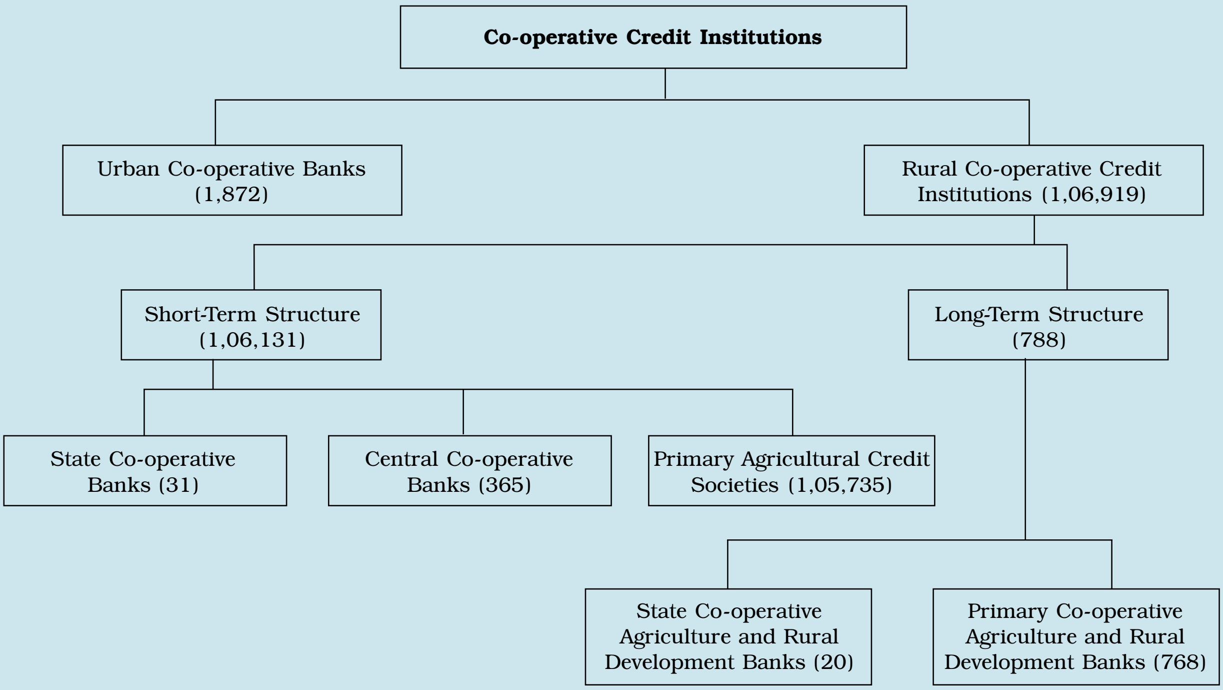
Chapter IV

Developments in Co-operative Banking

4.1 Co-operative banks in India have come a long way since the enactment of the Agricultural Credit Co-operative Societies Act in 1904. The century old co-operative banking structure is viewed as an important instrument of banking access to the rural masses and thus a vehicle for democratisation of the Indian financial system. Co-operative banks mobilise deposits and purvey agricultural and rural credit with a wider outreach. They have also been an important instrument for various development schemes, particularly subsidy-based programmes for the poor.

4.2 The co-operative banking structure in India comprises urban co-operative banks and rural co-operative credit institutions. Urban co-operative banks consist of a single tier, *viz.*, primary co-operative banks, commonly referred to as urban co-operative banks (UCBs). The rural co-operative credit structure has traditionally been bifurcated into two parallel wings, *viz.*, short-term and long-term. Short-term co-operative credit institutions have a federal three-tier structure consisting of a large number of primary agricultural credit societies (PACS) at the grass-root level, central co-operative banks (CCBs) at the district level and State co-operative banks (StCBs) at the State/apex level. The smaller States and Union Territories (UTs) have a two-tier structure with StCBs directly meeting the credit requirements of PACS. The long-term rural co-operative structure has two tiers, *viz.*, State co-operative agriculture and rural development banks (SCARDBs) at the State level and primary co-operative agriculture and rural development banks (PCARDBs) at the *taluka/tehsil* level. However, some States have a unitary structure with the State level banks operating through their own branches; three States have a mixed structure incorporating both unitary and federal systems (Chart IV.1).

Chart IV.1: Structure of Co-operative Credit Institutions



Note: Figures in parentheses indicate the number of institutions at end-March 2005 for urban co-operative banks and at end-March 2004 for rural co-operative credit institutions.

4.3 Several measures were initiated during 2004-05 to strengthen the co-operative credit structure in the country. Importantly, a vision document was prepared to rationalise the existing supervisory structure for UCBs. Prudential norms applicable to UCBs and rural co-operatives were strengthened. The recommendations of the Task Force (Chairman: Prof. A. Vaidyanathan) to strengthen the rural co-operative credit structure are being considered by the Government of India for implementation. Efforts are afoot to work out a targeted approach to revive the co-operative banks.

4.4 Business operations and financial performance of co-operative credit institutions during the year showed divergent trends. Assets of scheduled UCBs expanded during 2004-05, reversing the trend of the previous year. This reflected the impact of increased deposits, borrowings and net owned funds. Despite an improvement in net interest income, profitability of scheduled UCBs declined, due mainly to a sharp decline in non-interest income. Asset quality of UCBs did not exhibit any noticeable change.

4.5 Assets/liabilities of State co-operative banks expanded at a higher rate during 2003-04. Despite this, however, their profitability declined. The opposite was the case in respect of CCBs. The membership of PACS expanded, even as borrowing members declined sharply. The overall business of PACS continued to expand, despite decline in deposits. Although the asset quality of PACS improved during the year, overdues continued to remain high. Assets of long-term rural co-operatives, *i.e.*, the SCARDBs and PCARDBs, witnessed a moderate growth. However, their financial performance worsened as they continued to incur significant overall losses during the year. The asset quality of all the layers of rural co-operative banks, other than PACS, deteriorated (Appendix Table IV.1).

4.6 A significant development during the year was a sharp increase in the SHG-Bank linkage programme and financial assistance extended to micro-finance institutions (MFIs) by both commercial and co-operative banks. NABARD continued to play an important role in financing and monitoring the rural co-operative banking sector, besides administering various development schemes in the agricultural and rural sector. NABARD also stepped up its efforts towards capacity building of various institutions under its purview.

4.7 The Chapter proceeds as follows. Section 2 and Section 3 detail the policy developments, business operations and performance of urban co-operative banks and rural co-operative institutions, respectively. Section 4 reviews the developments in the area of micro credit in the country. Section 5 delineates the role of NABARD in the rural co-operative sector and the initiatives undertaken during the year to improve the performance of the co-operative banking sector.

2. Urban Co-operative Banks

4.8 Primary (urban) co-operative banks play an important role in meeting the growing credit needs of urban and semi-urban areas. UCBs mobilise savings from the middle and lower income groups and purvey credit to small borrowers, including weaker sections of the society. The number of UCBs stood at 1,872 at end-March 2005, including 79 salary earners' banks and 119 *Mahila* banks. Total number of scheduled UCBs were 55 at end-March 2005. Scheduled UCBs are under closer regulatory and supervisory framework of the Reserve Bank.

4.9 Various entities in the urban co-operative banking sector display a high degree of heterogeneity in terms of deposits/asset base, areas of operation and nature of business. In view of its importance, it is imperative that the sector emerges as a sound and healthy network of jointly owned, democratically controlled and professionally managed institutions. In order to achieve these objectives, the Reserve Bank took a series of policy initiatives in 2004-05. The most significant initiative in this regard was the Vision Document and Medium-Term Framework (MTF) for UCBs. With a view to protecting depositors' interests and avoid contagion on the one hand, and enabling UCBs to provide useful service to local communities and public at large on the other, a draft Vision Document was prepared and placed in public domain for eliciting comments. Based on the feedback received from different quarters, the necessary modifications were carried out in the vision document to evolve as the medium-term framework for the sector (Box IV.1).

Regulatory Initiatives for UCBs

4.10 UCBs have grown rapidly since the early 1990s. During the phase of rapid expansion, however, the sector showed certain weaknesses arising out of lack of sound corporate governance, unethical lending, comparatively high level of loan defaults, inability to operate in a liberalised and

Box IV.1: Medium-Term Framework for Urban Co-operative Banks

The Medium-Term Framework (MTF), which is being finalised based on responses to the draft Vision Document, seeks to achieve the following objectives:

- To rationalise the existing regulatory and supervisory approach keeping in view the heterogeneous character of the entities in the sector.
- To facilitate a focused and continuous system of supervision through enhancement of technology.
- To enhance professionalism and improve the quality of governance in UCBs by providing training for skill upgradation and also by including large depositors in the decision making process/management of banks.
- To put in place a mechanism that addresses the problems of dual control, given the present legal framework and the time-consuming process in bringing requisite legislative changes.
- To put in place a consultative arrangement for identifying weak but potentially viable entities in the sector and provide a framework for nursing them back to health including, if necessary, through a process of consolidation.
- To identify the unviable entities in the sector and provide an exit route for such entities.

The above framework is proposed to be implemented through:

- A differentiated regulatory regime as opposed to a "one-size-fits-all" approach.
- A two-tier regulatory regime: (a) simplified regulatory regime for unit banks and single district banks with deposits less than Rs.100 crore; and (b) regulation for all other banks on the lines of commercial banks.
- As the strategy to deal with UCBs may need to be State-specific, a State Level Task Force for Urban Co-operative Banks (TAFCUB) is to be constituted comprising senior officials from the Reserve Bank, State Governments and local/central co-operative Federations.
- The TAFCUB would be responsible for (i) identifying weak but viable UCBs and devise a time-bound programme for revival; and (ii) recommending (a) the nature and extent of financial support, (b) future set up of unlicensed banks, and (c) the manner and timeframe for exit of unviable banks.
- To address issues/difficulties relating to dual control within the existing legal framework, it has been proposed to evolve a working arrangement in the form of Memorandum of Understanding (MoU) between the Reserve Bank and the State Government.

competitive environment. The Reserve Bank, therefore, has been striving to harness the growth of UCBs with appropriate application of prudential regulation and supervision to safeguard the interests of depositors. The Reserve Bank initiated several regulatory measures during 2004-05 to ensure the growth of UCBs along sound lines.

Regulation and Supervision of UCBs

4.11 The Reserve Bank is entrusted with the responsibility of regulation and supervision of the banking related activities of primary co-operative banks under the Banking Regulation (B.R.) Act, 1949 As Applicable to Co-operative Societies (AACS). Other aspects such as incorporation, registration, administration, management and winding-up of UCBs are supervised and regulated by the respective State Governments through Registrars of Co-operative Societies (RCS) under the Co-operative Societies Acts of the respective States. UCBs with a multi state presence are registered under the Multi State Co-operative Societies Act, 2002 and are regulated and supervised jointly by the Central Government through Central Registrar of Co-operative Societies and the Reserve Bank.

4.12 The current legislative framework provides for dual control over UCBs. For resolving problems arising out of dual control regime, a draft legislative bill proposing certain amendments to the Banking Regulation Act, 1949 (AACS), based on the recommendations of the High Powered Committee on UCBs, was forwarded to the Government. Pending the amendment to the Act, the Reserve Bank is entering into a regulatory arrangement with the State Governments through Memorandum of Understanding (MoU) to facilitate proper and co-ordinated regulation and supervision of UCBs. MoUs have already been signed between the Reserve Bank and three States that have a large network of UCBs, *viz*., Andhra Pradesh, Gujarat and Karnataka. As a follow-up to the signing of MoUs, the Reserve Bank has constituted TAFCUBs in these States (Box IV.2). Efforts are being made to enter into MoUs with other States having a large number of UCBs.

Licensing of New Banks/Branches

4.13 Consequent upon the easing of licensing norms in May 1993, more than 800 licences were issued (up to June 2001) for setting up urban co-operative banks. However, close to one-third of these newly licensed UCBs became financially weak within a short period (Appendix Table IV.2 and Appendix Table IV.3). There was, thus, a need to moderate the pace of growth of this sector, particularly given the vexatious issue of dual

Box IV.2: Memorandum of Understanding (MoU) with the State Governments

The MoUs contain the following commitments by the State Government and the Reserve Bank.

The State Governments, through the MoU, agree to:

- Introduce long form audit report for statutory audit and modify their audit rating models to bring them in alignment with the gradation system adopted by the Reserve Bank for UCBs.
- Provide for statutory audit by Chartered Accountants (CAs) for UCBs with deposits over Rs.25 crore and special audit by CAs, if required by the Reserve Bank, for any UCB.
- Put in place 'fit and proper' criteria for Chief Executive Officers (CEOs), based on guidelines of the Reserve Bank.

The Reserve Bank, as a signatory to the MoU, is committed:

- To constitute a State Level Task Force for Urban Co-operative Banks (TAFCUB), comprising Regional Director of the Reserve Bank, Registrar of Co-operative Societies (RCS) of the State, a representative of Central Office of Urban Banks Department of the Reserve Bank, a representative of the State Government and a representative each from the State and National Federation of UCBs. TAFCUBs would identify and draw up time bound action plans for the revival of potentially viable UCBs and recommend non-disruptive exit for non-viable ones.
- To facilitate human resources development and IT initiatives in UCBs.

MoUs signed between the Reserve Bank and the respective State Governments also envisage the signing of another MoU between the Registrars of Co-operative Societies of the States and respective Regional Directors of the Reserve Bank. This MoU stipulates the broad measures to be taken by the signatories for implementing the recommendations of the TAFCUB for each of the potentially viable/non-viable UCBs that are placed for consideration of TAFCUB.

The MoU, *inter alia,* also provides that the Reserve Bank would consult RCS before cancelling or refusing licence under the BR Act, 1949, of a UCB covered by the MoU, *i.e.*, in States with which MoUs have been signed. The RCS would comply without delay any requisition by the Reserve Bank for supersession of the Board or for winding up of any UCB.

control over UCBs. The Reserve Bank proposed certain amendments to the Banking Regulation Act, 1949 (AACS) to overcome the difficulties arising out of dual control. Pending enactment of these amendments, it was announced in the Annual Policy Statement for 2004-05 that issuance of fresh licences would be considered only after a comprehensive policy on UCBs, including an appropriate legal and regulatory framework for the sector, is put in place and a policy for improving the financial health of the urban co-operative banking sector is formulated. Accordingly, at present, applications for banking licence, including licence for opening of new branches, are not considered.

Income Recognition, Asset Classification and Provisioning Norms

4.14 In line with the international best practice and extant practices in commercial banks in India, it was decided to reduce the time period for reckoning an advance as non-performing from the existing 180 days to 90 days with effect from March 31, 2004. However, subsequently keeping in view the representations received from co-operative federations/banks, small loans up to Rs.1 lakh, including gold loans, were exempted from the purview of the 90 days norm and continue to be governed by 180 days norm. This exemption has been granted only up to March 31, 2006. It was also decided to grant additional time of two years, in comparison with commercial banks, to meet the 100 per cent provisioning required for advances identified as doubtful for more than three years. Further, taking into consideration representations received from UCBs, it was decided to permit certain categories of UCBs to classify loan accounts as NPAs based on 180 days delinquency norm instead of 90 days norm. These included unit banks, *i.e.*, banks having a single branch/HO and banks having multiple branches within a single district with deposits up to Rs.100 crore. The relaxation has been given up to the financial year ending March 2007 and banks should build up adequate provisions to comply with the 90 days delinquency norm after the stipulated date.

4.15 It was decided to delink the asset classification and provisioning requirements in respect of State Government guaranteed advances and investments from the invocation of the State Government guarantee. Accordingly, asset classification and provisioning norms on State Government guaranteed advances would be applicable in the same manner as exposures not guaranteed by the State Governments from the year ending March 31, 2006.

Exposure Norms

4.16 With a view to avoiding concentration of credit risk, UCBs were advised to fix the prudential exposure limits at 15 per cent and 40 per cent of the 'capital funds' in the case of a single borrower and a group of borrowers, respectively. Banks were also advised that 'capital funds' for the purpose of prudential exposure norms would be in relation to bank's total capital funds (both Tier-I and Tier-II capital) and the exposure for the purpose includes both credit and investment exposure (non-SLR).

Know Your Customer (KYC) Guidelines

4.17 Know Your Customer (KYC) guidelines were revisited in the context of the recommendations made by the Financial Action Task Force (FATF) on Anti-Money Laundering (AML) standards and Combating Financing of Terrorism (CFT). Detailed guidelines based on the recommendations of the FATF and the paper on Customer Due Diligence (CDD) for banks by the Basel Committee on Banking Supervision, with indicative suggestions wherever considered necessary, were issued to UCBs. They were advised to ensure that a proper policy framework on KYC and also AML measures is formulated and put in place with the approval of their Boards. Banks were also advised to ensure full compliance with the provisions of these guidelines before December 31, 2005.

Investment Portfolios of UCBs - Relaxations

4.18 UCBs were given some relaxation in the prudential norms for their investment portfolio in September 2004. They were allowed to exceed the limit of 25 per cent of total investment under 'HTM' category provided (a) the excess comprises only SLR securities, and (b) total SLR securities held in 'HTM' category are not more than 25 per cent of their NDTL as on the last Friday of the second preceding fortnight.

4.19 Taking into account the difficulties faced by UCBs in meeting the provisioning requirements, it was further decided, as a special case, to consider relaxing the provisioning requirements both for scheduled UCBs and non-scheduled UCBs. Accordingly, scheduled UCBs were advised that they may crystallise the provisioning requirement arising on account of shifting of securities from 'HFT'/'AFS' categories to 'HTM' category consequent to the issue of guidelines dated September 2, 2004 and amortise the same over a maximum period of five years commencing from the accounting year ended March 31, 2005, with a minimum of 20 per cent of such amount each year.

4.20 As regards non-scheduled UCBs, they were allowed to shift securities from 'HFT'/'AFS' categories to 'HTM' category at book value, subject to the following conditions. First, in case the book value is higher than the face value, the difference between the book value and the face value, *i.e.*, the premium may be amortised in equal instalment over the remaining period to maturity. If the security was obtained at a discount to face value, the difference should be booked as profit only at the time of maturity of the security. Second, the securities transferred under this special dispensation should be kept separately under 'HTM' category and should not be transferred back to the 'HFT'/'AFS' category in future in terms of the existing instruction of transfer of securities from 'HTM' category. Third, in normal course, such securities under 'HTM' category should not be sold in the market and redeemed on maturity only. However, in exceptional circumstances, if such securities are to be sold, profit on sale of investments in this category should be first taken to the 'profit and loss account' and thereafter be appropriated to the 'capital reserve'. Loss on sale will be recognised in the 'profit and loss' account in the year of sale.

Disclosure Norms

4.21 In consonance with the best practices and in the interest of the members and depositors, it was decided that disclosure of the details of the levy of penalty on a bank would be put in public domain though a Press Release by the Reserve Bank. The UCBs were also advised that the penalty should be disclosed in the 'Notes on Accounts' to their balance sheets in their next Annual Reports.

4.22 With a view to indicating the exact status of co-operative banks as also to avoid confusion among members of public, all UCBs were advised to display their full name on stationery item, publicity material and name board in the form in which it appears in the Certificate of Registration issued by the Registrar of Co-operative Societies and the licence granted by the Reserve Bank.

Housing Loans under the Priority Sector

4.23 In order to improve flow of credit to the housing sector, it was decided that UCBs with the approval of their Boards may extend direct finance to the housing sector up to Rs.15 lakh per beneficiary of a dwelling unit, irrespective of location, against the earlier limit of Rs.10 lakh, as part of their priority sector lending.

Consolidation of Urban Co-operative Banks

4.24 The Reserve Bank issued guidelines paving the way for consolidation of the urban co-operative banking sector through mergers (Box IV.3).

Supervision of UCBs

Inspections

4.25 The on-site financial inspection carried out by the Reserve Bank continues to be one of the main instruments of supervision over UCBs. The Reserve Bank carried out statutory inspections of 812 UCBs during 2004-05 as against inspections of 848 UCBs conducted during the previous year.

Off-site Surveillance

4.26 The off-site surveillance system (OSS) for supervision was made applicable to all scheduled UCBs from March 2001. The returns for OSS were reviewed and a revised set of 8 returns was prescribed from March 2004. The OSS returns of UCBs are designed to monitor compliance and obtain information from them on areas of prudential regulation. The main objective of the OSS returns is to obtain relevant information on areas of prudential interest, address the management information needs, strengthen the management information system (MIS) capabilities within the reporting institutions and to sensitise bank managements about concerns of the supervisory authority. Compliance monitored through these returns covers assets and liabilities, earnings, asset quality, sector/segment-wise analysis of advances, concentration of exposures, connected or related lending and capital adequacy. These concerns earlier were being addressed through periodical on-site inspections of banks undertaken at intervals ranging from one to two years. The OSS system was extended to non-scheduled banks with deposit base of over Rs.100 crore from June 2004.

Banks with Weak Financials

4.27 UCBs are classified in various grades depending on their financial strength. The number of UCBs classified as Grade III and IV were 725 at end-March 2005 (Table IV.1). More than half of the UCBs in the States of Kerala, Assam, Karnataka, Madhya Pradesh and Orissa were in Grade III and Grade IV categories. For ensuring a viable reconstruction path for Grade III and IV banks, it was announced in the Annual Policy Statement, 2004-05 that only such schemes of reconstruction would be considered, which envisage recapitalisation by the stakeholders, *i.e.*, the shareholders/co-operative institutions/Government, to the extent of achieving the prescribed capital adequacy norms (without infusion of liquidity through settlement of insurance claims by Deposit Insurance and Credit Guarantee Corporation) and lay a clear roadmap for reducing the NPA level to a tolerable limit within a stipulated time frame. RCSs were also requested to examine the reconstruction scheme and satisfy that UCBs comply with the above-referred requirements before formally recommending any scheme to the Reserve Bank.

4.28 A policy regarding restructuring of scheduled UCBs with negative net worth has also been formulated by the Reserve Bank (Box IV.4).

Box IV.3: Mergers/Amalgamations for Urban Co-operative Banks

With a view to encouraging and facilitating consolidation and emergence of strong entities and as well as for providing an avenue for non-disruptive exit of weak/unviable entities in the co-operative banking sector, guidelines were issued to facilitate merger/amalgamation in the sector. The Reserve Bank, while considering proposals for merger/amalgamation, will confine its approval to the financial aspects of the merger taking into consideration the interests of depositors and financial stability. The Reserve Bank would consider proposals subject to the post-merger entity meeting the prescribed following prudential norms:

- When the net worth of the acquired bank is positive and the acquirer bank assures to protect entire deposits of all the depositors of the acquired bank.
- When the net worth of acquired bank is negative but the acquirer bank, on its own, assures to protect deposits of all the depositors of the acquired bank.
- When the net worth of the acquired bank is negative and the acquirer bank assures to protect the deposits of all the depositors with financial support from the State Government extended upfront as part of the process of merger.

The Reserve Bank had conveyed its no objection to five merger proposals up to August 27, 2005.

Table IV.1: Gradation of Urban Co-operative Banks – Centre-wise
(As at end-March 2005)

Centre	Number of Banks				Total
	Grade I	Grade II	Grade III	Grade IV	
1	2	3	4	5	6
Ahmedabad	122	53	87	46	**308**
Bangalore	80	58	118	40	**296**
Bhopal	20	17	27	13	**77**
Bhubaneswar	1	5	4	2	**12**
Chandigarh	11	–	2	4	**17**
Chennai	44	25	54	10	**133**
Guwahati	6	2	5	5	**18**
Hyderabad	44	35	31	17	**127**
Jaipur	23	11	4	1	**39**
Jammu	2	–	2	–	**4**
Kolkata	29	12	4	6	**51**
Lucknow	54	8	7	8	**77**
Mumbai	276	64	76	43	**459**
Nagpur	69	38	48	19	**174**
New Delhi	12	1	1	1	**15**
Patna	2	2	1	–	**5**
Thiruvananthapuram	12	9	26	13	**60**
Total	**807**	**340**	**497**	**228**	**1,872**

– : Nil/Negligible.

Operations and Financial Performance of Urban Co-operative Banks

4.29 Operations of UCBs (both scheduled and non-scheduled) have expanded rapidly since 1966, when they were brought under the purview of the Banking Regulation Act, 1949 (AACS). Deposits and advances of UCBs increased sharply from Rs.153 crore and Rs.167 crore, respectively, in 1966 to Rs.1,02,089 crore and Rs.65,951 crore, respectively, at end-March 2003, registering an annual compound growth rate of 19.2 per cent and 17.5 per cent, respectively. The annual compound growth rate of deposits and advances, however, slowed down to 1.4 per cent and 0.7 per cent, respectively, during last two years, *i.e.*, 2003-04 and 2004-05.

4.30 SLR investments of all UCBs declined to Rs.42,498 crore at end-March 2005 from Rs.45,299 crore at end-March 2004, registering a decline of 6.2 per cent. However, data for the year ended March 2005 do not include deposits placed by scheduled UCBs in StCBs/CCBs. The non-SLR investments in bonds of PSUs/AIFIs, shares of AIFIs and units of UTI and term deposits of scheduled UCBs in StCBs/CCBs increased from Rs.2,921 crore at end-March 2004 to Rs.4,520 crore at end-March 2005 (Chart IV.2).

Priority Sector Lending

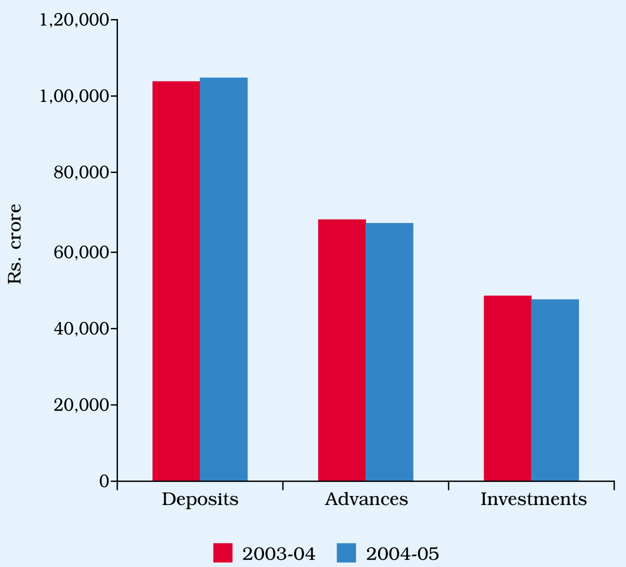
4.31 Urban Co-operative Banks are required to lend 60 per cent of their total loans and advances

Box IV.4: Restructuring of Scheduled Urban Co-operative Banks with Negative Net Worth

The Reserve Bank has begun a consultative process with a few scheduled UCBs with negative net worth by involving officials of the concerned State Governments and banks with a view to revitalising and rehabilitating them. The emphasis is on a time bound programme by identifying the contours of their rehabilitation plan and setting up monitorable milestones. The Reserve Bank will be closely monitoring the achievements of the banks *vis-à-vis* the targets set at regular intervals and initiate appropriate action with a view to protecting depositors' interest and avoiding systemic problems. Issues relating to large depositors, part conversion of deposits into equity, reduction of non-performing assets, human resources and technological development and the support from the State Governments would be examined. The option of merger/amalgamation could also be explored, wherever necessary. The Reserve Bank would limit its examinations and approvals to the banking and regulatory issues to satisfy itself that the restructuring package is in the interests of the depositors and public at large. The Reserve Bank would also take into account various other parameters such as infusion of funds, sacrifice by stake holders, restructuring of liabilities, recovery of NPAs, regulatory support and forbearance, governance, business plan, and filing of applications and documents.

Discussions have been held with eight scheduled UCBs for their restructuring and a set of action plans has been drawn up.

Chart IV.2: Operations of Urban Co-operative Banks



to the priority sector of which 25 per cent should go towards weaker sections. Based on data received from 1,017 banks at end-March 2004, UCBs had extended Rs.24,754 crore to the priority sector, constituting 64.2 per cent of total loans and advances (Table IV.2).

Table IV.2: Priority Sector and Weaker Sections Advances by Urban Co-operative Banks

(Amount in Rs. crore)

Segments	As at end-March 2004	
	Priority Sector Advances	Weaker Sections Advances
1	2	3
Agriculture and Allied Activities to Agriculture	1,486 (6.0)	629 (10.0)
Cottage and Small Scale Industries	6,231 (25.2)	559 (8.9)
Road and Water Transport Operators	1,365 (5.5)	301 (4.8)
Private Retail Trade (Essential Commodities)	951 (3.8)	341 (5.4)
Private Retail Trade (Others)	2,570 (10.4)	714 (11.4)
Small Business Enterprises	4,000 (16.2)	1,065 (17.0)
Professional and Self-employed	1,643 (6.6)	612 (9.8)
Educational Loans	328 (1.3)	117 (1.9)
Housing Loans	5,674 (22.9)	1,786 (28.5)
Consumption Loans	468 (1.9)	140 (2.2)
Software Industry	38 (0.2)	5 (0.1)
Total	**24,754 (100.0)**	**6,269 (100.0)**

Note : Figures in parentheses are percentages to total.

Operations of Scheduled Urban Co-operative Banks

4.32 Reversing the trend of the previous year, assets of scheduled UCBs expanded during 2004-05. This reflected largely the impact of increased resource mobilisation by way of deposits, borrowings and internal generation, which grew sharply during 2004-05. Scheduled UCBs accounted for 39.0 per cent of total deposits of all UCBs. On the asset side, loans and advances increased at a healthy rate in contrast to the decline in the last year. Investments by scheduled UCBs also increased (Table IV.3).

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

(Amount in Rs. crore)

Item	As at end-March		Percentage Variations	
	2004	2005	2003-04	2004-05
1	2	3	4	5
Liabilities				
1. Capital	671 (1.3)	772 (1.4)	7.0	15.1
2. Reserves	2,456 (4.8)	4,894 (8.7)	-67.0	99.3
3. Deposits	38,003 (73.8)	40,946 (72.6)	3.6	7.7
4. Borrowings	590 (1.1)	902 (1.6)	3.3	52.9
5. Other Liabilities	9,748 (18.9)	8,882 (15.7)	40.3	-8.9
Total Liabilities/Assets	**51,468 (100.0)**	**56,396 (100.0)**	**-1.6**	**9.6**
Assets				
1. Cash	319 (0.6)	344 (0.6)	-88.7	7.8
2. Balances with Banks	5,427 (10.5)	5,846 (10.4)	148.3	7.7
3. Money at call and short notice	428 (0.8)	496 (0.9)	39.9	15.9
4. Investments	14,976 (29.1)	17,049 (30.2)	8.4	13.8
5. Loans and Advances	23,161 (45.0)	25,092 (44.5)	-2.9	8.3
6. Other Assets	7,157 (13.9)	7,569 (13.4)	-22.9	5.8

Note : 1. Figures in parentheses are percentages to total liabilities/assets.

Financial Performance of Scheduled Urban Co-operative Banks

4.33 Net interest income of scheduled UCBs increased to Rs.1,065 crore during 2004-05 from Rs.826 crore in the previous year. However, a sharp decline in 'other' income on account of decline in trading income, on the one hand, and increase in operating expenses on the other, resulted in decline in the operating profits. Lower amount of provisions and contingencies in comparison with the previous year resulted in net profits during the year, although lower than the previous year (Table IV.4). Six out of 55 scheduled UCBs suffered net losses during the year (Appendix Table IV.4 and Appendix Table IV.5).

Asset Quality of UCBs (Scheduled and non-scheduled)

4.34 Gross non-performing assets of UCBs (scheduled and non-scheduled) increased marginally during 2004-05, both in absolute and percentage terms. Net NPAs declined by 0.8 per cent to Rs.8,174 crore at end-March 2005 (Table IV.5).

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

(Amount in Rs. crore)

Item			Percentage Variations	
	2003-04	2004-05	2003-04	2004-05
1	2	3	4	5
A. Income (i+ii)	**3,975 (100.0)**	**3,734 (100.0)**	**-24.9**	**-6.1**
i) Interest Income	3,178 (79.9)	3,344 (89.6)	-28.1	5.2
ii) Other Income	797 (20.1)	390 (10.4)	-8.6	-51.1
B. Expenditure (i+ii+iii)	**3,765 (100.0)**	**3,556 (100.0)**	**-35.6**	**-5.6**
i) Interest Expended	2,352 (62.5)	2,279 (64.1)	-30.4	-3.1
ii) Provisions and Contingencies	531 (14.1)	336 (9.4)	-60.6	-36.7
iii) Operating Expenses	882 (23.4)	941 (26.5)	-21.1	6.7
of which : Wage Bill	497	508	-11.7	2.2
C. Profit				
i) Operating Profit	741	514	-6.6	-30.6
ii) Net Profit	210	178	-137.8	-15.2
D. Total Assets (as at end-March)	**51,468**	**56,396**	**-1.6**	**9.6**

Note : Figures in brackets are percentage shares in respective totals.

Table IV.5: Gross/Net Non-Performing Assets of Urban Co-operative Banks

(Amount in Rs. crore)

End-March	No. of Reporting UCBs	Gross NPAs	Gross NPAs as percentage of total Advances	Net NPAs	Net NPAs as percentage of total advances
1	2	3	4	5	6
2001	1,942	9,245	16.1	–	–
2002	1,937	13,706	21.9	–	–
2003	1,941	12,509	19.0	6,428	13.0
2004*	1,926	15,406	22.7	8,242	12.1
2005P	1,872	15,409	23.0	8,174	12.2

– : Nil/Negligible.
* : Revised.
P : Provisional.

Urban Co-operative Banks - Regional Operations

4.35 The spatial distribution of UCBs is highly skewed as they are concentrated mainly in 5 States, *viz.*, Andhra Pradesh, Gujarat, Karnataka, Maharashtra and Tamil Nadu (Table IV.6). Deposit size of majority of UCBs, barring a few, is small as quite a few of them has only a single branch. It is noteworthy that 1,636 out of 1,844 UCBs (88.7 per cent) had a deposit base of less than Rs.100 crore (Chart IV.3).

4.36 As at end-March 2005, nearly two-thirds of total UCBs operated in three States, *viz.*, Maharashtra, Karnataka and Gujarat. These three States also constituted about 80 per cent of total branches of UCBs with Maharashtra alone accounting for 60.5 per cent of total branches of UCBs (Table IV.6).

4.37 Of the 6,990 branches of UCBs, 923 were unit banks, *i.e.,* banks which function as head office-cum-branches. Gujarat, Karnataka and Maharashtra had the highest number of unit banks (Table IV.7).

4.38 Non-Scheduled UCBs in five centres, *viz.*, Mumbai, Ahmedabad, Bangalore, Chennai and Nagpur constituted more than 74 per cent of capital and reserves and about 80 per cent of deposits, advances and demand and time liabilities of all non-scheduled UCBs. Wide variations were also observed in the credit-deposit (C-D) ratio.

Table IV.6: State-wise Distribution of Urban Co-operative Banks
(As at end-March 2005)

Sr. No.	State	No. of banks	No. of branches*	Exten-sion Counters
1	2	3	4	5
1.	Andhra Pradesh	127	317	10
2.	Assam/Manipur/Meghalaya/ Sikkim/Nagaland/Tripura/ Arunachal Pradesh	18	29	–
3.	Bihar/Jharkhand	5	7	1
4.	Gujarat	308	580	3
5.	Jammu and Kashmir	4	16	4
6.	Karnataka	296	729	21
7.	Kerala	60	325	–
8.	Madhya Pradesh/Chattisgarh	77	45	4
9.	Maharashtra and Goa	633	4,243	23
10.	New Delhi	15	60	2
11.	Orissa	12	46	4
12.	Punjab/Haryana/ Himachal Pradesh	17	26	3
13.	Rajasthan	39	142	7
14.	Tamil Nadu and Pondicherry	133	180	2
15.	Uttar Pradesh and Uttaranchal	77	190	14
16.	West Bengal	51	55	–
	TOTAL	**1,872**	**6,990**	**98**

– : Nil/Negligible.
* : Including Head Office-cum-branch.

Hyderabad had the highest C-D ratio (78.7 per cent), while New Delhi the lowest (36.0 per cent). New Delhi was the only centre where C-D ratio was

Chart IV.3: Size-wise Distribution of Urban Co-operative Banks – End-March 2005

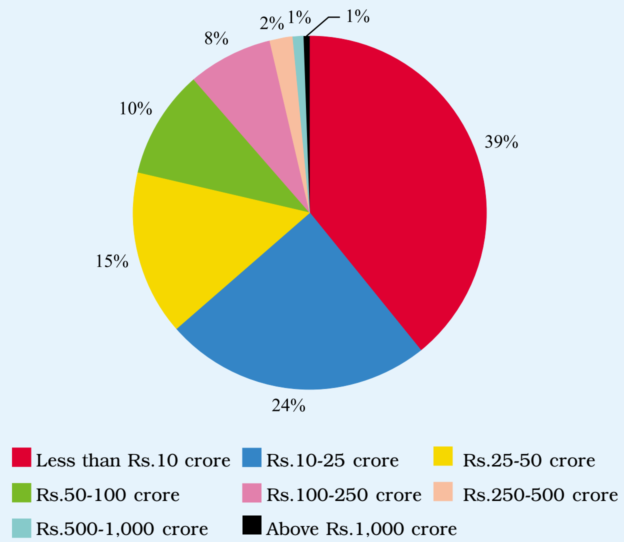


Table IV.7: Distribution of Unit Banks – Centre-wise
(As at end-March 2005)

Sr.No.	Centre	Unit Banks
1	2	3
1.	Ahmedabad	157
2.	Bangalore	153
3.	Bhopal	58
4.	Bhubaneswar	4
5.	Chandigarh	10
6.	Chennai	63
7.	Guwahati	15
8.	Hyderabad	99
9.	Jaipur	19
10.	Jammu	1
11.	Kolkata	31
12.	Lucknow	53
13.	Mumbai	142
14.	Nagpur	98
15.	New Delhi	–
16.	Patna	3
17.	Thiruvananthapuram	17
	Total	**923**

– : Nil/Negligible.

lower than 50 per cent. C-D ratio for other centres ranged between 51.1 per cent and 73.8 per cent (Table IV.8).

4.39 Of 55 scheduled UCBs at end-March 2005, 39 were located in Maharashtra, nine in Gujarat, three in Andhra Pradesh, two in Goa and one each in Karnataka and Uttar Pradesh.

3. Rural Co-operatives

4.40 The rural credit co-operative system has served as an important instrument of credit delivery in rural and agricultural areas. The separate structure of rural co-operative sector for long-term and short-term loans has enabled these institutions to develop as specialised institutions for rural credit delivery. At the same time, their federal structure has helped in providing support structure for the guidance and critical financing for the lower structure. These institutions have wide outreach with as many as 1,05,735 primary agricultural co-operative societies (PACS), the grass root organisation of the rural co-operative banking structure, operating in the country at end-March 2004.

4.41 The rural co-operative credit institutions, however, are beset with many problems ranging from low resource base, high dependence on refinancing

Table IV.8: Select Indicators of Non-Scheduled Urban Co-operative Banks – Centre-wise
(As at end-March 2005)

(Amount in Rs. crore)

Centre	Share Capital	Free Reserves	Deposits	Advances	Demand and Time Liabilities	C-D Ratio
1	2	3	4	5	6	7
Ahmedabad	325	1,021	9,503	5,468	10,495	57.5
Bangalore	333	691	7,555	4,792	7,997	63.4
Bhopal	46	55	1,022	581	1,084	56.8
Bhubaneswar	23	29	609	390	628	64.1
Chandigarh	26	45	594	346	575	58.3
Chennai	151	109	3,022	2,101	3,259	69.5
Guwahati	10	11	307	157	320	51.1
Hyderabad	126	208	2,131	1,677	2,646	78.7
Jaipur	66	80	1,243	705	1,296	56.8
Jammu	4	6	183	108	186	59.0
Kolkata	107	119	1,741	981	1,892	56.3
Lucknow	111	124	1,697	1,132	2,060	66.7
Mumbai	794	597	25,583	17,473	28,891	68.3
Nagpur	201	157	5,376	3,969	6,130	73.8
New Delhi	37	94	847	305	874	36.0
Patna	3	6	32	17	26	53.1
Thiruvananthapuram	76	104	2,626	1,611	2,633	61.3
Total	**2,439**	**3,456**	**64,071**	**41,813**	**70,992**	**65.3**
Memo Item:						
Share of Ahmedabad, Bangalore, Chennai, Mumbai and Nagpur in total	74.0	74.5	79.7	80.8	80.0	

agencies, lack of diversification, huge accumulated losses, persistent NPAs, low recovery levels and various other types of organisational weaknesses. Many institutions continued to make losses during 2003-04. Total accumulated losses aggregated Rs.8,746 crore as on March 31, 2004. Further, as on March 31, 2005 six out of 31 StCBs and 136 out of 365 CCBs did not comply with the provision of Section 11(1) relating to minimum capital requirement of the B.R. Act, 1949 (AACS). One StCB and 32 CCBs have not been complying with minimum capital requirement for a period of over ten years, four StCBs and 77 CCBs for five to ten years and one StCB and 17 CCBs for three to five years. A sizable number of rural co-operative banks failed to comply with various other provisions of the B.R. Act, 1949 (AACS) relating to 'capacity to pay their depositors in full' and 'affairs not being conducted in a manner not detrimental to the interest of their depositors'. NABARD and the Reserve Bank, therefore, have been taking several supervisory and developmental measures in consultation with the Government of India for the revival of weak institutions and orderly growth of this important segment of the financial sector.

Regulation of Rural Co-operative Banks

Licensing of State Co-operative Banks / Central Co-operative Banks

4.42 No new licence was granted during 2004-05. Total number of licensed State co-operative banks (StCBs) and Central co-operative banks (CCBs) were 13 and 73, respectively, at end-March 2005. Show cause notices were issued to six CCBs in 2004-05 for rejection of their licence applications. As at end-March 2005, nine CCBs were placed under the Reserve Bank's directions prohibiting them from granting loans and advances to certain areas and/or accepting fresh deposits. No scheduled status was granted to any StCB during the year for inclusion in the Second Schedule under Section 42 of the RBI Act, 1934. Total number of scheduled StCBs remained at 16 at end-March 2005.

Prudential Guidelines on Agricultural Advances

4.43 As mentioned in the Annual Policy Statement for the year 2004-05, prudential norms on income recognition, asset classification and provisioning with respect to agricultural advances were modified on July 12, 2004 with a view to aligning the repayment dates with harvesting of crops. Accordingly, effective September 30, 2004 a loan granted for short duration crops is required to be treated as NPA if the instalment of the principal or interest thereon remains unpaid for two crop seasons beyond the due date. A loan granted for long duration (with crop season longer than one year) crops is required to be treated as NPA, if the instalment of principal or interest thereon remains unpaid for one crop season beyond the due date.

Asset Classification–State Government Guaranteed Advances

4.44 Revised guidelines on asset classification norms for State Government guaranteed exposures (*i.e.*, advances and investments), as applicable to commercial banks, were issued to StCBs and CCBs on January 20, 2005 which are to be implemented in a phased manner. Accordingly, it was decided to delink the asset classification and provisioning requirements in respect of State Government guaranteed loans and advances from invocation of State Government guarantee and treat such exposures for asset classification purpose in the same manner as applicable to exposures not guaranteed by the State Governments. However, with a view to enabling banks to have a smooth transition in the matter, the revised prudential norms in respect of State Government guaranteed exposures (*i.e.*, both advances and investments) will be implemented in a phased manner in two stages. With effect from the year ending March 31, 2006, State Government guaranteed advances and investments in State Government guaranteed securities would attract asset classification and provisioning norms, if interest and/or instalment of principal or any other amount due to the bank remains overdue for more than 180 days. In the second stage, which would begin from the year ending March 31, 2007, State Government guaranteed advance and investment in State Government guaranteed securities would attract asset classification and provisioning norms, if interest and/or instalment of principal or any other amount due to the bank remains overdue for more than 90 days.

Additional Provisioning Requirement for NPAs

4.45 For the sake of convergence in policies governing all banks, guidelines for additional provisioning for all advances classified as 'doubtful for more than three years' were issued on March 01, 2005, to be implemented in a phased manner from April 01, 2007. In terms of the guidelines, for the unsecured portion of the advance, which is not covered by the realisable value of tangible security to which the bank has a valid recourse and the realisable value is estimated on a realistic basis, provision will be to the extent of 100 per cent, as hitherto. The secured portion, on the other hand, would be divided into two categories. Outstanding stock of NPAs classified as 'doubtful for more than three years' as on March 31, 2007 would need to be provided for in a phased manner up to 100 per cent till March 31, 2010. Also, 100 per cent provisioning would need to be made for the advances classified as 'doubtful for more than three years' on or after April 1, 2007.

Task Force on Revival of Rural Co-operative Credit Institutions

4.46 The Government of India had constituted a Task Force on Revival of Rural Co-operative Credit Institutions (Chairman: Prof. A. Vaidyanathan) to propose an action plan for reviving the rural co-operative banking institutions and suggest an appropriate regulatory framework for these institutions. The Task Force in its Report submitted to the Central Government on February 15, 2005 made several recommendations to strengthen the rural co-operative credit structure in the country (Box IV.5). The Government has accepted the recommendations of the Task Force in principle and held consultative meetings with the State Governments.

4.47 In the context of an urgent need for strengthening the long-term co-operative credit structure, the Government of India entrusted the Task Force on Revival of Rural Co-operative Credit Institutions (Chairman: Prof A. Vaidyanathan), which submitted its report earlier on short-term structure, also to study the long-term co-operative credit structure for agriculture and rural development.

Supervision of the Rural Co-operative Structure

4.48 NABARD undertakes inspection of RRBs, StCBs and CCBs in accordance with the powers vested under Section 35(6) of the Banking Regulation Act, 1949 (AACS). Besides, NABARD conducts voluntary inspection of SCARDBs, Apex Weavers' Co-operative Societies and State Co-operative Marketing Federations. The frequency

Box IV.5: Task Force on Revival of Rural Co-operative Credit Institutions

The major recommendations of the Task Force are as under:

- The Co-operative Credit Structure (CCS) is impaired in governance, managerial and financial fronts and hence needs to be revived and restructured.
- The financial restructuring shall be contingent on commitment to and implementation of legal and institutional reforms by the State Governments.
- Financial assistance be made available for (i) wiping out accumulated losses; (ii) covering invoked but unpaid guarantees given by the State Governments; (iii) increasing the capital to a specified minimum level; (iv) retiring Government share capital; and (v) technical assistance.
- Availability of financial assistance from the Government of India shall be strictly subject to legal and institutional reforms in the co-operative sector to ensure that the co-operatives become truly democratic and member driven. These reforms shall include: (i) ensuring full voting membership rights on all users of financial services including depositors; (ii) removing state intervention in administrative and financial matters in co-operatives; (iii) removing provision for Government equity and participation in the Boards of co-operatives; (iv) withdrawing restrictive orders on financial matters; (v) permitting co-operatives the freedom to take loans from any financial institution and not necessarily from only the upper tier and similarly place their deposits with any financial institution of their choice; (vi) permitting co-operatives under the parallel Acts to be members of upper tiers under the existing co-operative societies Acts and *vice versa;* (vii) limiting powers of the State Governments to supersede Boards; (viii) ensuring timely elections before the expiry of the term of the existing Boards; (ix) facilitating full regulatory powers for the Reserve Bank in case of co-operative banks; and (x) introducing prudential norms including CRAR for all financial co-operatives including PACS.
- The Task Force has also recommended certain major amendments to the provisions of the B.R. Act, 1949 enabling removal of dual control and bringing the co-operatives under the regulatory control of the Reserve Bank. These include: (i) all co-operative banks would be on par with the commercial banks as far as regulatory norms are concerned; (ii) the Reserve Bank will prescribe 'fit and proper' criteria for election to the Boards of co-operative banks; (iii) the Reserve Bank will prescribe certain criteria for professionals to be on the Boards of co-operative banks; (iv) the CEOs of the co-operative banks would be appointed by the respective banks themselves; and (v) co-operatives, other than co-operative banks as approved by the Reserve Bank, would not accept non-voting member deposits. Such co-operatives would also not use words such as 'bank', 'banking', 'banker' or any other derivative of the word 'bank' in their registered name.
- Total financial assistance has been estimated tentatively at Rs.14,839 crore. The Task Force, however, has recommended a special audit to ascertain the exact requirement of assistance. The financial assistance be shared by the Government of India, State Governments and the CCS based on the origin of losses within a flexible matrix.
- NABARD be designated as the Nodal Implementing and Pass Through Agency to coordinate and monitor the progress of the programme representing the Government of India. NABARD will prepare model MoUs, model balance sheet proforma for PACS and CCBs.
- The Scheme be kept open for a period of two years for the State Governments to decide on their participation.
- The Scheme be operationalised through National Guidance and Monitoring Committee, State Level Implementation and Monitoring Committees and District Level Planning and Implementation Committees at national, State and district levels, respectively.

of statutory/voluntary inspections by NABARD is being increased from 2005-06. Accordingly, statutory inspections of all StCBs as well as of those CCBs and RRBs which are not complying with minimum capital requirements as required under the B.R. Act, 1949 (AACS), and the Reserve Bank of India Act, 1934, respectively, and voluntary inspections of all SCARDBs will be conducted on an annual basis. The statutory inspections of CCBs and RRBs with positive net worth as also the voluntary inspections of Apex Co-operative Societies/Federations would continue to be conducted once in two years. With the introduction of annual inspections, the system of conducting quick inspections has been dispensed with. Inspections of 326 banks (12 StCBs, 181 CCBs and 133 RRBs) and voluntary inspections of 11 SCARDBs and four Apex institutions were carried out during the year.

4.49 The Board of Supervision (BoS) constituted by NABARD in 1999 to provide guidance and direction on matters relating to supervision of StCBs, CCBs and RRBs, met four times during 2004-05. The issues deliberated by the Board included: (i) review of insolvent StCBs and CCBs; (ii) State-wise review of the functioning of co-operative credit institutions; (iii) review of off-site supervisory system (OSS); (iv) review of frauds, misappropriation, embezzlements, defalcations; (v) review of progress in implementation of the recommendations of the Advisory Committee on Flow of Credit to Agriculture and Related Activities (Chairman: Prof. V.S. Vyas); (vi) review of functioning of StCBs and SCARDBs based on inspection findings; (vii) procedure for receipt and follow-up of compliance reports on inspection findings; (viii) risk management systems in co-operative banks and RRBs; (ix) review of

Table IV.9: Elected Boards of Rural Co-operative Banks under Supersession
(As on March 31, 2004)

Particular	StCBs	CCBs*	SCARDBs	PCARDBs	Total
1	2	3	4	5	6
(i) Total no. of Institutions	31	365	20	768	**1,184**
(ii) No. of Institutions where Boards are under supersession	12	186	11	416	**625**
Percentage of Boards under supersession [(ii) as percentage of (i)]	**38.7**	**51.0**	**55.0**	**54.2**	**52.8**

* : In respect of reporting banks only.
Source: NABARD.

financial position of RRBs with deposit erosion of 25 per cent or more; and (x) making applicable the revised prudential norms to SCARDBs and PCARDBs.

4.50 The Board expressed concern over: (i) deterioration in the financial position of many co-operative banks; (ii) non-compliance by several banks with the provisions of Section 11(1) of the B.R. Act, 1949 (AACS), relating to minimum capital requirement; and (iii) absence of penal provision against the banks not adhering to the Reserve Bank's guidelines for asset classification and provisioning norms. A set of 'trigger points', based on certain quantifiable parameters, for initiating supervisory and regulatory actions against StCBs and CCBs, approved by the BoS were placed before the Board of Directors of NABARD and conveyed to all StCBs and CCBs.

Management of Co-operatives

4.51 Although NABARD continued to profess the need for co-operative banks to be managed by duly elected Boards of Management, the phenomenon of supersession of elected Boards of Management continued. Boards of most of institutions in nearly all categories of co-operative banks were under supersession as on March 31, 2004 (Table IV.9).

State Co-operative Banks

Operations of State Co-operative Banks

4.52 Assets/liabilities of StCBs grew at a higher rate during 2003-04 as compared with the preceding year. Deposits of StCBs grew significantly during the year. Most of such deposits were deployed in investments, a trend which was observed in respect of other financial institutions as well. Many financial institutions increased their exposure to investments for making capital gains in a declining interest rate scenario. Loans and advances extended by StCBs, however, decelerated further from the low growth witnessed in the previous year (Table IV.10).

Table IV.10: Liabilities and Assets of State Co-operative Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage Variations	
	2003	2004	2002-03	2003-04
1	2	3	4	5
Liabilities				
1. Capital	897 (1.4)	951 (1.4)	0.8	6.0
2. Reserves	7,081 (11.3)	7,569 (11.2)	16.4	6.9
3. Deposits	39,386 (63.1)	43,486 (64.1)	6.0	10.4
4. Borrowings	12,209 (19.6)	12,457 (18.4)	1.4	2.0
5. Other Liabilities	2,853 (4.6)	3,375 (4.9)	6.2	18.3
Total Liabilities/Assets	**62,426 (100.0)**	**67,838 (100.0)**	**4.9**	**8.7**
Assets				
1. Cash and Bank Balances	3,485 (5.6)	5,066 (7.5)	3.6	45.4
2. Investments	19,627 (31.4)	23,111 (34.1)	10.2	17.8
3. Loans and Advances	34,761 (55.7)	35,105 (51.8)	2.9	1.0
4. Other Assets	4,553 (7.3)	4,556 (6.6)	0.2	0.1

Note : 1. Figures in parenthesis are percentages to total liabilities/assets.
2. 'Reserves' include credit balance in profit and loss account shown separately by some of the banks.
Source : NABARD.

Financial Performance of State Co-operative Banks

4.53 Interest income of StCBs declined by Rs.267 crore during 2003-04. This, however, was more than compensated by a sharp increase in other income, on the one hand, and decline in interest expended and operating expenses, on the other. As a result, operating profits of StCBs improved marginally during the year. However, a sharp increase in provisions and contingencies resulted in decline in net profits by 20.6 per cent to Rs.373 crore (Table IV.11). A part of these profits was appropriated to set off losses incurred in previous years, which brought down the accumulated losses to Rs.260 crore at end-March 2004 from Rs.343 crore at end of the previous year. Twenty seven out of 31 StCBs earned profits, while four incurred losses during the year. Twenty StCBs earned higher profits during 2003-04, while seven earned lower profits. Losses incurred by three loss making StCBs declined while it increased for one (Appendix Table IV.6).

Table IV.11: Financial Performance of State Co-operative Banks

(Amount in Rs. crore)

Item	2002-03	2003-04	Percentage Variations	
			2002-03	2003-04
1	2	3	4	5
A. Income (i+ii)	**6,197 (100.0)**	**6,046 (100.0)**	**3.9**	**-2.4**
i) Interest Income	5,581 (90.1)	5,314 (87.9)	-1.5	-4.8
ii) Other Income	616 (9.9)	732 (12.1)	104.3	18.8
B. Expenditure (i+ii+iii)	**5,727 (100.0)**	**5,673 (100.0)**	**-0.9**	**-0.9**
i) Interest Expended	4,233 (73.9)	3,998 (70.5)	-1.7	-5.6
ii) Provisions and Contingencies	1,003 (17.5)	1,204 (21.2)	-4.2	20.0
iii) Operating Expenses	491 (8.6)	471 (8.3)	16.1	-4.1
of which : Wage Bill	311	317	0.7	1.9
C. Profit				
i) Operating Profit	1,473	1,577	19.4	7.1
ii) Net Profit	470	373	156.5	-20.6
D. Total Assets	**62,426**	**67,838**	**4.9**	**8.7**

Note : 1. Figures in brackets are percentage shares in the respective total.

Source : NABARD.

Central Co-operative Banks

Operations of Central Co-operative Banks

4.54 Total assets/liabilities of central co-operative banks (CCBs) expanded at a lower rate during 2003-04 as compared with the previous year mainly due to slowdown of deposits, borrowings and internal generation. The impact of this slowdown was felt mainly on loans and advances, which grew at a much lower rate as compared with the previous year. Investments, however, increased sharply, a trend which was observed in respect of other financial intermediaries as well. The structure of liabilities and assets of CCBs remained broadly unchanged (Table IV.12).

Table IV.12: Liabilities and Assets of Central Co-operative Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage Variations	
	2003	2004	2002-03	2003-04
1	2	3	4	5
Liabilities				
1. Capital	3,655 (3.1)	3,897 (3.1)	6.7	6.6
2. Reserves	13,181 (11.2)	15,234 (12.1)	22.0	15.6
3. Deposits	73,919 (62.9)	79,153 (63.0)	8.4	7.1
4. Borrowings	19,639 (16.7)	20,256 (16.1)	4.4	3.1
5. Other Liabilities	7,112 (6.1)	7,145 (5.7)	10.2	0.5
Total Liabilities/Assets	**1,17,506 (100.0)**	**1,25,685 (100.0)**	**9.1**	**7.0**
Assets				
1. Cash and Bank Balances	7,311 (6.2)	7,689 (6.1)	8.5	5.2
2. Investments	31,114 (26.5)	35,180 (28.0)	5.7	13.1
3. Loans and Advances	64,214 (54.7)	67,152 (53.4)	8.3	4.6
6. Other Assets	14,867 (12.6)	15,664 (12.5)	21.8	5.4

Note : 1. Figures in brackets are percentage shares in total liabilities/assets.
2. 'Reserves' include credit balance in profit and loss account shown separately by some of the banks.

Source : NABARD.

Financial Performance of CCBs

4.55 Interest income of CCBs declined marginally during 2003-04 as compared with the previous year on account of decline both in volumes and interest rates. However, net interest income was higher by Rs.226 crore than the preceding year. Increase in operating expenses was more or less offset by the increase in 'other' income. Provisions and contingencies also declined. As a result, CCBs registered net profits at the aggregate level in 2003-04 in contrast with net losses in the previous year (Table IV.13). During 2003-04, 261 out of 365 CCBs earned profits amounting to Rs.864 crore, while 102 CCBs incurred losses to the tune of Rs.756 crore.

Table IV.13: Financial Performance of Central Co-operative Banks

(Amount in Rs. crore)

Item	2002-03	2003-04	Percentage Variations	
			2002-03	2003-04
1	2	3	4	5
A. Income (i+ii)	**12,086 (100.0)**	**11,912 (100.0)**	**5.3**	**-1.4**
i) Interest Income	11,291 (93.4)	11,024 (92.5)	3.7	-2.4
ii) Other Income	795 (6.6)	888 (7.5)	31.8	11.7
B. Expenditure (i+ii+iii)	**12,354 (100.0)**	**11,804 (100.0)**	**7.0**	**-4.5**
i) Interest Expended	7,812 (63.2)	7,319 (62.0)	1.8	-6.3
ii) Provisions and Contingencies	2,571 (20.8)	2,414 (20.5)	24.4	-6.1
iii) Operating Expenses	1,971 (16.0)	2,071 (17.5)	9.1	5.1
of which :				
Wage Bill	1,467	1,526	4.6	4.0
C. Profit				
i) Operating Profit	2,303	2,522	15.0	9.5
ii) Net Profit	-268	108	588.2	-140.3
D. Total Assets	**1,17,506**	**1,25,685**	**9.1**	**7.0**

Note : 1. Figures in brackets are percentage shares in the respective totals.

Source : NABARD.

Number of profit-earning CCBs and profits earned by them increased during 2003-04 in all States, except Maharashtra, Tamil Nadu and Uttar Pradesh. The number of loss making CCBs and the losses incurred by them declined in all States, except Jharkhand, Karnataka, Tamil Nadu and Uttar Pradesh (Appendix Table IV.7). On the whole, CCBs, as a group, accumulated net losses aggregating Rs.5,126 crore at end-March 2004.

Primary Agricultural Credit Societies (PACS)

4.56 Primary agricultural credit societies (PACS) is the foundation of the co-operative credit system on which the superstructure of the short-term co-operative credit system rests. It is the PACS which directly interface with individual farmers, provide short-term and medium-term credit, supply agricultural inputs, distribute consumer articles and arrange for marketing of produce of its members through a co-operative marketing society.

4.57 Total number of PACS declined to 1,05,735 at end-March 2004 from 1,12,309 in the previous year. However, the membership of PACS increased by 9.6 per cent to 135 million. Borrowing members at 51 million constituted 37.9 per cent of the total membership as compared with 51.7 per cent in the previous year (Table IV.14).

Table IV.14: Primary Agricultural Credit Societies (PACS) – Membership

(No. in million)

Item	As at end-March		
	2002	2003	2004
1	2	3	4
1. No. of Societies	0.098	0.112	0.106
2. Total Membership	102.14	123.55	135.41
of which:			
a) Scheduled Caste	13.73	33.18	30.61
b) Scheduled Tribe	10.06	12.02	11.89
3. Total No. of Borrowers	55.55	63.88	51.27
of which:			
a) Scheduled Caste	7.36	11.50	6.49
b) Scheduled Tribe	4.10	8.07	3.44
4. Total No. of Employees	0.206	0.261	0.347

Source: NAFSCOB.

Operations of PACS

4.58 Resource mobilisation continued to be a major area of weakness of the PACS. At present, most of the PACS are totally dependent on the finance provided by CCBs. PACS affiliated with weak CCBs are starved of finance, limiting their credit and non-credit business. During 2003-04, while borrowings by PACS increased sharply, their deposits declined significantly. Decline in reserves of PACS was more than made up by increase in paid-up capital. On the whole, resources of PACS expanded at a lower rate during 2003-04 as compared with the previous year. On the asset side, increase in the short-term loans was partly offset by decline in the long-term loans. As a result, overall loan portfolio, in percentage terms, grew at a lower rate than the previous year.

Financial Performance of PACS

4.59 During 2002-03, 83,349 PACS earned profit amounting to Rs.404 crore, while 53,626 PACS incurred losses of Rs.1,862 crore. Thus, PACS, as a group, incurred net losses of Rs.1,458 crore. PACS have accumulated a large amount of outstanding overdues. Although overdues as percentage of total demand declined during 2003-04, these remained very high at 36.8 per cent at end-March 2004 (Table IV.15).

PACS-Regional Operations

4.60 The States of Maharashtra and Gujarat accounted for 28 per cent of total PACS in the country with Maharashtra alone accounting for about 20 per cent. The North-Eastern States, on the other hand, accounted for only three per cent of the PACS in the country. The Central Region (Uttar Pradesh, Uttaranchal, Chattisgarh and Madhya Pradesh) with one-fourth of the population, predominantly rural, accounted for only 15 per cent of total PACS. Notwithstanding the concentration of PACS in some regions, nearly 97 per cent of the villages in the country are

Table IV.15: Primary Agricultural Credit Societies – Select Indicators

(Amount in Rs. crore)

Item	As at end-March			Percentage Variation	
	2002	2003	2004	2002-03	2003-04
1	2	3	4	5	6
A. Liabilities					
1. Total Resources (2+3+4)	51,176	57,596	60,797	12.5	5.6
2. Owned Funds (a+b)	6,855	8,198	8,397	19.6	2.4
a. Paid Up Capital	4,390	4,953	5,166	12.8	4.3
of which: Government Contribution	504	619	630	22.8	1.8
b. Total Reserves	2,466	3,245	3,231	31.6	-0.4
3. Deposits	14,846	19,120	18,143	28.8	-5.1
4. Borrowings	29,475	30,278	34,257	2.7	13.1
5. Working Capital	51,905	61,142	62,047	17.8	1.5
B. Assets					
1. Total Loans Issued (a+b)*	30,770	33,996	35,119	10.5	3.3
a) Short-Term	25,051	27,200	29,326	8.6	7.8
b) Medium-Term	5,719	6,796	5,793	18.8	-14.8
2. Total Loans Outstanding (a+b)	40,779	42,411	43,873	4.0	3.4
a) Short-Term	27,666	29,107	30,808	5.2	5.8
b) Medium-Term	13,113	13,305	13,065	1.5	-1.8
C. Overdues					
1. Total Demand	34,077	40,341	44,237	18.4	9.7
2. Total Collection	23,010	25,051	27,942	8.9	11.5
3. Total Balance (Overdues) (a+b)	11,067	15,289	16,295	38.1	6.6
a) Short-Term	8,172	11,570	12,279	41.6	6.1
b) Medium-Term	2,895	3,720	3,918	28.5	5.3
4. Percentages of Overdues to Demand	32.5	38.2	36.8		

* : During the year.
Source: NAFSCOB.

covered by PACS. On an average, a PACS served eight villages for the country as a whole at end-March 2004. Within States, the average number of villages served by a PACS ranged from as low as one village in Kerala and Nagaland to 118 villages in Arunachal Pradesh. In Kerala and Nagaland, the number of PACS at 1,953 and 1,719, respectively, were more than the villages at 1,639 and 969, respectively, at end-March 2004 (Table IV.16).

4.61 Deposit mobilisation by most of the PACS has been very small, barring those operating in the States of Kerala, Tamil Nadu, Andhra Pradesh, Himachal Pradesh and Karnataka. PACS in Kerala and Tamil Nadu mobilised deposits amounting to Rs.8,352 crore and Rs.2,761 crore, respectively, as on March 31, 2004, constituting 61 per cent of the total deposits mobilised by all the PACS in the country. PACS in the States of Orissa, Karnataka, Maharashtra, Himachal Pradesh and Punjab also mobilised sizeable deposits. The average size of deposits per PACS was the highest in Kerala, followed by Tamil Nadu, Orissa and Karnataka (Table IV.17).

Table IV.16: Coverage of Villages by Primary Agricultural Credit Societies (PACS)
(As at end-March 2004)

Sr. No.	State	No. of Villages	No. of PACS	Ratio of Villages to PACS
1	2	3	4	5
1.	Andaman and Nicobar	204	45	5
2.	Andhra Pradesh	27,647	4,103	7
3.	Arunachal Pradesh	3,649	31	118
4.	Assam	24,590	809	30
5.	Bihar	77,694	5,936	13
6.	Chattisgarh	30,640	1,464	21
7.	Gujarat	24,483	8,482	3
8.	Haryana	7,077	2,423	3
9.	Himachal Pradesh	20,118	2,091	10
10	Jammu and Kashmir	3,891	425	9
11.	Jharkhand	3,611	208	17
12.	Karnataka	25,079	3,863	6
13.	Kerala	1,639	1,953	1
14.	Madhya Pradesh	57,546	4,568	13
15.	Maharashtra	60,409	20,866	3
16.	Meghalaya	5,629	179	31
17.	Mizoram	710	165	4
18.	Nagaland	969	1,719	1
19.	Orissa	45,811	3,845	12
20.	Pondicherry	264	52	5
21.	Punjab	12,428	3,996	3
22.	Rajasthan	41,786	5,236	8
23.	Tamil Nadu	20,189	4,533	4
24.	Tripura	962	270	4
25	Uttar Pradesh	1,12,804	8,929	13
26.	Uttaranchal	5,900	446	13
27.	West Bengal	1,84,335	18788	10
	All India	**8,00,473**	**1,05,735**	**8**

Source: NAFSCOB.

Table IV.17: Average Deposits per Primary Agricultural Credit Society in Major States

(Rs. Lakh)

Sr. No.	State	End-March		
		2002	2003	2004
1	2	3	4	5
1.	Andhra Pradesh	6	17	18
2.	Gujarat	1	1	1
3.	Haryana	6	8	9
4.	Karnataka	14	26	20
5.	Kerala	324	365	428
6.	Madhya Pradesh	5	8	8
7.	Maharashtra	1	5	1
8.	Orissa	55	56	59
9.	Punjab	9	11	13
10.	Rajasthan	2	2	2
11.	Tamil Nadu	73	72	61
12.	Tripura	–	–	–
13.	Uttaranchal	7	7	7
	All India	**15**	**17**	**17**

– : Nil/Negligible.
Source: NAFSCOB.

4.62 The credit penetration level of PACS varies across States. The borrowing members of PACS as percentage of total members has been low in most of the States, implying that many of these institutions are focussing primarily on mobilising deposits from the members or a small number of members are availing of large loans (Table IV.18). Recovery performance of PACS continued to deteriorate. High level of overdues in some States

Table IV.18: Percentage of Borrowing Members to Total Members of PACS

(Per cent)

Sr. No.	State	2001-02	2002-03	2003-04
1	2	3	4	5
1.	Andhra Pradesh	24	22	11
2.	Assam	4	3	3
3.	Bihar	1	1	2
4.	Himachal Pradesh	11	11	11
6.	Jammu and Kashmir	4	4	1
7.	Karnataka	34	17	21
8.	Maharashtra	31	32	31
9.	Meghalaya	1	17	19
10.	Rajasthan	35	34	33
11.	Tripura	1	1	–
12.	West Bengal	26	29	29

– : Nil/Negligible.
Source: NAFSCOB.

drastically reduced the eligibility of a large number of members for fresh borrowings and thus hampering the growth in the borrowing membership.

Challenges faced by the PACS

4.63 The vital link in the short-term co-operative credit structure has developed some weaknesses. Most of them are too small in size to be economical and viable. Besides, several of them are also dormant. Out of 1,12,309 PACS as on March 31, 2003, 69,725 (62 per cent) were viable, 33,375 (29.7 per cent) potentially viable, 3,979 (3.5 per cent) dormant and 1,882 (1.7 per cent) defunct.

4.64 PACS continue to rely heavily on external support and have not yet been able to become self-reliant in respect of resources through deposit mobilisation and internal accruals, affecting their growth and expansion of business activities.

4.65 PACS need to function as viable units responsive to the needs, aspirations and convenience of its members, particularly, those belonging to the more vulnerable sections of the society. They must function effectively as well-managed and multi-purpose institutions mobilising the savings of the rural people and providing a package of services including credit, supply of agricultural inputs and implements, consumer goods, marketing services and technical guidance with focus on weaker sections.

4.66 Some of the critical challenges facing primary level co-operative credit institutions, apart from improving resource mobilisation, are: (i) increasing diversification in business portfolio; (ii) improving volume of business; (iii) arresting decline in membership by the borrowers; (iv) reducing cost of management; (v) correcting imbalances in loans outstanding; (vi) improving skills of the staff and imparting professionalisation; (vii) strengthening management information system (MIS); (viii) reducing involvement in non/less profitable business; and (ix) improving interest margins.

Long-Term Rural Co-operatives

Operations of Long Term Rural Co-operatives

4.67 Assets/liabilities of SCARDBs and PCARDBs increased moderately during 2003-04, the latest period for which data are available. SCARDBs and PCARDBs expanded their liabilities during 2003-04 mainly through substantial internal generation of funds and borrowings. Decline in deposits witnessed in 2002-03 was reversed in 2003-04. However, the share of deposits in total resources continued to be small. Their loans and advances portfolio expanded moderately during the year (Table IV.19).

Financial Performance of Long-Term Rural Co-operative Banks

4.68 SCARDBs and PCARDBs continued to incur losses during 2003-04. Although number of profit-making SCARDBs and PCARDBs and profits earned by them improved, losses incurred by loss making SCARDBs and PCARDBs continued to outweigh the profits earned resulting in overall losses for these institutions (Table IV.20).

4.69 While SCARDBs in ten States earned profits, in nine States they incurred losses (information in respect of SCARDBs in one State was not available). Profits earned by SCARDBs in seven States (Haryana, Himachal Pradesh, Kerala, Madhya Pradesh, Punjab, Uttar Pradesh and West Bengal) improved during the year. SCARDBs in Gujarat turned around and earned profits during 2003-04. Profits of SCARDBs declined in two States (Chattisgarh and Rajasthan). Losses incurred by loss making SCARDBs declined in six States (Assam, Bihar, Jammu and Kashmir, Maharashtra, Orissa and Tripura), while they increased in three States (Karnataka, Pondicherry and Tamil Nadu) (Appendix Table IV.8). Of the 711 reporting

Table IV.19: Operations of Long-term Co-operative Credit Institutions

(Amount in Rs. crore)

Indicator	As at end-March			
	2003	2004	2003	2004
	SCARDBs		PCARDBs	
1	2	3	4	5
Number	20	20	768	768
Share Capital	732	762	891	916
Of which:				
From State Government	90	89	128	140
Reserves	2,174	2,742	1,831	2,055
Deposits	501	605	214	252
Borrowings	15,892	16,882	11,214	11,880
Loans and Advances outstanding	15,354	16,212	10,809	11,209

Note: 1. Data for 2004 are provisional.
2. Data for SCARDB in Manipur and PCARDBs in Kerala and Orissa for 2003-04 were repeated from the previous year.

Table IV.20: Financial Performance of State Co-operative Agriculture and Rural Development Banks (SCARDBs) and Primary Co-operative Agriculture and Rural Development Banks (PCARDBs)

(Amount in Rs. crore)

Agency/Year	Total Number	Profit-making		Loss-making		Overall Profit/Loss(-)
		Number	Amount	Number	Amount	
1	2	3	4	5	6	7
SCARDBs						
2001-02	20	9	85	11	182	-97
2002-03	20	8	62	11	164	-102
2003-04*	20	10	97	9	210	-113
PCARDBs						
2001-02	768	196	47	572	323	-276
2002-03	768	208	52	560	369	-317
2003-04*	768	281	76	430	326	-250

* : Data in respect of Manipur SCARDB, 4 PCARDBs in Kerala and 53 PCARDBs in Orissa were not available.
Note : Data are provisional.
Source: NABARD.

PCARDBs in 12 States, for which information was available, only 281 PCARDBs made profits during 2003-04. PCARDBs operating only in three States (Himachal Pradesh, Punjab and West Bengal) earned net profits. PCARDBs in others States (Chattisgarh, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Rajasthan and Tamil Nadu) incurred losses (Appendix Table IV.9).

NPAs and Recovery Performance of the Rural Co-operative Sector

4.70 The asset quality of rural co-operative banks, especially the long-term credit institutions, continued to be poor. NPA levels of all co-operative banking institutions increased further during 2003-04, both in absolute terms and in relation to outstanding loans. NPAs ranged from 18.5 per cent (in the case of StCBs) to 35.5 per cent (in the case PCARDBs). The asset quality of short-term rural co-operatives was somewhat better than that of long-term co-operatives. The recovery performance of co-operative institutions, except SCARDBs, however, improved marginally (Table IV.21).

Composition of NPAs and Provisioning

4.71 In respect of all the financial institutions in the rural sector (StCBs, CCBs, SCARDBs and PCARDBs), percentages of NPAs in the sub-standard category declined, while those in the doubtful category increased during 2003-04, suggesting deterioration in asset quality. However, all the institutions were able to meet the necessary provisioning requirements for NPAs (Table IV.22).

Table IV.21: Non-Performing Assets and Recovery Ratios of Rural Co-operative Banks

(Per cent)

At end-March	StCBs		CCBs		SCARDBs		PCARDBs	
	NPAs	Recovery to Demand	NPAs	Recovery to Demand	NPAs	Recovery to Demand	NPAs	Recovery to Demand
1	2	3	4	5	6	7	8	9
2002	13.4	82.0	19.9	66.0	18.5	55.0	30.2	48.0
2003	18.1	80.0	21.6	61.0	21.0	49.0	33.0	44.0
2004*	18.5	84.0	23.2	62.0	26.7	44.0	35.5	44.0

* : Data are provisional.
Note : 1. Data for NPAs relate to end-March period, while that for recovery to demand relate to end-June of the corresponding year.
2. In the absence of non-availability of the relevant data, NPA figures as on March 31, 2004 in respect of PCARDBs in Orissa, West Bengal and Manipur SCARDBs were repeated from the previous year.

Source : NABARD.

Table IV.22: Composition of NPAs and Provisioning by Co-operative Banks

(Amount in Rs. crore)

Asset Classification	As at end-March							
	2003	2004	2003	2004	2003	2004	2003	2004
	StCBs		CCBs		SCARDBs		PCARDBs	
1	2	3	4	5	6	7	8	9
Sub-Standard	3,544 (56.3)	3,213 (50.2)	7,595 (54.7)	8,137 (52.6)	2,107 (65.5)	2,630 (60.6)	1,975 (55.3)	2,051 (51.6)
Doubtful	2,540 (40.4)	2,966 (46.3)	5,073 (36.5)	6,024 (38.9)	1,089 (33.8)	1,687 (38.9)	1,565 (43.8)	1,879 (47.3)
Loss Assets	210 (3.3)	226 (3.5)	1,213 (8.8)	1,318 (8.5)	22 (0.7)	20 (0.5)	29 (0.9)	45 (1.1)
Total NPAs	**6,294**	**6,405**	**13,881**	**15,479**	**3,218**	**4,337**	**3,569**	**3,975**
Memo Item:								
Provisions Required	3,085	3,435	5,950	6,297	609	833	807	944
Provisions Made	3,178	3,670	6,384	6,900	610	833	823	943

Note : 1. Data repeated from previous year for 37 CCBs in Kerala and Tamil Nadu and 4 StCBs, *viz.*, Kerala, Manipur, Tamil Nadu and Pondicherry and for Manipur SCARDBs and PCARDBs in West Bengal and Orissa.
2. Figures in parentheses indicate percentage to total.

State-wise NPAs/Recovery of Rural Co-operatives

State Co-operative Banks (StCBs)

4.72 NPAs of StCBs varied widely across the States at end-March 2004. In some States such as Haryana, Punjab and Rajasthan, NPA ratio (NPAs as percentage to loans outstanding) was less than 3 per cent, while in some other States (Arunachal Pradesh, Assam, Bihar, Manipur and Nagaland), NPAs were more than 50 per cent. Only in seven out of 31 States/UTs, the NPA ratio, was less than 10 per cent.

4.73 The recovery rate of StCBs also varied significantly across the States. Haryana, Kerala, Madhya Pradesh, Punjab and Tamil Nadu, StCBs achieved more than 90 per cent recovery during 2003-04. However, in several States such as Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur, Meghalaya and Tripura, the recovery rate was less than 50 per cent (Appendix Table IV.6).

Central Co-operative Banks (CCBs)

4.74 NPAs ratio in respect of CCBs also varied significantly across the States from 5 per cent to 68 per cent at end-March 2004. Only in four States (Haryana, Himachal Pradesh, Punjab and Uttaranchal), the NPAs ratio was less than 10 per cent. In two States (Bihar and Jharkhand), the NPAs ratio was more than 60 per cent. At the all-India level, the recovery performance of CCBs increased marginally from 61 per cent to 62 per cent during 2003-04. While the recovery by CCBs in some States such as Andhra Pradesh, Bihar, Gujarat, Himachal Pradesh, Jammu and Kashmir, Kerala, Madhya Pradesh, Orissa, Rajasthan and Uttaranchal improved, it declined in some other States such as Chattisgarh, Haryana, Karnataka and West Bengal. In some States such as Himachal Pradesh, Kerala, Punjab and Uttaranchal, the recovery rate was more than 80 per cent during 2003-04 (Appendix Table IV.7).

SCARDBs

4.75 NPAs of SCARDBs across States varied between zero per cent (Haryana and Punjab) to 100 per cent (Manipur) at end-March 2004. NPAs in five States (Chattisgarh, Haryana, Kerala, Madhya Pradesh and Punjab) were less than 10 per cent. In as many as eight States (Assam, Bihar, Gujarat, Maharashtra, Manipur, Orissa, Tamil Nadu and Tripura), NPAs ratio was more than 50 per cent. The recovery ratio also varied widely between 2 per cent (Manipur) to 100 per cent (Punjab). The recovery rate in all the States was less than 80 per cent, except three States (Punjab, Haryana and Kerala). In as many as 12 States, the recovery rate was less than 50 per cent (Appendix Table IV.8).

PCARDBs

4.76 PCARDBs in all the States had NPAs ratio of more than 15 per cent at end-March 2004. PCARDBs operating in Chattisgarh had the lowest

NPA ratio (15.5 per cent) and those in Maharashtra the highest (83.8 per cent). NPAs of PCARDBs operating in Haryana, Himachal Pradesh, Karnataka, Kerala, Maharashtra, Orissa, Rajasthan, Tamil Nadu and West Bengal were above 22 per cent.

4.77 Only 82 PCARDBs out of 768 had a recovery rate of above 80 per cent; the recovery rate of 152 PCARDBs ranged between 40 per cent and 60 per cent. Most of the PCARDBs (399) had recovery rates below 40 per cent. Significantly, all PCARDBs in Maharashtra (with lowest recovery rate) had recovery levels below 40 per cent (Appendix Table IV.9).

Measures taken by NABARD to reduce NPAs

4.78 High level of NPAs of co-operative banks has been a major cause of concern. With a view to reducing NPAs, co-operative banks were advised to make a detailed assessment of NPAs and to draw up strategies to bring them down to reasonable levels. Various measures suggested to co-operative banks in this regard included one-time settlement scheme (OTS), *Lok Adalats* and referring high value advances to the Debt Recovery Tribunals (DRTs). Besides, the refinance policy of NABARD was revised and linked to the level of NPAs so as to restrict refinance flow to banks with high level of NPAs. The State Governments were requested to help co-operative banks in reducing the NPAs by taking up special recovery drive with the support from the State Government departments. Co-operative banks are being encouraged to promote Farmers' Clubs and SHGs for their lending operations to reduce NPAs. Regional offices of NABARD were advised to provide necessary guidance to co-operative banks in this regard.

4. Micro Credit

4.79 The micro credit programme, which was formally heralded in 1992 with a modest pilot project of linking around 500 SHGs, has made rapid strides in India exhibiting considerable democratic functioning and group dynamism. The micro credit programme in India is now the largest in the world. Since independence, the Government of India and the Reserve Bank have made concerted efforts to provide the poor with access to credit. Despite the phenomenal increase in the physical outreach of formal credit institutions in the past several decades, the rural poor continue to depend on informal sources of credit. Institutions have also faced difficulties in dealing effectively with a large number of small borrowers, whose credit needs are small and frequent and their ability to offer collaterals is limited. Besides, cumbersome procedures and risk perceptions of the banks left a gap in serving the credit needs of the rural poor.

4.80 This led to a search for alternative policies, systems and procedures, saving and loan products, other complementary services and new delivery mechanisms that would fulfil the requirements of the poor. It is in this context that micro credit has emerged as the most suitable and practical alternative to the conventional banking in reaching the hitherto unreached poor population. Micro credit enables the poor people to be thrifty and helps them in availing the credit and other financial services for improving their income and living standards. Many research studies and some action research projects funded out of Research and Development Fund of NABARD led to the linkages of self-help groups (SHGs) with banks. The SHG-Bank Linkage Programme was formally launched in the year 1992 as a flagship programme by NABARD and aptly supported by the Reserve Bank through its policy support. The Programme envisages organisation of the rural poor into SHGs for building their capacities to manage their own finances and then negotiate bank credit on commercial terms. The poor are encouraged to voluntarily come together to save small amounts regularly and extend micro loans among themselves. Once the group attains required maturity of handling larger resources, the bank credit follows.

4.81 India has adopted a multi-agency approach for the development of its micro-finance programme. All the major credit institutions, *viz.*, commercial banks, co-operative banks, RRBs along with non-Governmental agencies (NGOs) have been associated with the micro-finance programme. The role of the delivering agents and their interface has led to alternative models of micro-finance (Box IV.6).

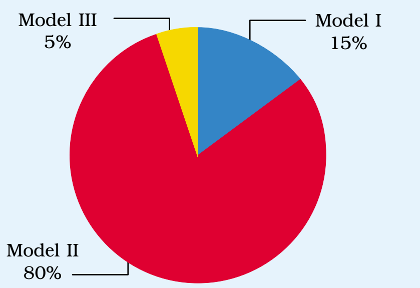
4.82 The micro-finance initiative of NABARD, *i.e.*, SHG-Bank linkage programme has passed through various phases over the last one and half decades, *viz.*, (i) pilot testing during 1992 to 1995, (ii) mainstreaming during 1996 to 1998 and

Box IV.6: Agency Model and Micro-finance

Three distinct linkage models of micro credit are currently being followed in India. Under *Model-I*, banks themselves take up the work of forming and nurturing the groups, opening their saving accounts and providing them bank loans. Up to March 2005, 15 per cent of the total number of SHGs financed were in this category. Under *Model-II*, SHGs are formed by NGOs and formal agencies but are directly financed by banks. This model continues to have a lion's share, with 80 per cent of SHGs financed up to March 2005, falling under this category. Under Model-III, SHGs are financed by banks using NGOs and other agencies as financial intermediaries. In areas where formal banking system faces constraints, the NGOs are encouraged to approach suitable bank for bulk loan assistance. The share of cumulative number of SHGs linked under this model up to end-March 2005 continued to be relatively small (Chart-1).

Chart-1: Model-wise Distribution of Bank Loan

(As on March 31, 2005)



Recognising their importance, both the Reserve Bank and NABARD have been spearheading the promotion and linkage of SHGs to the banking system through initiating proactive policies and systems. NABARD has been extending refinance support to the banking system and promotional grant support to NGOs and developing capacity building outreach of various partners.

Agency Model adopted in countries such as Brazil and South Africa has attracted wider attention in recent years. Under this model, banks are permitted to appoint wide range of entities as correspondent/agents, which are in close proximity to the people such as post offices, super markets, small stores, petrol pumps and drug stores. Such agents use kiosks or automated teller machines to accept payment, open accounts, take small deposits, provide micro credits, sell saving bonds and insurance. ACCION International, a micro-finance institution has developed "Service Company Model" to expand micro-finance operations. A Micro-finance Service Company is a non-financial company that provides loan origination and credit administration services to a bank by way of sponsoring, evaluating, approving, tracking and collecting loans for a certain fee. The deployment of such external entities and civil society organisations by banks help in reducing the transaction costs and enlarging the outreach to hitherto unbanked population. These successful experiments in other parts of the world underscore the need for exploring the feasibility of similar possibilities in the Indian context.

Following the announcement made in the Union Budget, 2005-06, an Internal Group (Chairman: Shri H.R. Khan) was set up in the Reserve Bank, *inter-alia,* to examine the issue of allowing banks to adopt the agency model by using the infrastructure of civil society organisations (CSOs), rural kiosks, and village knowledge centers to provide credit support to rural and farm sectors and examine the feasibility and modalities for appointment of "banking correspondents" to function as intermediaries between lending banks and beneficiaries. After examining these issues, the Group felt that linkages could be established under two broad models. One, the "Business Facilitator Model", wherein banks may use wide array of CSOs and others for supporting them by undertaking non-financial services. Under the second model, *i.e.*, "Business Correspondent Model", institutional agents/other entities could be used to support the banks for extending financial services (See also Box II.3).

(iii) expansion from 1998 onwards. The programme has now assumed the form of a micro-finance movement in many parts of the country and has started making inroads in the resource poor regions of the country as well. The target of covering one third of the rural poor through linkage of 1 million SHGs to be achieved by 2007 was realised much ahead by end-March 2004.

4.83 There was a massive expansion of the programme during 2004-05 with the banking system establishing credit linkage with 539 thousands new SHGs, taking the cumulative number of such SHGs to 1.61 million at end-March 2005. Banks extended loans aggregating Rs.6,898 crore at end-March 2005, registering a growth of 76.7 per cent over end-March 2004. The Bank loans per SHG increased from an average of Rs.36,179 to Rs.42,620, suggesting deepening of the credit access among the SHGs. The programme continued to enlist massive mobilisation of the rural poor women into the micro-finance movement. The number of poor families thus benefiting through SHGs increased from 16.7 million as on March 31, 2004 to over 24.2 million as on March 31, 2005, registering a growth of 45 per cent.

4.84 NGOs have clearly emerged as facilitator and promoter of SHG concept amongst the rural poor in the country (Box IV.7).

Agency-wise Trends

4.85 Commercial banks have the highest share in linkage with SHGs and financing them, followed by regional rural banks and co-operative banks.

Box IV.7: Micro-finance – Role of NGOs

The SHG-Bank Linkage Programme has been continuously supported by a large number of NGOs and similar partner agencies. It was, otherwise, a difficult task to organise rural poor into smaller homogeneous groups called self-help groups (SHGs), build their capacities to manage their own finances and then negotiate bank credit on commercial terms. The poor are encouraged and supported to voluntarily come together to save small amount of savings, called thrift regularly and extend micro loans among themselves to meet their emergent needs. Once the group attains required maturity of handling larger resources, the NGOs support the SHGs in getting bank loans. During all these stages of transformation, NGOs and other self-help promoting institutions (SHPIs) have been supporting and hand-holding the SHGs/members of the SHGs.

Out of the three models emerged under the SHG-Bank Linkage Programme over the years, about 85 per cent of the SHGs were formed through NGO interventions (Table).

Table: Model-Wise Linkage Position

(Amount in Rs. crore)

Model Type	As on March 31, 2004		As on March 31, 2005	
	No (in '000) of SHGs	Bank loans	No (in '000) of SHGs	Bank loans
1	2	3	4	5
I. SHGs promoted, guided and financed by banks	217.62 (20)	550 (14)	343.37 (21)	1,013 (15)
II. SHGs promoted by NGOs/ Government agencies and financed by banks	777.32 (72)	3,165 (81)	1,158.27 (72)	5,529 (80)
III. SHGs promoted by NGOs and financed by banks using NGOs/ formal agencies as financial intermediaries	84.14 (8)	189 (5)	116.84 (7)	356 (5)
Total	**1,079.09**	**3,904**	**1,618.48**	**6,898**

Note: Figures in parentheses are percentages to total.

Number of SHGs financed by commercial banks and the amount of loans advanced by them increased sharply during the year (Table IV.23).

4.86 The SHG-Bank linkage programme is now considered by the banking system as a commercial proposition, with advantages of lower transaction cost, near zero NPA and coverage of maximum number of the rural clientele by the bank branches. It has also led to other quantifiable benefits in business expansion. Forty seven commercial banks, 196 RRBs and 306 CCBs were participating in the programme at end-March 2005 (Table IV.24).

Table IV.23: Agency-wise Linkage Position

(As at end-March)

(Amount in Rs. crore)

Agency	Number (in '000) of SHGs				Bank loan			
	2004	2005	Percentage variation		2004	2005	Percentage variation	
			2003-04	2004-05			2003-04	2004-05
1	2	3	4	5	6	7	8	9
Commercial Banks	538.42 (49.9)	843.49 (52.1)	49.1	56.7	2,255 (57.8)	4,159 (60.3)	96.1	84.4
Regional Rural Banks	406.00 (37.6)	563.85 (34.8)	46.4	38.9	1,278 (32.7)	2,099 (30.4)	75.8	64.3
Credit Co-operative Banks	134.67 (12.5)	211.14 (13.0)	70.6	56.8	371 (9.5)	640 (9.3)	115.7	72.5
Total	**1,079.09 (100.0)**	**1,618.48 (100.0)**	**50.4**	**50.0**	**3,904 (100.0)**	**6,898 (100.0)**	**90.5**	**76.7**

Note : Figures in parentheses are percentage shares in total.

Table IV.24: SHG-Bank Linkage Programme

(Amount in Rs. crore)

Year	Total SHGs financed by banks (Numbers in '000)		Bank Loans		Refinance	
	During the year	Cumulative	During the year	Cumulative	During the year	Cumulative
1	2	3	4	5	6	7
1999-00	81.78	114.78	136	193	98	150
	(147.9)	(247.9)	(138.6)	(238.6)	(88.5)	(188.5)
2000-01	149.05	263.83	288	481	251	401
	(82.3)	(129.9)	(111.8)	(149.2)	(156.1)	(167.3)
2001-02	197.65	461.48	546	1,026	396	797
	(32.6)	(74.9)	(89.6)	(113.3)	(57.8)	(98.8)
2002-03	255.88	717.36	1,022	2,049	622	1,419
	(29.5)	(55.4)	(87.2)	(99.7)	(57.1)	(78.0)
2003-04	361.73	1,079.09	1,856	3,904	705	2,124
	(41.4)	(50.4)	(81.6)	(90.5)	(13.3)	(49.7)
2004-05	539.39	1,618.48	2,994	6,899	968	3,092
	(49.1)	(50.0)	(61.3)	(76.7)	(37.3)	(45.6)

Note: Figures in parentheses indicate percentage variations over the previous year.

Regional Spread

4.87 Historically, there has been a concentration of SHGs in the Southern States. On account of the head start of the programme and also due to some major initiatives taken by the State Governments, the programme has gained the form of a movement in the Southern States. However, the programme expanded rapidly in other States also during last two years. During 2004-05, 2,74,800 SHGs were credit-linked with banks in non-Southern States, as compared with 1,51,087 SHGs during 2003-04, an increase of 82 per cent. The expansion of the programme was quite significant in some States such as Assam (184 per cent), Gujarat (316 per cent), Maharashtra (210 per cent), Chattisgarh (190 per cent), Rajasthan (135 per cent), West Bengal (115 per cent), Jharkhand (82 per cent), Uttar Pradesh (58 per cent), Bihar (45 per cent), Orissa (29 per cent) and Madhya Pradesh (52 per cent). The share of cumulative SHGs credit linked with banks in the Southern States remained at about 60 per cent of the total SHG-credit linkages in the country at end-March 2005.

4.88 To spread the outreach of micro credit in other States, NABARD has taken up intensification of SHG-Bank Linkage Programme in 13 identified priority States which account for 70 per cent of the rural poor population, *viz.*, Uttar Pradesh, Maharashtra, Orissa, West Bengal, Madhya Pradesh, Gujarat, Rajasthan, Chattisgarh, Jharkhand, Bihar, Uttaranchal, Assam and Himachal Pradesh. NABARD has adopted a multi-pronged strategy to spread the outreach of micro-finance in the country (Box IV.8).

4.89 NABARD conducted/supported various training/sensitisation and exposure programmes during 2004-05, covering 2.1 lakh members of SHGs, 42,812 bank officials, 4,246 NGO staff, about 1,198 members of elected members of the *Panchayati Raj* institutions, 8,204 officials of the Block Level Bankers' Committees and 161 trainers.

Graduation of Mature SHGs into Micro-enterprises

4.90 Of over 16 lakh SHGs credit linked with banks, over 4 lakh SHGs are now over three years old. The core needs of savings and credit for consumption and production of these SHGs are being met by the banking system. These SHGs have not only availed loans, but have also availed loans more than once. It is being emphasised that a member of the older SHGs would now be in a position to graduate into micro-enterprises by taking up income generating activities. It is a difficult task to find viable micro-enterprises for millions of poor households in rural areas. Though micro-enterprises is not a panacea for the complex problem of chronic unemployment and poverty, yet their promotion is a viable and effective strategy for achieving significant gains in incomes and assets of poor and marginalised

Box IV.8: SHG-Bank Linkage Programme – Strategy Adopted by NABARD

NABARD is adopting the following strategy to spread the outreach of SHG-Bank Linkage Programme:

- Widening spatial distribution and intensity of the outreach of the Programme with district oriented planning and strategy.
- Evolving district-wise plan of action/strategy in consultation with existing stakeholders aiming at promotion and linkage of a minimum of 500 SHGs per district every year.
- Training and exposure programmes for the staff of the stakeholders.
- Providing promotional assistance to partners for promoting and nurturing the SHGs generally on a 'add-on' basis.
- Widening the range of SHG promoting agencies.
- Involving banks at their corporate level, organising training programmes for the regional/zonal managers of commercial banks in association with their Central Offices.
- Establishing the financing of SHGs as a business proposition for banks.
- Increasing the participation of the co-operative banks by encouraging them to finance SHGs as "financing co-operatives within the co-operatives".
- Associating village communities, people's institutions, rural volunteers and individuals to participate in the programme as SHG promoters.
- Increasing the quality of the existing SHGs by propagating "self-rating" tools.
- Large-scale dissemination of the concept and approach among the rural masses.
- Encouraging the NGOs to play an important role in correcting the regional imbalances in spread of SHG-Bank Linkage Programme.

people. However, in the absence of any specific hand-holding strategy to provide financial and non-financial services in an integrated manner, graduation of SHG members from micro-finance to micro-enterprises has not been smooth due to several obstacles. NABARD is, therefore, undertaking a pilot project in select districts, particularly for members of matured SHGs for promotion to the stage of micro-enterprises. NGOs have been selected in each district for implementing the pilot projects.

Micro-finance and the Government

4.91 It was announced in the Union Budget for 2005-06 that the Government of India intends to promote micro-finance institutions (MFIs) in a big way. For this purpose, the Micro-Finance Development Fund (MFDF) was redesignated as Micro-Finance Development and Equity Fund (MFDEF) and the corpus of the fund was increased from Rs.100 crore to Rs.200 crore. MFDEF is expected to play a vital role in capitalising the MFIs and thereby improving their access to commercial loans.

4.92 The Central Government is considering the need to identify and classify the MFIs and rate such institutions to empower them to intermediate between the lending banks and the clients. To facilitate the process of rating of MFIs, NABARD has decided to extend financial assistance to commercial banks and RRBs by way of grant to enable them to avail the services of credit rating agencies for rating of MFIs.

Micro-finance and the Reserve Bank

4.93 In view of the new paradigm shift in micro-finance, the Reserve Bank decided to revisit the issue of micro-finance in a comprehensive manner. Accordingly, several initiatives were taken in the recent period. First, consultations were arranged with several representatives of micro-finance institutions in select centres to obtain their views. Second, based on such consultations, a Technical Paper on Policy relating to Development, Regulation and Supervision of Micro-finance Services was prepared and was discussed with the representatives of MFIs on July 18, 2005. The recommendations of the Paper are being considered in consultation with the Government. Third, an Internal Group of the Reserve Bank on Rural Credit and Micro-Finance (Chairman: Shri H.R. Khan) was set up to examine the issues relating to micro-finance. The final version of the Report was placed on the website of the Reserve Bank in July 2005 (see also Box II.3).

5. NABARD and the Co-operative Sector

4.94 National Bank for Agriculture and Rural Development (NABARD) is an apex institution accredited with all matters concerning policy, planning and operations in the field of credit for agriculture and other economic activities in rural areas in India. NABARD serves as an apex refinancing agency for the institutions providing investment and production credit in rural areas.

Other main activities of NABARD include: (i) initiating measures towards institution building for improving absorptive capacity of the credit delivery system, including monitoring, formulation of rehabilitation schemes, restructuring of credit institutions and training of personnel; (ii) co-ordinating the rural financing activities of all institutions engaged in developmental work at the field level; (iii) maintaining liaison with the Government of India, the State Governments, the Reserve Bank and other national level institutions concerned with policy formulation; and (iv) undertaking monitoring and evaluation of projects refinanced by it.

4.95 NABARD provides refinance to state co-operative agriculture and rural development banks (SCARDBs), state co-operative banks (StCBs), regional rural banks (RRBs) and other financial institutions approved by the Reserve Bank. The ultimate beneficiaries of refinance from NABARD could be individuals, partnership concerns, companies, State-owned corporations or co-operative societies.

4.96 In the Union Budget for the year 2005-06, it was announced that sugar factories that were operational in 2002-03 sugar season will be assisted to restructure. Accordingly, a Committee was constituted by NABARD to work out a scheme in this regard with representation from the Reserve Bank. The Vyas Committee had also suggested to strengthen the Service Area Credit Monitoring and Information System (SAMIS) under the Service Area Approach (SAA). In this regard, NABARD constituted another Working Group to review the SAMIS reporting system and to initiate necessary modifications/changes required therein.

Resources of NABARD

4.97 The Reserve Bank has been providing General Lines of Credit (GLC) to NABARD under Section 17(4E) of the Reserve Bank of India Act, 1934, to enable it to extend the short-term refinance to state co-operative banks and RRBs. For 2004-2005 (July-June), the Reserve Bank sanctioned an aggregate credit limit of Rs.5,200 crore comprising Rs.5,000 crore under GLC-I and Rs.200 crore under GLC-II, at rate of interest of 6 per cent and 6.25 per cent, respectively. For the year 2005-06 (July-June), a GLC of Rs.3,000 crore has been sanctioned at a rate of interest of 6 per cent per annum for providing refinance to state co-operative banks and RRBs for seasonal agricultural operations (SAO).

4.98 Net accretion to the (outstanding) resources of NABARD, including RIDF deposits at Rs.4,890 crore, during 2004-05 declined by 16.0 per cent over 2003-04. Resources raised through issuance of bonds, which has emerged as the primary source of funds in recent years, continued to increase significantly during 2004-05. However, increased resource mobilisation by NABARD was more than offset by the outflow on account of repayment of RIDF deposits (Table IV.25).

Rural Infrastructure Development Fund (RIDF)

4.99 RIDF was set up with NABARD by the Central Government in 1995-96 to provide loans to the State Governments for financing rural infrastructure projects. Eleven tranches of allocations have been made towards the Fund since then. Commercial banks make contributions to the Fund in accordance with the shortfall in their priority/agriculture sector lending. The scope of the RIDF has been widened since 1999-2000 to enable utilisation of loan by *panchayati raj* institutions (PRIs), self-help groups (SHGs) and projects in social sector covering primary education, health and drinking water. The eleventh tranche of RIDF, operationalised during the year 2005-06, has a corpus of Rs.8,000 crore.

Table IV.25: Net Accretion in the Resources of NABARD

(Amount in Rs. crore)

Type of Resource	As at end-March	
	2004	2005
1	2	3
Capital	–	–
Reserves and Surplus	971	908
NRC (LTO) Fund	125	82
NRC (Stabilisation) Fund	26	11
Deposits	-27	-6
Bonds and Debentures	3,181	5,321
Borrowings from Central Government	-26	-159
Borrowings from RBI	-1,598	-267
Foreign Currency Loans	-5	–
Corporate Borrowings	2,500	1,800
RIDF Deposits	-70	-2,920
Other Liabilities	673	-25
Other Funds	68	145
Total	**5,818**	**4,890**

– : Nil/Negligible.
Source: NABARD.

Table IV.26: Deposits Mobilised under Rural Infrastructure Development Fund

(Amount in Rs. crore)

Year	RIDF I	RIDF II	RIDF III	RIDF IV	RIDF V	RIDF VI	RIDF VII	RIDF VIII	RIDF IX	RIDF X	Total
1	2	3	4	5	6	7	8	9	10	11	12
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	796	605	300	–	–	–	–	–	2,307
2000-01	–	161	413	440	850	790	–	–	–	–	2,654
2001-02	–	155	264	–	689	988	1,495	–	–	–	3,591
2002-03	–	–	188	168	541	816	731	1,413	–	–	3,857
2003-04	–	–	–	–	261	503	257	681	457	–	2,159
2004-05	–	–	–	–	125	488	752	1,213	1,354	422	4,354
Total	**1,587**	**2,225**	**2,308**	**1,413**	**2,766**	**3,585**	**3,235**	**3,307**	**1,811**	**422**	**22,658**

– : Nil/Negligible.
Source: NABARD.

4.100 With the receipt of Rs.4,353 crore as deposits from commercial banks during the year, the cumulative deposits received under RIDF aggregated Rs.22,658 crore up to March 31, 2005 (Table IV.26).

4.101 The total corpus of the RIDF (tranches I to X) aggregated Rs.42,000 crore at end-March 2005. Financial assistance sanctioned and disbursed under RIDF I to X stood at Rs.42,950 crore and Rs.25,384 crore, respectively, as on March 31, 2005 (Table IV.27). Disbursements under RIDF tranches I, II and III were closed at the end of March 2004. The implementation period for the projects sanctioned under RIDF IV was extended up to May 31, 2005 to enable the State Governments to complete ongoing projects and avail reimbursement of expenditure incurred. The implementation period for RIDF V, VI and VII was extended up to March 31, 2005 (Appendix Table IV.10).

4.102 Nine States (Andhra Pradesh, Uttar Pradesh, Maharashtra, Tamil Nadu, Gujarat, Madhya Pradesh, West Bengal, Rajasthan and Karnataka) accounted for 73 per cent of total disbursements and 70 per cent of total sanctions under all the RIDF tranches combined together. Of the total amount sanctioned under RIDF I to RIDF X, rural roads and bridges accounted for 45 per cent, irrigation projects 34 per cent and others 21 per cent (social sector nine per cent and power sector three per cent).

Table IV.27: Loans Sanctioned and Disbursed under Rural Infrastructure Development Fund
(As at end-March 2005)

(Amount in Rs. crore)

RIDF	Year	Corpus	Loans Sanctioned	Loans Disbursed	Loans disbursed as percentage of loans sanctioned
1	2	3	4	5	6
I	1995	2,000	1,911	1,761	92.2
II	1996	2,500	2,659	2,398	90.2
III	1997	2,500	2,718	2,454	90.3
IV	1998	3,000	2,904	2,367	81.5
V	1999	3,500	3,504	2,875	82.0
VI	2000	4,500	4,539	3,638	80.1
VII	2001	5,000	4,793	3,371	70.3
VIII	2002	5,500	6,040	3,686	61.0
IX	2003	5,500	5,599	2,148	38.4
X	2004	8,000	8,283	686	8.3
Total		**42,000**	**42,950**	**25,384**	**59.1**

Source: NABARD.

4.103 As advised by the Central Government, loans under RIDF X were sanctioned for the projects under broad sectors, *viz*., rural roads and bridges, micro/minor/medium/major irrigation, community irrigation wells, mini-hydel projects, drinking water, soil conservation, watershed development/ reclamation of waterlogged areas, drainage, flood protection, forest development, market yards/ godowns, *apna* mandi, rural *haats* and other marketing infrastructure, cold storages (public or joint sector) at various exit points, seed/agriculture/ horticulture farms, plantation and horticulture, grading and certifying mechanisms such as testing and certifying laboratories, fishing harbour/jetties, riverine fisheries, animal husbandry, modern abattoirs, construction of school buildings and public health institutions, construction of toilet blocks in existing schools and installation of 'pay and use' toilets in rural areas.

4.104 The terms and conditions applicable for sanction of loans for rural infrastructure projects under RIDF XI were the same as under RIDF X. The lending rate for the State Governments under RIDF XI continued to be linked to the Bank Rate, *i.e.*, at 0.5 per cent above the Bank Rate prevailing at the time of sanction of loan.

4.105 Under RIDF X, 60,015 projects were sanctioned involving a loan amount of Rs.8,283 crore, taking the cumulative number of projects sanctioned to 2,16,099 and amount sanctioned to Rs.42,950 crore. Out of this amount, loans aggregating Rs.54 crore were sanctioned to Kerala for rural roads and bridge projects to be implemented by block panchayats (*panchayati raj* institutions). The amounts sanctioned and disbursed to the States in the North-Eastern region and Sikkim aggregated Rs.78 crore and Rs.76 crore, respectively, during 2004-05. The total amount disbursed during the year was Rs.4,317 crore as against the target of Rs.4,500 crore.

Credit extended by NABARD

4.106 NABARD provides short-term credit facilities to StCBs in respect of eligible CCBs for financing seasonal agricultural operations (SAO), marketing of crops, pisciculture activities, production and marketing activities of primary weavers/other industrial co-operative societies, labour contract/forest labour co-operative societies, individual rural artisans through PCS, procurement, stocking and distribution of chemical fertilisers and approved agricultural, allied and other marketing activities. Besides short-term credit limits are also sanctioned to StCBs on behalf of apex/regional weavers/other industrial societies for financing procurement and marketing and trading-in-yarn. Short-term limits are also provided to RRBs for financing seasonal agricultural operations, other than SAO (OSAO), marketing of crops and pisciculture activities. Medium-term facilities are also provided to StCBs and RRBs for converting short-term (SAO) into medium-term (conversion) loans and for approved agricultural investments. Long-term loans are provided to the State Governments for contributing to the share capital of co-operative credit institutions.

4.107 During 2004-05, NABARD sanctioned total credit aggregating Rs.10,811 crore to StCBs, which was 23 per cent higher than the sanctioned amount in 2004-05. The outstanding credit extended by NABARD to StCBs and State Governments at Rs.8,597 crore was also higher than that in 2003-04 (Table IV.28). A major part (95 per cent) of the outstanding refinance was for short-term purposes. SAO amounted for bulk (95 per cent) of outstanding refinance to StCBs.

4.108 In pursuance of the announcement made by the Hon'ble Finance Minister in June 2004 for enhancing the credit flow to the agriculture sector, NABARD advised StCBs, CCBs and RRBs on the measures to be taken under various schemes to give relief to farmers. It was apprehended that the implementation of these measures coupled with providing conversion/rescheduled loans to farmers may result in a liquidity problem for co-operative banks and RRBs, impairing their ability to provide fresh loans and achieve the desired growth rate during the year. In order to mitigate this, NABARD introduced a liquidity support scheme during 2004-05 for these institutions. StCBs were sanctioned a liquidity support of Rs.1,770 crore during 2004-05. NABARD also sanctioned long-term loans to nine State Governments amounting to Rs.39 crore as contribution to the share capital of co-operative credit institutions (Table IV.28).

Interest Rates charged by NABARD

4.109 Interest rate on refinance by NABARD is determined by the quantum of the loan and the type of activity/region for which the loan is sanctioned. Considering the softening of interest rates in the economy, co-operative banks were given the option of repayment of entire refinance outstanding above seven per cent without any

Table IV.28: NABARD's Credit to State Co-operative Banks, State Governments and Regional Rural Banks

(Amount in Rs. crore)

Category	2003-04				2004-05			
	Limits	Drawals	Repay-ments	Outstan-ding	Limits	Drawals	Repay-ments	Outstan-ding
1	2	3	4	5	6	7	8	9
1. State Co-operative Banks (a+b)	**8,812**	**9,294**	**9,220**	**5,615**	**10,811**	**12,278**	**9,703**	**8,191**
a. Short-term	8,524	8,719	8,918	4,985	9,041	11,488	9,436	7,037
b. Medium-term	288	576	302	630	1,770	790	267	1,154
2. State Governments								
Long-term	40	85	67	460	39	11	65	406
3. Regional Rural Banks (a+b)	**1,433**	**989**	**1,260**	**621**	**2,380**	**1,868**	**1,196**	**1,293**
a. Short-term	1,433	989	1,245	613	2,221	1,849	1,191	1,271
b. Medium-term	–	–	15	8	159	18	5	22
Grand Total (1+2+3)	**10,284**	**10,369**	**10,547**	**6,696**	**13,230**	**14,157**	**10,963**	**9,890**

– : Nil/Negligible.
Source : NABARD.

prepayment charges to NABARD. Weak StCBs were given the option of resetting interest rate on the high cost of outstanding refinance at a uniform rate of eight per cent, provided that they enter into a Memorandum of Understanding (MoU) with NABARD for implementation of Development Action Plans (DAPs). Interest rate charged by NABARD for term loans effective March 16, 2005 ranged from 6.0 to 6.75 per cent (Table IV.29).

Kisan Credit Card Scheme

4.110 The *Kisan* Credit Card (KCC) Scheme, introduced in August 1998 for short-term loans for seasonal agricultural operations, has made significant progress in outreach and making available timely and cost effective credit to the agricultural sector. The co-operative banking sector has made the most significant progress

Table IV.29: Rate of Interest on refinance from NABARD on Investment Credit under Farm/Non-Farm sectors*

(Per cent)

Sr. No.	Name of the activity/region	Slabs/ loan size		
		I Up to Rs.50,000	II From Rs. 50,000 to Rs.2,00,000	III Above Rs.2,00,000
1	2	3	4	5
1.	All activities in North Eastern Region, including Sikkim and Andaman and Nicobar Islands.	6.00	6.00	6.00
2.	Agriclinics and Agri-business Centres in all regions.	6.00	6.00	6.00
3.	MI, DLF, LD, WLD, SGSY, SHG, SC/ST Action Plan, Contract Farming under AEZ, A&M, RH and FM in regions other than those mentioned at (1) above.	6.00	6.25	6.25
4.	NFS in regions other than those mentioned (1) above.	6.00	6.25	6.50
5.	Cold Storage/Rural Godowns and other activities in regions other than those mentioned at (1) above.	6.00	6.25	6.75

* : Effective March 16, 2005 and applicable to all types of institutions including commercial banks, PCBs, RRBs, StCBs, SCARDBs and ADFCs.

Note : MI-Minor Irrigation; DLF-Dryland Farming; LD-Land Development; WLD-Wasteland Development; SGSY-*Swarnajayanti Gram Swarozgar Yojana*; SHG-Self-Help Group; OF-Organic Farming; AEZ-Agri Export Zone; A&M-Aromatic and Medicinal Plants; RH-Rural Housing; NFS-Non-farm Sector; FM-Farm Mechanisation.

in expanding the KCCs outreach. In order to fulfil the investment credit needs of farmers, NABARD enlarged the scope of the scheme to cover term loans for agriculture and allied activities. NABARD has also advised banks to (i) make all possible efforts to identify and lend to farmers including oral lessees and ensure that KCCs are renewed; (ii) launch a time bound programme to motivate defaulters to clear their dues to enable them to avail the benefits from the scheme; and (iii) issue suitable guidelines to their branches to route crop loans only through KCC.

4.111 Of the 51.08 million KCC issued till end-March 2005, co-operative banks constituted 54.4 per cent, followed by commercial banks (34.5 per cent) and RRBs (11.0 per cent) (Table IV.30).

Table IV.30: Number of Kisan Credit Cards – Agency-wise, Year-Wise

(Number in Million)

Year	Co-operative Banks	RRBs	Commercial Banks	Total
1	2	3	4	5
1998-99	0.16	0.01	0.62	**0.78**
1999-00	3.60	0.17	1.37	**5.13**
2000-01	5.61	0.65	2.39	**8.65**
2001-02	5.44	0.83	3.07	**9.34**
2002-03	4.58	0.96	2.70	**8.24**
2003-04	4.88	1.27	3.09	**9.25**
2004-05	3.56	1.73	4.40	**9.68**
Total (up to end-March 2005)	**27.81**	**5.63**	**17.64**	**51.08**
Per cent share in Total	**54.4**	**11.0**	**34.5**	**100.0**

Co-operative Development Fund (CDF)

4.112 A sum of Rs.3 crore was sanctioned and Rs.4 crore disbursed to co-operative credit institutions during 2003-04, under the Co-operative Development Fund (CDF) scheme for undertaking various development initiatives such as human resource development (HRD), building up better MIS, infrastructure creation and setting up of Business Development Department with technical personnel. Cumulative sanctions and disbursements under CDF aggregated Rs.65 crore and Rs.55 crore, respectively as on March 31, 2005. A scheme for providing grants from CDF to co-operative banks was introduced in order to enable co-operative banks to publicise various relief measures, loan facilities and schemes among their existing and potential clients to enable them to achieve the objective of doubling agricultural credit during the period 2004-07. An amount of Rs.5 crore was earmarked out of CDF for the purpose of granting assistance ranging from Rs.1 lakh to Rs.5 lakh per institution (StCBs, CCBs, SCARDBs), depending upon their size and nature of business operations.

Development Action Plan/Memorandum of Understanding

4.113 The second phase of preparation of institution specific Development Action Plans (DAPs) and execution of Memorandum of Understanding (MoU) was completed in 2003-04. In view of the persisting weakness in the co-operative banks, the DAP/MoU process was extended for three more years up to 2007. Under the revised approach, PACS have been brought under the DAP/MoU process. During the year, 22 StCBs, 337 CCBs, 12 SCARDBs and 704 PCARDBs executed the MoUs.