup>6</sup> and advances was less than 5 per cent in 6 StCBs in the States of Tamil Nadu, Haryana,

<sup>6</sup> Data are available for 12 StCBs only.

Punjab, Madhya Pradesh, Karnataka and Gujarat, while the same was higher in the range of 21 to 50 per cent in 3 StCBs located in Orissa, Assam and Himachal Pradesh. For two more StCBs, it was in the range of 6 to 10 per cent (Delhi and Maharashtra) and for one StCB located at West Bengal, the gross NPA was in between 11 and 20 per cent.

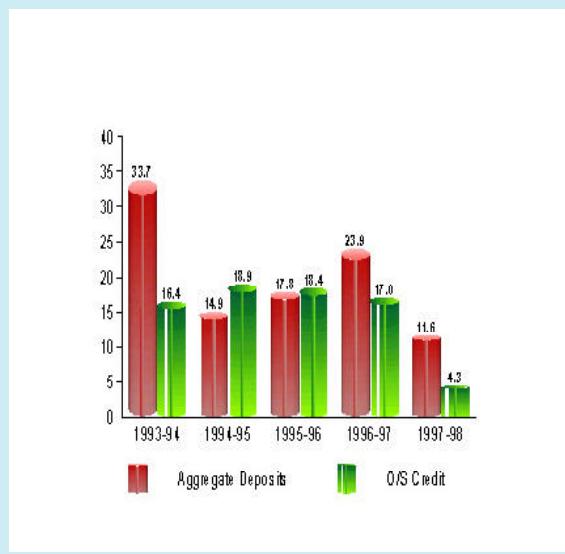
3.14 The audit classification serves as an indicator of quality management as well as strength of the co-operatives. During the year 1995-96, 25 StCBs<sup>7</sup> have been classified into 4 categories<sup>8</sup>. Of the 25 StCBs rated on the basis of these norms; 16 StCBs were rated in 'A' category; 4 StCBs in 'B' category and 5 StCBs in 'C' category for 1995-96.

3.15 The recovery performance ratio of StCBs (percentage to demand) showed declining trend over the last three years. The ratio was 90 per cent in 1995-96 which has declined to 86 per cent in 1996-97 and further to 81 per cent in 1997-1998 (Appendix Table III.2). However, the long-term overdues (more than 3 years) of StCBs has declined from 34 per cent in 1995-96 to 24 per cent in 1996-97 (Table III.5). For other co-operative banks, this proportion has remained more or less constant during 1996-97.

*C. Central Co-operative Banks*

3.16 CCBs form an important part in the short-term structure of co-operative credit institutions. The total deposits of CCBs at Rs.33,931 crore as at end-March 1998

**Chart III.4 : Growth Rate of Deposits and Credit of Central Co-operative Banks - 1993-94 to 1997-98**



indicated a lower growth of 11.6 per cent during 1997-98 as compared with Rs. 30,403 crore (23.9 per cent) in the previous year. The loans outstanding of CCBs grew at a lower pace of 4.3 per cent during 1997-98 as against 17.0 per cent in the previous year (Chart III.4 and Appendix Table III.1). The borrowings of CCBs from NABARD showed a smaller rise during the year 1997-98: it rose by 1.6 per cent in 1997-98 as compared with 4.7 per cent in 1996-97.

3.17 The recovery performance (percentage to demand) of CCBs during 1997-98 was lower at 66 per cent as compared with 69 per cent in the last year. State-wise, the provisional data of recovery performance of CCBs indicated that during 1997-98, it was significant at 88 per cent in Tamil Nadu, followed by Punjab 84 per cent, Kerala and Haryana at 79 per cent each.

<sup>7</sup> StCBs in Punjab and Haryana are not awarded any classification by auditors. Audit of Karnataka StCB for 1995-96 not yet complete.

<sup>8</sup> A = 60 per cent and above; B = 45-59 per cent; C = 30-44 per cent; and D = less than 30 per cent

**Table III.5 : Maturity of Overdues in Co-operative Banks -1995 to 1997 (July-June)**  
(Amount in Rs.crore)

Maturity	StCB		CCB		SCARDB		PCARDB	
	1995-96	1996-97	1995-96	1996-97	1995-96	1996-97	1995-96	1996-97
1	2	3	4	5	6	7	8	9
Total Overdues	1,246	1,938	4,685	5,726	908	999	632	707
Of which:								
Overdues more than 3 years	419	470	1,055	1,345	275	313	259	283
Overdues more than 3 years- Percentage to Total	34	24	23	24	30	31	41	40

#### *D. State Co-operative Agriculture and Rural Development Banks*

3.18 During 1997-98, the deposits of SCARDBs went up by 25.8 per cent to Rs.205 crore from Rs.163 crore (5.8 per cent) in the previous year. The loans outstanding with SCARDBs during the year at Rs.9,148 crore indicated a lower increase of 14.1 per cent in 1997-98 as compared with an increase of 17.0 per cent in 1996-97 (Appendix Table III.1).

#### *E. Primary Co-operative Agriculture and Rural Development Banks*

3.19 During the year 1997-98, the deposits of PCARDBs have increased significantly by 28.8 per cent to Rs.76 crore from Rs.59 crore, whereas the loans outstanding recorded a decline of 1.1 per cent as against an increase of 20.5 per cent in the previous year. Overdue loans has not showed any improvement during 1996-97 (Appendix Table III.1).

#### *F. Primary Agricultural Credit Societies*

3.20 PACS form a pivotal part of the short-term structure of co-operative credit institutions. As at end-March 1997, there

were around 91,720 PACS with a total membership aggregating 982.2 lakh, of which borrowing membership constituted 40.2 per cent. State-wise, borrowing membership was below all-India level: in Rajasthan at 30 per cent, followed by Uttar Pradesh (27 per cent), Himachal Pradesh (26 per cent), and Maharashtra (24 per cent). During the last few years, PACS continue to depend mainly on borrowings from higher financing agencies to fund their operations.

3.21 As most PACS are totally dependent on the finance provided by CCBs, resource mobilisation is a weak spot in their growth. The fact that most of the CCBs are not financially strong, this affects the credit expansion strategies of PACS. The total deposits of PACS as on March 31, 1996 aggregated Rs.3,450.2 crore, showing an increase of around 13.0 per cent over the previous year. Besides Kerala, the other leading States which have mobilised sizeable deposits were Tamil Nadu, Karnataka, Andhra Pradesh and Punjab for the period ended March 1996.

3.22 The total loans issued by PACS rose to Rs.11,805 crore in 1995-96 from Rs.10,459 crore in 1994-95, a rise of 12.8 per cent. In regard to loans outstanding, it rose by 9.5



percent during 1995-96. Based on the criteria for viability determination of PACS, it has been estimated that as on March 31, 1996, only 65 per cent of the total PACS were viable and another 28 per cent have been considered to be potentially viable.

### 3. NABARD and its role in rural credit

3.23 Against the background of growing competitiveness in banking, it has become a necessity for NABARD to strengthen the institutions associated with rural credit delivery and also supervise and monitor RRBs, and Co-operative Agriculture and Rural Development Banks (primary and state level) through various prudential norms to ensure their smooth functioning with sound infrastructure. It has been the endeavour of NABARD to move in this direction by providing necessary financial support to the co-operative system. In order to enable NABARD to leverage its capital for raising more resources, the paid-up capital of NABARD was increased from Rs.100 crore in 1991-92 to Rs.1,500 crore in 1997-98. The main sources of funds for NABARD are: a) capital, b) deposits from: i) Tea companies; ii) Special loan account deposits; iii) Rural Infrastructure Development Fund (RIDF) deposits; and iv) priority sector deposits, and c) Borrowings : i) Bonds (SLR Bonds, Tax-free Bonds); ii) Borrowings from Government of India; and iii) Borrowings in foreign currency. NABARD has been able to strengthen their resources because of injection of additional capital by the Reserve

Bank of India and Government of India, net accretion of reserves and surpluses, increase in the General Line of Credit from the Reserve Bank, and accretion to RIDF from commercial banks.

#### *Resources of NABARD*

3.24 The flow of resources to NABARD including RIDF deposits declined to Rs.2,636 crore during 1997-98 as compared with Rs.2,963 crore in 1996-97 (Table III.6). During 1997-98, RIDF deposits have declined to Rs.1,007 crore from Rs.1,042 crore in 1996-97, a decline of Rs.35 crore. However, the capital of NABARD was strengthened with an infusion of Rs. 500 crore to Rs.1,500 crore in 1997-98. Of the increase of Rs.500 crore to capital, the contributions from the Reserve Bank and Government of India were Rs.400 crore and Rs.100 crore, respectively. The accretion in reserves and surplus amounted to Rs.451 crore in 1997-98, which showed a decline of 16.8 per cent over the previous year. Besides, market borrowings through the issue of bonds and debentures were Rs.125 crore in 1997-98 as compared with Rs.200 crore in the previous year. Deposits with NABARD, consisting of mostly of deposits from private sector commercial banks on account of their priority sector shortfall, declined by Rs.204 crore to Rs.257 crore, as compared with an increase of Rs. 359 crore in the previous year, mainly due to refund of deposits having one-year maturity. The outstanding borrowings from the Government has declined by Rs.111 crore to Rs.1,059 crore in March 1998 from Rs.1,170 crore a year ago. This was on account of repayment of Rs.137.56 crore to

<b>Table III.6 : Net Accretion in the Resources of NABARD (April-March)</b>			
(Rs. crore)			
Sr. No.	Type of Resource	1996-97	1997-98
1	2	3	4
1	Capital	500	500
2	Reserves and Surplus	542	451
3	NRC (LTO) Fund	451	551
4	NRC (Stabilisation) Fund	2	101
5	Deposits	359	-204
6	Bonds and Debentures	200	125
7	Borrowings from Central Government	-124	-111
8	Borrowings from RBI		
	a). General Line of Credit	-22	206
	b). ARDR Scheme 1990	-94	-64
9	Foreign Currency Loans	101	64
10	RIDF Deposits	1,042	1,007
11	Other Liabilities	6	10
	<b>Total</b>	<b>2,963</b>	<b>2,636</b>
Source : NABARD			

Government against the loans taken for various externally aided projects in the past.

#### *Refinance from NABARD*

3.25 During 1997-98, the aggregate credit limits sanctioned by NABARD to State Governments substantially increased by 49.1 per cent to Rs.150.0 crore as against Rs.100.6 crore in the preceding year. However, for the StCBs, it showed a decline of 1.4 per cent (Table III.7). The short-term credit limits sanctioned to StCBs increased by 0.3 per cent, while the medium-term credit limit declined steeply by 39.2 per cent. The limits sanctioned (both short and medium terms) to RRBs showed an increase of 8.9 per cent during 1997-98.

3.26 The interest rates structure of NABARD for refinance and to the ultimate beneficiaries of term loans are given in Table III.8

#### *Rural Infrastructure Development Fund*

3.27 RIDF was initially set up with a corpus of Rs.2,000 crore in 1995-96 with a major objective of providing funds to State Governments to enable them to complete various types of infrastructure projects pertaining to irrigation, flood protection, rural roads, bridges, etc. This development scheme continued in the subsequent years as RIDF II in 1996-97 (Rs.2,500 crore), and RIDF III in 1997-98 (Rs.2,500 crore). In the fourth tranche of RIDF, an amount of Rs.3,000

<b>Table III.7 : NABARD's Credit to StCBs, State Government and RRBs</b>									
<b>(July - June)</b>									
(Rs. crore)									
Category	1996-97				1997-98*				
	Limits	Drawals	Repay	Out-	Limits	Drawals	Repay	Out-	
			-ments	standings			-ments	standings	
1	2	3	4	5	6	7	8	9	
<b>1. State Co-operative Banks</b>									
a. Short-term	6,049.4	6,287.7	6,409.9	3,382.8	6,067.3 (0.3)	6,637.1	6,613.4	3406.5 (0.7)	
b. Medium-term	268.6	57.7	44.4	79.9	163.3 (-39.2)	278.9	92.0	266.8 (233.9)	
<b>Total (a+b)</b>	<b>6,318.0</b>	<b>6,345.4</b>	<b>6,454.3</b>	<b>3,462.7</b>	<b>6,230.6</b> <b>(-1.4)</b>	<b>6,916.0</b>	<b>6,705.4</b>	<b>3,673.3</b> <b>(6.1)</b>	
<b>2. State Governments</b>									
Long-term	100.6	76.8	21.6	418.5	150.0 (49.1)	139.8	43.3	515.0 (23.1)	
<b>3. Regional Rural Banks</b>									
a. Short-term	973.8	884.3	770.8	868.6	1072.6 (10.1)	955.9	871.9	952.6 (9.7)	
b. Medium-term	24.1	12.5	31.9	137.6	14.6 (-39.4)	8.6	45.8	100.3 (-27.1)	
<b>Total (a+b)</b>	<b>997.9</b>	<b>896.8</b>	<b>802.7</b>	<b>1,006.2</b>	<b>1,087.2</b> <b>(8.9)</b>	<b>964.5</b>	<b>917.7</b>	<b>1,052.9</b> <b>(4.6)</b>	
<b>Grand Total (1+2+3)</b>	<b>7416.5</b>	<b>7,319.0</b>	<b>7,278.6</b>	<b>4,887.4</b>	<b>7,467.8</b> <b>(0.7)</b>	<b>8,020.3</b>	<b>7,666.4</b>	<b>5,241.2</b> <b>(7.2)</b>	

Figures are provisional

Note : 1. Figures in brackets are percentage change over previous year.

Source : NABARD

<b>Table III.8 : NABARD's Structure of Interest Rates for Term Loans</b>						
(per cent per annum)						
1	2	3	4	5	6	
Size of Limit	Rate of interest to ultimate beneficiaries			Rate of interest on refinance		
	Commercial Banks	RRBs	StCBs/ SCARDBs	Commercial Banks	RRBs/StCBs/ SCARDBs	
Upto Rs.25,000/-	Interest rates deregulated subject to a maximum of	As determined by the RRBs with effect from	As determined by StCBs or SCARDBs subject to a minimum of 12 per cent (for all loan slabs) with effect from	8.5	6.5	
Above Rs.25,000/- and upto Rs.2 lakhs	PLRs of Banks from April 29, 1998	Aug.26, 1996.	October 18, 1994	10.5	9.5	
Above Rs.2 lakhs	As determined by Commercial Banks with effect from October 18, 1994		October 18, 1994	3 per cent below the rate fixed by Commercial Banks	12.0	

Notes : 1. In respect of externally aided projects, the rate as per provisions contained in the relative agreement/sanction will apply. 2. The rate of interest (irrespective of the size of limit) under the pilot scheme of financing Self Help Groups (SHGs) will remain unchanged, i.e., NABARD to Bank - 6.5 per cent, Bank to SHGs - 12 per cent. SHGs to members as decided by the group.

crore has been budgeted. The corpus of these funds was contributed by scheduled commercial banks against their shortfall in the priority sector target.

3.28 Till end-March 1998, the cumulative disbursements amounted to Rs. 2,483.79

3.30 The availment of RIDF funds has been low in comparison to sanctions largely due to difficulties in identifying relevant projects by some state governments and lack of budgetary support where only part funding is envisaged from RIDF. Moreover, there are

Year	RIDF I	RIDF II	RIDF III	Total
1	2	3	4	5
1995-96	350.00	--	--	<b>350.00</b>
1996-97	842.30	200.00	--	<b>1,042.30</b>
1997-98	187.64	670.00	149.40	<b>1,007.04</b>
<b>Total</b>	<b>1,379.94</b>	<b>870.00</b>	<b>149.40</b>	<b>2,399.34</b>

crore, as against cumulative deposits of Rs.2,399.34 crore. The shortfall of Rs.84.45 crore has been made good by NABARD subject to flow of deposits from banks (Table III.9).

3.29 Table III.10 presents State-wise amount of financial assistance provided under RIDF-I, RIDF-II and RIDF-III as at end-March 1998. Of the total sanctions of Rs.1,748.5 crore under RIDF I, disbursements amounted to Rs.1,433.3 crore. The highest disbursement was in Uttar Pradesh (Rs.252.1 crore), followed by Andhra Pradesh (Rs.172.9 crore), Maharashtra (Rs.147.9 crore), Madhya Pradesh (Rs.147.7 crore) and Orissa (Rs.132.4 crore). Under RIDF II, total sanctions amounted to Rs.2,617.5 crore, while disbursements were lower at Rs.833.9 crore. In disbursements, Maharashtra topped the list with Rs.139.0 crore, followed by Uttar Pradesh at Rs.115.3 crore. Under RIDF III, disbursements amounted to Rs.216.7 crore with Gujarat having received the largest share (Rs.35.5 crore), followed by Orissa (Rs.27.7 crore), and Maharashtra (Rs. 26.1 crore).

delays in the completion of formalities for drawal of funds and in completing preliminary work in respect of irrigation projects where land acquisition as well as tendering procedures are required. In order to speed up disbursement from RIDF funds, NABARD has advised state governments to review their respective position and initiate necessary steps to adhere to the time schedule.

#### *Agricultural Development Finance Companies*

3.31 With the prime objective of strengthening credit flow for hi-tech/high-value agriculture operations and associated infrastructure, NABARD has taken the lead in establishing state level ADFCs in Andhra Pradesh, Tamil Nadu, and Karnataka with equity participation between public and private sectors in the ratio of 45:55. During 1997-98, NABARD contributed Rs.5.2 crore to the equity capital of each of ADFCs in Andhra Pradesh and Tamil Nadu and Rs.0.17

**Table III.10 : Sanctions and Disbursements under RIDF-I, RIDF II and RIDF-III**  
(As on March 31, 1998) (Rs. crore)

Sr. No	States	RIDF-I		RIDF-II		RIDF-III	
		Sanctions#	Disbursements	Sanctions	Disbursements	Sanctions	Disbursements
1	2	3	4	5	6	7	8
1.	Andhra Pradesh	205.20	172.96	194.53	73.16	275.11	10.05
2.	Andhra cyclone	-	-	139.65	-	-	-
3.	Assam	-	-	63.29	-	16.07	-
4.	Bihar	-	-	-	-	62.31	-
5.	Goa	6.85	6.85	-	-	-	-
6.	Gujarat	141.48	124.77	129.63	39.14	160.60	35.47
7.	Haryana	18.28	13.12	61.06	37.23	62.87	19.56
8.	Himachal Pradesh	14.23	14.16	49.50	16.60	50.11	11.59
9.	Jammu & Kashmir	6.22	6.04	8.06	0.57	35.95	4.18
10.	Karnataka	143.93	114.15	173.00	39.18	172.38	0.75
11.	Kerala	99.72	70.91	89.43	28.33	93.63	1.97
12.	Madhya Pradesh	199.63	147.71	207.60	57.26	248.70	24.87
13.	Maharashtra	173.74	147.87	231.66	139.03	254.31	26.12
14.	Manipur	1.75	0.96	-	-	-	-
15.	Meghalaya	3.39	2.79	-	-	8.25	-
16.	Mizoram	2.38	2.37	-	-	-	-
17.	Nagaland	1.38	1.38	-	-	-	-
18.	Orissa	152.68	132.42	125.14	57.60	162.91	27.67
19.	Punjab	60.50	60.50	62.50	32.32	88.85	18.80
20.	Rajasthan	109.64	83.16	149.87	71.20	163.33	22.16
21.	Tamil Nadu	-	-	271.38	93.77	202.02	1.86
22.	Tripura	1.82	0.32	-	-	-	-
23.	Uttar Pradesh	292.35	252.14	491.65	115.28	432.98	-
24.	West Bengal	113.37	78.70	169.51	33.18	177.84	11.61
<b>Total</b>		<b>1,748.54</b>	<b>1,433.28</b>	<b>2,617.46</b>	<b>833.85</b>	<b>2,668.22</b>	<b>216.66</b>

# Sanctions for Assam (Rs.11.46 crore), Arunachal Pradesh (Rs.3.36 crore), Bihar (Rs.180.98 crore) and Goa (Rs.29.99 crore) have been cancelled.  
Note : In Bihar the sanctions to the extent of Rs.26.18 crore covering 2 medium irrigation projects and 781 tube well projects were revalidated.  
Source : NABARD.

crore to Karnataka. Although contributions from public sector towards equity capital have been fully met barring ADFC in Karnataka, there is not much of an encouraging response from private sector in terms of infusion of capital. However, to overcome the difficulties faced by ADFCs, NABARD would be extending refinance assistance in the initial years.

3.32 During 1997-98, NABARD has sanctioned refinance assistance for 5 schemes equivalent to Rs.3.93 crore to ADFCs in Tamil Nadu and for 3 schemes amounting to Rs.1.53 crore to the ADFCs in Andhra Pradesh. The investments are concentrated in poultry development, mushroom production and processing, and agro/seed processing.

### *Development Action Plans and Memorandum of Understandings*

3.33 For a planned and healthy development of co-operatives, NABARD has taken up series of initiatives. All the co-operative banks in India have drawn up Development Action Plans (DAPs) and executed institution - specific Memorandum of Understandings (MoUs) for implementation, with the exception of two CCBs in Uttar Pradesh and three PCARDBs in Punjab. To help PCARDBs and StCBs in implementing DAPs, NABARD had suggested the formation of Institutional Development Cells (IDCs) for which it would extend financial assistance initially for five years so as to equip IDCs with professionals. In this context, it may be mentioned that two StCBs and four SCARDBs have established IDCs and were sanctioned financial assistance under the scheme.

3.34 Prudential norms were introduced during the year 1997-98 in SCARDBs/PCARDBs with the objective of making full provisions. As Agriculture Rural Development Banks (ARDBs) (both Primary and State levels) have expressed difficulties in following the norms, they have been advised to make 100 per cent provision for loss assets and not less than 30 per cent in case of sub-standard and doubtful assets during 1997-98. They nevertheless will have to make full provisioning from 1998-99 onwards.

3.35 During 1997-98, to achieve a growth target of 4.5 per cent in the output of agricultural sector in 1997-2002, NABARD concentrated on its short-term refinance policy of achieving 25 per cent annual

growth of credit flows. This policy, among other things, laid emphasis on increased access to institutional credit by small and marginal farmers, augmenting credit flows to tribals and for dry land farming and enhancing credit dispensation for centrally sponsored special schemes.

3.36 To strengthen the financial position of SCARDBs and also to reduce budgetary pressure on State Governments, NABARD subscription to the Special Development Debentures floated by them has been raised to 90 per cent wherever the existing level of refinance was at 75 per cent.

3.37 Based on a Study Group's recommendation, NABARD revised the deposit mobilisation schemes of ARDBs. Accordingly, SCARDBs have been permitted to accept term deposits for maturity period of one year and above subject to the ceiling that the aggregate deposit outstanding at any point of time shall not exceed their net owned funds. NABARD, while allocating funds among various agencies, would accord priority to SCARDBs, followed by RRBs and StCBs, and the remainder would go to commercial banks.

3.38 While giving refinance support to commercial banks, priority was however given to Non-Farm Sector (NFS), and SC/ST Action Plan in all the states. In order to overcome the constraints in the disbursement of IRDP loans, NABARD has constituted a Task Force consisting of representatives from Government of India, Reserve Bank of India, State Governments and public sector banks which last met in July 1997 and deliberated *inter alia* on issues pertaining to preparation of the 'Below Poverty Line' list, appraisal of

applications, and identification of viable activities. The Task Force also discussed problems associated with implementation, post - sanction, follow-up and recovery performance under IRDP and made suggestions for improving the performance under the programme. The Task Force has been able to give proper counselling to banks and State Governments on the proper implementation of the programme, besides suggesting measures to avoid leakage in

service, simplification of procedures and documentation and better follow-up of end-use of credit.

3.39 For streamlining and strengthening its supervisory role, NABARD constituted an 'Expert Committee to Review the Supervisory Role of NABARD' in January 1998 (Chairman Shri U.K. Sarma). The recommendation of the committee submitted in April 1998 are under consideration of the NABARD (Box III.1).

**BOX III.1**  
**REPORT OF THE EXPERT COMMITTEE FOR REVIEW**  
**OF SUPERVISORY ROLE OF NABARD**

In the context of the implementation of financial sector reforms and gradual liberalisation of the economy, an effective and efficient supervision becomes a critical element in the development of a sound banking system. With the setting up of NABARD in 1982, the responsibility for overseeing the functioning and supervision of the RRBs and the co-operative banking structure, other than urban co-operative banks, has been shifted from the Reserve Bank to NABARD. At present, NABARD exercises its statutory supervisory role over 28 StCBs, 364 CCBs and 196 RRBs. Besides, NABARD also exercises supervision over 19 SCARDBs and 378 PCARDBs on a voluntary basis by virtue of its refinancing and developmental role. For streamlining and strengthening its supervisory role, NABARD constituted an 'Expert Committee for the Review of Supervisory Role of NABARD', in January 1998 (Chairman : Shri U.K. Sarma). The Committee submitted its report in April 1998. The Report is under consideration of the NABARD. The major recommendations of the Committee are as follows:

1. While the prudential norms for income recognition, asset classification and provisioning have been made applicable to co-operative banks and RRBs, the capital adequacy norm has not yet been extended to these categories of banks. Hence, the capital adequacy norm should also be made applicable to co-operative banks and RRBs. The norm of 8 per cent should be reached by co-operative banks within a period of 5 years i.e., by the end of March 2003 and RRBs by March 2001 by augmenting their share capital to the extent of 2 per cent per annum.
2. NABARD should pursue vigorously with the Government of India about provision of Rs.6,600 crore required for cleansing up of the balance sheets of co-operative credit institutions.
3. The assistance envisaged from the Government for recapitalisation should be available till all co-operative banks attain the minimum capital adequacy norm of 8 per cent.
4. The existing structure of share capital linking to advances may be rationalised, keeping in view the importance of augmenting the share capital of banks.
5. A programme for strengthening the capital base of RRBs, which were not covered under recapitalisation assistance, may be drawn up.

6. The approach of on-site examination should be to focus on the statutory mandate and concentrate on core assessments.
7. In case of 'A' rated banks, the frequency of on-site inspections may be reduced to once in 3 years.
8. NABARD should gradually withdraw from inspection of primaries, including PCARDBs by the year 2000.
9. Credit Authorisation Scheme needs to be abolished forthwith as it can never be a substitute for efficient and adequate pre-appraisal systems.
10. The following weighting system may be adopted for evaluating the performance of banks: (a) Capital Adequacy - 15 per cent; (b) Asset Quality - 15 per cent; (c) Management - 15 per cent; (d) Earnings - 15 per cent; (e) Liquidity - 15 per cent; (f) Systems - 15 per cent; and (g) Compliance - 10 per cent.
11. On-site inspection function should be taken off from the Department of Supervision in the Head Office and the Regional Offices should be entrusted with all on-site inspections within the next two years.
12. In the context of new supervisory regime envisaged, comprising focused on-site inspection, off-site surveillance and supplementary appraisals, and the training arrangements need a relook to equip all categories of officials engaged in the supervision function with necessary knowledge and skills to perform the new role effectively.
13. The Off-Site Surveillance System should aim at continuous monitoring of the performance of the banks on the basis of "CAMELS" model. The Off-Site surveillance statements may be revised to obtain data on proforma balance sheet, position of non-performing assets, compliance with capital adequacy, cash reserve ratio and statutory liquidity ratio, major changes in management, cash flow, compliance of latest inspection findings and other major developments.
14. The Board of Supervision of NABARD may be constituted with the Chairman of NABARD as its Chairman and CMD of a public sector bank, a Deputy Governor of the Reserve Bank, a Chairman of StCB/SCARDB and an expert in banking as members.
15. The Board of Supervision may be set up as an internal committee to function as an autonomous entity in all matters relating to supervision of co-operative banks and RRBs.
16. The question of empowering NABARD to issue directions to co-operative banks and RRBs pursuant to the inspection findings merits consideration.
17. Empowering NABARD with statutory powers for imposing penalty on co-operative banks and RRBs by suitable amendments to section 47 A of Banking Regulation Act 1949 may be considered.
18. A suitable clause may be included in the Banking Regulation Act, 1949 to the effect that the balance sheet and profit and loss account are prepared on the basis of directives/guidelines issued by the Reserve Bank/NABARD on prudential norms.
19. A time bound programme for entrusting the function of annual statutory audit in case of StCBs and CCBs to professional auditors may be drawn up by NABARD, in consultation with the State Governments.