Chapter IV

# Developments in Co-operative Banking

4.1 Co-operative banking has passed through many phases since the enactment of the Agricultural Credit Co-operative Societies Act in 1904. Co-operative banks, developed largely as an offshoot of official policy, expanded rapidly in the post-independence era and played an important role in implementation of various Government schemes. Their business is now being re-engineered to strengthen their role in contributing to financial inclusion and deepening banking penetration in an increasingly competitive financial landscape.

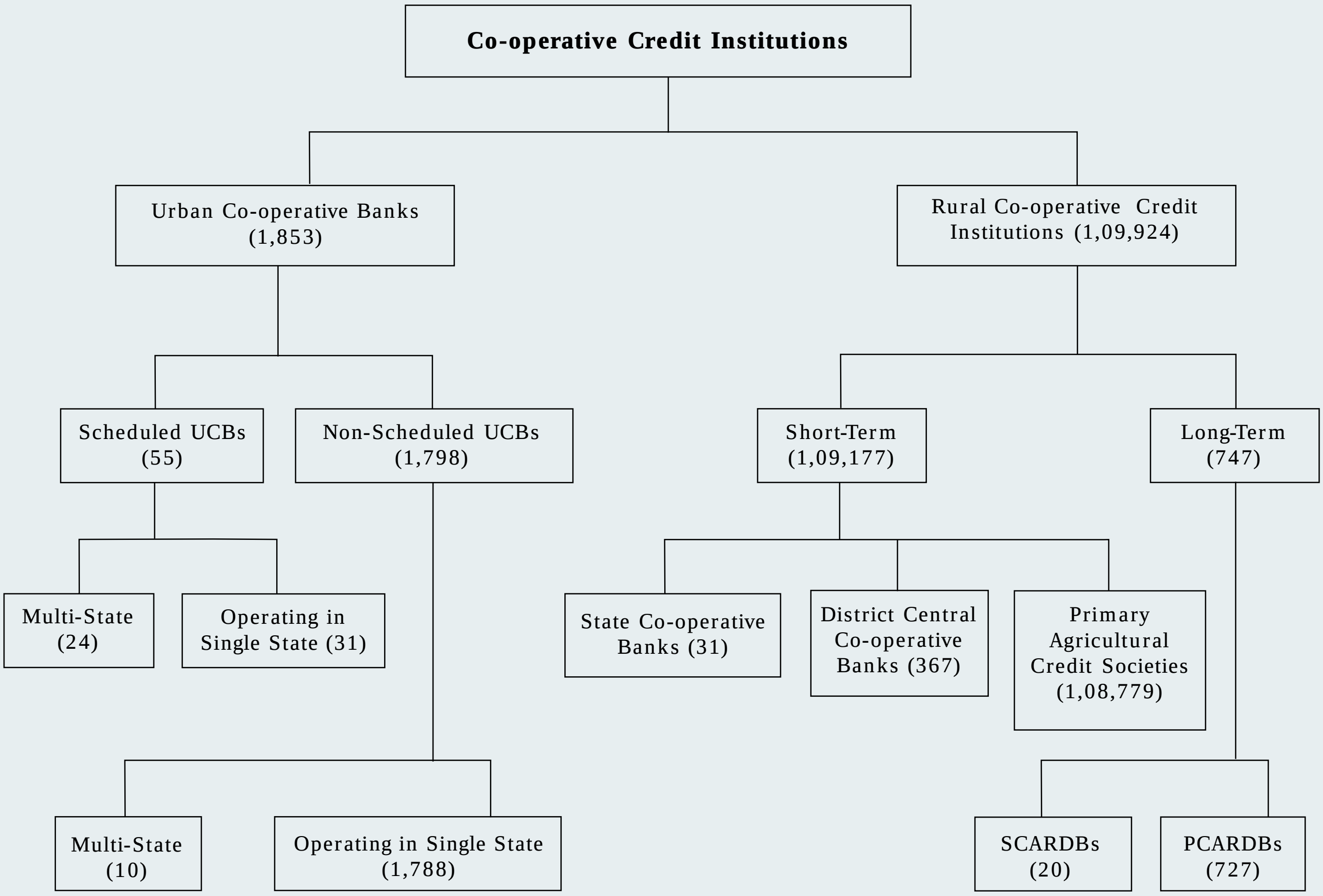
4.2 The co-operative banking structure in India is complex. It comprises urban co-operative banks and rural co-operative credit institutions. Urban co-operative financial institutions consist of a single tier, *viz*., primary co-operative banks, commonly referred to as urban co-operative banks (UCBs). However, they are classified according to their scheduled status, operational outreach and purpose/clientele. Out of the 1,853 UCBs, 55 enjoyed scheduled status, of which 24 had multi-State presence as on March 31, 2006. Of the non-scheduled UCBs, 117 were *Mahila* (women) UCBs and another 6 were Scheduled Caste (SC)/Scheduled Tribe (ST) banks. In addition, there were 79 salary earnersí UCBs. Out of the 1,853 banks, 914 UCBs were unit banks *i.e.*, having a single Head office/branch set up.

4.3 Historically, rural co-operative credit institutions have played an important role in providing institutional credit to the agricultural and the rural sectors. These credit institutions have typically been divided into two distinct structures, commonly known as the short-term co-operative credit structure (STCCS) and the long-term co-operative credit structure (LTCCS). The STCCS, comprising primary agricultural credit societies (PACS) at the village level, district central co-operative banks (DCCBs) at the intermediate level, and the state co-operative banks (StCBs) at the apex level, provides crop and other working capital loans primarily for short-term purposes to farmers and rural artisans. The LTCCS, comprising 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 district or block level, has been providing typically medium and long-term loans for making investments in agriculture, rural industries and, in the recent period, housing. However, the structure of rural co-operative banks is not uniform across all States of the country. Some States have a unitary structure with the State level banks operating through their own branches, while others have a mixed structure incorporating both unitary and federal systems (Chart IV.1).

4.4 Several measures have been initiated in recent years with the primary objective of evolving a turnaround in the financial health of the co-operative sector. As announced in the Mid-Term Review of the Annual Policy 2004-2005, a draft ëVision Document for Urban Co-operative Banksí was formulated and placed in the public domain in March 2005. As UCBs are subject to dual control by the Reserve Bank and the State Governments, the Vision Document envisaged greater convergence in the approach towards regulation and supervision over UCBs for facilitating the development of the sector. For strengthening the rural co-operative credit institutions, the Government of India constituted the ëTask Force on Revival of Rural Co-operative Credit Institutionsí (Chairman: Prof. A. Vaidyanathan) in August 2004 to formulate a practical and implementable action plan for revival of rural co-operative banking institutions. In view of the multi-tier regulatory structure, heterogeneous nature of operations and problems of incentives faced by the co-operative sector, consultative process of policy formulation guided the approach of reform in this important segment of the financial sector. Prudential regulatory standards were designed keeping in view the nature of their business with an overall objective of improving their financial health.

4.5 Business operations of UCBs (scheduled and unscheduled), on the whole, expanded at a moderate rate, though scheduled UCBs grew at a relatively higher rate during the year. The asset quality of UCBs also improved significantly. Profits of scheduled UCBs increased during 2005-06.

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




SCARDBs: State Co-operative Agriculture and Rural Development Banks.

PCARDBs: Primary Co-operative Agriculture and Rural Development Banks.

**Note :** Figures in brackets indicate the number of institutions at end-March 2006 for UCBs and at end-March 2005 for rural co-operative credit institutions.

4.6 All segments of the rural co-operative sector were able to expand their business operations during 2004-05, the latest period for which data were available (Appendix Table IV.1). However, their financial performance varied across the institutions. Within the short-term structure, while the StCBs earned lower profits, on account of a sharp decline in income, as compared with 2003-04, DCCBs earned higher profits over the same period due to a significant rise in income. PACS, on the whole, continued to make overall losses, although a sizable number of them earned profit. In the case of long-term structure, while the SCARDBs continued to incur net losses during 2004-05 on account of rise in expenditure, especially in provisions and contingencies, PCARDBs staged a turnaround over the same period, facilitated by a sharp increase in non-interest income and expenditure containment. Asset quality of short-term structure of rural co-operative banks improved, while NPAs of long-term institutions increased. Improvement in the recovery performance of the PACS also brought down their overdues ratio.

4.7 The SHG-Bank linkage programme and extension of financial assistance to micro-finance institutions (MFIs) continued with their high growth. NABARD continued to play a pivotal role in refinancing, monitoring project implementation, administering various Government schemes and capacity building of rural co-operative credit institutions.

4.8 A significant number of co-operative banks are covered under the deposit insurance scheme of Deposit Insurance and Credit Guarantee Corporation (DICGC). As on March 31, 2006, the number of insured co-operative banks were 2,245. The insurance premium received from co-operative banks amounted to Rs.190 crore during 2005-06 as against Rs.143 crore during the previous year. During the year, the DICGC settled claims for 43 co-operative banks for an aggregate amount of Rs.565 crore, an amount much higher than the premium received. The aggregate amount of claims paid and provided for 147 co-operative banks, since the inception of the Scheme, amounted to Rs.1,760 crore. Repayment received by DICGC out of the recoveries since inception amounted to Rs.28 crore (including Rs.8 crore during 2005-06). Together with the strengthening of the prudential standards, deposit insurance also has played a significant role in enhancing stability of this sector.

4.9 The Chapter is organised into six sections. Section 2 details the policy measures, the operations and performance of the urban co-operative banks, followed by a discussion on rural co-operative banks in Section 3. An account of the developments in the area of micro credit is undertaken in Section 4. Section 5 delineates the role of NABARD in the rural co-operative sector. Section 6 outlines the measures initiated for revival of the rural co-operative banking sector.

## 2. Urban Co-operative Banks

4.10 UCBs are unique in terms of their clientele mix and channels of credit delivery. UCBs are organised with the objective of promoting thrift and self-help among the middle class/lower middle class population and providing credit facilities to the people with small means in the urban/semi-urban centers. On account of their local feel and familiarity, UCBs are important for achieving greater financial inclusion. In recent times, however, UCBs have shown several weaknesses, particularly related to their financial health. Recognising their important role in the financial system, it has been the endeavor of the Reserve Bank to promote their healthy growth. However, the heterogeneous nature of the sector has called for a differentiated regime of regulation. In recent years, therefore, the Reserve Bank has provided regulatory support to small and weak UCBs, while at the same time strengthening their supervision (Box IV.1).

### Box IV.1: Two-Tier Framework for Regulation and Supervision of Urban Co-operative Banks

In order to address the problems faced by UCBs, a draft Vision Document for UCBs was prepared by the Reserve Bank and placed in the public domain in March 2005. The Vision Document highlighted that the UCB sector was characterised by a high degree of heterogeneity in terms of geographical spread, size, strength, levels of professionalism and performance.

Notwithstanding the varied nature of UCBs, they were subjected to uniform regulations, as in principle, it was considered appropriate to apply uniform regulatory standards within the same sector. However, the application of uniform regulations on all UCBs affected the performance of several banks, specially the smaller ones, which incidentally also operated more closely on the lines of co-operative principles. In the context of supervision also, the adoption of same supervisory approach towards all UCBs increased the cost of supervision for banks in terms of on-site inspections and returns to be submitted even by the smaller banks. This also led to inefficient allocation of supervisory resources, thereby reducing supervisory focus on the larger and riskier banks.

Keeping in view the heterogeneous character of entities in the sector and the need for adopting a differentiated approach, the Vision Document set out the objective of rationalising the regulatory and supervisory framework for UCBs to enable the smaller UCBs to gain in strength. In order to achieve this objective, smaller UCBs whose operations are limited to a single district and have deposits of less than Rs.100 crore have been allowed to adopt 180-day delinquency norm for classification of assets as non-performing, instead of the 90-day norm which is applicable to the larger UCBs and all commercial banks. This is intended to provide a measure of relief to the smaller UCBs as they are required to make lower provisioning, which, in turn, translates into higher profits that could be used to shore up the capital base of these banks. Further, in view of the market risks associated with investments made in Government securities, smaller UCBs have been given exemption from maintaining SLR in Government securities (up to 15 per cent of NDTL) to the extent of funds placed in interest bearing deposits with the public sector banks. These banks have also not been subjected to the provisioning norms of 0.40 per cent of ëstandard advancesí which, have recently been applied to the larger UCBs.

As part of rationalisation of supervision, while the larger UCBs are placed under a composite off-site surveillance (OSS) reporting system comprising a set of eight prudential supervisory returns, a simplified reporting system consisting of five returns has been introduced for the smaller banks having deposits between Rs.50 crore and Rs.100 crore and whose branches are limited to a single district. The simplified OSS reporting framework would be extended to banks with deposits below Rs.50 crore in the near future.

### Policy Developments

4.11 The policy initiatives during the year, *inter alia*, sought to address issues relating to dual control by establishing greater convergence of views through the process of consultation between the Reserve Bank, State Governments and representatives of the urban co-operative banking sector. In this context, Memoranda of Understanding (MoU) have been signed with eight States so far. In order to strengthen the sector through consolidation, attention is being paid to restructuring of weak UCBs as also on their non-disruptive exit through mergers and amalgamations, and by seeking to create the environment for augmenting the capital of UCBs. This, *inter alia*, would enhance the ability of the stronger UCBs to take over the weaker ones.

4.12 Prudential norms were also fine-tuned to the evolving circumstances and newer business opportunities were opened for UCBs to enhance their fee based and other non-interest income. Several important measures relating to improvement in credit delivery, customer service, financial inclusion and financial markets, taken for the commercial banks were extended to UCBs with suitable adaptations.

### Structural Initiatives

*Vision Document/Medium-Term Framework*

4.13 The most significant initiative by the Reserve Bank to revive UCBs has been the preparation of the Vision Document for the Urban Co-operative Banks which, *inter alia*, envisages a State-specific strategy for addressing the issues relating to UCBs. As part of this strategy, Memoranda of Understanding are being signed between the Reserve Bank and the respective State Governments. Till October 2006, MoU were signed with eight State Governments, *viz*., Andhra Pradesh, Gujarat, Karnataka, Madhya Pradesh, Uttaranchal, Rajasthan, Chattisgarh and Goa. The MoU, envisages constitution of a State level Task Force for Co-operative Urban Banks (TAFCUB) that would, *inter alia*, identify viable and non-viable UCBs in the State and suggest time bound plans for revival of the viable UCBs and non-disruptive exit for others (Box IV.2).

*Restructuring of Scheduled UCBs with Negative Net Worth*

4.14 Keeping in view the importance of scheduled UCBs, the Reserve Bank initiated a consultative process with the concerned State Governments for revitalising and rehabilitating the scheduled UCBs with negative net worth. The emphasis was on a time bound programme for restructuring of UCBs by demarcating the contours of their rehabilitation plan and setting up monitorable milestones. During the year, 10 scheduled UCBs were placed under restructuring. The Reserve Bank has been closely monitoring their progress with a view to protecting depositorsí interests and avoiding systemic problems.

*Guidelines on Mergers/Amalgamations*

4.15 As part of the endeavour towards strengthening UCBs, the Reserve Bank issued guidelines on mergers/amalgamations in February 2005. The protection of depositorsí interests and financial soundness of the merged entity are the two major thrust areas of the guidelines. In order to smoothen the process of merger for UCBs, general permission was given to acquirer UCBs to amortise the losses taken over from the acquired UCBs over a period of not more than five years, including the year of merger (Box IV.3).

*Innovative Options for Augmenting Capital*

4.16 Share capital and retained earnings constitute the owned funds of urban co-operative banks. Share capital can be withdrawn by members after the minimum lock-in period. Therefore, the shares of UCBs do not have all the characteristics of equity. Co-operative banks are also not permitted to issue shares at a premium. In order to explore various options for raising capital, a Working Group was constituted (Chairman: Shri N.S. Vishwanathan) comprising representatives of the Reserve Bank, State Governments and the urban co-operative banking sector to examine the issues involved and to identify alternate instruments/avenues for augmenting the capital funds of UCBs. The Group has since submitted its report which would be placed in the public domain for feedback.

### Regulatory Initiatives

4.17 To strengthen the urban co-operative banking sector, the Reserve Bank took several policy initiatives during the year relating to prudential norms, credit delivery, improvement in customer service and enhancement of business opportunities, and financial inclusion.

## Box IV.2: Task Force for Urban Co-operative Banks

Urban co-operative banks are regulated and supervised by State Registrars of Co-operative Societies (RCS) in case of single-State co-operative banks, Central Registrar of Co-operative Societies (CRCS) in case of multi-State co-operative banks and by the Reserve Bank. The RCS exercises powers under the respective Co-operative Societies Act of the States with regard to incorporation, registration, management, amalgamation, reconstruction or liquidation. Such powers in case of UCBs, that have multi-State presence, are exercised by the CRCS. The banking related functions such as issue of license to start new banks/branches, matters relating to interest rates, loan policies, investments and prudential exposure norms are regulated and supervised by the Reserve Bank under the provisions of the Banking Regulation Act, 1949 (aACS). The draft vision document identified this duality of command as the main cause of difficulties in implementing regulatory measures with the required speed and urgency, and as an impediment to effective supervision. In order to develop greater coordination between the agencies responsible for regulation and supervision of UCBs, it was proposed in the Vision Document to have a working arrangement in the form of a Memorandum of Understanding (MoU) between the Reserve Bank and the respective State Governments. As per the commitment made in the MoU with the respective States, the Reserve Bank forms a State level Task Force for Co-operative Urban Banks (TAFCUB) comprising the Regional Director of the Reserve Bank for the concerned State as the Chairman, Registrar of Co-operative Societies as co-Chairman, an official each from the Reserve Bank, National Federation of Co-operative Urban Banks (NAFCUB) and the State Federation of the UCBs as its members.

TAFCUBs, as per their terms of reference, identify the potentially viable and unviable weak banks in the State and suggest revival plans for the potentially viable banks and a non-disruptive exit route for unviable/weak banks. The non-disruptive exit route could include merger/amalgamation with strong banks, conversion into society or, as a last resort, liquidation. TAFCUBs also make recommendations on the future set up of unlicensed banks in the State, based on the assessment of their financial position and strength. MoU have already been signed with eight States, viz., Andhra Pradesh, Gujarat, Karnataka, Madhya Pradesh, Rajasthan, Uttaranchal, Chhattisgarh and Goa. In each of these States, a Task Force has also been constituted. These States together account for 45.5 per cent of the total number of UCBs and about 22.0 per cent of deposits of all UCBs.

In 2005-06, four TAFCUBs examined the position of over 250 UCBs and made various recommendations on the future course of action for these banks. Based on the recommendations of the TAFCUB, supervisory actions that have been taken include exiting banks through mergers with other UCBs, cancellations of license of unviable UCBs and rejections of license applications of unlicensed co-operative societies. The MoU signed between the Reserve Bank and the State Government also envisages signing of another MoU between the Registrar of Co-operative Societies of the State and the Regional Director 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 (Table 1).

The salubrious impact of the consultative platform, *i.e.*, TAFCUB is reflected in the decline in the number of weak and sick banks in the States, which were among the first to sign the MoU and where TAFCUBs were constituted, *viz.*, Andhra Pradesh, Gujarat and Karnataka. In these States, while the number of UCBs in Grade I increased, the number of weak and sick UCBs in Grade III and IV declined (refer to Table IV.1).

**Table 1: Activities of TAFCUB**

| Item/State | Andhra Pradesh | Gujarat | Karnataka | Madhya Pradesh | Uttaranchal | Rajasthan | Chhattisgarh | Goa |
|---|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 1. No. of UCBs | 124 | 296 | 297 | 61 | 7 | 39 | 14 | 6 |
| 2. Date of signing MOU | June 27, 2005 | June 28, 2005 | September 5, 2005 | January 6, 2006 | June 7, 2006 | September 6, 2006 | October 11, 2006 | October 17, 2006 |
| 3. Date of formation of TAFCUB | June 27, 2005 | June 28, 2005 | September 5, 2005 | January 6, 2006 | June 7, 2006 | September 6, 2006 | October 11, 2006 | October 17, 2006 |
| 4. No. of Meetings | 13 | 11 | 11 | 5 | 1 | Nil | Nil | Nil |
| 5. No. of weak banks reviewed and recommended revival plan | 29 | 60 | 78 | 6 | 1 | Nil | Nil | Nil |
| 6. No. of banks under Direction reviewed and Action Plan given | 11 | 16 | 15 | 4 | Nil | Nil | Nil | Nil |
| 7. License applications reviewed for unlicenced banks | 7 | 13 | 8 | 7 | 1 | Nil | Nil | Nil |
| 8. Exit *via* non-disruptive route (Mergers and Amalgamations) | 3 | 5 | 1 | 1 | Nil | Nil | Nil | Nil |

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

Pursuant to the issue of guidelines on merger of UCBs, the Reserve Bank received 36 proposals for merger in respect of 28 weak banks. The Reserve Bank has issued ëno objection certificateí (NOC) in 17 cases. Of these, 14 mergers have become effective upon the issue of statutory orders by the RCS concerned. Three proposals for merger were rejected by the Reserve Bank, while remaining are under consideration.

The process of merger and amalgamation is elaborate and intense. The merger proposal has to be submitted by the acquirer bank to RCS/CRCS and a copy of the proposal is also simultaneously forwarded to the Reserve Bank along with certain specified information. The Reserve Bank examines the proposals and places the same before an expert Group for screening and recommendations. On evaluation, if the proposal is found to be suitable, the Reserve Bank issues NOC to the RCS/CRCS and the banks concerned. RCS/CRCS then issues the order of amalgamation of the target UCB in compliance with the provisions of the Co-operative Societies Act under which the bank is registered.

**Table 1: State-wise Break up of Acquirer Banks**

| Sr. No. | State in which Registered | No. of Acquirer Banks | No. of Proposal Submitted | No. of NOC Issued |
|---|---|---|---|---|
| | 1 | 2 | 3 | 4 |
| 1. | Multi-State | 4 | 15 | 11 |
| 2. | Maharashtra | 11 | 12 | 3 |
| 3. | Gujarat | 5 | 5 | 2 |
| 4. | Andhra Pradesh | 1 | 1 | 1 |
| 5. | Karnataka | 1 | 1 | ñ |
| 6. | Rajasthan | 1 | 1 | ñ |
| 7. | Punjab | 1 | 1 | ñ |
| | **Total (1 to 7)** | **24** | **36** | **17** |

Most of the target banks were loss-making UCBs. In a few cases, mergers were permitted where the acquired banks, though not loss making, were not considered viable on a stand alone basis in the long-run. Out of the 28 target banks from which merger proposal was received, 10 banks were registered in Maharashtra, eight in Gujarat, four in Andhra Pradesh and one each in the States of Karnataka, Goa, Rajasthan, Delhi and Punjab. One merged bank was registered under the Multi-State Co-operative Societies Act, 2002.

Out of the 17 merger proposals for which ëNOCsí were issued, six banks were registered in Maharashtra, six in Gujarat, three in Andhra Pradesh and one in Goa. One bank was registered under the Multi-State Co-operative Societies Act, 2002. UCBs registered under the Multi-State Co-operative Societies Act were the front-runner as acquirers having taken over 10 banks. The State-wise break up of the acquirer and the acquired banks are presented in Tables 1 and 2.

**Table 2 : State-wise Break up of Acquired Banks**

| Sr. No. | State in which Registered | No. of Acquired Banks | No. of Proposals Received | No. of NOC Issued | No. of Banks Merged |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| 1. | Multi-State | 1 | 1 | 1 | 1 |
| 2. | Maharashtra | 10 | 15 | 6 | 5 |
| 3. | Gujarat | 8 | 9 | 6 | 4 |
| 4. | Andhra Pradesh | 4 | 4 | 3 | 3 |
| 5. | Karnataka | 1 | 3 | ñ | ñ |
| 6. | Goa | 1 | 1 | 1 | 1 |
| 7. | Rajasthan | 1 | 1 | ñ | ñ |
| 8. | Delhi | 1 | 1 | ñ | ñ |
| 9. | Punjab | 1 | 1 | ñ | ñ |
| | **Total (1 to 9)** | **28** | **36** | **17** | **14** |

*I. Prudential Norms*

4.18 In line with the international best practices, the 180-day delinquency period for reckoning an advance as non-performing was brought down to 90-day with effect from March 31, 2004. However, the norm was relaxed and deferred for certain categories of UCBs considering their difficulty in meeting the norm. Accordingly, banks with deposits of less than Rs.100 crore and having branches within a single district (including unit banks, *i.e.*, having single branch/head office) were permitted to classify their loan accounts as NPAs based on the 180-day delinquency norm instead of the 90-day norm. The relaxation would be operative up to end-March 2007 to enable UCBs concerned to build up adequate provisions and strengthen their procedures in order to transit to the 90-day delinquency norm.

4.19 Taking into account the recent trend in credit growth, general provisioning requirement for ëstandard advancesí in the case of scheduled commercial banks was increased in November 2005 to 0.40 per cent from 0.25 per cent on credit other than direct advances to agriculture and the SME sector. The higher provisioning requirement was made applicable to UCBs having branches within a single district (including unit banks) and those having deposits of Rs.100 crore and above, and for all other UCBs operating in more than one district. For other UCBs, *i.e.*, banks having branches in only one district (including unit banks) and having deposits of less than Rs.100 crore, the existing requirement of provisioning of 0.25 per cent for standard assets continues. Such provisions are eligible for inclusion in Tier II capital for capital adequacy purposes up to the permitted extent as hitherto.

4.20 UCBs were advised in April 2001 to maintain certain percentage of their assets under Section 24 of the Banking Regulation Act, 1949 as Applicable to Co-operative Societies (aACS) in the form of Government and other approved securities. In view of the difficulty in making investments in Government securities, UCBs with a deposit base of less than Rs.100 crore and having branches within a single district were given partial exemption (not exceeding 15.0 per cent) from the prescribed SLR of 25.0 per cent to the extent of funds placed in interest bearing deposits with public sector banks with a view to obviating market risks associated with investment in Government securities. The exemption would be in force up to March 31, 2008.

4.21 Based on the representations received, relaxation was allowed to UCBs to shift their securities to ëheld to maturityí (HTM) category once more before March 31, 2006. Where the market value of the security was lower than the face value, the provision required would be the difference between book value and the face value which could be amortised during the remaining period of maturity, instead of five years as advised earlier to scheduled UCBs. These revised valuation norms were applicable only in respect of transfers to HTM made during 2005-06.

4.22 The Reserve Bank had permitted UCBs in November 1996 to extend unsecured advances without surety against purchase/discount/ withdrawal of third party cheques within a limit of up to Rs.5,000. As the limit was fixed long back, the State Federations of UCBs and NAFCUB had represented for an enhancement of the limit to provide UCBs with a competitive edge. After considering the representation, it was decided to enhance the limit on unsecured advances without surety from Rs.5,000 to Rs.50,000 on a graded scale in respect of purchase/discount/ withdrawal against third party cheques for a temporary period of 30 days in emergent cases. The ceiling on temporary unsecured advances without sureties up to a period of 30 days would, however, continue to be limited to a maximum of Rs.5,000 for other class of unsecured advances, *viz.*, clean bills and *multani hundis*. The total unsecured advances granted by a bank to its members should not exceed 15.0 per cent of its demand and time liabilities (DTL) as against the extant limit of 33.3 per cent. However, banks were permitted to conform to the lower limit in a gradual manner, *i.e.*, 20.0 per cent of DTL by March 31, 2006 and further to 15.0 per cent of DTL by March 31, 2007.

4.23 As a follow up to the announcement made in the Annual Policy Statement for 2006-07 and to achieve greater regulatory convergence with the scheduled commercial banks, the risk weight for loans extended against primary/collateral security of shares/debentures was increased to 125.0 per cent and that of investment in equities of AIFIs/ units of UTI to 127.5 per cent from the present level of 100.0 per cent and 102.5 per cent, respectively.

4.24 In July 2005, the Reserve Bank increased the risk weight on exposures to commercial real estate from 100.0 per cent to 125.0 per cent. In view of the increasing exposure to this sensitive sector, the risk weight was increased further to 150.0 per cent.

4.25 Income recognition and asset classification requirements in respect of State Government guaranteed advances and investments, which were earlier linked to invocation of the State Government guarantee, was reviewed and it was decided to de-link the above requirements, from the year ended March 31, 2006.

4.26 UCBs were prohibited in April 2003 from extending any loans and advances to the directors, their relatives and the firms/concerns/companies in which they have business interests. On reconsideration, in October 2005, it was decided to exclude the following categories of director related loans from the purview of this directive: (a) regular employee - related loans to staff directors on the Boards of UCBs; (b) normal loans as available to members to the directors on the Boards of salary earnersí co-operative banks; and (c) normal employee - related loans to Managing Directors of multi-State co-operative banks.

4.27 With a view to protecting UCBs from being burdened with liabilities arising out of unauthorised collections, and in the interest of integrity and soundness of the payment and banking systems, they were prohibited, in January 2006, from crediting ëaccount payeeí cheques to the account of any person other than the payee named therein.

*II. Credit Delivery*

4.28 In order to smoothen the flow of credit to the small scale industries (SSIs), a scheme of strategic alliance between branches of banks and SIDBI, located in the clusters of SSI units was worked out in consultation with the Government of India (Ministry of SSI and Ministry of Finance), SIDBI, IBA and select banks. The scheme is called ëSmall Enterprises Financial Centres (SEFCs)í and UCBs were advised to take benefit of the scheme on such terms and conditions as mutually agreed to between them and SIDBI.

4.29 The investment limit in plant and machinery of seven items reserved for manufacturing in the SSI sector was enhanced in May 2005 from Rs.1 crore to Rs.5 crore. The advances given to these units by UCBs were treated as priority sector lending.

4.30 As a part of announcement made by Honíble Finance Minister for improving flow of credit to small and medium enterprises (SMEs), certain guidelines were issued for restructuring of debt of SMEs (also refer to Chapter II). UCBs were advised to formulate the debt restructuring scheme with the approval of concerned State/Central Registrar of Co-operative Societies and give adequate publicity to the scheme among the customers so as to bring it to the notice of all beneficiaries.

*III. Improving Customer Service and Enhancing Business Opportunities*

4.31 A number of measures were initiated during the year to improve customer service by UCBs and to improve their business opportunities. The Reserve Bank permitted UCBs in States, where MoU have been signed and those registered under the Multi-State Co-operative Societies Act, to offer mutual fund products, as agents, to their customers, subject to certain conditions. The Reserve Bank also allowed well managed scheduled and non-scheduled UCBs to open select off-site/on-site ATMs based on the recommendation of the TAFCUBs. In respect of UCBs that were placed under liquidation, the preparation, submission and settlement of claims and recoveries from assets for distribution were delayed due to the involvement of several agencies and stages in the process of liquidation. In order to ensure appropriate co-ordination among agencies and to expedite the process of settlement of claims and recovery of dues, committees comprising representatives of the State Government, the Reserve Bank and State Federation of UCBs were constituted in Andhra Pradesh, Karnataka and Madhya Pradesh to review the progress made by the liquidator in settlement of claims, recovery of dues and repayment to DICGC and other creditors, including depositors.

4.32 UCBs were advised in March 2006 to install dual display note-counting machines at the payment counters of their branches for the use of their customers towards building confidence in the minds of the public to accept note packets secured with paper bands.

4.33 In pursuance of the announcement made in the Mid-term Review of the Annual Policy Statement for the year 2005-06, the currency chest facility was extended to scheduled UCBs registered under the Multi-State Co-operative Societies Act, 2002 and under the respective State Acts where the State Governments have assured regulatory co-ordination by entering into MoU with the Reserve Bank. The main conditions of the eligibility norms were that the banks should have: (a) minimum net worth of Rs.200 crore; (b) CRAR of 12 per cent; (c) Net NPA at less than 10 per cent; (d) made profit in the preceding three years, net of accumulated losses; (e) complied with CRR and SLR requirements; and (f) elected board of management with at least two professionals.

4.34 The acceptance of non-resident ordinary (NRO) deposits by UCBs was phased out and the UCBs were advised in July 2005 not to accept any fresh deposits in the form of savings/current/recurring/term deposits and not to renew the existing, recurring/term deposits on maturity. However, in the case of the existing current/savings deposits, UCBs were allowed to continue the accounts up to a period of six months. The accounts should be closed thereafter with advance notice to the deposit holders. It was also decided not to issue any fresh full-fledged money changer (FFMC) licence to UCBs.

4.35 UCBs were encouraged to participate in the Government securities market during the year. In order to further widen the repo market in Government securities as per the proposal in the Annual Policy Statement for the year 2005-06, the Reserve Bank permitted, besides the scheduled UCBs, non-scheduled UCBs having gilt account with an SGL account holder to participate in repo market. UCBs were not permitted to enter into ready forward contracts with non-banking financial companies. However, restriction would not be applicable in the case of repo transactions between UCBs and authorised primary dealers in Government securities.

*IV. Financial Inclusion*

4.36 With the objective of extending the reach of UCBs to vast sections of the population hitherto uncovered, all UCBs were advised to make available a basic banking ëno-frillsí account either with ënilí or very low minimum balance as well as charges. They were further advised that the nature and number of transactions in such accounts could be restricted, but be made known to the customer in advance in a transparent manner. UCBs were also advised to give wide publicity, including on their websites, to the facility of such a ëno-frillsí account and other facilities and charges in a transparent manner.

4.37 In spite of flexibility in the requirements of documents of identity and proof of address, it was decided to simplify the KYC procedure for opening accounts for those who intend to keep balances not exceeding Rs.50,000 in all their accounts taken together and where the total credits in all the accounts taken together are not expected to exceed Rs.1 lakh in a year. Banks could open accounts, subject to introduction from another account holder of at least six months standing, with satisfactory record of transactions and who has been subjected to full KYC procedure. The bank could accept any other evidence as to the identity and address of the customer to its satisfaction. While opening such accounts, the customer is required to be made aware that if at any point of time, the balances in all his/her accounts with the bank (taken together) exceed Rs.50,000 or total credits in the account exceed Rs.1 lakh, no further transactions would be permitted until the full KYC procedure is completed. In order not to cause inconvenience to the customer, the bank must notify the customer, when the balance reaches Rs.40,000 or the total credit in a year reaches Rs.80,000, that appropriate documents for conducting the KYC must be submitted.

4.38 The banks were also advised to open accounts with reduced KYC standards in respect of persons affected by floods to enable them to credit the grant received from the Government. However, the maximum balance in such accounts should not exceed the amount of grant received from the Government or Rs.50,000, whichever was more and the initial credit of the grant amount should not be counted towards the total credit.

**Supervision of UCBs**

*On-site Supervision*

4.39 As per the extant policy, the periodicity of inspection of UCBs varies according to the scheduled status of the UCB or the financial position as reflected by its grade. At present, while scheduled and Grade III and IV non-scheduled UCBs are inspected on an annual basis, the non-scheduled UCBs with healthier financial performance (classified under Grade I and II) are inspected once in two years. The Reserve Bank carried out statutory inspections of 1,096 UCBs during 2005-06, *i.e.*, around 60 per cent of the UCBs, as against inspection of 848 UCBs conducted during the previous year. For action required to be initiated on the basis of the inspection report, a system of graded supervisory action (GSA) has been put in place. The GSA serves as a framework for deciding the nature of supervisory intervention based on financial position of UCBs as reflected in their grades arrived at through inspection. In the States where MoU have been signed, the inputs given by respective TAFCUBs are taken into consideration for deciding the nature of supervisory action for the UCBs.

*UCBs with Weak Financials*

4.40 UCBs are classified in various grades depending on their financial strength based on objective criteria. The gradation of UCBs has enabled the Reserve Bank to optimise supervisory resources and focus on the weaker UCBs to facilitate a turnaround (Box IV.4).

4.41 The number of UCBs classified as Grade III and IV stood at 677 at end-March 2006 (Table IV.1). Although grades of UCBs in most of the States improved, a marked deterioration was observed in Maharashtra.

*UCBs Under Directions*

4.42 The Reserve Bank issues directions under Section 35A of the Banking Regulation Act, 1949 in respect of banks, which are in serious financial difficulties. The directions are issued either based on inspection findings or due to sudden developments such as a run on the bank. The directions mainly include restrictions on acceptance/withdrawal of deposits, restriction or ban on expansion of loans, and restraint on incurring of expenditure

### Box IV.4: Criteria for Gradation of Urban Co-operative Banks

Urban co-operative banks are classified into four grades, *viz*., Grade I, II, III and IV on the basis of certain broad prudential indicators in the following manner:

(a) Grade I: Sound banks having no supervisory concerns.

(b) Grade II: Banks meeting any one of the following parameters:

- ï Capital to risk-weighted asset ratio (CRAR) one per cent below the prescribed norms; or
- ï Net non-performing assets (NPAs) of 10 per cent or more but below 15 per cent; or
- ï Incurred net loss in the previous financial year; or
- ï Defaulted in the maintenance of cash reserve ratio (CRR)/ statutory liquidity ratio (SLR) in the previous financial year and/or there is more or less continuous default in maintenance of CRR/SLR during the current year.

(c) Grade III: Banks meeting any two of the following parameters:

- ï CRAR below 75 per cent of the minimum prescribed but 50 per cent or above the level required; or
- ï Net NPAs of 10 per cent or more but less than 15 per cent; or
- ï Incurred net losses for two years out of the last three years.

(d) Grade IV: Banks meeting the following conditions:

- ï CRAR less than 50 per cent of the prescribed limit; and
- ï Net NPAs of 15 per cent or more as on March 31 of the previous year.

Banks in Grade III and IV broadly correspond to ëweakí and ësickí category under the earlier norms.

other than minimum establishment expenses required for day to day running of the bank. The banks placed under directions are monitored and decision on removing restrictions depends upon the ability of banks to rectify the inadequacies. Total number of 75 UCBs were functioning under directions at end-March 2006, of which 12 UCBs were placed under directions during 2005-06 (Appendix Table IV.2).

*UCBs Under Liquidation*

4.43 Licences of 14 UCBs were cancelled during 2005-06 and placed under liquidation as compared with 39 during 2004-05. In all 226 UCBs were under liquidation at end-March 2006 (Appendix Table IV.3).

*Off-site Surveillance*

4.44 On-site inspection, which remains the main instrument of supervision over UCBs, has been strengthened through integration with off-site surveillance (OSS). A supervisory reporting system comprising 10 quarterly OSS returns was introduced for scheduled urban co-operatives banks (UCBs) in April 2001. These returns were rationalised and replaced by a set of one annual and seven quarterly OSS returns for the scheduled UCBs with effect from quarter/year ended March 2004. The rationalisation of the reporting system was done with the objective of reducing the volume of data required to be reported by banks while increasing the breadth and depth of information obtained from them (Box IV.5).

**Table IV.1: Gradation of Urban Co-operative Banks ñ Centre-wise**

| Centre | Grade I | | Grade II | | Grade III | | Grade IV | | **Total** | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | **2005** | **2006** |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | **10** | **11** |
| 1. Ahmedabad | 122 | 136 | 53 | 50 | 87 | 67 | 46 | 43 | **308** | **296** |
| 2. Bangalore | 80 | 90 | 58 | 76 | 118 | 85 | 40 | 46 | **296** | **297** |
| 3. Bhopal | 20 | 16 | 17 | 28 | 27 | 17 | 13 | 14 | **77** | **75** |
| 4. Bhubaneswar | 1 | 1 | 5 | 6 | 4 | 3 | 2 | 4 | **12** | **14** |
| 5. Chandigarh | 11 | 10 | ñ | 1 | 2 | 1 | 4 | 4 | **17** | **16** |
| 6. Chennai | 44 | 54 | 25 | 32 | 54 | 39 | 10 | 7 | **133** | **132** |
| 7. Guwahati | 6 | 6 | 2 | 4 | 5 | 4 | 5 | 4 | **18** | **18** |
| 8. Hyderabad | 44 | 48 | 35 | 43 | 31 | 18 | 17 | 15 | **127** | **124** |
| 9. Jaipur | 23 | 25 | 11 | 10 | 4 | 3 | 1 | 1 | **39** | **39** |
| 10. Jammu | 2 | 2 | ñ | ñ | 2 | 2 | ñ | ñ | **4** | **4** |
| 11. Kolkata | 29 | 30 | 12 | 11 | 4 | 3 | 6 | 7 | **51** | **51** |
| 12. Lucknow | 54 | 47 | 8 | 13 | 7 | 9 | 8 | 8 | **77** | **77** |
| 13. Mumbai | 276 | 173 | 64 | 128 | 76 | 84 | 43 | 71 | **459** | **456** |
| 14. Nagpur | 69 | 53 | 38 | 45 | 48 | 43 | 19 | 33 | **174** | **174** |
| 15. New Delhi | 12 | 12 | 1 | 1 | 1 | ñ | 1 | 2 | **15** | **15** |
| 16. Patna | 2 | 3 | 2 | 1 | 1 | 1 | ñ | ñ | **5** | **5** |
| 17. Thiruvananthapuram | 12 | 10 | 9 | 11 | 26 | 28 | 13 | 11 | **60** | **60** |
| **Total (1 to 17)** | **807** | **716** | **340** | **460** | **497** | **407** | **228** | **270** | **1,872** | **1,853** |

**ñ** : Nil/Negligible.

## Box IV.5: Off-site Surveillance Systems for Urban Co-operative Banks

The off-site surveillance (OSS) statements are designed to monitor compliance and obtain information in the areas of prudential interest, including information on balance sheet and off-balance sheet exposures, profitability, asset quality, sector/segment-wise concentration of advances, connected or related lending and capital adequacy. A collateral objective of OSS reporting system is to sensitise managements of banks to prudential concerns of the supervisory authority and thereby help in self-regulation. A set of eight OSS returns, introduced for scheduled UCBs from the quarter ended March 2004, were extended to non-scheduled banks with deposits of over Rs.100 crore from June 2004 and to UCBs having deposits of Rs.50 crore and above from March 2006. For banks that have deposits less than Rs.100 crore and whose branch network is limited to a single district, a simplified set of five (four quarterly and one annual) returns has been introduced. With this, about 450 banks have been covered by the OSS system, which together account for about 80 per cent of deposits of urban co-operative banks.

The existence of computerised environment is a pre-requisite for the establishment of a successful off-site surveillance system. As such, the OSS project of the Reserve Bank envisaged the development of software for UCBs that enabled preparation of all regulatory/supervisory returns directly by banks and their submission to the Reserve Bank electronically. As envisaged, a software was developed, tested and implemented in Regional Offices (ROs) of the Reserve Bank and in about 450 UCBs that had deposits of over Rs.50 crore by March 2006. The system is being strengthened further by increasing its coverage of information and utility for the banks as a component of their management information system.

The database being maintained in the Reserve Bank contains all regulatory and supervisory returns submitted by UCBs, including the returns and on-site inspections data submitted by inspecting officers (IOs). The data submitted by UCBs to the respective Regional Offices are uploaded to the regional servers after validation checks to ensure integrity of data. The data from Regional Offices are then transmitted to the Central Office (CO) server of the Reserve Bank. The system, facilitates analysis both at the Regional Offices and the Central Office (Charts 1 and 2).

The institution of OSS system has brought many benefits to UCBs and the Reserve Bank.

*Benefits for the Urban Co-operative Banks*

- The application obviates the need for keying-in repetitive data since such data entered in the previous period automatically get populated in the returns of succeeding quarters.
- The facility also stores data at bank level that enables UCBs to analyse their financial position and improve their MIS.
- The OSS statements are designed to sensitise the management of UCBs to the concerns of the supervisory authority.

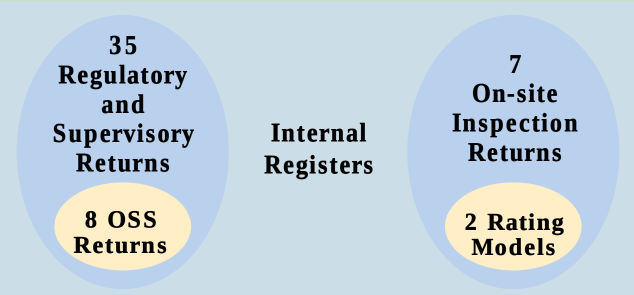
*Benefits for the Reserve Bank*

- Time for data entry of each tranche of eight OSS returns has reduced significantly. Similar reduction in time has been made possible for all 35 returns submitted by UCBs. The software facilitates instant tracking of banks for non-submission or delayed submission of returns.
- The software provides for cross checks within each return, across returns and across time to ensure integrity of data.
- The data uploaded by Regional Offices of the Reserve Bank during the day (including inspection data) get replicated to Central Office server overnight, *via* INFINET (refer Chart 2).
- The software provides for generation of over 140 standard reports that are instantly available at all locations of the Reserve Bank.
- The OSS database not only contains all regulatory and supervisory returns submitted by banks, but also the on-site inspection data submitted by inspecting officers, besides important internal registers like penalty and penal interest register.
- The software enables generation of early warning reports at monthly and quarterly intervals which indicate incipient stress in liquidity position, highlights decline in quality of assets, fall in profits/profitability as also any unfavorable change in capital adequacy of UCBs. This facilitates better and more responsive supervision over UCBs and thereby helps in optimal allocation of supervisory resources for banks that show incipient weaknesses.

*Way Forward*

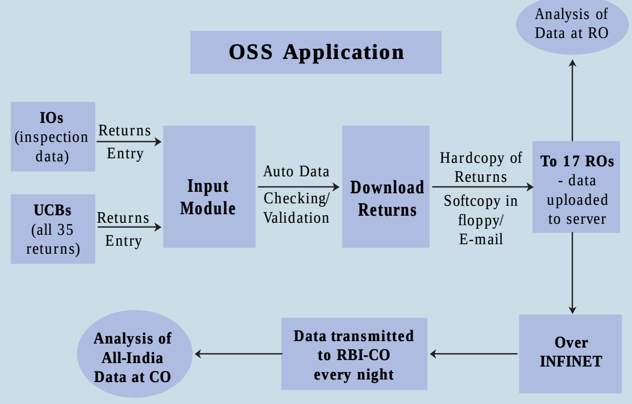
- To enhance the use of early warning reports for planning and prioritising scrutiny/inspections of banks, based on their riskiness and thereby further improve supervisory responsiveness.
- Up to end-October 2006, 452 out of 1,853 UCBs have been provided with the software. By mid-2007, it is envisaged that approximately 1,000 UCBs would be covered under the OSS.

**Chart 1: Database on UCBs – Unified Database**




Enables comparison with on-site data and supports the concept of Central Point of Supervision (CPOS)

**Chart 2: OSS Flow of Data**



## Operations and Financial Performance of Urban Co-operative Banks

*A Profile of UCBs*

4.45 The urban co-operative banking sector comprises a number of institutions which vary in terms of their size, nature of business and their geographical spread. The deposit size of most of UCBs, barring a few, is small and most of them have only a single branch. As at end-March 2006, 1,423 UCBs out of 1,853 (76.8 per cent) had a deposit base of less than Rs.50 crore and 1,633 (88.1 per cent) less than Rs.100 crore. The share of these two categories in total deposits held was 19.0 per cent and 32.5 per cent, respectively. On the other hand, 14 UCBs with deposit base of above Rs.1,000 crore accounted for about one-fourth of deposits of all UCBs (Table IV.2).

4.46 Fifty five UCBs which have been accorded scheduled status constitute a sizable part with their share in total assets being 44.0 per cent. The non-scheduled UCBs with deposit size of Rs.100 crore and above, which were brought under the off-site surveillance process of the Reserve Bank, constituted another significant share (28.2 per cent) of the sector (Table IV.3).

## Operations, Financial Performance and Asset Quality of Urban Co-operative Banks

*Operations of UCBs*

4.47 As at end-March 2006, total assets/liabilities of UCBs constituted about 5.0 per cent of assets of scheduled commercial banks. Business operations of UCBs grew by 6.3 per cent during 2005-06. The broad composition of the assets and liabilities of UCBs remained the same as in the previous year. Deposits continued to be the mainstay of resources for UCBs, accounting for 79.9 per cent of total resources. During 2005-06, deposits and capital increased, while statutory reserves declined, *albeit* marginally. On the asset side, nearly one half of the assets of UCBs were deployed in the form of loans and advances, while investments constituted the second major avenue of deployment of funds. During 2005-06, while loans and advances, and investments grew at a moderate rate, cash in hand and balances in the call/notice money market increased sharply (Table IV.4).

**Table IV.2: Distribution of Urban Co-operative Banks ñ Deposit-wise**
(As at end-March 2006)

| Sr. No. | Deposit Base (Rs. crore) | No. of UCBs: No. | No. of UCBs: Share in Total (per cent) | Deposits: Amount (Rs. crore) | Deposits: Share in Total (per cent) |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| 1. | > 1,000 | 14 | 0.8 | 25,768 | 23.0 |
| 2. | 500 to < 1,000 | 16 | 0.9 | 11,153 | 9.9 |
| 3. | 250 to < 500 | 48 | 2.6 | 16,947 | 15.1 |
| 4. | 100 to < 250 | 142 | 7.7 | 21,910 | 19.5 |
| 5. | 50 to < 100 | 210 | 11.3 | 15,164 | 13.5 |
| 6. | 25 to < 50 | 302 | 16.3 | 10,525 | 9.4 |
| 7. | 10 to < 25 | 450 | 24.3 | 7,374 | 6.6 |
| 8. | 5 to < 10 | 333 | 18.0 | 2,486 | 2.2 |
| 9. | < 5 | 338 | 18.2 | 910 | 0.8 |
| | **Total (1 to 9)** | 1,853 | 100.0 | 1,12,237 | 100.0 |

**Table IV.3: A Profile of Urban Co-operative Banks**
(As at end-March 2006)

(Amount in Rs. crore)

| Item | No. of UCBs | Assets | Deposits | Investments | Loans and Advances |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| **All UCBs (1+2)** | **1,853** | **1,40,432 (100.0)** | **1,12,237 (100.0)** | **48,472 (100.0)** | **70,379 (100.0)** |
| 1. Scheduled UCBs | 55 | 61,832 (44.0) | 45,285 (40.3) | 18,216 (37.6) | 28,022 (39.8) |
| 2. Non-Scheduled UCBs | 1,798 | 78,600 (56.0) | 66,952 (59.7) | 30,256 (62.4) | 42,357 (60.2) |
| *of which:* | | | | | |
| Non-Scheduled UCBs with Deposit Size of Rs.100 crore and Above | 191 | 39,657 (28.2) | 31,479 (28.0) | 9,112 (18.8) | 19,489 (27.7) |

**Note :** Figures in brackets are percentages to total of all UCBs.

**Table IV.4: Liabilities and Assets of Urban Co-operative Banks**

(Amount in Rs. crore)

| Item | As at end-March | | Percentage Variations |
|---|---|---|---|
| † | 2005 | 2006 | 2005-06 |
| 1 | 2 | 3 | 4 |
| **Liabilities** | | | |
| 1. Capital | 3,221 (2.4) | 3,479 (2.5) | 8.0 |
| 2. Statutory Reserves | 10,383 (7.9) | 10,161 (7.2) | -2.1 |
| 3. Deposits | 1,05,021 (79.5) | 1,12,237 (79.9) | 6.9 |
| 4. Borrowings | 1,782 (1.3) | 1,799 (1.3) | 1.0 |
| 5. Other Liabilities | 11,738 (8.9) | 12,756 (9.1) | 8.7 |
| **Total Liabilities/Assets** | **1,32,145 (100.0)** | **1,40,432 (100.0)** | **6.3** |
| **Assets** | | | |
| 1. Cash in Hand | 938 (0.7) | 1,539 (1.1) | 64.0 |
| 2. Balances with Banks | 7,136 (5.4) | 8,227 (5.9) | 15.3 |
| 3. Money at Call and Short Notice | 1,139 (0.9) | 1,996 (1.4) | 75.2 |
| 4. Investments | 46,872 (35.5) | 48,472 (34.5) | 3.4 |
| 5. Loans and Advances | 66,874 (50.6) | 70,379 (50.1) | 5.2 |
| 6. Other Assets | 9,185 (7.0) | 9,819 (7.0) | 6.9 |

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

**Source:** Balance sheets of respective UCBs.

**Table IV.5: Priority Sector and Weaker Section Advances by Urban Co-operative Banks ñ 2005-06**

| Segment | Priority Sector | | Weaker Sections | |
|---|---|---|---|---|
| | Amount (Rs. crore) | Share in Total Advances (Per cent) | Amount (Rs. crore) | Share in Total Advances (Per cent) |
| 1 | 2 | 3 | 4 | 5 |
| 1. Agriculture and Allied Activities | 3,007 | 4.3 | 1,499 | 2.1 |
| 2. Cottage and Small Scale Industries | 9,817 | 13.9 | 1,042 | 1.5 |
| 3. Road and Water Transport Operators | 1,819 | 2.6 | 655 | 0.9 |
| 4. Private Retail Trade (Essential Commodities) | 1,850 | 2.6 | 876 | 1.2 |
| 5. Private Retail Trade (Others) | 3,323 | 4.7 | 858 | 1.2 |
| 6. Small Business Enterprises | 5,456 | 7.8 | 1,725 | 2.5 |
| 7. Professional and Self Employed | 2,165 | 3.1 | 864 | 1.2 |
| 8. Educational Loans | 710 | 1.0 | 290 | 0.4 |
| 9. Housing Loans | 9,056 | 12.9 | 2,773 | 3.9 |
| 10. Consumption Loans | 456 | 0.6 | 173 | 0.2 |
| 11. Software Industry | 55 | 0.1 | 6 | 0.0 |
| **Total (1 to 11)** | **37,714** | **53.6** | **10,762** | **15.3** |

*Priority Sector Lending*

4.48 Urban co-operative banks are required to lend 60.0 per cent of their total loans and advances to the priority sector and 25.0 per cent of priority sector lending should go towards weaker sections. Credit extended by UCBs to the priority sector and weaker sections increased significantly in recent years. A significant amount of credit was extended to cottage and small scale industries and for housing loans (Table IV.5).

4.49 SLR investments constituted a bulk of investment (94.4 per cent) of UCBs at end-March 2006. While SLR investments, on the whole, grew moderately (2.1 per cent) during 2005-06, investments in other approved securities (non-Government) and term-deposits with the State co-operative banks (StCBs) increased sharply. However, term deposits with district central co-operative banks (DCCBs) declined. Non-SLR investments comprising bonds of public sector institutions/AIFIs, shares of AIFIs and units of UTI witnessed a sharp growth during 2005-06 (Table IV.6).

*Asset Quality*

4.50 The asset quality of UCBs improved significantly during the year. This was reflected in sharp decline in NPAs (gross and net) in absolute as well as percentage terms. However, NPAs of UCBs at 19.7 per cent (gross) and 9.6 per cent (net) at end-March 2006 were high compared to the level at end-March 2001 (16.1 per cent gross NPAs) and in comparison with scheduled commercial banks (3.3 per cent gross and

### Table IV.6: Investments by Urban Co-operative Banks

(Amount in Rs. crore)

| Item | As at end-March | | Percentage Variations |
|---|---|---|---|
| | 2005 | 2006 | 2005-06 |
| 1 | 2 | 3 | 4 |
| **Total Investments (A+B)** | **46,872 (100.0)** | **48,472 (100.0)** | **3.4** |
| **A. SLR Investments (i to v)** | **44,817 (95.6)** | **45,740 (94.4)** | **2.1** |
| i) Central Government Securities | 27,147 (57.9) | 28,119 (58.0) | 3.6 |
| ii) State Government Securities | 3,883 (8.3) | 3,922 (8.1) | 1.0 |
| iii) Other approved securities | 848 (1.8) | 1,107 (2.3) | 30.6 |
| iv) Term deposits with StCBs | 4,257 (9.1) | 4,745 (9.8) | 11.5 |
| v) Term deposits with DCCBs | 8,683 (18.5) | 7,847 (16.2) | -9.6 |
| **B. Non-SLR Investments** (in bonds of public sector institutions/AIFIs, shares of AIFIs and units of UTI) | **2,055 (4.4)** | **2,732 (5.6)** | **32.9** |

**Note:** Figures in brackets are percentages to total investments.

1.2 per cent net NPAs) (Table IV.7). The high level of gross NPAs of UCBs was, to an extent, on account of burdensome procedure for write-off of loans.

### Table IV.7: 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 | ñ | ñ |
| 2002 | 1,937 | 13,706 | 21.9 | ñ | ñ |
| 2003 | 1,941 | 12,509 | 19.0 | 6,428 | 13.0 |
| 2004 | 1,926 | 15,406 | 22.7 | 8,242 | 12.1 |
| 2005 | 1,872 | 15,486 | 23.4 | 8,257 | 12.5 |
| 2006 P | 1,853 | 13,871 | 19.7 | 6,718 | 9.6 |

P : Provisional.

## Operations and Performance of Scheduled Urban Co-operative Banks

*Operations*

4.51 Continuing the growth momentum, liabilities/assets of scheduled UCBs expanded at a healthy rate during 2005-06. Deposits of scheduled UCBs grew at a higher rate in comparison with the previous year. On the asset side, while loans and advances portfolio witnessed an accelerated growth, investments slowed down in sync with the trend witnessed in the commercial banking sector in recent years (Table IV.8).

### Table IV.8: Liabilities and Assets of Scheduled Urban Co-operative Banks

(Amount in Rs. crore)

| Item | As at end-March | | Percentage Variations | |
|---|---|---|---|---|
| † | 2005 | 2006 | 2004-05 | 2005-06 |
| 1 | 2 | 3 | 4 | 5 |
| **Liabilities** | | | | |
| 1. Capital | 782 (1.4) | 899 (1.5) | 16.6 | 15.0 |
| 2. Reserves | 6,927 (12.3) | 6,594 (10.7) | 182.0 | -4.8 |
| 3. Deposits | 40,950 (72.8) | 45,285 (73.2) | 7.8 | 10.6 |
| 4. Borrowings | 890 (1.6) | 970 (1.6) | 50.8 | 9.0 |
| 5. Other Liabilities | 6,668 (11.9) | 8,083 (13.1) | -31.6 | 21.2 |
| **Total Liabilities/Assets** | **56,217 (100.0)** | **61,832 (100.0)** | **9.2** | **10.0** |
| **Assets** | | | | |
| 1. Cash | 303 (0.5) | 348 (0.6) | -4.9 | 14.8 |
| 2. Balances with Banks | 4,795 (8.5) | 4,973 (8.0) | -11.7 | 3.7 |
| 3. Money at call and short notice | 517 (0.9) | 581 (0.9) | 20.9 | 12.3 |
| 4. Investments | 17,094 (30.4) | 18,216 (29.5) | 14.1 | 6.6 |
| 5. Loans and Advances | 25,061 (44.6) | 28,022 (45.3) | 8.2 | 11.8 |
| 6. Other Assets | 8,447 (15.0) | 9,692 (15.7) | 18.0 | 14.7 |

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

**Source:** Balance sheets of respective UCBs.

*Financial Performance*

4.52 Net interest income of scheduled UCBs increased by Rs.1,171 crore during 2005-06 as compared with Rs.999 crore in the previous year. This combined with reduction in banksí burden (excess of operating expenditure over non-interest income) resulted in an increase in the operating profits, in contrast to a decline in the previous year. Nearly same level of provisions and contingencies in comparison with the previous year resulted in higher net profit during the year (Table IV.9). Although, the number of banks suffering losses increased to eight from seven during the previous year, total losses incurred by the loss making scheduled UCBs declined (Appendix Tables IV.4 and IV.5).

**Table IV.9: Financial Performance of Scheduled Urban Co-operative Banks**

(Amount in Rs. crore)

| Item | | | Percentage Variations | |
|---|---|---|---|---|
| † | 2004-05 | 2005-06 | 2004-05 | 2005-06 |
| 1 | 2 | 3 | 4 | 5 |
| **A. Income (i+ii)** | **3,735 (100.0)** | **3,951 (100.0)** | **-6.0** | **5.8** |
| i) Interest Income | 3,322 (88.9) | 3,458 (87.5) | 4.5 | 4.1 |
| ii) Other Income | 413 (11.1) | 494 (12.5) | -48.1 | 19.6 |
| **B. Expenditure (i+ii+iii)** | **3,598 (100.0)** | **3,617 (100.0)** | **-4.4** | **0.5** |
| i) Interest Expended | 2,323 (64.6) | 2,287 (63.2) | -1.2 | -1.5 |
| ii) Provisions and Contingencies | 335 (9.3) | 348 (9.6) | -36.9 | 3.9 |
| iii) Operating Expenses | 940 (26.1) | 982 (27.2) | 6.6 | 4.5 |
| *of which :* Wage Bill | 508 (14.1) | 521 (14.4) | 2.2 | 2.6 |
| **C. Profit** | | | | |
| i) Operating Profit | 472 | 682 | -36.3 | 44.5 |
| ii) Net Profit | 137 | 335 | -34.9 | 144.5 |
| **D. Total Assets** | **56,217** | **61,832** | **9.2** | **10.0** |

**Note** : Figures in brackets are percentages to respective totals.
**Source :** Balance sheets of respective UCBs.

**Operations and Performance of Non-Scheduled Urban Co-operative Banks with Deposits of Rs.100 crore and Above**

*Operations*

4.53 The non-scheduled UCBs of deposit size of Rs.100 crore and above (numbering 191) were brought under the closer scrutiny of off-site surveillance in view of their large deposit holdings and systemic importance. Total assets/liabilities of these non-scheduled UCBs were Rs.39,657 crore at end-March 2006, constituting 64.1 per cent of assets of scheduled UCBs and 28.2 per cent of total assets of all UCBs (scheduled and non-scheduled). The major source of funds for non-scheduled UCBs was deposits, accounting for 79.4 per cent of total assets at end-March 2006. Most of the assets were held in the form of loans and advances (49.1 per cent) and investments (23.0 per cent). These banks also held a significant part of their assets in the form of balances with banks (16.0 per cent) at end-March 2006 (Table IV.10).

*Financial Performance*

4.54 Net interest income of non-scheduled UCBs of Deposits of Rs.100 crore and above was Rs.1,046 crore during 2005-06. The wage bill constituted 14.6 per cent of total expenses. As a result, their operating profits were significantly lower than their net interest income. Return on

**Table IV.10: Liabilities and Assets of Non-Scheduled Urban Co-operative Banks with Deposits of Rs.100 crore and Above**
(As at end-March 2006)

| Item | Amount (Rs. crore) | Share in Total Assets (per cent) |
|---|---|---|
| 1 | 2 | 3 |
| **Liabilities** | | |
| 1. Paid-up Capital | 1,020 | 2.6 |
| 2. Reserve Fund and other Reserves | 2,507 | 6.3 |
| 3. Deposits | 31,479 | 79.4 |
| 4. Borrowings | 275 | 0.7 |
| 5. Other Liabilities | 4,377 | 11.0 |
| **Total Liabilities/Assets** | **39,657** | **100.0** |
| **Assets** | | |
| 1. Cash in Hand | 484 | 1.2 |
| 2. Balances with Banks | 6,348 | 16.0 |
| 3. Money at Call and Short Notice | 295 | 0.7 |
| 4. Investments | 9,112 | 23.0 |
| 5. Loans and Advances | 19,489 | 49.1 |
| 6. Other Assets | 3,929 | 9.9 |

**Table IV.11: Financial Performance of Non-Scheduled Urban Co-operative Banks with Deposits of Rs.100 crore and Aboveñ 2005-06**

| Item | Amount (Rs. crore) | Share in Respective Total (per cent) |
|---|---|---|
| 1 | 2 | 3 |
| **A. Income (i+ii)** | **3,072** | **100.0** |
| i) Interest Income | 2,936 | 95.6 |
| ii) Other Income | 136 | 4.4 |
| **B. Expenditure (i+ii+iii)** | **2,772** | **100.0** |
| i) Interest Expense | 1,890 | 68.2 |
| ii) Provision Against Risks/ Contingencies | 195 | 7.0 |
| iii) Other Operating Expenses | 687 | 24.8 |
| *of which:* Wage Bill | 404 | 14.6 |
| **C. Profit** | | |
| i) Operating Profit | 495 | |
| ii) Net Profit | 300 | |
| **D. Total Assets (as at end-March)** | **39,657** | |

assets of non-scheduled UCBs at 0.76 per cent during 2005-06 was higher than that of scheduled UCBs at 0.54 per cent (Table IV.11).

### Urban Co-operative Banks - Regional Operations

4.55 The spatial distribution of UCBs is highly skewed as they are concentrated mainly in five States/Union Territories, *viz.*, Andhra Pradesh, Gujarat, Karnataka, Maharashtra and Tamil Nadu. Kerala was also well covered in terms of number of branches of UCBs. As at end-March 2006, two-thirds of total UCBs with four-fifth of total branches operated in Maharashtra and Goa, Karnataka and Gujarat. Maharashtra and Goa alone accounted for 58.8 per cent of total branches of UCBs. Of the 7,217 branches of UCBs, 914 were unit banks, *i.e.*, banks which function as head office-cum-branch. Maharashtra and Goa, Karnataka and Gujarat had the highest number (59.5 per cent) of unit banks (Table IV.12).

4.56 Of 55 scheduled UCBs at end-March 2006, 39 were located in Maharashtra, nine in Gujarat, three in Andhra Pradesh, two in Goa and one each in Karnataka and Uttar Pradesh. Maharashtra and Goa accounted for 85.8 per cent of total deposits and 84.9 per cent of all loans and advances of all scheduled UCBs (Table IV.13).

**Table IV.12: Distribution of Urban Co-operative Banks ñ State-wise**
(As at end-March 2006)

| Sr. No. | State | No. of Banks | Share in Total (Per cent) | No. of Unit Banks | No. of Branches* | No. of Extension Counters |
|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 |
| 1. | Andhra Pradesh | 124 | 6.7 | 95 | 310 | 5 |
| 2. | Assam/Manipur/Meghalaya/ Mizoram/ Nagaland/Sikkim/ Tripura/Arunachal Pradesh | 18 | 1.0 | 15 | 11 | ñ |
| 3. | Bihar/Jharkhand | 5 | 0.3 | 4 | 1 | 1 |
| 4. | Gujarat | 296 | 16.0 | 151 | 637 | 3 |
| 5. | Jammu and Kashmir | 4 | 0.2 | 1 | 16 | 4 |
| 6. | Karnataka | 297 | 16.0 | 153 | 885 | 18 |
| 7. | Kerala | 60 | 3.2 | 17 | 325 | ñ |
| 8. | Madhya Pradesh/Chhattisgarh | 75 | 4.0 | 58 | 45 | 4 |
| 9. | Maharashtra and Goa | 630 | 34.0 | 240 | 4,243 | 23 |
| 10. | New Delhi | 15 | 0.8 | ñ | 60 | 1 |
| 11. | Orissa | 14 | 0.8 | 5 | 50 | 4 |
| 12. | Punjab/Haryana/Himachal Pradesh | 16 | 0.9 | 10 | 39 | 3 |
| 13. | Rajasthan | 39 | 2.1 | 19 | 142 | 7 |
| 14. | Tamil Nadu and Pondicherry | 132 | 7.1 | 62 | 180 | 0 |
| 15. | Uttar Pradesh/Uttaranchal | 77 | 4.2 | 53 | 219 | 28 |
| 16. | West Bengal | 51 | 2.8 | 31 | 54 | 0 |
| | **Total (1 to 16)** | **1,853** | **100.0** | **914** | **7,217** | **101** |

* : Including head office-cum-branch.
**ñ** : Nil/Negligible.

**Table IV.13: Select Indicators of Scheduled Urban Co-operative Banks ñ Centre-wise**
(As at end-March 2006)

(Amount in Rs. crore)

| Centre | Paid-up Capital | Free Reserves | Deposits | Loans and Advances | Demand and Time Liabilities | C-D Ratio (per cent) |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1. Ahmedabad | 93 | 3,680 | 5,192 | 3,441 | 5,491 | 66.3 |
| 2. Bangalore | 6 | 44 | 349 | 213 | 477 | 61.0 |
| 3. Hyderabad | 32 | 437 | 709 | 458 | 741 | 64.6 |
| 4. Lucknow | 5 | 18 | 185 | 125 | 193 | 67.6 |
| 5. Mumbai | 686 | 2,324 | 35,752 | 21,717 | 35,294 | 60.7 |
| 6. Nagpur | 78 | 91 | 3,097 | 2,067 | 2,098 | 66.7 |
| **Total (1 to 6)** | **899** | **6,594** | **45,285** | **28,022** | **44,295** | **61.9** |

4.57 Non-scheduled UCBs in five centres, *viz.*, Ahmedabad, Bangalore, Chennai, Mumbai and Nagpur accounted for more than three-fourth of capital and reserves and about four-fifth of deposits, advances, and demand and time liabilities of all non-scheduled UCBs at end-March 2006. Wide variations were also observed in the C-D ratio. Chennai had the highest C-D ratio (69.8 per cent), while New Delhi the lowest (38.0 per cent) which incidentally was the only centre with C-D ratio of less than 50 per cent. C-D ratio for other centres remained within the range of 51.8 per cent and 67.4 per cent (Table IV.14).

## 3. Rural Co-operative Credit Institutions

4.58 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-operatives for

**Table IV.14: Select Indicators of Non-Scheduled Urban Co-operative Banks ñ Centre-wise**
(As at end-March 2006)

(Amount in Rs. crore)

| Centre | Share Capital | Free Reserves | Deposits | Advances | Demand and Time Liabilities | C-D Ratio (per cent) |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1. Ahmedabad | 239 | 778 | 6,632 | 3,717 | 6,802 | 56.1 |
| 2. Bangalore | 375 | 527 | 7,952 | 5,129 | 7,300 | 64.5 |
| 3. Bhopal | 48 | 71 | 1,071 | 570 | 1,094 | 53.3 |
| 4. Bhubaneswar | 25 | 28 | 591 | 389 | 594 | 65.8 |
| 5. Chandigarh | 30 | 46 | 648 | 336 | 628 | 51.8 |
| 6. Chennai | 153 | 124 | 2,941 | 2,054 | 3,163 | 69.8 |
| 7. Guwahati | 12 | 19 | 334 | 182 | 378 | 54.5 |
| 8. Hyderabad | 81 | 108 | 1,318 | 832 | 1,210 | 63.1 |
| 9. Jaipur | 72 | 99 | 1,348 | 782 | 1,313 | 58.0 |
| 10. Jammu | 4 | 6 | 194 | 109 | 197 | 56.1 |
| 11. Kolkata | 123 | 132 | 1,856 | 1,108 | 1,977 | 59.7 |
| 12. Lucknow | 122 | 125 | 2,015 | 1,262 | 2,472 | 62.6 |
| 13. Mumbai | 941 | 900 | 27,779 | 18,714 | 28,490 | 67.4 |
| 14. Nagpur | 228 | 399 | 8,611 | 5,070 | 4,018 | 58.9 |
| 15. New Delhi | 40 | 82 | 898 | 341 | 928 | 38.0 |
| 16. Patna | 3 | 7 | 30 | 19 | 31 | 62.9 |
| 17. Thiruvananthapuram | 83 | 117 | 2,734 | 1,743 | 2,873 | 63.8 |
| **Total (1 to 17)** | **2,580** | **3,567** | **66,952** | **42,357** | **63,469** | **63.3** |
| ***Memo Item:*** | | | | | | |
| Share of Ahmedabad, Bangalore, Chennai, Mumbai and Nagpur in total | 75.0 | 76.5 | 80.5 | 81.9 | 78.4 | |

long-term and short-term loans has enabled these institutions to improve 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. Rural institutions have a wider outreach, with as many as 1,08,779 primary agricultural co-operative societies (PACS), the grass root organisation of the rural co-operative banking structure, operating in the country as on March 2005.

4.59 The rural co-operative credit institutions face many challenges such as low resource base, lack of diversification, huge accumulated losses, persistent NPAs and low recovery levels. Many institutions continued to make losses during 2004-05. Total accumulated losses aggregated Rs.8,746 crore as on March 31, 2004. NABARD and the Reserve Bank, therefore, have been taking several supervisory and developmental measures in consultation with the Central Government for the revival of weak institutions and orderly growth of this important segment of the financial sector.

*Regulation of Rural Co-operative Banks*

4.60 The total number of licensed StCBs and DCCBs were 14 and 73, respectively, at end-June 2006. During 2005-06, only one new banking licence was granted which was to Andaman and Nicobar State Co-operative Bank. In 2005-06 (July to June) show cause notices were issued to three DCCBs as to why their licence applications should not be rejected. Two StCBs and 11 DCCBs were placed under the Reserve Bankís directions prohibiting them from granting loans and advances to certain areas and/or accepting fresh deposits. No licence/application for licence was cancelled/ rejected during the year. No StCB was granted scheduled status during the year for inclusion in the Second Schedule under Section 42 of the RBI Act, 1934. The total number of scheduled StCBs remained at 16 at end-June 2006. As on June 30, 2006, seven out of 31 StCBs and 134 out of 367 DCCBs did not comply with the provisions of Section 11 (1) of the Banking Regulation Act, 1949 (aACS). Similarly 134 and 329 out of 367 DCCBs did not comply with the provisions of Section 22(3) (a) and Section 22(3) (b), respectively, of the Act.

4.61 In terms of Section 29 of the Banking Regulation Act, 1949 (aACS), every co-operative bank is required to prepare a balance sheet and profit and loss account in respect of all business transacted by it as on March 31 every year. With a view to ensuring transparency in the annual financial statements (*i.e.*, balance sheets and profit and loss accounts) of the StCBs/DCCBs, it was decided to introduce certain disclosure standards in the form of ëNotes on Accountsí to their balance sheets from the year ended March 31, 2006.

4.62 Consequent upon the announcement in the Mid-term Review of Annual Policy Statement for the year 2005-06, all StCBs and DCCBs were advised to increase general provisioning for ëstandard advancesí to 0.40 per cent from the present level of 0.25 per cent with effect from the financial year beginning April 1, 2007. However, direct advances to agricultural and SME sectors, which are standard assets, were allowed the provisioning of 0.25 per cent of the funded outstanding on a portfolio basis, as hitherto.

4.63 All StCBs and DCCBs were advised in August 2005 that they may invest their genuine surplus funds in non-SLR securities without taking prior approval from the Reserve Bank on a case-to-case basis, subject to certain specific conditions. The overall limit of non-SLR investment, which was fixed at 10 per cent of the bankís total deposits as on March 31 of the previous year, comprises: (a) bonds of public sector undertakings; and (b) bonds/equity of all-India financial institutions (AIFIs) with a sub-ceiling of 5 per cent for investments covered under (a) above. The banks, which do not comply with the stipulated conditions, are required to obtain prior approval from the Reserve Bank for non-SLR investment on a case-to-case basis as hitherto.

4.64 In February 2005, StCBs and DCCBs were advised to formulate a customer acceptance policy and customer identification procedures to be followed while opening an account. The banks were also advised to categorise the customers into low, medium and high risk according to risk perceived and the ëKnow Your Customerí (KYC) guidelines, which require banks to verify the identity and address of the customer through certain documents. It was decided in August 2005 to further simplify the KYC procedure for opening accounts for those persons who intend to keep balances not exceeding Rs.50,000 in all their accounts taken together and the total credits in all the accounts taken together is not expected to exceed Rs.1 lakh in a year.

4.65 It was decided to allow licensed and/or scheduled StCBs to undertake, without risk participation, co-branded domestic credit card business with tie-up arrangement with one of the scheduled commercial banks, already having arrangement for issue of credit cards, subject to their fulfilling certain terms and conditions. It was advised that no StCB should undertake co-branded domestic credit card business without obtaining prior permission of the Reserve Bank. The permission granted to a StCB to commence the co-branded credit card business will be normally valid for a period of two years, subject to review before expiry of that period.

4.66 All StCBs and DCCBs were advised that the banks should not credit ëaccount payeeí cheques to the account of any person other than the payee named therein. This measure was initiated with a view to protecting the banks being burdened with liabilities arising out of unauthorised collections, and in the interest of the integrity and soundness of the payment and banking systems. Banks were directed in April 2006 that they should not collect account payee cheques for any person other than the payee constituent.

4.67 All StCBs and DCCBs were allowed in June 2006 to open savings bank accounts in the names of State Government departments/bodies/agencies in respect of grants/subsidies released for implementation of various programmes/schemes sponsored by the State Governments. Banks were advised that they should keep on their record a copy of the authorisation issued by the respective State Government departments.

4.68 Consequent upon the amendment to Section 42 of the Reserve Bank of India Act, 1934 (2 of 1934), the statutory minimum CRR requirement of 3.0 per cent of total demand and time liabilities in respect of scheduled StCBs ceases to exist. Further, the Reserve Bank having regard to the needs of securing monetary stability in the country can prescribe the CRR for scheduled banks without any floor or ceiling rate. The Reserve Bank has decided to continue with the *status quo* on the rate of CRR required to be maintained by scheduled StCBs at 5.0 per cent of their demand and time liabilities. In exercise of the powers conferred by sub-section (7) of Section 42 of the Reserve Bank of India Act, 1934, the Reserve Bank exempted every StCB from the maintenance of CRR at 5.0 per cent on the following liabilities with effect from June 22, 2006: (i) liabilities to the banking system in India as computed under Section 42 of the RBI Act, 1934; and (ii) transactions in CBLO with CCIL. Further, as part of the amendments carried out to the Reserve Bank of India Act, 1934, sub-section (1B) of Section 42 of the Act has been omitted. Accordingly, the Reserve Bank cannot pay any interest on the CRR balances maintained by StCBs once the Act comes into force.

4.69 The Union Finance Minister in his Budget Speech for 2005-06 observed that the sugar industry was under financial stress from 2001 and their financial position became worse due to two successive droughts in certain parts of the country. Consequent upon the announcement made in the Budget Speech, a Committee was set up by NABARD to work out a scheme/package of assistance for the sugar industry. The Committee submitted its report to the Government on July 23, 2005. Accordingly, a package of assistance for sugar industry was worked out (Box IV.6).

**Box IV.6 : Package of Assistance for Sugar Industry**

For effecting the package of assistance for sugar industry, the sugar mills have been bifurcated in the following two categories:

*Category A*: The mills which can repay the term loan within a period of five years including a moratorium of two years for payment of interest and principal; and

*Category B:* The mills which can repay the term loan within a period of 15 years including a moratorium of two years for payment of interest and principal.

The following package was approved by the Government for the sugar mills in the country:

ï All co-operative sugar mills in the country, which have term loans outstanding as on March 31, 2005, and which are commercially viable and have adequate operational surplus to repay the said term loans will be categorised as falling under either Category A or Category B.

ï Accordingly, the term loans will be restructured/rescheduled to enable repayment within five years (for Category A) or within 15 years (for Category B).

ï The rate of interest on the restructured loans will be reduced to 10 per cent per annum with effect from April 1, 2005, irrespective of the original contractual rate.

ï The Government of India will provide interest subvention on the restructured loan. The amount of interest subvention is estimated at Rs.525 crore.

## Supervision of the Rural Co-operative Credit Structure

4.70 In accordance with the powers vested under Section 35(6) of the Banking Regulation Act, 1949 (aACS), NABARD undertakes inspection of RRBs, StCBs and DCCBs. The frequency of statutory/ voluntary inspections by NABARD was increased from 2005-06. Accordingly, NABARD has decided to conduct statutory inspections, on an annual basis, of all StCBs as well as of those DCCBs and RRBs, which are not complying with minimum capital requirements. The statutory inspections of DCCBs and RRBs with positive networth as also the voluntary inspections of apex co-operative societies/ federations would continue to be conducted once in two years. During the year, NABARD carried out statutory inspections of 416 banks (31 StCBs, 265 DCCBs and 120 RRBs) and voluntary inspections of 18 SCARDBs and an apex co-operative society.

4.71 The Board of Supervision (BoS) constituted by NABARD in 1999 to provide guidance and direction on matters relating to supervision of StCBs, DCCBs and RRBs, met four times during 2004-05. The review conducted by BoS included: (i) the functioning of insolvent StCBs and DCCBs; (ii) State-wise functioning of co-operative credit institutions; (iii) implementation of prudential norms by DCCBs; (iv) frauds, misappropriation, embezzlements and defalcations; (v) agenda to be placed before the Board of Directors of StCBs and DCCBs; (vi) functioning of StCBs and SCARDBs based on inspection findings; (vii) follow-up action taken on the recommendations for initiating regulatory action against StCBs and DCCBs; (viii) financial position of RRBs and co-operative banks with deposit erosion of more than 25 per cent and more than 50 per cent but less than 100 per cent, respectively; (ix) inspection strategy ñ reference date of inspection and coverage of subsequent development; and (x) deposit insurance cover for deposits of co-operative banks.

### *Management of Co-operatives*

4.72 The supersession of elected Boards of Management continued despite NABARDís efforts to ensure that co-operative banks are managed by duly elected Boards of Management. However, the number and proportion of Boards under supersession at end-March 2005 declined for all segments of rural co-operative sector, except StCBs in which case 14 out of 31 banks were superseded (Table IV.15).

## A Profile of Rural Co-operative Banks

4.73 The rural co-operative banks with their vast numbers, regional outreach and significant amount of assets is an important segment of the financial sector. As on March 31, 2005, these institutions together held Rs.3,25,170 crore of assets, Rs.1,46,321 crore of deposits and a loan portfolio of Rs.1,89,407 crore. However, their financial performance has raised concern regarding effectiveness of their role in financial penetration. During 2004-05, these institution taken together, however, earned some profit although a majority of them incurred losses. Institution-wise, while the upper-tier of the short-term structure made profit, the lower-tier (*i.e.*, PACS) made overall losses. This was in contrast with the trend for the long-term structure. The problems of non-performing assets and recovery performance of the rural co-operative banks, especially the long-term structure and the lower-tier of the short-term structure continued to persist (Table IV.16).

**Table IV.15: Elected Boards under Supersession**

(As at end-March 2005)

| Particulars | StCBs | DCCBs | SCARDBs | PCARDBs | **Total** |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | **6** |
| (i) Total no. of Institutions | 31 | 367 | 20 | 727 | **1,145** |
| (ii) No. of Institutions where Boards are under supersession | 14 | 159 | 8 | 372 | **553** |
| **Percentage of Boards under supersession [(ii) as percentage of (i)]** | **45.2** | **43.3** | **40.0** | **51.2** | **48.3** |

**Source :** NABARD.

**Table IV.16: A Profile of Rural Co-operative Credit Institutions***
(As at end-March 2005)

(Amount in Rs. crore)

| Item | Short-Term | | | Long-Term | | Total |
|---|---|---|---|---|---|---|
| | StCBs | DCCBs | PACS | SCARDBs | PCARDBs | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| **A. No. of Co-operative Banks** | 31 | 367 | 1,08,779 | 20 | 727 | **1,09,924** |
| **B. Balance Sheet Indicators** | | | | | | |
| i) Owned Fund (Capital+Reserves) | 9,495 | 20,495 | 9,197 | 5,022 | 3,494 | **47,703** |
| ii) Deposits | 44,316 | 82,098 | 18,976 | 566 | 365 | **1,46,321** |
| iii) Borrowings | 14,608 | 22,568 | 40,250 | 17,180 | 12,873 | **1,07,479** |
| iv) Loans and Advances Issued | 44,452 | 66,266 | 39,212 | 3,292 | 2,569 | **1,55,791** |
| v) Loans and Advances Outstanding | 37,346 | 73,091 | 48,785 | 17,422 | 12,763 | **1,89,407** |
| vi) Total Liabilities/Assets | 71,806 | 1,33,331 | 75,407 ** | 24,271 | 20,355 | **3,25,170** |
| **C. Financial Performance** | | | | | | |
| i) Institutions in Profit | | | | | | |
| a) Number | 26 | 296 | 47,015 | 11 | 262 | **47,610** |
| b) Amount of Profit | 328 | 1,379 | 728 | 81 | 665 | **3,181** |
| ii) Institutions in Loss | | | | | | |
| a) Number | 4 | 71 | 61,323 | 9 | 465 | **61,872** |
| b) Amount of Loss | 37 | 405 | 1,989 | 244 | 274 | **2,949** |
| iii) Overall Profit/Loss (-) | 291 | 974 | -1,261 | -163 | 391 | **232** |
| iv) Accumulated Loss | 274 | 4,723 | N.A. | 1,098 | 2,313 | **N.A.** |
| **D. Non-performing Assets** | | | | | | |
| i) Amount | 6,072 | 14,520 | 16,052 @ | 5,437 | 4,056 | **46,138** |
| ii) As Percentage of Loans Outstanding | 16.3 | 19.9 | 33.6 # | 31.3 | 31.9 | **24.4** |
| iii) Recovery of Loans to Demand (%) | 83.5 | 71.2 | 66.4 | 43.7 | 50.6 | |

N.A. Not Available.
* : Based on reporting institutions.
** : Working capital.
@ : Total overdues.
# : Percentage of overdues to demand.
**Source :** NABARD and NAFSCOB.

## Rural Co-operative Banks ñ Short-Term Structure

### *State Co-operative Banks*

*Operations*

4.74 The State Co-operative Banks (StCBs) continued to grow at a moderate rate during 2004-05. On the liability side, deposits grew at a meagre rate of 1.9 per cent, while borrowings increased sharply. However, the silver lining was the sharp growth of reserves. On the asset side, while the growth in loans and advances accelerated, the investment portfolio slowed down during 2004-05 (Table IV.17).

*Financial Performance*

4.75 Net interest income of StCBs increased sharply to Rs.1,558 crore in 2004-05 from Rs.1,316 crore in the previous year. However, decline in other income on the one hand and rise in operating expenses on the other, resulted in a decline in operating profit. Net profit also declined despite decline in provisions and contingencies (Table IV.18). Accumulated losses of StCBs, however, increased marginally to Rs.274 crore from Rs.260 crore in 2003-04. Twenty-six out of 31 StCBs earned profits aggregating Rs.328 crore, while four made losses amounting to Rs.37 crore. One StCB reported neither profit nor loss (Appendix Table IV.6).

*Asset Quality and Recovery Performance*

4.76 The overall NPAs of StCBs declined both in absolute and percentage terms during 2004-05 although the NPAs to total loans ratio at 16.3 per cent continued to be high. Substantial asset slippage, however, occurred from the doubtful to

**Table IV.17: Liabilities and Assets of State Co-operative Banks**

(Amount in Rs. crore)

| Item | As at end-March | | Percentage Variations | |
|---|---|---|---|---|
| † | 2003-04 | 2004-05 | 2003-04 | 2004-05 |
| 1 | 2 | 3 | 4 | 5 |
| **Liabilities** | | | | |
| 1. Capital | 951<br>(1.4) | 1,012<br>(1.4) | 6.1 | 6.4 |
| 2. Reserves | 7,522<br>(11.1) | 8,483<br>(11.8) | 6.2 | 12.8 |
| 3. Deposits | 43,486<br>(64.1) | 44,316<br>(61.7) | 10.4 | 1.9 |
| 4. Borrowings | 12,457<br>(18.4) | 14,608<br>(20.3) | 2.0 | 17.3 |
| 5. Other Liabilities | 3,421<br>(5.0) | 3,387<br>(4.7) | 19.9 | -1.0 |
| **Total Liabilities/Assets** | **67,838<br>(100.0)** | **71,806<br>(100.0)** | 8.7 | 5.8 |
| **Assets** | | | | |
| 1. Cash and Bank balance | 5,986<br>(8.8) | 6,602<br>(9.2) | 71.8 | 10.3 |
| 2. Investments | 22,187<br>(32.7) | 23,289<br>(32.4) | 13.0 | 5.0 |
| 3. Loans and Advances | 35,105<br>(51.7) | 37,346<br>(52.0) | 1.0 | 6.4 |
| 6. Other Assets<br>† | 4,560<br>(6.7) | 4,569<br>(6.4) | 0.2 | 0.2 |

**Note** : 1. Figures in brackets are percentages to total.
2. ëReservesí include credit balance in profit and loss account shown separately by some of the banks.
3. Data for StCBs in the States of Jammu and Kashmir and Manipur is repeated for the year 2004-05 from previous year.
4. Data are provisional.

**Source :** NABARD.

**Table IV.18: Financial Performance of State Co-operative Banks**

(Amount in Rs. crore)

| Item | 2003-04 | 2004-05 | Percentage Variations | |
|---|---|---|---|---|
| | | | 2003-04 | 2004-05 |
| 1 | 2 | 3 | 4 | 5 |
| **A. Income (i+ii)** | **6,046<br>(100.0)** | **5,420<br>(100.0)** | **-2.4** | **-10.4** |
| i) Interest Income | 5,314<br>(87.9) | 5,039<br>(93.0) | -4.8 | -5.2 |
| ii) Other Income | 732<br>(12.1) | 380<br>(7.0) | 18.9 | -48.1 |
| **B. Expenditure (i+ii+iii)** | **5,673<br>(100.0)** | **5,129<br>(100.0)** | **-0.9** | **-9.6** |
| i) Interest Expended | 3,998<br>(70.5) | 3,481<br>(67.9) | -5.5 | -12.9 |
| ii) Provisions and Contingencies | 1,204<br>(21.2) | 1,164<br>(22.7) | 20.0 | -3.3 |
| iii) Operating Expenses | 471<br>(8.3) | 484<br>(9.4) | -4.0 | 2.8 |
| *of which* : Wage Bill | 317<br>(5.6) | 344<br>(6.7) | 1.8 | 8.5 |
| **C. Profit** | | | | |
| i) Operating Profit | 1,577 | 1,455 | 7.1 | -7.7 |
| ii) Net Profit | 373 | 291 | -20.5 | -22.1 |
| **D. Total Assets** | **67,838** | **71,806** | **8.7** | **5.8** |

**Note** : 1. Figures in brackets are percentages to the respective total.
2. Data for StCBs in the States of Jammu and Kashmir and Manipur repeated for the year 2004-05 from previous year.
3. Data are provisional.

**Source :** NABARD.

the loss assets category. Recovery performance need to improve to reduce the high NPAs. In sync with earlier years, StCBs met the provisioning requirement during 2004-05 (Table IV.19).

*Regional Dimensions*

4.77 Twenty six StCBs earned profits, while four StCBs made losses. Fifteen StCBs earned higher profits during 2004-05, while nine StCBs (in the States/UTs of Chandigarh, Punjab, Andaman and Nicobar, Bihar, West Bengal, Goa, Maharashtra, Kerala and Tamil Nadu) earned lower profits. Profits remained the same for StCBs in Jammu and Kashmir and Manipur. The Chhattisgarh StCB made a loss during 2004-05 as against some profit during the previous year. Losses increased by other three loss making StCBs in the North-Eastern region (Assam, Nagaland and Tripura) (Appendix Table IV.6).

4.78 NPAs of StCBs varied widely across the States/UTs at end-March 2005. In some States such as Haryana, Rajasthan and Punjab, NPAs were less than 3.0 per cent, while in some other States (Arunachal Pradesh, Assam, Manipur and Nagaland) NPAs were more than 50 per cent. Only in nine out of 31 States/UTs, NPA ratio was less than 10 per cent. The recovery rate of StCBs also varied significantly across the States. StCBs operating in Haryana, Kerala, Madhya Pradesh, Punjab, Rajasthan, Uttaranchal and Tamil Nadu

**Table IV.19: Asset Quality of State 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 |
| **A. Asset Classification Total NPAs (i+ii+iii)** | **6,548 (100.0)** | **6,072 (100.0)** | **3.6** | **-7.3** |
| i) Sub-standard | 3,288 (50.2) | 2,961 (48.8) | -7.5 | -9.9 |
| ii) Doubtful | 3,010 (46.0) | 1,975 (32.5) | 18.8 | -34.4 |
| iii) Loss Assets | 250 (3.8) | 1,136 (18.7) | 6.4 | 354.4 |
| **B. NPAs to Loans Ratio** | **18.7** | **16.3** | | |
| *Memo Items:* | | | | |
| i) Recovery to Demand | 83.3 | 83.5 | | |
| ii) Provisions Required | 3,435 | 2,806 | 11.3 | -19.5 |
| iii) Provisions Made | 3,696 | 2,982 | 15.5 | -20.2 |

**Note** : 1. Figures in brackets represent percentages to total.
2. Data are provisional.

**Source** : NABARD.

achieved more than 90 per cent recovery during 2004-05. However, in several States such as Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur, Meghalaya, Tripura and Bihar, the recovery rate was less than 50 per cent (Appendix Table IV.6).

### *District Central Co-operative Banks*

*Operations*

4.79 The business operations of the District Central Co-operative Banks (DCCBs) witnessed a moderate growth during 2004-05. On the liabilities side, while deposit growth slowed down, borrowing increased sharply. However, net owned funds increased significantly. On the assets side, loans and advances registered a healthy growth, while investment portfolio expanded at a very low rate (Table IV.20).

*Financial Performance*

4.80 In contrast to the upper structure, the financial performance of the DCCBs improved significantly due to increase in income, especially non-interest income on the one hand, and reduction in the expenditure on the other. However, the decline in expenditure was entirely due to decline in provisions and contingencies (Table IV.21). As a result of increased profit, the accumulated losses declined to Rs.4,723 crore during 2004-05 from Rs.5,126 crore during 2003-04.

**Table IV.20: Liabilities and Assets of District Central 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 | 3,897 (3.1) | 4,342 (3.3) | 6.6 | 11.4 |
| 2. Reserves | 15,234 (12.1) | 16,155 (12.1) | 15.6 | 6.0 |
| 3. Deposits | 79,153 (63.0) | 82,098 (61.6) | 7.1 | 3.7 |
| 4. Borrowings | 20,256 (16.1) | 22,568 (16.9) | 3.1 | 11.4 |
| 5. Other Liabilities | 7,145 (5.7) | 8,168 (6.1) | 0.5 | 14.3 |
| **Total Liabilities/Assets** | **1,25,685 (100.0)** | **1,33,331 (100.0)** | **7.0** | **6.1** |
| **Assets** | | | | |
| 1. Cash and Bank balance | 7,689 (6.1) | 8,676 (6.5) | 5.2 | 12.8 |
| 2. Investments | 35,180 (28.0) | 35,830 (26.9) | 13.1 | 1.8 |
| 3. Loans and Advances | 67,152 (53.4) | 73,091 (54.8) | 4.6 | 8.8 |
| 6. Other Assets † | 15,664 (12.5) | 15,735 (11.8) | 5.4 | 0.5 |

**Note** : 1. Figures in brackets are percentages to total.
2. ëReservesí include credit balance in profit and loss account shown separately by some of the banks.
3. Data for Jammu and Kashmir repeated for the year 2004-05 from previous year.
4. Data are provisional.

**Source** : NABARD.

*Asset Quality and Recovery Performance*

4.81 NPAs of DCCBs during 2004-05 declined sharply both in absolute and relative terms. At the same time, recovery performance also improved. However, substantial asset slippage was also noticed, mainly in loss assets category. Provisions made increased from Rs.6,900 crore in 2003-04 to Rs.11,387 crore in 2004-05 (Table IV.22).

**Table IV.21: Financial Performance of District Central Co-operative Banks**

(Amount in Rs. crore)

| Item | 2003-04 | 2004-05 | Percentage Variations | |
|---|---|---|---|---|
| | | | 2003-04 | 2004-05 |
| 1 | 2 | 3 | 4 | 5 |
| **A. Income (i+ii)** | **11,912 (100.0)** | **12,737 (100.0)** | **-1.4** | **6.9** |
| i) Interest Income | 11,023 (92.5) | 11,427 (89.7) | -2.4 | 3.7 |
| ii) Other Income | 888 (7.5) | 1,310 (10.3) | 11.8 | 47.5 |
| **B. Expenditure (i+ii+iii)** | **11,804 (100.0)** | **11,763 (100.0)** | **-4.5** | **-0.3** |
| i) Interest Expended | 7,318 (62.0) | 7,409 (63.0) | -6.3 | 1.2 |
| ii) Provisions and Contingencies | 2,414 (20.5) | 2,124 (18.1) | -6.1 | -12.0 |
| iii) Operating Expenses | 2,071 (17.5) | 2,230 (19.0) | 5.1 | 7.7 |
| *of which* : Wage Bill | 1,526 (12.9) | 1,607 (13.7) | 4.0 | 5.3 |
| **C. Profit** | | | | |
| i) Operating Profit | 2,522 | 3,098 | 9.5 | 22.8 |
| ii) Net Profit | 108 | 974 | -140.3 | 801.9 |
| **D. Total Assets** | **1,25,685** | **1,33,331** | **7.0** | **6.1** |

**Note** : 1. Figures in brackets are percentage to the respective total.
2. Data for Jammu and Kashmir repeated for the year 2004-05 from previous year.
3. Data are provisional.

**Source** : NABARD.

*Regional Dimensions*

4.82 During 2004-05, out of 367 reporting DCCBs, 296 made profits amounting to Rs.1,379 crore, while 71 DCCBs made losses to the tune of Rs.405 crore. DCCBs operating in 16 out of 19 States made profits, while DCCBs in three States made losses. Number of profit-earning DCCBs during 2004-05 increased in Rajasthan, Bihar, Jharkhand, Orissa, Chattisgarh, Madhya Pradesh, Andhra Pradesh and Tamil Nadu. In the case of Chattisgarh, while the number of profit-making DCCBs increased, the amount of profit earned declined. The number of loss making DCCBs increased in Maharashtra. The overall losses incurred by loss making DCCBs declined in all States, except Rajasthan, Uttaranchal, West Bengal, Kerala and Uttar Pradesh (Appendix Table IV.7).

**Table IV.22: Asset Quality of District Central 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 |
| **A. Asset Classification Total NPAs (i+ii+iii)** | **16,144 (100.0)** | **14,520 (100.0)** | **17.0** | **-10.1** |
| i) Sub-standard | 8,428 (52.2) | 6,468 (44.5) | 11.3 | -23.3 |
| ii) Doubtful | 6,068 (37.6) | 6,053 (41.7) | 23.2 | -0.2 |
| iii) Loss Assets | 1,648 (10.2) | 1,999 (13.8) | 26.7 | 21.3 |
| **B. NPAs to Loans Ratio** | **24.0** | **19.9** | | |
| *Memo Items:* | | | | |
| i) Recovery to Demand | 62.9 | 71.2 | | |
| ii) Provisions Required | 6,297 | 8,678 | 5.8 | 37.8 |
| iii) Provisions Made | 6,900 | 11,387 | 8.1 | 65.0 |

**Note** : 1. Figures in brackets represent percentages to total.
2. Data are provisional.

**Source** : NABARD.

4.83 NPAs ratio in respect of DCCBs varied significantly across the States from 5.2 per cent to 69.2 per cent at end-March 2005. Only in three States (Punjab, Haryana and Himachal Pradesh), the NPAs ratio was less than 10 per cent, while the NPAs ratio was highest in Jharkhand (69.2 per cent), followed by Bihar (57.0 per cent). NPAs in certain States, which traditionally had low NPAs, increased such as Himachal Pradesh, Punjab and Uttaranchal. NPAs in some other States such as Jharkhand and Karnataka, which already had high NPA levels, increased further during the year. At the all-India level, the recovery performance of DCCBs increased from 62.9 per cent during 2003-04 to 71.2 per cent during 2004-05. The recovery by DCCBs generally improved in all States. In some States such as Haryana, Punjab, Rajasthan, Uttranchal, Kerala and Tamil Nadu, the recovery rate was more than 80 per cent during 2004-05 (Appendix Table IV.7).

***Primary Agricultural Credit Societies (PACS)***

4.84 Primary agricultural credit societies (PACS) form the lower-tier of the short-term structure of the rural co-operative credit institutions.

Constituted mainly as societies for various purposes, many PACS have significant deposits and are engaged in financial intermediation, particularly in certain parts of the country.†The PACS directly interface with the farmers, provide short and medium-term credit, supply agricultural inputs, distribute consumer articles and arrange marketing of produce of its members through co-operative marketing societies. Total number of PACS increased to 108,779 in 2004-05 from 105,735 in the previous year. However, the membership of PACS declined by 5.9 per cent to 127 million. Borrowing members at 45 million constituted 35.4 per cent of the total membership as compared with 37.9 per cent in the previous year. The borrowing members of PACS declined, both in absolute terms and in relation to total members, in recent years on account of high defaults that make members ineligible for further borrowing and discontinuance of refinance of weak PACS from their upper-tier (Table IV.23).

*Operations*

4.85 Total resources and working capital of PACS increased sharply at an accelerated pace during 2004-05. Sharp enhancement in the working capital was mainly financed by borrowing and contribution from owned funds. Reversing the trend of the previous year, deposits registered a modest growth. On the asset side, total loans grew by 11.7 per cent due mainly to a sharp growth of medium-term loans. This resulted in a sharp increase in total loans outstanding. Despite decline in the borrowing membership, total loans and advances increased on account of increase in limits of eligible borrowers (Table IV.24).

**Table IV.23: Primary Agricultural Credit Societies ñ Membership**

| Item | As at end-March | |
|---|---|---|
| | 2004 | 2005 |
| 1 | 2 | 3 |
| 1. No. of Societies | 1,05,735 | 1,08,779 |
| 2. Total Membership (in million) | 135.41 | 127.41 |
| *of which:* | | |
| a) SC | 30.61 | 30.93 |
| b) ST | 11.89 | 11.80 |
| 3. Total No. of Borrowers (in million) | 51.27 | 45.07 |
| *of which:* | | |
| a) SC | 6.49 | 7.25 |
| b) ST | 3.44 | 3.46 |
| 4. Total No. of Employees | 3,47,176 | 3,88,118 |

**Note** : Data are provisional.
**Source :** NAFSCOB.

*Financial Performance*

4.86 During 2004-05, 47,015 PACS earned profits amounting to Rs.728 crore, while 61,323 PACS incurred losses of Rs.1,989 crore. Thus, PACS, as a group, incurred net losses of Rs.1,261 crore. While total demand increased during 2004-05, total collections also improved significantly. Total overdues declined both in absolute terms and relative to demand. Overdues as percentage of total demand, however, witnessed a steady decline in

**Table IV.24: Primary Agricultural Credit Societies ñ Select Indicators**

(Amount in Rs. crore)

| Item | As at end-March | | Percentage Variations | |
|---|---|---|---|---|
| † | 2004 | 2005 | 2003-04 | 2004-05 |
| 1 | 2 | 3 | 4 | 5 |
| **A. Liabilities** | | | | |
| 1. Total Resources (2+3+4) | 60,797 | 68,423 | 5.6 | 12.5 |
| 2. Owned Funds†(a+b) | 8,397 | 9,197 | 2.4 | 9.5 |
| a. Paid-up Capital | 5,166 | 5,571 | 4.3 | 7.8 |
| *of which:* Government Contribution | 630 | 621 | 1.8 | -1.4 |
| b. Total Reserves | 3,231 | 3,626 | -0.4 | 12.2 |
| 3. Deposits | 18,143 | 18,976 | -5.1 | 4.6 |
| 4. Borrowings | 34,257 | 40,250 | 13.1 | 17.5 |
| 5. Working Capital | 62,047 | 75,407 | 1.5 | 21.5 |
| **B. Assets** | | | | |
| 1. Total Loans Issued (a+b)* | 35,119 | 39,212 | 3.3 | 11.7 |
| a) Short-Term | 29,326 | 31,887 | 7.8 | 8.7 |
| b) Medium-Term | 5,793 | 7,325 | -14.8 | 26.4 |
| 2. Total Loans Outstanding (a+b)+ | 43,873 | 48,785 | 3.4 | 11.2 |
| a) Short-Term | 30,808 | 32,481 | 5.8 | 5.4 |
| b) Medium-Term | 13,065 | 16,304 | -1.8 | 24.8 |
| **C. Overdues** | | | | |
| 1. Total Demand | 44,237 | 47,785 | 9.7 | 8.0 |
| 2. Total Collection | 27,942 | 31,733 | 11.5 | 13.6 |
| 3. Total Balance (Overdues) (a+b) | 16,295 | 16,052 | 6.6 | -1.5 |
| a) Short-Term | 12,279 | 11,656 | 6.1 | -5.1 |
| b) Medium-Term | 3,918 | 4,396 | 5.3 | 12.2 |
| 4. Percentages of Overdues to Total Demand | 36.8 | 33.6 | | |

* : During the year. + : As at the beginning of the year.
**Note** : Data are provisional.
**Source :** NAFSCOB.

recent years, reflecting the improved recovery performance (Table IV.24).

*Regional Dimensions*

4.87 PACS were mostly concentrated in the Western and Eastern regions of the country. The North-Eastern region is relatively underserved. On an average, a PACS served†seven villages for the country as a whole at end-March 2005. However, PACS in Southern and Eastern Regions operated with a higher membership and borrowing members. The average size of PACS of the Southern Region was much bigger than in other regions. The average fund under management of PACS operating in Kerala and Tamil Nadu stood much higher at Rs.587 lakh and Rs.332 lakh, respectively (Table IV.25 and Appendix Table IV.8).

**Table IV.25 : Select Indicators of Primary Agricultural Co-opeartive Societies-State-wise ñ 2004-05**

| Sr. No. | State/Region | No. of PACS | No. of Villages | Average Deposits (Rs. Lakh) | Working Capital (Rs. Lakh) | Societies in Profit* | | Societies in Loss* | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | No. | Amount (Rs. Lakh) | No. | Amount (Rs. Lakh) |
| 1 | | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| **Northern Region** | | **14,997** | **91,238** | **10.7** | **11,10,885** | **8,334** | **17,915** | **6,230** | **9,605** |
| 1. | Chandigarh | 32 | 22 | 0.2 | 18 | 15 | ñ | 17 | ñ |
| 2. | Delhi | ñ | ñ | ñ | ñ | ñ | ñ | ñ | ñ |
| 3. | Haryana | 2,433 | 7,093 | 11.1 | 4,26,334 | 1,517 | 8,219 | 916 | 2,053 |
| 4. | Himachal Pradesh | 2,089 | 19,388 | 27.6 | 83,883 | 449 | 980 | 1,640 | 79 |
| 5. | Jammu and Kashmir | 807 | 7,146 | 0.1 | 7,178 | 173 | 40 | 201 | 752 |
| 6. | Punjab | 3,985 | 12,428 | 15.4 | 3,51,688 | 2,256 | 4,236 | 1,729 | 2,335 |
| 7. | Rajasthan | 5,651 | 45,161 | 2.6 | 2,41,784 | 3,924 | 4,440 | 1,727 | 4,385 |
| **North-Eastern Region** | | **3,628** | **32,045** | **2.2** | **79,413** | **490** | **8,081** | **3,138** | **11,306** |
| 8. | Arunachal Pradesh | 31 | 3,649 | 5.0 | 1,636 | 20 | 25 | 11 | 8 |
| 9. | Assam | 809 | 23,422 | 1.1 | 7,533 | 309 | 7,639 | 500 | 9,909 |
| 10. | Manipur | 186 | N.A. | 1.0 | 45,904 | ñ | ñ | 186 | 201 |
| 11. | Meghalaya | 179 | 2,458 | 0.4 | 780 | 70 | 7 | 109 | 16 |
| 12. | Mizoram | 165 | 660 | 0.1 | 175 | 20 | 70 | 145 | 9 |
| 13. | Nagaland | 1,719 | 969 | 3.7 | 11,246 | ñ | ñ | 1,719 | N.A. |
| 14. | Sikkim | ñ | ñ | ñ | ñ | ñ | ñ | ñ | ñ |
| 15. | Tripura | 539 | 887 | 0.2 | 12,139 | 71 | 341 | 468 | 1,163 |
| **Eastern Region** | | **29,182** | **2,70,859** | **11.1** | **9,13,314** | **14,634** | **2,788** | **14,548** | **15,633** |
| 16. | Andaman and Nicobar Islands | 46 | 204 | 0.4 | 195 | 9 | 3 | 37 | 2 |
| 17. | Bihar | 5,936 | 45,097 | 0.8 | 47,655 | 1,120 | 507 | 4,816 | 6,416 |
| 18. | Jharkhand | 208 | 3,611 | 6.1 | 1,523 | 60 | 91 | 148 | N.A. |
| 19. | Orissa | 4,036 | 44,811 | 56.3 | 4,94,987 | 1,380 | 853 | 2,656 | 6,931 |
| 20. | West Bengal | 18,956 | 1,77,136 | 4.7 | 3,68,954 | 12,065 | 1,335 | 6,891 | 2,285 |
| **Central Region** | | **15,329** | **1,95,555** | **3.8** | **5,50,813** | **7,425** | **9,407** | **7,904** | **13,595** |
| 21. | Chhattisgarh | 1,368 | 21,546 | 6.8 | 64,924 | 805 | 1,081 | 563 | 1,330 |
| 22. | Madhya Pradesh | 4,586 | 55,305 | 8.6 | 3,48,132 | 1,873 | 6,445 | 2,713 | 12,076 |
| 23. | Uttaranchal | 446 | 5,900 | 6.6 | 11,830 | 211 | 107 | 235 | 37 |
| 24. | Uttar Pradesh | 8,929 | 1,12,804 | 0.8 | 1,25,927 | 4,536 | 1,774 | 4,393 | 153 |
| **Western Region** | | **30,332** | **57,907** | **1.0** | **13,25,382** | **12,138** | **20,817** | **18,194** | **47,700** |
| 25. | Goa | 255 | 1,123 | 11.2 | 14,176 | 60 | 32 | 195 | 29 |
| 26. | Gujarat | 9,093 | 17,478 | 1.7 | 3,98,475 | 4,983 | 9,191 | 4,110 | 8,835 |
| 27. | Maharashtra | 20,984 | 39,306 | 0.6 | 9,12,731 | 7,095 | 11,593 | 13,889 | 38,836 |
| **Southern Region** | | **15,303** | **80,306** | **85.6** | **35,60,870** | **3,994** | **13,794** | **11,309** | **1,01,066** |
| 28. | Andhra Pradesh | 4,512 | 30,715 | 16.9 | 5,56,967 | 1,103 | 3,686 | 3,409 | 16,743 |
| 29. | Karnataka | 4,051 | 28,513 | 19.1 | 3,17,783 | 1,227 | 2,688 | 2,824 | 8,577 |
| 30. | Kerala | 1,796 | 1,714 | 464.3 | 10,53,498 | 728 | 3,321 | 1,068 | 13,115 |
| 31. | Pondicherry | 52 | 264 | 83.0 | 6,435 | 17 | 1 | 35 | 5 |
| 32. | Tamil Nadu | 4,892 | 19,100 | 65.1 | 16,26,187 | 919 | 4,099 | 3,973 | 62,626 |
| **Total (All-India)** | | **1,08,779** | **7,27,911** | **17.4** | **75,40,741** | **47,015** | **72,802** | **61,323** | **1,98,905** |

**ñ** : Nil/Negligible. N.A. : Not Available.
* : Based on reporting PACS.
**Note** : Data are provisional.
**Source :** NAFSCOB.

4.88 Southern Region accounted for nearly 69.0 per cent of the total deposits held by PACS, while Eastern Region held another 17.0 per cent. Average deposits held by a PACS in Kerala at Rs.464 lakh was much higher than the next highest of Rs.83.0 lakh in the Union Territory of Pondicherry. Average deposit mobilistion by most of the PACS was insignificant.

4.89 The number of profit-making PACS were more than the number of loss making PACS in Northern, Eastern and Central Region. However, the amount of losses incurred by loss making PACS outweighed the volume of profits earned by profit making PACS across all regions. The number of profit making PACS as well as profits earned by them outweighed the loss making PACS (both in number and amount) in eleven States/ Union Territories (Chandigarh, Haryana, Himachal Pradesh, Punjab, Rajasthan, Arunachal Pradesh, Mizoram, Jharkhand, Uttaranchal, Uttar Pradesh and Gujarat). While the number of profit making PACS were higher in West Bengal and Chhattisgarh, the losses of loss making PACS in these States outweighed the profits of profit making PACS. On the other hand, profits of fewer PACS in the Union Territory of Andaman and Nicobar Island and the State of Goa overwhelmed the losses made by a larger number of loss making PACS (Table IV.25 and Appendix Table IV.8).

4.90 Out of 1,08,779 PACS as on March 31, 2005, 66,756 (61.4 per cent) were viable, 32,614 (30.0 per cent) potentially viable, 4,741 (4.4 per cent) dormant, 2,033 (1.9 per cent) defunct and 2,635 (2.4 per cent) others. Problem of viability was most acute in the North-Eastern region with nearly 33.4 per cent PACS being dormant/defunct. However, the performance of PACS in the North-Eastern region varied significantly. The Western Region had highest share of viable PACS (viable/potentially viable), aided mainly by high performance of PACS in Maharashtra (Appendix Table IV.8).

## Rural Co-operative Banks - Long-Term Structure

*Structure, Spread and Growth*

4.91 As at end-March 2005, the long-term co-operative credit structure consisted of 20 State Co-operative Agriculture and Rural Development Banks (SCARDBs) and 727 Primary Co-operative Agriculture and Rural Development Banks (PCARDBs). Of the 20 SCARDBs, having 864 branches, eight were with unitary structure with branches, while twelve were federal/mixed in nature. In those States which were not served by the long-term structure, separate sections of the state co-operative banks look after long-term credit needs. In the North-Eastern region, only three States (Assam, Manipur and Tripura) had long-term structure. The number of operational PCARDBs declined to 727 in 2004-05 from 766 functioning in 2003-04 due to the amalgamation of 47 PCARDBs in Haryana into nine district PCARDBs and merger of three PCARDBs in Orissa. Two PCARDBs were liquidated during 2005, reducing the number of functional PCARDBs in Orissa to 51 (excluding one PCARDB whose status was not available) in 2005 from 53 in 2004. Further, two new PCARDBs became operational in Kerala.

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

*Operations*

4.92 The business operations of the SCARDBs registered a moderate growth during 2004-05. The main source of funds for SCARDBs is borrowings, which grew moderately during 2004-05. Net owned funds of SCARDBs, however, increased sharply. On the asset side, loans and advances grew by 7.1 per cent, while investments declined sharply during 2004-05 (Table IV.26).

*Financial Performance*

4.93 Financial performance of the SCARDBs worsened further during 2004-05. Net interest income improved during 2004-05 to Rs.729 crore from Rs.604 crore during 2003-04. With other income and expenditure remaining nearly the same, the increase in net interest income was reflected in the operating profits of SCARDBs. However, higher provisioning during the year resulted in net losses on top of net losses in the previous year (Table IV.27). Ten SCARDBs made profit, while nine recorded losses. One SCARDB did not record any profit or loss (Appendix Table IV.9). Consequently, accumulated losses increased to Rs.1,098 crore at end-March 2005 from Rs.856 crore at end-March 2004.

*Asset Quality and Recovery Performance*

4.94 The overall NPAs of SCARDBs increased during 2004-05 both in absolute terms and in

**Table IV.26: Liabilities and Assets of State Co-operative Agriculture and Rural Development Banks**

(Amount in Rs. crore)

| Item | As at end-March 2004 | As at end-March 2005 | Percentage Variations 2004-05 |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| **Liabilities** | | | |
| 1. Capital | 764 (3.3) | 792 (3.3) | 3.7 |
| 2. Reserves | 3,639 (15.6) | 4,230 (17.4) | 16.2 |
| 3. Deposits | 524 (2.2) | 566 (2.3) | 8.0 |
| 4. Borrowings | 16,933 (72.4) | 17,180 (70.8) | 1.5 |
| 5. Other Liabilities | 1,526 (6.5) | 1,504 (6.2) | -1.4 |
| **Total Liabilities/Assets** | **23,385 (100.0)** | **24,271 (100.0)** | **3.8** |
| **Assets** | | | |
| 1. Cash and Bank Balances | 675 (2.9) | 360 (1.5) | -46.7 |
| 2. Investments | 2,309 (9.9) | 1,905 (7.8) | -17.5 |
| 3. Loans and Advances | 16,263 (69.5) | 17,422 (71.8) | 7.1 |
| 4. Other Assets | 4,138 (17.7) | 4,584 (18.9) | 10.8 |

**Note** : 1. Figures in brackets are percentages to total.
2. ëReservesí include provisions and credit balance in profit and loss account.
3. Data for Jammu and Kashmir repeated from 2004 and Manipur from 2002, respectively.
4. Data are provisional.

**Source :** NABARD.

**Table IV.27: Financial Performance of State Co-operative Agriculture and Rural Development Banks**

(Amount in Rs. crore)

| Item | 2003-04 | 2004-05 | Percentage Variations 2004-05 |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| **A. Income (i+ii)** | **2,083 (100.0)** | **2,145 (100.0)** | **3.0** |
| i) Interest Income | 2,048 (98.3) | 2,100 (97.9) | 2.5 |
| ii) Other Income | 35 (1.7) | 45 (2.1) | 28.6 |
| **B. Expenditure (i+ii+iii)** | **2,201 (100.0)** | **2,308 (100.0)** | **4.8** |
| i) Interest Expended | 1,444 (65.6) | 1,371 (59.4) | -5.1 |
| ii) Provisions and Contingencies | 551 (25.0) | 727 (31.5) | 31.9 |
| iii) Operating Expenses | 206 (9.4) | 209 (9.1) | 1.5 |
| *of which* : Wage Bill | 162 (7.4) | 165 (7.2) | 1.9 |
| **C. Profit** | | | |
| i) Operating Profit | 433 | 564 | 30.4 |
| ii) Net Profit | -119 | -163 | 37.1 |
| **D. Total Assets** | **23,385** | **24,271** | **3.8** |

**Note** : 1. Figures in brackets are percentages to respective totals.
2. Data for Jammu and Kashmir repeated from 2003-04 and Manipur from 2001-02, respectively.
3. Data are provisional.

**Source :** NABARD.

relation to total loan portfolio. However, most of the NPAs of SCARDBs were in the sub-standard and doubtful categories. Loss assets constituted a small portion of overall NPAs. SCARDBs performed poorly on the recovery to demand and worsening asset quality warranted higher provisioning during 2004-05 (Table IV.28).

*Regional Dimensions*

4.95 While SCARDBs operating in ten States earned profits, in nine States they incurred losses. Profits earned by SCARDBs in five States (Rajasthan, Assam, Kerala, Madhya Pradesh and Uttar Pradesh) improved during the year. SCARDB of Pondicherry turned around and earned profits during 2004-05, while Haryana SCARDB incurred losses during 2004-05 as against profits earned during the previous year. Profits of SCARDBs declined in four States (Himachal Pradesh, Punjab, West Bengal and Gujarat). While losses incurred by SCARDBs declined in two States (Karnataka and Orissa), they increased in four States (Tripura, Bihar, Maharashtra and Tamil Nadu) (Appendix Table IV.9).

4.96 NPAs, as percentage of advances, of SCARDBs across the States varied from nil (Punjab) to 98.7 per cent (Manipur) at end-March 2005. NPAs in two other States (Madhya Pradesh

**Table IV.28: Asset Quality of State Co-operative Agriculture and Rural Development Banks**

(Amount in Rs. crore)

| Item | As at end-March | | Percentage Variations | |
|---|---|---|---|---|
| † | 2004 | 2005 | 2003-04 | 2004-05 |
| 1 | 2 | 3 | 4 | 5 |
| **A. Asset Classification Total NPAs (i+ii+iii)** | **4,336 (100.0)** | **5,437 (100.0)** | **35.1** | **25.4** |
| i) Sub-Standard | 2,630 (60.6) | 3,288 (60.5) | 25.1 | 25.0 |
| ii) Doubtful | 1,686 (38.9) | 2,129 (39.2) | 55.2 | 26.3 |
| iii) Loss Assets | 20 (0.5) | 20 (0.4) | -9.1 | ñ |
| **B. NPAs to Loans Ratio** | **26.7** | **31.3** | | |
| *Memo Items:* | | | | |
| i) Recovery to Demand | 43.8 | 43.7 | | |
| ii) Provisions Required | 833 | 1,024 | 36.8 | 22.9 |
| iii) Provisions Made | 833 | 1,097 | 36.6 | 31.8 |

**Note** : 1. Figures in brackets are percentages to total.
2. Data are provisional.

**Source** : NABARD.

and Kerala) were less than 10 per cent, apart from Punjab. In as many as nine States (Assam, Bihar, Gujarat, Maharashtra, Manipur, Orissa, Tamil Nadu, Jammu and Kashmir, and Karnataka), NPAs ratio was more than 50 per cent. The recovery ratio also varied widely between 1.0 per cent (Manipur) to 100.0 per cent (Punjab). The average recovery of SCARDBs was 43.7 per cent of total demand. In as many as 11 States, the recovery rate was less than 50 per cent (Appendix Table IV.9).

***Primary Co-operative Agriculture and Rural Development Banks***

*Operations*

4.97 Business operations of PCARDBs expanded moderately during the year. Like SCARDBs, PCARDBs meet most of their fund requirement through borrowings, which increased significantly during the year. Their reserves, another important source of funds, however, declined sharply. On the asset side, loans and advances portfolio registered a healthy growth. Their investments grew moderately (Table IV.29).

**Table IV.29: Liabilities and Assets of Primary Co-operative Agriculture and Rural Development Banks**

(Amount in Rs. crore)

| Item | As at end-March | | Percentage Variations |
|---|---|---|---|
| | 2004 | 2005 | 2004-05 |
| 1 | 2 | 3 | 4 |
| **Liabilities** | | | |
| 1. Capital | 914 (4.7) | 927 (4.6) | 1.4 |
| 2. Reserves | 2,942 (15.1) | 2,567 (12.6) | -12.7 |
| 3. Deposits | 395 (2.0) | 365 (1.8) | -7.6 |
| 4. Borrowings | 11,879 (60.9) | 12,873 (63.2) | 8.4 |
| 5. Other Liabilities | 3,384 (17.3) | 3,624 (17.8) | 7.1 |
| **Total Liabilities/Assets** | **19,515 (100.0)** | **20,355 (100.0)** | **4.3** |
| **Assets** | | | |
| 1. Cash and Bank Balances | 230 (1.2) | 210 (1.0) | -8.7 |
| 2. Investments | 780 (4.0) | 806 (4.0) | 3.3 |
| 3. Loans and Advances | 11,311 (58.0) | 12,763 (62.7) | 12.8 |
| 4. Other Assets | 7,194 (36.9) | 6,577 (32.3) | -8.6 |

**Note** : 1. Figures in brackets are percentages to total.
2. ëReservesí include provisions and credit balance in profit and loss account.
3. Data for Tamil Nadu repeated from 2003-04.
4. Data are provisional.

**Source** : NABARD.

*Financial Performance*

4.98 The financial performance of the PCARDBs witnessed a turnaround during 2004-05. Income of PCARDBs increased sharply due mainly to non-interest income. Expenditure on interest and operating expenses, on the other hand, increased moderately, resulting in a sharp increase in operating profits. This combined with the lower provisions and contingencies resulted in sizable profits during 2004-05 as against net losses in the last year. In 2004-05, losses incurred by 465 loss-making PCARDBs amounted to Rs.274 crore as compared with losses of Rs.335 crore by 489 PCARDBs in the previous year. Similarly, the profit recorded by 262 profit making PCARDBs amounted to Rs.665 crore as against profits of Rs.77 crore by 282 profit making PCARDS in the previous year.

**Table IV.30: Financial Performance of Primary Co-operative Agriculture and Rural Development Banks**

(Amount in Rs. crore)

| Item | 2003-04 | 2004-05 | Percentage Variations 2004-05 |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| **A. Income (i+ii)** | **1,792 (100.0)** | **2,368 (100.0)** | **32.1 †** |
| i) Interest Income | 1,471 (82.1) | 1,488 (62.9) | 1.2 † |
| ii) Other Income | 321 (17.9) | 879 (37.2) | 173.8 |
| **B. Expenditure (i+ii+iii)** | **2,050 (100.0)** | **1,976 (100.0)** | **-3.6** |
| i) Interest Expended | 1,145 (55.9) | 1,143 (57.9) | -0.2 |
| ii) Provisions and Contingencies | 612 (29.9) | 521 (26.4) | -14.9 † |
| iii) Operating Expenses | 292 (14.3) | 312 (15.8) | 6.8 |
| *of which* : Wage Bill | 204 (10.0) | 204 (10.3) | ñ |
| **C. Profit** | | | |
| i) Operating Profit | 354 | 913 | 157.9 |
| ii) Net Profit | -258 | 391 | ñ |
| **D. Total Assets** | **19,515** | **20,355** | **4.3** |

**ñ** : Nil/Negligible.

**Note** : 1. Figures in brackets are percentages to respective total.
2. Data for Tamil Nadu repeated from 2003-04.
3. Data are provisional.

**Source :** NABARD.

The rise in profits led to a decline in the accumulated losses of PCARDBs from Rs.2,788 crore at end-March 2004 to Rs.2,475 crore at end-March 2005 (Table IV.30, Appendix Table IV.10).

*Asset Quality and Recovery Performance*

4.99 The overall NPAs of PCARDBs increased during 2004-05, although substantial growth in loan portfolio brought down the NPAs to loan ratio. No significant asset slippage was observed during the year. Although recovery performance improved during the year, it needs to improve much further to lower the level of the NPAs. Provisioning made by PCARDBs was more than the provisioning required, a trend in sync with other institutions in the rural co-operative banking sector (Table IV.31).

**Table IV.31: Asset Quality of Primary Co-operative Agriculture and Rural Development Banks**

(Amount in Rs. crore)

| Item | As at end-March | | Percentage Variations | |
|---|---|---|---|---|
| † | 2004 | 2005 | 2003-04 | 2004-05 |
| 1 | 2 | 3 | 4 | 5 |
| **A. Asset Classification Total NPAs (i+ii+iii)** | **4,016 (100.0)** | **4,056 (100.0)** | **10.0** | **1.0** |
| i) Sub-Standard | 2,079 (51.8) | 2,161 (53.3) | 3.5 | 3.9 |
| ii) Doubtful | 1,890 (47.1) | 1,845 (45.5) | 17.5 | -2.4 |
| iii) Loss Assets | 47 (1.2) | 50 (1.2) | 38.2 | 6.4 |
| **B. NPAs to Loans Ratio*** | **35.8** | **31.9** | | |
| *Memo Items:* | | | | |
| i) Recovery to Demand | 43.9 | 50.6 | | |
| ii) Provisions Required | 944 | 872 | 17.0 | -7.6 |
| iii) Provisions Made | 943 | 910 | 14.6 | -3.5 |

***** : Includes data for Tamil Nadu.

**Note** : 1. Figures in brackets are percentages to total.
2. Data are provisional.

**Source :** NABARD.

*Regional Dimensions*

4.100 Out of the 727 PCARDBs operating in 11 States, only 262 PCARDBs made profits. PCARDBs operating only in six States (Himachal Pradesh, Punjab, Orissa, Rajasthan, Maharashtra and Kerala) earned net profits. PCARDBs in other States (Chhattisgarh, Haryana, West Bengal, Karnataka, Madhya Pradesh, and Tamil Nadu) incurred net losses (Appendix Table IV.10).

4.101 NPA ratio of PCARDBs in all the States was more than 15.0 per cent at end-March 2005. PCARDBs operating in Maharashtra had the lowest NPA ratio (15.5 per cent) and those in Karnataka the highest (62.5 per cent). NPAs of PCARDBs operating in Haryana, Himachal Pradesh, Karnataka, Kerala, Orissa, Rajasthan, Tamil Nadu and West Bengal were above 20 per cent. The average recovery of 283 PCARDBs was more than 60 per cent of total demand. Recovery rate of 229 PCARDBs ranged between 40 per cent and 60 per cent. For another 215 PCARDBs, the recovery rates were below 40 per cent (Appendix Table IV.10).

## 4. Micro-Finance

4.102 Micro-finance initiatives are now recognised as a cost effective and sustainable way of expanding outreach of the banking system to the rural poor. The guiding spirit behind micro-finance initiatives is: (i) to offer cost effective approach to formal institutions for expanding outreach to poor; (ii) to develop collateral substitutes; (iii) to focus on the rural and the urban poor, especially women; (iv) to pilot test other micro-credit delivery mechanisms as alternative channels to the formal banks; and (v) to effectively pursue the objectives of macro-economic growth. There are two major models under micro-finance, *i.e.*, Self-Help Group (SHG)-Bank Linkages and Micro-Finance Institutions (MFI) - Bank Linkages being operated in the country.

### A. Self-Help Group (SHG)-Bank Linkage Programme

4.103 The SHG-bank linkage programme was launched in 1992 as a Pilot Project for linking 500 SHGs and supported by the Reserve Bank through its policy support. The Programme envisaged organisation of the rural poor into SHGs, building their capacities to manage their own finances and then negotiating bank credit on commercial terms. The poor were encouraged to voluntarily come together to save small amounts regularly and extend micro loans among themselves. Once the group attained the required maturity for handling larger resources, bank credit could follow. The focus of micro-finance initiatives is largely on those rural poor who have no access to the formal banking system. The target-group broadly comprises small and marginal farmers, landless agricultural and non-agricultural labourers, artisans and craftsmen and other rural poor engaged in small businesses such as vending and hawking.

4.104 The SHG-bank linkage program has proved its efficacy as a mainstream programme for banking with the poor. The main advantages of the program are on-time repayment of loans to banks; reduction in transaction costs both to the poor and to the banks; door-step savings and credit facilities to the poor; and exploitation of the untapped business potential in rural India. The programme, which started as an outreach programme, has, in fact, achieved more than mere provision of thrift and credit facilities to the poor women. It has set in motion an irreversible process of socio-economic empowerment of rural women. As more and more NGOs and others take up community organisation activities, including SHG promotion and nurturing, the programme is expected to gradually take the shape of a womenís movement in many parts of the country. The programme continues to be the worldís largest micro-finance programme.

### Progress during 2005-06

4.105 Significant progress was made during the year that witnessed sustained expansion of the programme with credit linkage of 0.6 million new SHGs by the banking system, taking the cumulative number of such SHGs from 1.6 million as on March 31, 2005 to 2.2 million as on March 31, 2006. Banks extended loans of Rs.4,499 crore during 2005-06, registering a growth of 50.3 per cent over previous year. The average per SHG bank loan increased from Rs.44,624 in 2004-05 to Rs.50,915 in 2005-06, reflecting deepening of the credit access among the SHGs. The programme continued to enlist massive support of the rural poor women into the self-managed and door-step based micro-finance movement. The number of poor families, thus, benefiting through SHGs increased from 24.3 million as on March 31, 2005 to over 32.9 million as on March 31, 2006 registering a growth of 35.4 per cent (Table IV.32).

4.106 The SHG-bank linkage programme is now considered by the banking system as a commercial proposition, with advantages of lower transaction costs and higher coverage of rural clientele by the bank branches. Commercial banks have maintained good progress in financing SHGs as their share increased from 52.1 per cent in 2004-05 to 53.1 per cent in 2005-06 (Table IV.33). The share of co-operative banks in SHG-linkage increased marginally from 13.0 per cent to 13.9 per cent over the period, while that of RRBs declined to 33.1 per cent from 34.8 per cent. Total number of SHGs financed by co-operative banks increased sharply from 2,11,137 at end-March 2005 to 3,10,230 by end-March 2006, reflecting significant interest being evinced by many co-operative banks (Table IV.33).

4.107 The SHG-bank linkage programme has been continuously supported by a large number of Self-Help Promoting Institutions (SHPIs). Organising rural poor into SHGs, building their capacities to manage their own finances and

**Table IV.32: SHG-Bank Linkage Programme**

(Amount in Rs. crore)

| Year | Total SHGs financed by banks (Nos.in '000) | | Bank Loans | | Refinance | |
|---|---|---|---|---|---|---|
| | During the year | Cumulative | During the year | Cumulative | During the year | Cumulative |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1992-99 | 33 | 33 | 57 | 57 | 52 | 52 |
| 1999-00 | 82 (147.9) | 115 (247.9) | 136 (138.1) | 193 (238.1) | 98 (88.4) | 150 (188.4) |
| 2000-01 | 149 (82.3) | 264 (129.9) | 288 (111.8) | 481 (149.2) | 245 (150.0) | 395 (163.3) |
| 2001-02 | 198 (32.6) | 461 (74.9) | 545 (89.5) | 1,026 (113.4) | 395 (61.4) | 790 (100.0) |
| 2002-03 | 256 (29.5) | 717 (55.4) | 1,022 (87.4) | 2,049 (99.6) | 622 (57.5) | 1,413 (78.8) |
| 2003-04 | 362 (41.4) | 1,079 (50.4) | 1,856 (81.5) | 3,904 (90.6) | 705 (13.3) | 2,118 (49.9) |
| 2004-05 | 539 (49.1) | 1,618 (50.0) | 2,994 (61.4) | 6,898 (76.7) | 968 (37.2) | 3,086 (45.7) |
| 2005-06 | 620 (15.0) | 2,239 (38.3) | 4,499 (50.3) | 11,398 (65.2) | 1,068 (10.3) | 4,154 (34.6) |

**Note** : Figures in brackets indicate annual percentage growth.
**Source** : NABARD.

negotiating bank credit on commercial terms continues to be a challenging task for SHPIs. The poor are encouraged and supported to voluntarily come together to make small amount of savings regularly and extend micro loans among themselves to meet their emerging needs. Once the group attains required maturity of handling larger resources, the NGOs support the SHGs in getting bank loans.

4.108 Out of the three models emerged under the SHG-Bank Linkage Programme over the years, about 80.7 per cent of the SHGs were financed by banks under Model II, involving NGOs and Government agencies (Table IV.34).

**Table IV.33: Linkage Position ñ Agency-wise***
(As at end-March)

(Amount in Rs. crore)

| Agency | Number (in '000) of SHGs | | | | Bank Loan | | | |
|---|---|---|---|---|---|---|---|---|
| | 2004-05 | 2005-06 | Percentage variation | | 2004-05 | 2005-06 | Percentage variation | |
| | | | 2004-05 | 2005-06 | | | 2004-05 | 2005-06 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| i) Commercial Banks | 843 (52.1) | 1,188 (53.1) | 56.7 (60.3) | 40.8 (61.3) | 4,159 | 6,987 | 84.4 | 68.0 |
| ii) Regional Rural Banks | 564 (34.8) | 740 (33.1) | 38.9 (30.4) | 31.2 (29.1) | 2,100 | 3,322 | 64.3 | 58.2 |
| iii) Credit Co-operative Banks | 211 (13.0) | 310 (13.9) | 56.8 (9.3) | 46.9 (9.5) | 640 | 1,087 | 72.5 | 69.9 |
| **Total (i+ii+iii) †** | **1,618 (100.0)** | **2,239 (100.0)** | **50.0 †** | **38.3 †** | **6,898 (100.0)** | **11,398 (100.0)** | **76.7** | **65.2** |

* : Cumulative position as at the end of the period.
**Note** : 1. Figures in brackets are percentages to total.
2. Figures may not add up to their respective total due to rounding off.
**Source** : NABARD.

**Table IV.34: Linkage Position ñ Model-Wise**

| Model Type | | As at March 31, 2005 | | As at March 31, 2006 | |
|---|---|---|---|---|---|
| | | No. of SHGs ('000) | Bank loans (Rs. crore) | No. of SHGs ('000) | Bank loans (Rs. crore) |
| 1 | | 2 | 3 | 4 | 5 |
| i) | SHGs promoted, guided and financed by banks | 343<br>(21.2) | 1,013<br>(14.7) | 449<br>(20.1) | 1,637<br>(14.4) |
| ii) | SHGs promoted by NGOs/ Government agencies and financed by banks | 1,158<br>(71.6) | 5,529<br>(80.2) | 1,646<br>(73.5) | 9,200<br>(80.7) |
| iii) | SHGs promoted by NGOs and financed by banks using NGOs/ formal agencies as financial intermediaries | 117<br>(7.2) | 356<br>(5.2) | 143<br>(6.4) | 561<br>(4.9) |
| **Total (i+ii+iii)** | | **1,618** | **6,898** | **2,239** | **11,398** |

**Note**: Figures in brackets are percentages to total.
**Source**: NABARD.

4.109 Historically, there is a concentration of SHGs in Southern States mainly on account of proactive role played by the State Governments. However, NABARD has taken up intensification of the SHG-bank linkage program in 13 identified priority States which account for about 70.0 per cent of the rural poor population, *viz*., Uttar Pradesh, Orissa, West Bengal, Madhya Pradesh, Maharashtra, Gujarat, Rajasthan, Chhatisgarh, Jharkhand, Bihar, Uttaranchal, Assam and Himachal Pradesh. Consequently, the share of cumulative SHGs credit linked in Southern States declined to 54.0 per cent in March 2006 from 71.0 per cent in March 2001. During 2005-06, the number of SHGs credit linked increased significantly in some of the major priority States such as Maharashtra (60,234), Orissa (57,640), West Bengal (43,553), Uttar Pradesh (42,263), Rajasthan (38,165), Assam (25,215) and Chhattisgarh (12,722). During 2005-06, the number of SHGs credit linked in 13 priority States constituted 54.4 per cent of the all India credit linkage of 6,20,109 SHGs.

4.110 At present, there are over 2.2 million SHGs credit linked with banks. Out of this, there are over a million SHGs which are now over three years old. These SHGs have not only availed of loans but have also gone in for repeat loans. It is being emphasised that a number of the older SHGs would now be in a position to graduate into micro enterprises by taking to income generating activities. Though micro enterprises are not a panacea for the complex problem of chronic unemployment and poverty, yet promotion of micro enterprises is a viable and effective strategy for achieving significant gains in incomes and assets of poor and marginalised people. Graduation of SHG members to take up micro enterprises requires intensive training on various aspects of management including understanding the market structure, fine-tuning of skills and entrepreneurship management. During 2005-06, a focussed and location specific micro enterprise development programme (MEDP) on skill upgradation and development for sustainable livelihood for members of matured SHGs was launched. The MEDP aims at facilitating quick inputs to members of matured SHGs on technical skills in enterprises, basic entrepreneurial inputs and aspects covering markets.

4.111 In line with the announcement in the Union Budget for 2006-07, a new refinance scheme, *viz*., separate line of credit for financing farm and investment activities through SHGs was introduced by NABARD. A sum of Rs.500 crore was earmarked for providing refinance under the scheme during 2006-07. Under the scheme, term loan and cash credit limit to SHGs extended by scheduled commercial banks, regional rural banks and co-operative banks, exclusively for farm production and investment activities covering agriculture and allied activities, are eligible for 100 per cent refinance from NABARD. Consumption credit up to 30 per cent of the overall limit is also eligible for the purpose.

### B. MFI ñ Bank Linkages

4.112 Continuous efforts are being made to promote linkages of micro-finance institutions (MFIs) with banks. With a view to promoting flow of commercial loans from banks to MFIs, a scheme was launched by NABARD during 2005-06 to provide financial support to banks towards rating of MFIs. This scheme has since been made more liberal and extended up to March 31, 2008.

4.113 A scheme called ìCapital/Equity Support to MFIs from MFDEFî was announced by NABARD. The scheme provides for capital/equity support to various types of MFIs by NABARD to enable them to leverage capital/equity for accessing commercial and other funds from banks for providing financial services at an affordable cost to the poor and to enable MFIs to achieve sustainability in their credit operations over a period of three to five years.

*Micro-finance and the Reserve Bank*

4.114 In order to examine the issues relating to allowing banks to adopt agency model by using infrastructure of civil society organisations, appointment of ëbanking correspondentsí to function as intermediaries between the lending banks and the beneficiaries and identification of steps to promote MFIs, an in-house Group (Chairman: Shri H.R. Khan) was set up in the Reserve Bank. The Group submitted its final report in July 2005. Based on the recommendations of the Group and with the objective of ensuring greater financial inclusion and†increasing the outreach of the banking sector, banks have been permitted to use the services of non-governmental organisations/self-help groups (NGOs/SHGs), micro-finance institutions (MFIs) and other civil society organisations (CSOs) as intermediaries in providing financial and banking services through the use of business facilitator and business correspondent models.

## 5. NABARD and the Co-operative Sector

4.115 National Bank for Agriculture and Rural Development (NABARD) was established on July 12, 1982 as a development bank to perform the following functions: (i) to serve as an apex financing agency for the institutions providing investment and production credit for promoting various developmental activities in rural areas; (ii) to take 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; (iii) to co-ordinate the rural financing activities of all institutions engaged in developmental work at the field level and maintain liaison with the Government of India, the State Governments, the Reserve Bank and other national level institutions concerned with policy formulation; and (iv) to undertake monitoring and evaluation of projects refinanced by it.

4.116 NABARDís refinance is available to SCARDBs, StCBs,RRBs, commercial banks and other financial institutions approved by the Reserve Bank. While the ultimate beneficiaries of investment credit can be individuals, partnership concerns, companies, State-owned corporations or co-operative societies, production credit is generally extended to individuals.

*Resources of NABARD*

4.117 The Reserve Bank has been providing two General Lines of Credit (GLC) to NABARD under Section 17(4E) of the RBI Act, 1934, to enable it to meet the short-term requirements of scheduled commercial banks, state co-operative banks and RRBs. During 2005-2006 (July-June), a GLC of Rs.3,000 crore was sanctioned at an interest rate of 6 per cent per annum, for providing refinance to state co-operative banks and RRBs for seasonal agricultural operations (SAO). However, NABARD has been permitted to operate the GLC limit sanctioned for 2005-06 for drawals as well as for repayments up to December 31, 2006. As the limit would not be available after December 31, 2006, NABARD has been advised to start accessing the markets on a regular basis for sufficient amounts so that the timeframe indicated for withdrawal of GLC is adhered to.

4.118 Net accretion to the resources of NABARD at Rs.6,826 crore during 2005-06 registered a sharp increase of 39.6 per cent. Rural Infrastructure Development Fund (RIDF) and issuance of bonds, emerged as the two most important source of funds for NABARD. After repaying a significant amount of borrowing from commercial banks resorted to in the previous year and repayment to the Reserve Bank, it was left with a sizable amount for lending activity during the year (Table IV.35).

*Rural Infrastructure Development Fund*

4.119 Rural Infrastructure Development Fund (RIDF) was set up in NABARD by the Central Government in 1995-96 with an initial corpus of

**Table IV.35: Net Accretion in the Resources of NABARD**

(Amount in Rs. crore)

| Type of Resource | 2004-05 | 2005-06 |
|---|---|---|
| 1 | 2 | 3 |
| 1. Capital | ñ | ñ |
| 2. Reserves and Surplus | 908 | 775 |
| 3. National Rural Credit (NRC) (i+ii) | 93 | 42 |
| i) Long-Term Operations (LTO) Fund | 82 | 31 |
| ii) Stabilisation Fund | 11 | 11 |
| 4. Deposits (i+ii) | -2,926 | 4,827 |
| i) Ordinary Deposits | -6 | 21 |
| ii) RIDF Deposits | -2,920 | 4,806 |
| 5. Borrowings (i+ii+iii+iv+v) | 6,695 | 873 |
| i) Bonds and Debentures | 5,321 | 3,609 |
| ii) Borrowings from Central Government | -159 | -4 |
| iii) Borrowings from the Reserve Bank | -267 | -929 |
| iv) Foreign Currency Loans | ñ | -3 |
| v) Borrowings from Commercial Banks | 1,800 | -1,800 |
| 6. Other Liabilities | -25 | 60 |
| 7. Other Funds | 145 | 249 |
| **Total** | **4,890** | **6,826** |

ñ : Nil/Negligible.
**Source :** NABARD.

Rs.2,000 crore with the objective to provide loans to the State Governments and State owned corporations for financing rural infrastructure projects relating to medium and minor irrigation, soil conservation, watershed management and other forms of rural infrastructure. The domestic scheduled commercial banks, both in the public and private sectors, having shortfall in priority sector and/or agricultural lending target, are required to deposit funds in RIDF. The Fund has completed its eleventh year of operation. With the receipt of Rs.6,092 crore as deposits from commercial banks during the year, the cumulative deposits received under RIDF aggregated Rs.28,749 crore up to March 31, 2006 (Table IV.36).

4.120 The total corpus of the RIDF (Tranches I to XI) aggregated Rs.50,000 crore. Financial assistance sanctioned and disbursed under RIDF I to XI was Rs.51,283 crore and Rs.31,337 crore, respectively, as on March 31, 2006 (Table IV.37). RIDF IV was closed on May 31, 2005. However, the disbursements were allowed up to September 30, 2005 for the expenditure incurred up to May 31, 2005. The implementation period for the projects sanctioned under RIDF V to VIII were extended up to March 31, 2006 to enable the State Governments to complete ongoing projects and avail reimbursement of expenditure incurred (Appendix Table IV.11).

4.121 Under RIDF XI, 30,440 projects were sanctioned involving a loan amount of Rs.8,514 crore, thereby enhancing the cumulative number of projects to 2,44,651 and amount sanctioned to Rs.51,283 crore. The amount sanctioned and

**Table IV.36: Deposits Mobilised under Rural Infrastructure Development Fund**

(Rs. crore)

| Year | RIDF I | RIDF II | RIDF III | RIDF IV | RIDF V | RIDF VI | RIDF VII | RIDF VIII | RIDF IX | RIDF X | RIDF XI | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | **13** |
| 1995-96 | 350 | ñ | ñ | ñ | ñ | ñ | ñ | ñ | ñ | ñ | ñ | **350** |
| 1996-97 | 842 | 200 | ñ | ñ | ñ | ñ | ñ | ñ | ñ | ñ | ñ | **1,042** |
| 1997-98 | 188 | 670 | 149 | ñ | ñ | ñ | ñ | ñ | ñ | ñ | ñ | **1,007** |
| 1998-99 | 140 | 500 | 498 | 200 | ñ | ñ | ñ | ñ | ñ | ñ | ñ | **1,338** |
| 1999-00 | 67 | 539 | 797 | 605 | 300 | ñ | ñ | ñ | ñ | ñ | ñ | **2,307** |
| 2000-01 | ñ | 161 | 412 | 440 | 850 | 790 | ñ | ñ | ñ | ñ | ñ | **2,653** |
| 2001-02 | ñ | 155 | 264 | ñ | 689 | 988 | 1,495 | ñ | ñ | ñ | ñ | **3,591** |
| 2002-03 | ñ | ñ | 188 | 168 | 541 | 817 | 731 | 1,413 | ñ | ñ | ñ | **3,857** |
| 2003-04 | ñ | ñ | ñ | ñ | 261 | 503 | 257 | 681 | 457 | ñ | ñ | **2,159** |
| 2004-05 | ñ | ñ | ñ | ñ | 125 | 488 | 752 | 1,213 | 1,354 | 422 | ñ | **4,353** |
| 2005-06 | ñ | ñ | ñ | ñ | 215 | 165 | 461 | 923 | 1,372 | 2,020 | 936 | **6,092** |
| **Total** | **1,587** | **2,225** | **2,308** | **1,413** | **2,982** | **3,751** | **3,696** | **4,230** | **3,182** | **2,441** | **936** | **28,749** |

ñ : Nil/Negligible.
**Source :** NABARD.

**Table IV.37: Loans Sanctioned and Disbursed under Rural Infrastructure Development Fund**
(As at end-March 2006)

| RIDF | Year | No. of Projects | Corpus (Rs. crore) | Loans Sanctioned (Rs. crore) | Loans Disbursed (Rs. crore) | Loan disbursed as percentage of loans sanctioned |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| I | 1995 | 4,168 | 2,000 | 1,906 | 1,761 | 92.4 |
| II | 1996 | 8,334 | 2,500 | 2,667 | 2,398 | 89.9 |
| III | 1997 | 14,346 | 2,500 | 2,734 | 2,454 | 89.7 |
| IV | 1998 | 6,172 | 3,000 | 2,903 | 2,482 | 85.5 |
| V | 1999 | 12,254 | 3,500 | 3,477 | 3,033 | 87.2 |
| VI | 2000 | 43,354 | 4,500 | 4,525 | 3,851 | 85.1 |
| VII | 2001 | 24,987 | 5,000 | 4,658 | 3,757 | 80.7 |
| VIII | 2002 | 21,012 | 5,500 | 6,009 | 4,440 | 73.9 |
| IX | 2003 | 19,605 | 5,500 | 5,599 | 3,388 | 60.5 |
| X | 2004 | 59,979 | 8,000 | 8,290 | 2,968 | 35.8 |
| XI | 2005 | 30,440 | 8,000 | 8,514 | 807 | 9.5 |
| **Total** | † | **2,44,651** | **50,000** | **51,283** | **31,337** | **61.1** |

**Source :** NABARD.

disbursed to the States in the North Eastern region aggregated Rs.659 crore and Rs.235 crore, respectively, during 2005-06. The total amount disbursed during the year was Rs.5,953 crore as against the target of Rs.5,000 crore.

4.122 The disbursements under RIDF I to XI aggregated Rs.31,337 crore as on March 31, 2006. Taking all the RIDF tranches together, nine States (Andhra Pradesh, Uttar Pradesh, Maharashtra, Tamil Nadu, Gujarat, Madhya Pradesh, West Bengal, Rajasthan and Karnataka) accounted for 72.0 per cent of total disbursements and also for 70.0 per cent of total sanctions. Of the total amount sanctioned under RIDF I to RIDF XI, the main beneficiaries were rural roads and bridges (45.2 per cent), irrigation projects (34.0 per cent) and others (21.0 per cent, including of power sector 3.0 per cent and of social sector 10.0 per cent).

4.123 As advised by the Government of India, loans under RIDF XI were sanctioned for the projects under 30 activities, including, rural roads and bridges; irrigation and hydel projects; drinking water; soil conservation; watershed development; drainage; flood protection; forest development; market yards; *apna mandi*, rural *haats* and other marketing infrastructure; cold storages; seed/agriculture/horticulture farms; plantation and horticulture; grading and certifying mechanisms; community irrigation wells; fishing harbour/jetties; riverine fisheries; animal husbandry; infrastructure for rural educational institutions; public health institutions, construction of toilet blocks in existing schools specially for girl students; ëpay and useí toilets in rural areas, village knowledge centres, desalination plants in coastal areas and infrastructure for information technology in rural areas. Special impetus was given under this tranche for setting up of village knowledge centres (VKC) by providing Rs.100 crore out of the corpus of Rs.8,000 crore.

4.124 Pursuant to the announcement made in the Union Budget for 2006-07, RIDF XII was set up with a corpus of Rs.10,000 crore. A separate window would be opened under RIDF XII for financing of rural roads under *Bharat Nirman* programme with a corpus of Rs.4,000 crore during 2006-07 and specified projects would be allowed, under the Public Private Partnership (PPP) model, to access RIDF funds. The deposit and lending rates of interest for RIDF XII will be the same as applicable to RIDF XI.

*Credit extended by NABARD*

4.125 NABARD provides short-term credit facilities to StCBs for financing seasonal agricultural operations (SAO); marketing of crops; pisciculture activities; production/procurement and marketing activities of co-operative weavers societies; purchase and sale of yarn by apex/regional societies; production and marketing activities of industrial co-operatives; financing of individual rural artisans through PACS; purchase and distribution of fertilisers and allied activities; and marketing activities. Medium-term facilities were provided to StCBs and RRBs for converting short-term loans for financing SAO to medium-term (conversion) loans and for approved agricultural purposes. Long-term loans are provided to the State Governments for contributing to share capital of co-operative credit institutions. During 2005-06, NABARD sanctioned total credit limits aggregating Rs.13,099 crore as against Rs.13,230 crore during 2004-05 for various short and medium-term purposes to StCBs and RRBs, and long-term loans to the State Governments. While limits granted to the state co-operative banks declined significantly, those granted to RRBs increased during the year. However, amounts drawn by these institutions were significantly higher than the previous year, leading to a sharp increase in outstanding amount at end-March 2006 (Table IV.38).

4.126 To enhance the flow of credit to agriculture sector, NABARD advised StCBs, DCCBs and RRBs in June 2004 about the measures to be taken under various schemes to give relief to farmers. While implementing these measures and extension of the conversion/reschedulement of loans to farmers in distress and farmers in arrears, it was apprehended that there could be a liquidity crunch in co-operative banks and RRBs, impairing their ability to provide fresh loans and achievement of the envisaged growth rate during the year. In order to enable co-operative banks and RRBs to tide over such liquidity gap, NABARD extended liquidity support to StCBs on behalf of DCCBs for a fixed period of 36 months at a concessional interest rate of five per cent and to RRBs for a period of 18 months at a interest rate of 6.5 per cent. As on 30 June 2006, sanctions under the scheme amounted to Rs.515 crore to StCBs and Rs.482 crore to RRBs (Table IV.38).

### *Interest Rates charged by NABARD*

4.127 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. Weak StCBs are 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 MoU with NABARD for implementing the Development Action Plans (DAPs). This facility was extended to Rajasthan SCARDBs in 2005-06 and to Madhya Pradesh SCARDBs in 2006-07. Interest rate charged by NABARD for term loans effective July 22, 2006 ranged from 6.5 to 8.0 per cent (Table IV.39).

### *Kisan Credit Card Scheme*

4.128 The Kisan Credit Card (KCC) Scheme was introduced in 1998-99 to enable the farmers to purchase agricultural inputs and draw cash for their production needs. Cumulatively, the number of KCCs issued by public sector banks stood at 21.8 million at end-March 2006. Of the 59.09 million KCCs issued till end-March 2006, co-operative

**Table IV.38: NABARD's Credit to State Co-operative Banks, State Governments and Regional Rural Banks**

(Amount in Rs. crore)

| Category | 2004-05 | | | | 2005-06 | | | |
|---|---|---|---|---|---|---|---|---|
| | Limits | Drawals | Repayments | Outstanding | Limits | Drawals | Repayments | Outstanding |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| **1.State Co-operative Banks (a+b)** | **10,811** | **11,820** | **10,413** | **6,790** | **9,834** | **13,791** | **10,975** | **9,606** |
| a. Short-term | 9,041 | 11,030 | 10,159 | 5,709 | 9,319 | 12,590 | 10,764 | 7,535 |
| b. Medium-term | 1,770 | 790 | 253 | 1,081 | 515 | 1,201 | 211 | 2,071 |
| **2. State Governments** | | | | | | | | |
| Long-term | **39** | **11** | **65** | **406** | **23** | **47** | **65** | **387** |
| **3. Regional Rural Banks (a+b)** | **2,380** | **2,065** | **1,385** | **1,381** | **3,243** | **3,222** | **1,833** | **2,770** |
| a. Short-term | 2,221 | 2,047 | 1,379 | 1,360 | 2,761 | 2,613 | 1,831 | 2,142 |
| b. Medium-term | 159 | 18 | 5 | 21 | 482 | 609 | 2 | 628 |
| **Grand Total (1+2+3)** | **13,230** | **13,896** | **11,862** | **8,577** | **13,099** | **17,059** | **12,873** | **12,763** |

**Source :** NABARD.

**Table IV.39: Rates of Interest on Refinance from NABARD on Investment Credit under Farm/Non-Farm Sectors**
(As at end-March 2006)

(Per cent)

| Size of loan | Rate of Interest to Ultimate Beneficiaries | | | Rate of Interest on Refinance* | | |
|---|---|---|---|---|---|---|
| | Commercial Banks | RRBs | StCBs/ SCARDB | Commercial Banks | RRBs | StCBs / SCARDB |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Up to Rs.50,000 | Free up to a ceiling of PLR | Free | Free with a floor of 12 per cent (for all loan slabs) | 7.5 | 7.0 | 6.5 |
| Above Rs.50,000 and up to Rs.2 lakh | Do | Do | Do | 8.0 | 7.5 | 7.0 |
| Above Rs.2. lakh | Free | Do | Do | 8.0 | 7.5 | 7.0 |

* : With effect from July 22, 2006.

**Note :** 1. The interest on refinance in respect of North-Eastern States, Sikkim and Andaman and Nicobar Island was 6.5 per cent for term loans up to Rs.50,000 and 7.0 per cent for term loans above Rs.50,000.

2. The interest on refinance in respect of term loans of SHGs was 6.5 per cent for term loans up to Rs.50,000 and 7.0 per cent for term loans above Rs.50,000. The size of loan for SHGs is determined on the basis of per capita loan.

banks constituted 51.5 per cent, followed by commercial banks (36.9 per cent) and RRBs (11.6 per cent) (Table IV.40). During 2005-06, public sector banks issued 41,64,551 KCCs.

4.129 An analysis of the State-wise KCCs issued up to March 31, 2006 suggest that the co-operative banks in six States, *i.e.*, Maharashtra, Uttar Pradesh, West Bengal, Orissa, Madhya Pradesh and Chhattisgarh accounted for 67.4 per cent share of the total cards issued by the co-operative banks across the country. The RRBs in three States, *i.e.*, Uttar Pradesh, Andhra Pradesh and Karnataka accounted for 59.3 per cent of the total cards issued by RRBs throughout the country.

**Table IV.40: Number of Kisan Credit Cards Issued ñ Agency-wise and Year-Wise**
(As at end-March 2006)

(Numbers in Million)

| Year | Co-operative Banks | RRBs | Commercial Banks | **Total Banks** |
|---|---|---|---|---|
| 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 | 1.28 | 3.09 | **9.25** |
| 2004-05 | 3.56 | 1.73 | 4.40 | **9.68** |
| 2005-06 | 2.60 | 1.25 | 4.17 | **8.01** |
| **Total** | **30.41** | **6.88** | **21.80** | **59.09** |
| **Share in Total (per cent)** | **51.5** | **11.6** | **36.9** | **100.0** |

**Source :** NABARD.

Public sector commercial banks issued bulk of the cards in five States of Andhra Pradesh, Uttar Pradesh, Tamil Nadu, Karnataka and Maharashtra. These states accounted for 65.2 per cent of the total cards issued by commercial banks across the country. Eight States *viz.*, Uttar Pradesh, Andhra Pradesh, Maharashtra, Tamil Nadu, Madhya Pradesh, Karnataka, Orissa and West Bengal accounted for 74.4 per cent of the total cards issued by banks throughout the country. The States of Jammu and Kashmir, Himachal Pradesh and the North-Eastern States continued to lag behind in implementation of the Scheme (Appendix Table IV.12).

*Recent Initiatives by NABARD*

4.130 With a view to making KCC more user-friendly and comprehensive in its coverage of credit needs of the farmers through a single window, NABARD enlarged the scope of the KCC Scheme to cover term loans for agriculture and allied activities, including a reasonable component of consumption needs, besides the existing facility of providing crop loan limit.

4.131 In order to safeguard the interests of the KCC holders for coverage under Personal Accident Insurance Scheme (PAIS) on an ongoing basis on competitive terms, the Reserve Bank advised scheduled commercial banks, and NABARD advised state co-operative banks and RRBs to use their discretion to opt for ìany insurance company of their choiceî. However, while negotiating with the insurance companies, banks have to keep in view the guiding principles of PAIS, especially the premium sharing formula and coverage. This ëadd oní benefit to the farmers under the KCC scheme is expected to bring in an increasingly large number of farmers.

4.132 Taking a cue from the Government of India directive for doubling the flow of credit to agriculture sector in the next one to two years, NABARD advised the co-operative banks and RRBs to identify and bring into the fold an increasing number of farmers, including defaulters, oral lessees and tenant farmers. Further, banks are required to ensure that KCCs are continued to be renewed in a hassle-free manner and direct their efforts towards ensuring quality in operations on the KCCs. More importantly, banks have to ensure that the crop loans are routed only through KCC.

4.133 NABARD constituted a Co-operative Development Fund (CDF) during 1992-93 mainly with the objective of supporting co-operative credit institutions in undertaking various developmental initiatives such as HRD, building up better MIS, infrastructure creation, and setting up of Business Development Department with technical personnel. During 2005-06, an amount of Rs.6 crore was sanctioned and disbursed. As on March 31, 2006, cumulative amount of Rs.71 crore and Rs.61 crore was sanctioned and disbursed, respectively. The support provided through the Fund resulted in an improved MIS and availability of trained manpower, contributing to overall efficiency in co-operative credit structure.

4.134 The process of preparing institution specific Development Action Plans (DAPs) and execution of MoU was initiated during 1994-95 with a view to enabling co-operative banks and RRBs to achieve turnaround and function as viable organisations on a sustainable basis. In view of the persisting weakness in the co-operative credit structure, it was decided to continue the DAP/MoU process with certain refinements. Thus, the process was extended for a period of three years (2004-07) co-terminous with the Tenth Plan period. With a view to making the process more focused and effective, several refinements were introduced. First, PACS were brought into the development planning process and they were advised to prepare viability action plans under the guidance of DCCBs and enter into MoUs with the respective DCCBs. A model MoU containing viability action plan was circulated by NABARD for guidance of DCCBs and PACS. Feedback obtained shows that grassroot level co-operatives in many States have started participating in the exercise. Second, a special thrust was given to DCCBs that were not complying with Section 11(1) of the BR Act, 1949 (aACS). Accordingly, Regional Offices of NABARD were advised to select a few such banks for focused execution of institutional development initiatives with a view to making them comply with Section 11(1) of the BR Act,1949 (aACS), and achieving turnaround within three to five years.

## 6. Revival of Rural Co-operative Credit Institutions

4.135 Co-operative banks have been displaying several weaknesses which have been inhibiting their ability to effectively compete with commercial banks in the emerging financial market. These weaknesses include low resource base, dependence on higher financing agencies, poor business diversification and recoveries, huge accumulated losses, lack of professionalism and skilled staff, weak MIS, poor internal check and control systems. The share of the co-operative banks in agricultural credit declined from 62.0 per cent in 1992-93 to 34.0 per cent in 2002-03. The financial health of co-operative banks has also deteriorated. As on March 31, 2005, four out of 31 StCBs, 71 out of 367 DCCBs, 61,323 out of 1,08,779 PACS, nine out of 20 SCARDBs and 465 out of 727 PCARDBs incurred losses. Accumulated losses as on March 31, 2005, in the short-term co-operative credit structure have been estimated at about Rs.10,000 crore, and those in the long-term co-operative credit structure at about Rs.4,000 crore. Concerned with the need for strengthening the co-operative credit structure in the country, the Government of India constituted a Task Force on Revival of Rural Co-operative Credit Institutions in August 2004 (Chairman: Prof. A. Vaidyanathan) to formulate a practical and implementable action plan to rejuvenate the rural credit co-operatives.

4.136 The Task Force submitted its report to the Government of India in February 2005 and recommended a financial package together with reforms to be brought about in the credit co-operatives with a view to making the credit co-operatives truly democratic, autonomous, vibrant, member driven, professionally managed and financially strong.

## Box IV.7: Revival Package for Short-term Co-operative Credit Structure

The Revival Package for short-term co-operative credit structure envisages provision of financial assistance aggregating Rs.13,596 crore to the short-term co-operative credit institutions to be shared by the Government of India, the State Governments and units of co-operative credit structure, subject to certain legal and institutional reforms to be initiated by the State Governments. The assistance will be available for: (i) wiping out accumulated losses; (ii) covering invoked but unpaid guarantees given by the State Governments; (iii) increasing the capital to achieve a minimum level of seven per cent CRAR; and (iv) technical assistance (including cost of special audit, human resources development and computerisation).

The Task Force envisaged the following sharing formula for the financial assistance -

- *Government of India* : The Government of India will provide its share as grants to cover:
  - (i) accumulated losses relating to (a) all credit business of PACS and agricultural credit business of DCCBs/StCBs, (b) a major portion of non- agricultural credit business of DCCBs/StCBs, and (c) 50 per cent of non credit business, *i.e.*, public distribution system (PDS) of PACS;
  - (ii) costs towards human resources development;
  - (iii) special audit;
  - (iv) computerisation, including software; and
  - (v) implementation costs.
- *State Governments* : The State Governments are required to provide for:
  - (i) accumulated losses relating to (a) a small portion of non-agricultural credit business of DCCBs/StCBs, and (b) 50 per cent of PDS business of PACS;
  - (ii) 100 per cent unpaid invoked and uninvoked guarantees and other receivables from the State Governments.
- *Co-operative Credit Society Units* : The StCBs/DCCBs will have to bear a very small portion of accumulated losses pertaining to non-agricultural credit. If required, soft loans would be provided to the State Governments/ co-operative credit society (CCS) units by the Government of India to meet their share.
- The sharing pattern shall be based on origin of losses. While the broad share of the Government of India, the State Governments and CCS units works out approximately to 68:28:04, the share, however, would depend on the pattern of loan portfolio and accumulated losses in each CCS unit, the extent of guarantees issued by the State Governments and the amount of other receivables from the State Governments. This, however, would be finalised based on special audit to be conducted.

The release of financial assistance under the financial package will be back ended and linked to achievement of pre-defined benchmarks in respect of legal, institutional and regulatory reforms and will, therefore, be phased out over a period.

4.137 The Central Government accepted the recommendations of the Task Force in principle. The Task Force recommendations were extensively discussed with the State Governments and a consensus was arrived at, based on which the Government of India approved a revival package for short-term co-operative credit structure (Box IV.7).

4.138 The Task Force sought to redefine the role of the State Governments in the credit co-operatives and recommended suitable amendments to the State Co-operative Societies Act and Banking Regulation Act, 1949 (Box IV.8). These form part of the important conditionalities to be complied with under the revival package.

4.139 A model co-operative law that can be enacted by the State Governments was suggested by the Task Force. It also recommended that in States where there are already two laws, the old Co-operative Societies Act and the new Act on the lines of the model Act, it would be better to gradually converge and have only one Act so as to reduce confusion and legal problems.

*Current Initiatives for Revival of Short-term Co-operative Credit Institutions*

4.140 As per the Revival Package approved by the Government of India, NABARD has been appointed as the implementing agency for the scheme. The Department for Co-operative Revival and Reforms (DCRR) has been constituted in NABARD for this purpose. NABARD is providing dedicated manpower at the national, state and district levels for implementing the revival package.

4.141 At the national level, implementation of the scheme will be guided and monitored by a National Level Implementing Monitoring Committee (NIMC) constituted by the Government of India. Similar Committees at the State and district levels would be constituted for guiding and monitoring implementation. Accordingly, the Ministry of Finance, Government of India had set up a National Implementing and Monitoring Committee under the Chairmanship of Governor, the Reserve Bank in April 2006 with members from the Government of India, the Reserve Bank, NABARD, participating State Governments and two eminent co-operators

**Box IV.8: Amendments to the State Co-operative Societies Act and Banking Regulation Act, 1949 ñ Recommendations of the Task Force**

**A. Proposed Amendments to the State Co-operative Societies Act**

ï Ensuring full voting membership rights for all users of financial services, including depositors in co-operatives other than co-operative banks.

ï Removing State intervention in all financial and internal administrative matters in co-operatives.

ï Providing a cap of 25 per cent on Government equity in co-operatives and limiting participation in the boards of co-operative banks to only one nominee. Any State Government or a co-operative wishing to reduce the state equity further would be free to do so and the co-operative will not be prevented from doing so.

ï Allowing transition of co-operatives registered under the Co-operative Societies Act (CSA) to migrate under the Parallel Act (wherever enacted).

ï Withdrawing restrictive orders on financial matters.

ï Permitting co-operatives in all the three tiers freedom to take loans from any financial institution and not necessarily from only the upper-tier and similarly placing their deposits with any regulated financial institution of their choice.

ï Permitting co-operatives under the parallel Acts (wherever enacted) to be members of upper-tiers under the existing co-operative societies Acts and *vice versa*.

ï Limiting powers of the State Governments to supersede Boards.

ï Ensuring timely elections before the expiry of the term of the existing Boards.

ï Facilitating regulatory powers for the Reserve Bank in the case of co-operative banks.

ï Prudential norms, including CRAR for all financial co-operatives, including PACS.

**B. Proposed Amendments to the Banking Regulation Act**

ï All co-operative banks to be on par with the commercial banks as far as regulatory norms are concerned.

ï The Reserve Bank will prescribe ëfit and properí criteria for election to the boards of co-operative banks. Such criteria would, however, not be at variance with the nature of membership of primary co-operatives which constitute the membership of the DCCBs and StCBs.

ï However, as financial institutions, these Boards would need minimum support at the Board level. Thus, the Reserve Bank will prescribe certain criteria for professionals to be on the Boards of co-operative banks. In case members with such professional qualifications or experience do not get elected in the normal electoral process, then the Board will be required to co-opt such professionals in the Board and they would have full voting rights.

ï The CEOs of co-operative banks would be appointed by the respective banks themselves and not by the State. However, as these are banking institutions, the Reserve Bank will prescribe the minimum qualifications of the CEO to be appointed and the names proposed by the co-operative banks for the position of CEO would have to be approved by the Reserve Bank.

ï 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 ëbankí, ëbankingí, ëbankerí or any other derivative of the word ìbankî in their registered name.

to be selected by the Government of India. The Chairman of the Committee has been empowered to set up Sub-Committee/Groups and co-opt non-official experts/ representatives of banks/ NABARD/ the Reserve Bank, if required, for implementing and monitoring the Revival Package for short-term co-operative credit structure. The first meeting of NIMC took place on May 30, 2006. Similar state and district level committees are also being constituted for the purpose.

4.142 The process of implementing the revival package in any State begins with the signing of the MoU between the Government of India, the participating State Government and NABARD (Box IV.9). The draft of the MoU finalised by the NIMC was sent to the States. Consequently, the Government of Andhra Pradesh executed MoU with the Government of India and NABARD on August 29, 2006.

4.143 The next step is conducting a special audit to determine the correct amount of accumulated losses in PACS, DCCBs and StCB of a State. Special formats, manual and frequently asked questions (FAQs), have been designed by NABARD to facilitate this exercise. These special audits would be conducted either by the personnel from the co-operative audit department of the State or by selected outsourced auditors. In either case, the exercise will be test checked by a set of independent Chartered Accountants who will report to the District Level Implementation and Monitoring Committee (DLIC) constituted for guiding and overseeing the implementation in each district. Preparatory arrangements for conducting special audit of PACS as on March 31, 2004 have been made through the State Governments. Training of workforce has been undertaken and Master Trainers have been trained in the States of Maharashtra, Orissa, Rajasthan, Gujarat,

**Box IV.9: Memorandum of Understanding**

The package for revival of Short-Term Rural Co-operative Credit Structure approved by the Government of India envisages execution of MoU among the participating States, NABARD and the Government of India as a first step in the implementation process. The MoU envisages the following:

*Objectives*

- Efficient delivery of financial services, including saving and loan products, at grassroots level in rural areas through the CCS with minimum regulatory burden.
- Ensuring safety of public deposits accepted by the co-operative banking system.

*Overarching Principles*

- Extension of financial relief under the package based on intent towards reform demonstrated through signing of MoU and undertaking requisite changes in legislation.
- Flexibility in accommodating State specific issues without compromising the objectives.
- Incentivisation of accelerated performance and disincentivisation of slippages.
- Issues, if any, on interpretation of specific aspects to be referred to NIMC, the views of which would be final.

In realisation of these objectives and guided by the above principles, it is necessary that the co-operative credit institutions satisfy the following criteria:

- They are democratic, well governed, professionally managed and audited.
- They have requisite autonomy in raising resources, deploying funds and other operational matters connected therewith.
- They undertake financial activities as principal business and separately account for and fund other activities, if undertaken,
- StCBs and DCCBs are effectively regulated on par with other entities accepting public deposits.

Besides, the MoU also lays down the roles and responsibilities of parties that are signatories and the important conditionalities of the Package.

Madhya Pradesh and Andhra Pradesh who, in turn, would train auditors identified for conducting special audit.

4.144 Seven States, *viz*., Andhra Pradesh, Gujarat, Maharashtra, Madhya Pradesh, Orissa, Rajasthan, Sikkim, and one Union Territory of Dadra and Nagar Haveli have communicated their in-principle acceptance of the revival package to the Government of India. Steps have been initiated in these States for the implementation of the revival package (Table IV.41).

*Other Reform Measures*

4.145 Several other measures are also being envisaged. First, the State entering in to MoU would also amend the State Co-operative Societies Act to give effect to the institutional and legal reforms envisaged in the revival package and

**Table IV.41: State-wise Status of Implementation of Revival Package**

| Name of the State | Status of Implementation |
|---|---|
| 1 | 2 |
| Andhra Pradesh | The State Government signed the MoU on August 29, 2006. Training of master trainers for special audits completed in August 2006. |
| Gujarat | Letter of acceptance in-principle communicated to the Government of India. Training of master trainers for special audits completed in August 2006. |
| Maharashtra | Letter of acceptance in-principle communicated to the Government of India. Training of master trainers for special audits completed in July 2006. |
| Madhya Pradesh | Letter of acceptance in-principle communicated to the Government of India. Training of master trainers for special audits completed in August 2006. |
| Orissa | Letter of acceptance in-principle communicated to the Government of India. Training of master trainers for special audits completed in August 2006. |
| Rajasthan | Letter of acceptance in-principle communicated to the Government of India. Training of master trainers for special audits completed in July 2006. |
| Sikkim | Letter of acceptance in-principle communicated to the Government of India. Since there are no accumulated losses in the balance sheets of multi-purpose co-operative societies in the State, the State Government has asked for intensive HRD and computerisation initiatives. |

would enact the necessary legislation in due course. Second, certain provisions are also being made within the NABARD Act†to enable availability of NABARD refinance to the co-operatives at any of the levels either directly or through a federal co-operative or any regulated financial institutions. Third, the Reserve Bank would prescribe ëfit and properí criterion for election to the Boards of the co-operative banks along with criterion for professionalisation of the boards of these banks. The Reserve Bank would also prescribe the minimum qualifications for the CEOs of DCCBs and StCBs. Fourth, a common accounting system is being designed for the short-term co-operative credit institutions, which will ensure transparency and prudent accounting methods. The system would be computerised as part of the revival package and would generate necessary MIS for internal control and management decisions as well as meeting the needs of other associated agencies. Fifth, training modules for training of the elected directors and staff of the co-operative credit insitutions are being designed. A dedicated working group is being set up in the National Bank Staff College, Lucknow for this purpose. Sixth, NABARD has requested the Government of India to release an amount of Rs.400 crore as the first instalment for the implementation of the revival package. The Government of India is also discussing with bilateral and multilateral agencies for funding of the package.

*Revival of the Long-term Co-operative Credit Structure*

4.146 The long-term structure is almost totally dependent on NABARD refinance. These institutions have a strong presence in rural areas and have been mainly responsible for private capital formation in agriculture. NABARD has significant exposure to these institutions. Although, all loans granted to SCARDBs are secured by Government guarantee, their continued weakness is a worrisome development.

4.147 The Government of India has entrusted the work of studying the long-term co-operative credit structure for agriculture and rural development also to the same Task Force. The Task Force submitted its report to the Government in August 2006 (Box IV.10).

**Box IV.10: Recommendations of the Task Force on Revival of Long-term Rural Co-operative Credit Institutions**

The Task Force on Revival of Long-Term Rural Co-operative Credit Institutions (Chairman: Prof. A. Vaidyanathan) made the following recommendations in the draft Report:

*I. Recapitalisation*

ï Financial assistance estimated at Rs.4,839 crore, be provided to cover accumulated losses, cost of special audit and other technical assistance;

ï The Government of India to bear all losses arising out of long-term loans for agriculture and related activities and entire cost of special audit, technical assistance, including HRD efforts and implementation costs;

ï The State Governments to bear all dues payable by them to the long-term co-operative credit institutions and 50 per cent of losses arising from non-agricultural loans; and

ï The LTCCI to bear 50 per cent of losses arising from non-agricultural loans.

*II. Institutional Restructuring*

ï PCARDBs be allowed to access all types of deposits from members, provide all types of loans to members and borrow from any regulated financial institution, including federal units of the STCCS;

ï SCARDBs be allowed to mobilise public deposits on the lines of NBFCs under a suitable regulatory regime;

ï Entire State equity in the LTCCI be retired;

ï Branches of unitary structure be converted into autonomous PCARDBs;

ï PCARDBs be allowed to federate themselves with an upper tier of their choice;

ï SCARDBs should join hands with the StCB in its State and set up a support services unit on mutually acceptable terms to provide such services to lower tiers in both the structures; and

ï CRAR of minimum 7 per cent be stipulated, and be increased to 12 per cent in 5 years.