

Chapter III

Developments in Co-operative Banking

Introduction

The co-operative banking system consists of rural and urban co-operative banks; with the former being characterised by a relatively comprehensive network. It supplements the efforts of the commercial banks in mobilising savings and meeting the credit needs of the local population. The performance of the co-operative banking sector has, however, been a cause of concern in recent years especially in the context of the ongoing phase of financial sector reforms. While the business of the rural co-operative sector has shown an improvement during the year 1998-99, the rates of growth of deposits and credit have shown some decline over the year. But compared to the rural co-operative banks, the Primary co-operative banks (PCBs) which operate in the urban areas have shown better performance. The PCBs, as a group, performed better even in comparison with the scheduled commercial banks during 1998-99. However, there is significant heterogeneity in the performance of PCBs which numbers more than 1900 at present. While a large number of these banks have shown creditable performance, a fair number of them have shown signs of persistent weakness.

3.2 An issue of serious concern in recent years is one relating to growing non-performing assets (NPAs). Besides, to place the urban co-operative banking sector on a sustainable growth path, certain other issues relating to entry point norms, uneven geographical growth and branch licensing policy for the PCBs need closer attention. With a view to examining these critical issues and suggesting measures for strengthening the urban co-operative sector, the Reserve Bank has recently constituted

a High Power Committee (May 1999) under the Chairmanship of Shri. K. Madhava Rao, former Chief Secretary, Government of Andhra Pradesh.

3.3 The National Bank for Agriculture and Rural Development (NABARD), which is connected closely with the co-operative system has taken a number of initiatives to improve the rural credit delivery system. While introduction of Kisan Credit Card scheme is the most important achievement during the year, the momentum gained in linking the Self Help Groups with banks as part of micro finance innovations is likely to improve the rural credit environment in the ensuing period. In view of the increase in sanction of credit limit by NABARD to co-operative banks and RRBs, an additional limit of Rs.100 crore under GLC I was sanctioned by the Reserve Bank to NABARD in April 1999.

3.4 This chapter reviews the progress of various segments of co-operative banks *viz.*, Primary Co-operative Banks (PCBs), State Co-operative Banks (StCBs), District Central Co-operative banks (CCBs), Primary Agricultural Credit Societies (PACS), State Co-operative Agriculture and Rural Development Banks (SCARDBs) and Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) in terms of growth in their business and financial performance. An attempt is made to compare the performance of the co-operative banking sector with the commercial banking sector using select financial indicators. The chapter also highlights the role of NABARD in improving the co-operative banking system.

Some problems and issues relating to the co-operative banking sector are addressed in the concluding part of the chapter.

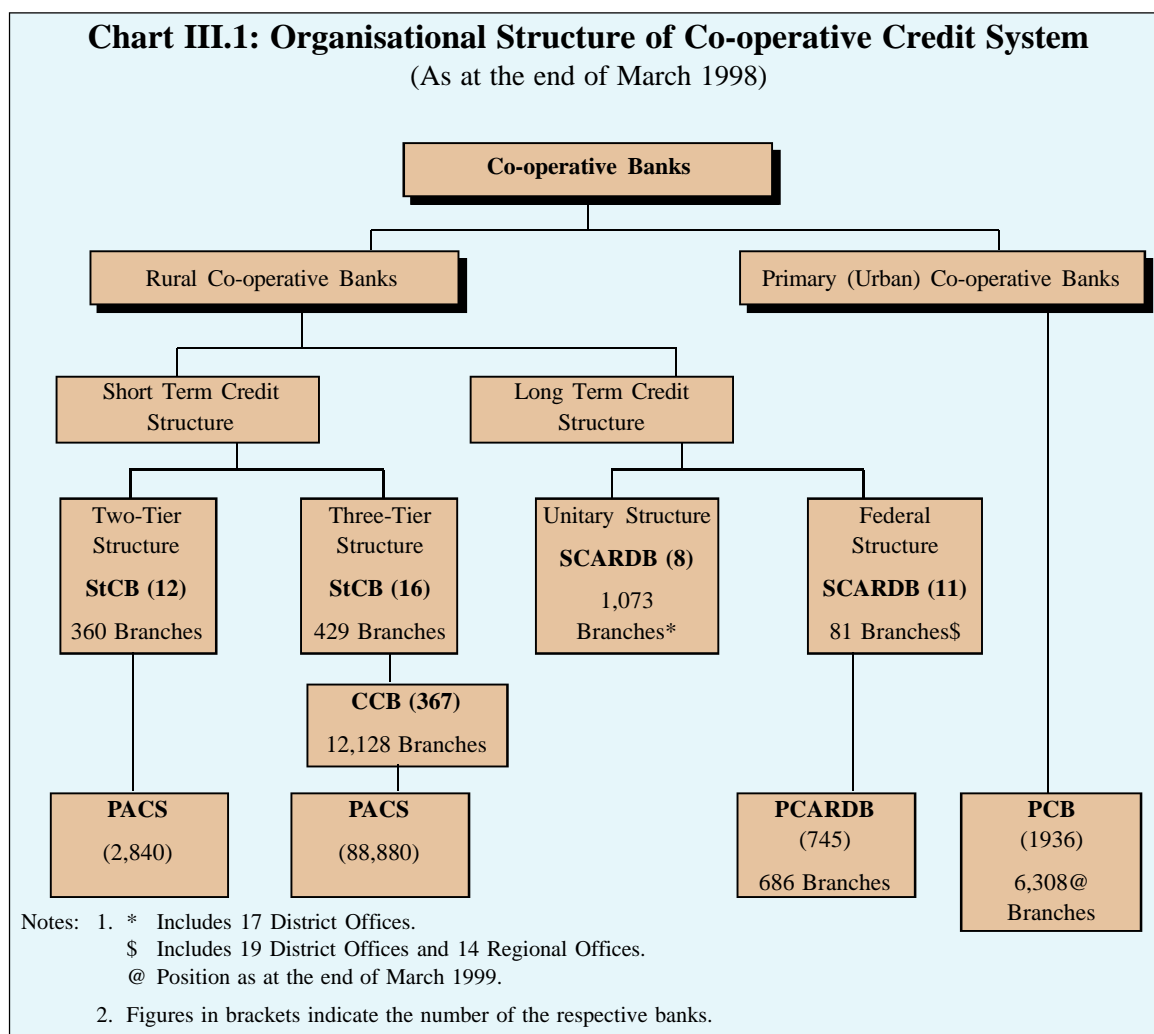
Organisational Structure of Co-operative Credit System

3.5 The organisational structure of co-operative credit institutions in India is presented in Chart III.1.

2. Progress of Credit Co-operatives

A. Primary Co-operative Banks (PCBs)

3.6 Primary Co-operative Banks have been set up with the objective of promoting banking habits among the lower and middle-income strata of the population. As at the end of March 1999, 1,936 PCBs were functioning in the country with 6,308 offices, including 90 salary earners' banks and 117 mahila banks. The total



The above chart delineates that the rural co-operative banking sector is characterised by a more widespread and extended network system as compared to the urban co-operative banking sector.

number of licensed PCBs increased to 1,692 as at the end of March 1999. The data available upto end-December 1998 indicate that the growth of both deposits as well as credit of PCBs slackened during the first three quarters of

1998-99. The annual growth in deposits upto December 1998 at 29.4 per cent was lower than that of 32.5 per cent recorded in the previous year¹. Similarly, the outstanding loans of PCBs at Rs.30,999 crore at the end of December 1998 registered an annual growth of 22.0 per cent as compared with the growth of 29.0 per cent during 1997-98 (Table III.1). Continuing the trend of the previous two years, the growth of deposits of PCBs outpaced the growth of credit in 1998-99. As a result, the credit-deposit (C-D) ratio of PCBs declined to 63.8 per cent as at the end of December 1998 from 68.3 per cent in end-March 1998.

Priority Sector Lending

3.7 Priority sector advances of 1,241 reporting PCBs as at the end of March 1998 amounted to Rs.15,640 crore which formed 63.5 per cent of their total loans and advances. Of the above banks, 1,044 (84 per cent) achieved the stipulated target (60 per cent of total loans and advances) of priority sector lending and 859 (69 per cent) fulfilled the required level (25 per cent of total loans and advances) of lending to weaker sections under the priority sector.

Refinance Facilities

3.8 PCBs are provided refinance facilities at the Bank Rate by the Reserve Bank for the advances granted to tiny/cottage industrial units. Refinance amounting to Rs.3.1 crore was granted to 3 banks during 1998-99, as against Rs.4.6 crore to the same number of banks in 1997-98.

Inspection of PCBs

3.9 The Reserve Bank carries out statutory inspections of PCBs under Section 35 of Banking Regulation Act, 1949 (as applicable to Co-operative Societies). During the year 1998-99 (July-March), 636 PCBs were inspected by the Reserve Bank.

Financial Performance of PCBs

3.10 Analysis of profit and loss accounts of all reporting PCBs (1,500) revealed that 1,295 made profits while (the remaining) 205 PCBs reported losses during 1997-98. The percentage of gross NPAs to total advances of PCBs which remained at around 13.0 per cent during 1995-96 and 1996-97, declined to 11.7 per cent as at

Table III.1: Primary Co-operative Banks – Selected Indicators

(Amount in Rs. crore)

Item	As at the end of March				Percentage Growth		
	1996	1997	1998	1999*	1996-97	1997-98	1998-99*
1	2	3	4	5	6	7	8
Number of Reporting PCBs	1,501	1,653	1,502	1,581			
Owned Funds	3,848	4,695	5,985	6,829	22.0	27.5	20.5
Deposits	24,165	30,714	40,692	48,583	27.1	32.5	29.4
Borrowings	758	619	886	932	-18.3	43.0	26.4
Loans Outstanding	17,908	21,550	27,807	30,999	20.3	29.0	22.0
Credit-Deposit Ratio	74.1	70.2	68.3	63.8			
Note: * Figures are for Dec.1998 and the growth rates are for Dec.1998 over Dec.1997.							

1. Number of reporting PCBs vary from year to year.

the end of March 1998 and further to 10.8 per cent as at the end of March 1999 (Table III.2).

advances declined from 46.7 per cent to 44.1 per cent, while that of investments increased

Table III.2: Gross Non-Performing Assets of Primary Co-operative Banks: 1995-96 to 1998-99

As on	Number of reporting PCBs	Gross NPA (Rs. crore)	NPAs as a percentage of total advances
1	2	3	4
March 31, 1996	1,161	2,187.76	13.0
March 31, 1997	1,318	2,839.04	13.2
March 31, 1998	1,474	3,305.98	11.7
March 31, 1999	663	1,359.86	10.8

Note: Figures are provisional.

Analysis of Scheduled PCBs

3.11 The outstanding deposits of 29 scheduled PCBs² at Rs.16,429.3 crore as on last Friday of March 1999, posted a lower annual growth of 28.9 per cent as compared to that of 32.9 per cent during the previous year (Table III.3). The outstanding credit of scheduled PCBs at Rs.10,112.0 crore recorded a growth of 20.7 per cent in 1998-99 which was lower than that of 33.1 per cent in 1997-98. The C-D ratio of scheduled PCBs declined from 65.7 per cent as at the end of March 1998 to 61.5 per cent in end-March 1999.

3.12 Deposits are the major source of funds for the scheduled PCBs and their share in total liabilities was 75.0 per cent as at the end of March 1999. Capital and reserves constituted 9.1 per cent of the total liabilities of the scheduled PCBs (Table III.4). An analysis of the asset portfolio of scheduled PCBs indicate that loans and advances constitute the most significant component of their assets, followed by investment. During the year, the composition of assets of scheduled PCBs did not show any appreciable change. The share of loans and

from 25.3 per cent to 26.3 per cent.

Financial Performance of Scheduled PCBs

3.13 The total income of the scheduled PCBs increased significantly by 23.7 per cent to Rs.2,534.3 crore during 1998-99 (Table III.5). A predominant portion of total income came from interest income (95.0 per cent). Total of interest and operating expenses, however, grew at a higher rate of 27.6 per cent to Rs.2,135.0 crore during the year. The spread (i.e. net interest income) of scheduled PCBs, as a percentage of total assets, declined from 3.78 per cent in 1997-98 to 3.24 per cent in 1998-99. In absolute terms, the operating profits of scheduled PCBs amounted of Rs.399.4 crore and recorded a growth of 6.4 per cent during 1998-99. As a percentage of total assets, operating profits declined from 2.03 per cent in 1997-98 to 1.68 per cent in 1998-99. The provisioning requirements of the scheduled PCBs in 1998-99 declined by 11.1 per cent from Rs.289.6 crore in 1997-98 to Rs.257.6 crore in 1998-99. As a result, the scheduled PCBs as a group posted much higher net profits of Rs.141.8 crore during 1998-99 as compared

2. This analysis is based on 29 scheduled PCBs accounting for about 35 per cent of deposits of all PCBs as at the end of June 1998. 7 more PCBs were granted scheduled bank status in June 1999 which are, however, excluded from the analysis this year.

**Table III.3: Operations of Scheduled Primary Co-operative Banks :
1996-97 to 1998-99**

(Amount in Rs. crore)

Sr. Item No.	Outstanding as on			Annual Growth	
	March 28, 1997	March 27, 1998	March 26, 1999	1997-98	1998-99
1 2	3	4	5	6	7
1. Aggregate Deposits	9,587.4	12,743.4	16,429.3	3,156.0 (32.9)	3,685.9 (28.9)
2. Borrowings	28.4	55.6	126.1	27.2 (95.8)	70.5 (126.8)
3. Assets with the Banking System (i+ii)	1,013.1	1,509.6	2,154.8	496.5 (49.0)	645.2 (42.7)
i) Balances with other banks	775.2	1,306.3	1,739.7	531.1	433.4
(ii) Money at call and short notice	237.9	203.3	415.1	-34.60	211.8
4. Investments (a + b)	1,849.8	2,489.9	3,745.6	640.1 (34.6)	1,255.7 (50.4)
(a) Government securities	1,415.3	1,872.6	2,993.0	457.3	1,120.4
(b) Other approved securities	434.5	617.3	752.6	182.8	135.3
5. Bank Credit	6,295.7	8,377.0	10,112.0	2,081.3 (33.1)	1,735.0 (20.7)
Memorandum Items :					
1. Credit-Deposit Ratio (per cent)	65.7	65.7	61.5		
2. Investment-Deposit Ratio (per cent)	19.3	19.5	22.8		
Notes: 1. Figures in brackets are growth rates during the year.					
2. Investments given in this table are for the purpose of SLR and, therefore, will differ from those presented in Table III.4.					
Source: Section 42(2) Returns.					

with that of Rs.85.9 crore in the previous year. As a percentage of total assets, net profits of scheduled PCBs increased from 0.46 per cent in 1997-98 to 0.60 per cent in 1998-99.

B. Rural Co-operative Banks – Short Term Credit Structure

(a) State Co-operative Banks (StCBs)

3.14 State Co-operative Banks (StCBs) are at

the apex of the three-tier co-operative structure dispensing mainly short/medium-term credit. The outstanding deposits of StCBs at Rs.25,815 crore as at the end of March 1999, posted a much lower growth of 16.3 per cent as compared with the growth of 26.9 per cent in the previous year (Appendix Table III.1). However, the borrowings of these banks at Rs.9,269 crore recorded a higher growth rate of 8.3 per cent as compared to that of 6.5 per cent in the preceding year. Loans issued

Table III.4: Composition of Liabilities and Assets of Scheduled Primary Co-operative Banks: 1997-98 and 1998-99

(Rs. crore)

Item	As on March 31 of	
	1998	1999
1	2	3
Liabilities		
1. Capital	178.77 (1.0)	210.49 (0.9)
2. Reserves	1,637.49 (8.8)	1,937.86 (8.2)
3. Deposits	14,029.84 (75.8)	17,805.80 (75.0)
4. Borrowings	162.49 (0.9)	266.82 (1.1)
5. Other Liabilities	2,499.57 (13.5)	3,526.04 (14.8)
Total Liabilities	18,508.16 (100.0)	23,747.01 (100.0)
Assets		
1. Cash	1,538.25 (8.3)	1,870.35 (7.9)
2. Balances with Banks	970.70 (5.2)	1,198.81 (5.0)
3. Money at call and short notice	87.68 (0.5)	389.89 (1.6)
4. Investments	4,675.40 (25.3)	6,255.05 (26.3)
5. Loans and Advances	8,634.80 (46.7)	10,478.91 (44.1)
6. Other Assets	2,601.33 (14.1)	3,554.00 (15.0)
Total Assets	18,508.16 (100.0)	23,747.01 (100.0)
Note: Figures in brackets are percentages to total liabilities/assets.		
Source: Balance sheet of respective banks.		

increased from Rs.27,805 crore in 1997-98 to Rs.29,590 crore in 1998-99, i.e. by 6.4 per cent as against a decline of 3.0 per cent in 1997-98. However, the outstanding credit of StCBs at Rs.20,252 crore recorded a growth of only 3.4 per

cent in 1998-99 as compared with that of 7.0 per cent in 1997-98. With the growth of deposits and credit of StCBs decelerating for the second consecutive year in 1998-99 (Chart III.2), the C-D ratio of StCBs declined from 88.3 per cent as

**Table III.5: Financial Performance of Scheduled Primary Co-operative Banks:
1997-98 and 1998-99**

(Amount in Rs. crore)

Item	1997-98	1998-99	Variation of Column (3) over (2)	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	2,049.19 (100.00)	2,534.33 (100.00)	485.14	23.67
i) Interest Income	1,939.38 (94.64)	2,407.58 (95.00)	468.20	24.14
ii) Other Income	109.81 (5.36)	126.75 (5.00)	16.94	15.43
B. Expenditure (i+ii+iii)	1,963.27 (100.00)	2,392.52 (100.00)	429.25	21.86
i) Interest Expended	1,238.91 (63.10)	1,638.81 (68.50)	399.90	32.28
ii) Provisions and Contingencies	289.57 (14.75)	257.56 (10.77)	-32.01	-11.05
iii) Operating Expenses	434.79 (22.15)	496.15 (20.74)	61.36	14.11
<i>of which</i> : Wage Bill	260.41 (13.26)	298.61 (12.48)	38.20	14.67
C. Profit				
i) Operating Profit	375.49	399.37	23.88	6.36
ii) Net Profit	85.92	141.81	55.89	65.05
D. Total Assets	18,508.16	23,747.01	5,238.85	28.31
E. Financial Ratios (per cent) \$				
i) Operating Profit	2.03	1.68	-0.35	—
ii) Net Profit	0.46	0.60	0.13	—
iii) Income	11.07	10.67	-0.40	—
iv) Interest Income	10.48	10.14	-0.34	—
v) Other Income	0.59	0.53	-0.06	—
vi) Expenditure	10.61	10.08	-0.53	—
vii) Interest Expended	6.69	6.90	0.21	—
viii) Operating Expenses	2.35	2.09	-0.26	—
ix) Wage Bill	1.41	1.26	-0.15	—
x) Provisions and Contingencies	1.56	1.08	-0.48	—
xi) Spread (Net Interest Income)	3.78	3.24	-0.55	—

Notes: 1. \$ Ratios to total assets.
2. Figures in brackets are percentage shares to the respective total.

at the end of 1997-98 to 78.5 per cent at end-March 1999. The bank-wise details of C-D ratio are given in Appendix Table III.2. The recovery performance of StCBs (as percentage to demand) had shown a declining trend over the last few years. The ratio declined from 86 per cent in 1996-97 to 84 per cent in 1997-98 and further to 80 per cent in 1998-99. The details of recovery performance of individual StCBs are shown in Appendix Table III.3.

3.15 Detailed data on the components of liabilities and assets of StCBs are available upto March 1998 only. As at the end of March 1998, while deposits and borrowings had shares of 61.2 and 23.6 per cent respectively, share capital and reserves constituted another 8.3 per cent of the total liabilities of the StCBs (Table III.6). Loans and advances together with the investments formed more than 85 per cent of the assets of StCBs. The composition of assets of StCBs however, underwent some changes during 1997-98. The share of investments increased from 26.9 per cent to 32.4 per cent while that of loans and advances declined from 60.2 per cent to 54.1 per cent.

Financial Performance of StCBs

3.16 Total income of StCBs increased by 22.8 per cent from Rs.2,969.0 crore during 1996-97 to Rs.3,645.8 crore during the year 1997-98 (Table.III.7). Interest income accounted for 96.9 per cent of the total income. Interest and operating

expenses together grew by 22.9 per cent to Rs.3,112.2 crore during the year. The net interest income (spread) as a percentage of total assets of StCBs declined from 2.09 per cent in 1996-97 to 2.01 per cent in 1997-98. The operating profits of StCBs amounted to Rs.533.6 crore and recorded a growth of 22.0 per cent during 1997-98. As a proportion of total assets, operating profits showed a negligible increase from 1.44 per cent in 1996-97 to 1.47 per cent in 1997-98. However, the provisioning requirements of the StCBs in 1997-98 showed a two-fold increase from Rs.334.2 crore in 1996-97 to Rs.657.9 crore in 1997-98. As a result, the StCBs as a group posted net losses of Rs.124.3 crore during 1997-98 as against net profits of Rs.103.0 crore in the previous year. In terms of total assets, the net profits of StCBs nosedived from 0.34 per cent in 1996-97 to (-)0.34 per cent in 1997-98.

(b) Central Co-operative Banks (CCBs)

3.17 Central Co-operative Banks (CCBs) form the middle tier in the short-term credit structure of co-operative credit institutions. Deposits constitute the major component of sources of funds of these banks, followed by borrowings. The total deposits of CCBs at Rs.41,513 crore as at end-March 1999 recorded a lower growth of 13.0 per cent as compared with that of 20.5 per cent during the previous year. The borrowings of CCBs at Rs.12,345 crore as at end March 1999 rose by 6.6 per cent (Appendix Table III.1). On the asset side, loans issued by CCBs at Rs.30,708 crore during 1998-99 declined by 3.4 per cent. Loans outstanding at Rs.33,479 crore, however, recorded a positive growth rate of 6.1 per cent during 1998-99. Deceleration in the business volumes of the rural co-operatives since 1997-98 is corroborated in the case of CCBs also (Chart III.3). The C-D ratio of CCBs declined from 85.8 per cent as at the end of 1997-98 to 80.6 per cent in end-March 1999. The recovery performance (percentage to demand) of CCBs declined from 70 per cent in 1997-98 to 68 per cent in 1998-99.

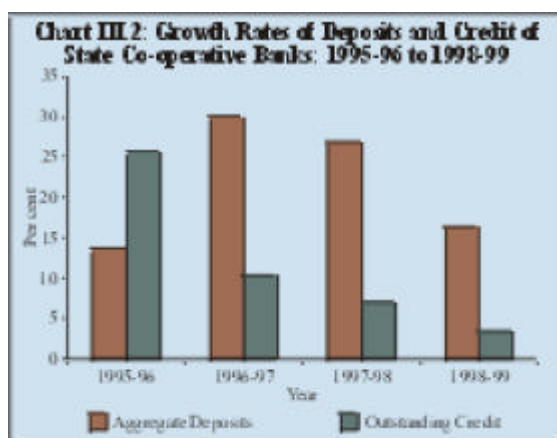


Table III.6: Composition of Liabilities and Assets of State Co-operative Banks: 1996-97 and 1997-98

(Rs. crore)

Item	As on March 31 of	
	1997	1998
1	2	3
Liabilities		
1. Capital	456.53 (1.5)	490.55 (1.4)
2. Reserves	2,871.38 (9.4)	2,495.60 (6.9)
3. Deposits	17,489.95 (57.4)	22,189.39 (61.2)
4. Borrowings	8,033.09 (26.4)	8,556.93 (23.6)
5. Other Liabilities	1,594.33 (5.2)	2,495.59 (6.9)
Total Liabilities	30,445.28 (100.0)	36,228.06 (100.0)
Assets		
1. Cash and Bank Balances	1,458.89 (4.8)	1,870.83 (5.2)
2. Investments	8,175.91 (26.9)	11,738.39 (32.4)
3. Loans and Advances	18,314.15 (60.2)	19,587.62 (54.1)
4. Other Assets	2,496.33 (8.2)	3,031.22 (8.4)
Total Assets	30,445.28 (100.0)	36,228.06 (100.0)

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

3.18 As in the case of StCBs, a complete break-up of assets and liabilities of CCBs is available only upto 1997-98. Deposits and borrowings had shares of 61.7 and 19.4 per cent, respectively in the total liabilities of CCBs as at the end of March 1998 (Table III.8). Capital and reserves accounted for another 8.6 per cent. Loans and advances formed 53.0 per cent of the assets of CCBs as on March 1998; the share of

investments in the total assets was 24.5 per cent.

Financial Performance of CCBs

3.19 Total income of CCBs grew by 14.4 per cent to Rs.6,674.5 crore during the year 1997-98 (Table III.9). Interest income accounted for 94.8 per cent of the total income. On the expenditure side, the interest expenses constituted a major part (64.9 per cent) of their

Table III.7: Financial Performance of State Co-operative Banks: 1996-97 and 1997-98

(Amount in Rs. crore)

Item	1996-97	1997-98	Variation of Column (3) over (2)	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	2,968.98 (100.00)	3,645.76 (100.00)	676.78	22.80
i) Interest Income	2,926.41 (98.57)	3,534.30 (96.94)	607.89	20.77
ii) Other Income	42.57 (1.43)	111.46 (3.06)	68.89	161.83
B. Expenditure (i+ii+iii)	2,865.93 (100.00)	3,770.10 (100.00)	904.17	31.55
i) Interest Expended	2,289.81 (79.90)	2,804.48 (74.39)	514.67	22.48
ii) Provisions and Contingencies	334.20 (11.66)	657.94 (17.45)	323.74	96.87
iii) Operating Expenses	241.92 (8.44)	307.68 (8.16)	65.76	27.18
<i>of which : Wage Bill</i>	180.43 (6.30)	210.12 (5.57)	29.69	16.46
C. Profit				
i) Operating Profit	437.25	533.60	96.35	22.04
ii) Net Profit	103.05	-124.34	-227.39	-220.66
D. Total Assets	30,445.28	36,228.06	5,782.78	18.99
E. Financial Ratios (per cent) \$				
i) Operating Profit	1.44	1.47	0.04	—
ii) Net Profit	0.34	-0.34	-0.68	—
iii) Income	9.75	10.06	0.31	—
iv) Interest Income	9.61	9.76	0.14	—
v) Other Income	0.14	0.31	0.17	—
vi) Expenditure	9.41	10.41	0.99	—
vii) Interest Expended	7.52	7.74	0.22	—
viii) Operating Expenses	0.79	0.85	0.05	—
ix) Wage Bill	0.59	0.58	-0.01	—
x) Provisions and Contingencies	1.10	1.82	0.72	—
xi) Spread (Net Interest Income)	2.09	2.01	-0.08	—

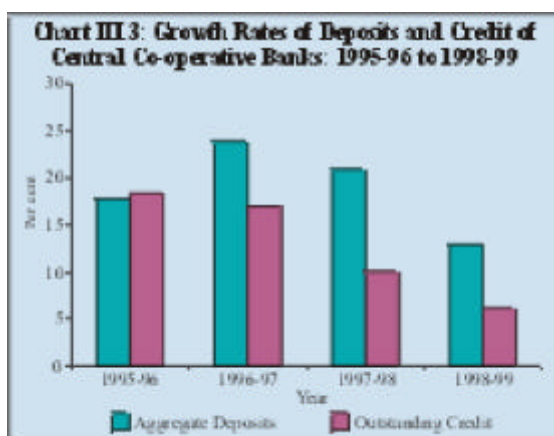
Notes: 1. \$ Ratios to total assets.
2. Figures in brackets are percentage shares to the respective total.

Source: NABARD.

Table III.8: Composition of Liabilities and Assets of Central Co-operative Banks: 1996-97 and 1997-98

Item	As on March 31 of	
	1997	1998
1	2	3
Liabilities		
1. Capital	1,895.12 (3.7)	2,152.29 (3.6)
2. Reserves	4,007.18 (7.9)	3,002.91 (5.0)
3. Deposits	30,512.54 (60.3)	36,755.30 (61.7)
4. Borrowings	10,533.45 (20.8)	11,577.58 (19.4)
5. Other Liabilities	3,640.92 (7.2)	6,054.49 (10.2)
Total Liabilities	50,589.21 (100.0)	59,542.57 (100.0)
Assets		
1. Cash and Bank Balance	3,828.64 (7.6)	5,983.19 (10.0)
2. Investments	12,012.37 (23.7)	14,576.61 (24.5)
3. Loans and Advances	28,683.59 (56.7)	31,547.68 (53.0)
4. Other Assets	6,064.61 (12.0)	7,435.09 (12.5)
Total Assets	50,589.21 (100.0)	59,542.57 (100.0)

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



expenses. Total of interest and operating expenses grew by 13.6 per cent to Rs.5,761.3 crore during the year. The spread as a percentage of total assets was quite high at 3.11 per cent in 1997-98. The operating profits of CCBs during 1997-98 amounted to Rs.913.2 crore and recorded a growth of 20.2 per cent. As a proportion of total assets, operating profits increased marginally from 1.50 per cent in 1996-97 to 1.53 per cent in 1997-98. However, the provisioning requirements of the CCBs at Rs.1,137.4 crore completely wiped off their operating profits. As a result, the CCBs, as a

Table III.9: Financial Performance of Central Co-operative Banks: 1996-97 and 1997-98

(Amount in Rs. crore)

Item	1996-97	1997-98	Variation of Column (3) over (2)	
			Absolute	Percentage
1	2	3	4	5
A. Income (i+ii)	5,832.45 (100.00)	6,674.51 (100.00)	842.06	14.44
i) Interest Income	5,554.64 (95.24)	6,325.39 (94.77)	770.75	13.88
ii) Other Income	277.81 (4.76)	349.12 (5.23)	71.31	25.67
B. Expenditure (i+ii+iii)	6,653.83 (100.00)	6,898.76 (100.00)	244.93	3.68
i) Interest Expended	3,957.72 (59.48)	4,475.25 (64.87)	517.53	13.08
ii) Provisions and Contingencies	1,581.46 (23.77)	1,137.46 (16.49)	-444.00	-28.08
iii) Operating Expenses	1,114.65 (16.75)	1,286.05 (18.64)	171.40	15.38
<i>of which : Wage Bill</i>	870.37 (13.08)	989.51 (14.34)	119.14	13.69
C. Profit				
i) Operating Profit	760.08	913.21	153.13	20.15
ii) Net Profit	-821.38	-224.25	597.13	-72.70
D. Total Assets	50,589.21	59,542.57	8,953.36	17.70
E. Financial Ratios (per cent) \$				
i) Operating Profit	1.50	1.53	0.03	—
ii) Net Profit	-1.62	-0.38	1.25	—
iii) Income	11.53	11.21	-0.32	—
iv) Interest Income	10.98	10.62	-0.36	—
v) Other Income	0.55	0.59	0.04	—
vi) Expenditure	13.15	11.59	-1.57	—
vii) Interest Expended	7.82	7.52	-0.31	—
viii) Operating Expenses	2.20	2.16	-0.04	—
ix) Wage Bill	1.72	1.66	-0.06	—
x) Provisions and Contingencies	3.13	1.91	-1.22	—
xi) Spread (Net Interest Income)	3.16	3.11	-0.05	—

Notes: 1. \$ Ratios to total assets.

2. Figures in brackets are percentage shares to the respective total.

Source: NABARD.

group, posted net losses of Rs.224.2 crore during 1997-98 which was, however, lower than their net losses of Rs.821.4 crore in the previous year. In terms of total assets, the net losses of CCBs was at 0.38 per cent in 1997-98 as compared with the net losses of 1.62 per cent in 1996-97.

(c) Primary Agricultural Credit Societies

3.20 Primary Agricultural Credit Societies (PACS) are grass-root level co-operative credit institutions playing a pivotal role in the disbursement of short-term rural credit. As at end-March 1998, there were around 92,000 PACS with a total membership aggregating 997.1 lakh, of which borrowing membership constituted 41.3 per cent. PACS continued to depend mainly on borrowings from higher financing agencies to fund their operations. Provisional data at the end of March 1997 showed that the deposits of PACS amounted to Rs.5,255 crore, while the borrowings stood at Rs.13,299 crore. The loans issued amounted to Rs.12,594 crore, while the loans outstanding amounted to Rs.15,323 crore as at end-March 1997.

C. Rural Co-operative Banks – Long Term Credit Structure

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

3.21 State Co-operative Agriculture and Rural Development Banks (SCARDBs) are at the top-level of the long-term credit structure of co-operative credit institutions dispensing investment credit. With a view to strengthening their resource base, SCARDBs were permitted to mobilise fixed deposits for terms of not less than 12 months. During 1998-99, deposits of SCARDBs went up by 14.0 per cent to Rs.236 crore from Rs.207 crore as at the end of the previous year. Borrowings which constituted the major resource of SCARDBs at Rs.10,936 crore at the end of March 1999, rose by 12.2 per cent during 1998-99 as against 14.9 per cent during 1997-98 (Appendix Table III.1).

3.22 On the asset side, loans issued by SCARDBs during 1998-99 at Rs.2,423 crore recorded a lower increase of 5.5 per cent than that of 6.7 per cent during the previous year. Loans outstanding at Rs.10,444 crore as at the end of March 1999 also registered a lower increase of 13.7 per cent as compared with 14.6 per cent during 1997-98. The recovery performance of SCARDBs (as percentage to demand) improved from 60 per cent in 1997-98 to 62 per cent in 1998-99.

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

3.23 Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) are at the bottom layer of the long-term credit structure of co-operative credit institutions. Their deposit resources are limited. Deposits rose from Rs.86 crore at the end of 1997-98 to Rs.137 crore at the end of 1998-99 (Appendix Table III.1). Borrowings of PCARDBs as at the end of March 1999 at Rs.6,701 crore increased by 13.7 per cent as compared with the growth of 22.9 per cent during the previous year.

3.24 Loans issued by PCARDBs during 1998-99 went up by 6.1 per cent to Rs.1,691 crore. Loans outstanding grew by 13.6 per cent to Rs.6,594 crore at the end of 1998-99. The recovery performance of PCARDBs (as percentage to demand) declined from 55 per cent in 1997-98 to 51 per cent in 1998-99.

D. Non-Performing Assets of Rural Co-operatives

3.25 The problems of NPAs in the commercial banking sector have been a focus of policy attention in recent years. Given the importance of rural co-operatives, it would be useful to examine whether this problem needs special focus in the co-operative sector also.

3.26 Prudential norms relating to asset classification have been extended to the StCBs

and CCBs since 1996-97 and to SCARDBs and PCARDBs since 1997-98, so as to reflect their true financial health. The aggregate NPAs of StCBs were estimated at Rs.2,443 crore and formed 12.5 per cent of their outstanding loans and advances as at the end of March 1998. Disaggregated data in respect of 19 reporting StCBs showed that the gross NPAs to total loans and advances was less than 5 per cent in 5 StCBs, between 10-20 per cent in another 5 StCBs and above 20 per cent in the remaining 9 StCBs (Table III.10).

3.27 The aggregate NPAs of CCBs were estimated at Rs.5,551 crore and formed 17.8 per cent of their outstanding loans and advances as at the end of March 1998. Out of 254 reporting CCBs, the gross NPAs to total loans and advances were less than 5 per cent in 31 CCBs, between 5-20 per cent in another 132 CCBs and above 20 per cent in the remaining 91 CCBs.

3.28 In respect of the long-term credit structure, based on available data, the aggregate NPAs of SCARDBs were estimated at Rs.1,313

crore and constituted 18.6 per cent of their outstanding loans and advances as at the end of March 1998. Similarly, the aggregate NPAs of PCARDBs at Rs.637 crore constituted 16.5 per cent of their outstanding loans and advances as at the end of March 1998.

E. Comparative Position of Co-operative Banks and Scheduled Commercial Banks

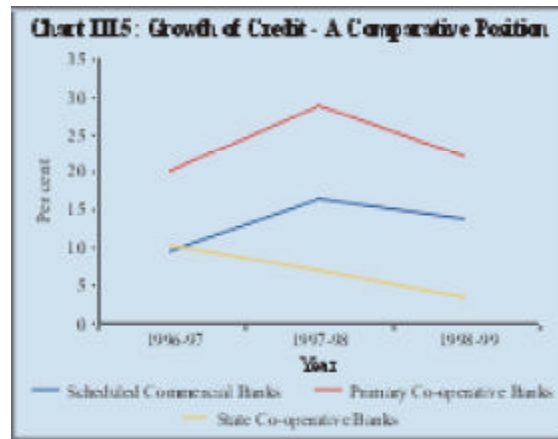
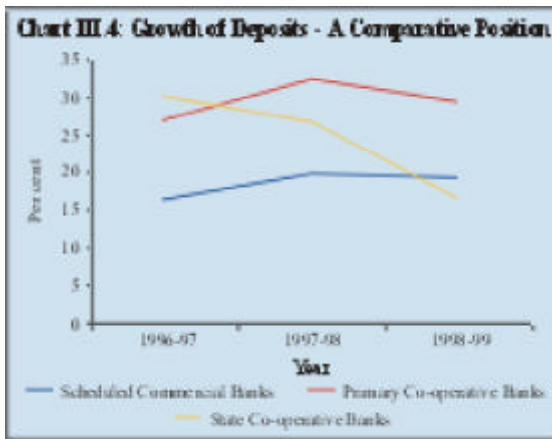
3.29 One may witness a number of commonalities in the operating environment between the PCBs and scheduled commercial banks (SCBs). An attempt is made here to compare the performance of these groups. By virtue of their retail market orientation and identified customer groups, the PCBs were able to achieve higher growth rates in deposits and credit than the scheduled commercial banks (Charts III.4 and III.5). As regards the financial performance, the comparison is made between scheduled PCBs and SCBs. Such comparison reveals that in relation to total assets, the spread of scheduled PCBs was higher and the

Table III.10: Frequency Distribution of NPAs of Co-operative Banks: March 1998

Percentage of NPAs to Outstanding Loans and Advances	Bank-Group		
	StCBs	CCBs	SCARDBs
1	2	3	4
0 – 5	5 (26)	31 (12)	1 (25)
5 – 10	—	45 (18)	—
10 – 15	3 (16)	45 (18)	2 (50)
15 – 20	2 (10)	42 (16)	—
20 – 25	1 (5)	31 (12)	—
25 – 50	6 (33)	47 (19)	1 (25)
Above 50	2 (10)	13 (5)	—
Total Number of reporting banks	19 (100)	254 (100)	4 (100)
Total Number of banks	28	367	19

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

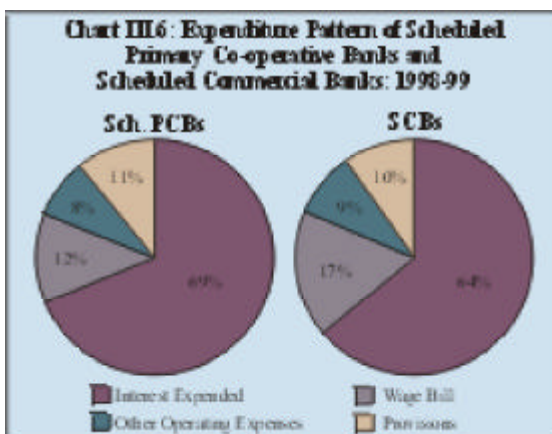
Source: NABARD.



operating expenses were lower than those of SCBs (Table III.11). However, the gap in the operating profit ratios of scheduled PCBs and SCBs narrowed down due to higher share of 'other income' for SCBs. Still the profitability of scheduled scheduled PCBs was higher than that of SCBs. While comparing the expenditure pattern of scheduled PCBs and SCBs, it was also observed that the interest expenses accounted for a higher share of the total expenses in the case of PCBs but their wage bill was of relatively lower order (Chart III.6).

with those of SCBs and PCBs (Charts III.4 and III.5). While the growth in business of SCBs and PCBs showed an upturn in 1997-98, both deposits and credit of StCBs recorded a lower growth in 1997-98 as compared to 1996-97. It is further observed that while the deposit growth of StCBs compared favourably with those of PCBs and SCBs, their credit growth suffered in the last two years and were much lower than the other two groups. For their viability, cost and profitability considerations have assumed significance in the operations of rural co-operative banks. It is observed that the spread of StCBs as percentage of assets was quite low in comparison with those of the scheduled PCBs and SCBs; and their operating expenses were also quite low. As a result, operating profit ratio of StCBs was not markedly lower than that of SCBs as evident in Table III.11.

3.30 The structure and operations of rural co-operative banks are very different from those of the commercial banks and PCBs. This is also reflected in the divergence in the growth pattern of deposits and credit of StCBs when compared



3. NABARD and its Role in Rural Credit

3.31 The National Bank for Agriculture and Rural Development (NABARD) as the apex institution purveying the field of rural credit plays a vital role of policy planning and provides refinancing facility to rural financial institutions to augment their resource base. In order to strengthen the functioning of

Table III.11: A Comparative Performance of Co-operative Banks and Scheduled Commercial Banks

(Per cent)

Financial Ratios	1997-98			1998-99		
	SCBs	Scheduled PCBs	StCBs	SCBs	Scheduled PCBs	StCBs
1	2	3	4	5	6	7
Spread (Net Interest Income)	2.95	3.78	2.01	2.78	3.24	N.A.
Operating Expenses	2.63	2.35	0.85	2.65	2.09	N.A.
Other Income	1.52	0.59	0.31	1.34	0.53	N.A.
Operating Profit	1.84	2.03	1.47	1.47	1.68	N.A.
Net Profit	0.82	0.46	-0.34	0.49	0.60	N.A.

Note: Financial ratios are as percentage of total assets.

NABARD, its capital base was raised progressively. As part of this strategy the Government of India and the Reserve Bank have been contributing annually Rs.100 crore and Rs.400 crore respectively for the last 3 years i.e. since 1996-97. Pending amendment of the relevant provision of NABARD Act, 1981, these amounts are being treated as advances towards the capital of NABARD. With these contributions, the effective capital base of NABARD as at the end of March 1999 rose to Rs.2,000 crore.

A. Resources Mobilised by NABARD

3.32 Including the above mentioned contribution of Rs.500 crore made by the Government of India and the Reserve Bank as advances towards its capital, the total (net) resources mobilised by NABARD amounted to Rs.3,778 crore during 1998-99. This is substantially higher by 43.3 per cent as compared to Rs.2,636 crore mobilised during the previous year (Table III.12). Rural Infrastructure Development Fund (RIDF) deposits contributed about one-third (Rs.1,209 crore) to the total resources. Accretion in NRC(LTO) Fund and NRC (Stabilisation) Fund were of the order of Rs.833 crore and Rs.101

crore, respectively. Higher contribution to the NRC (LTO) Fund out of their own income, resulted in lower accretion of Rs.89 crore to the general reserves of NABARD during 1998-99. Under Section 17(4E) of the RBI Act, 1934, the Reserve Bank has been providing General Line of Credit (GLC) to NABARD to enable it to meet the short-term requirements of co-operatives and RRBs. For the year 1998-99 (July-June), the Reserve Bank renewed a credit limit of Rs.5,700 crore sanctioned in the previous year. This credit limit consists of Rs.4,850 crore under GLC I³ (for seasonal agricultural operations) and Rs.850 crore under GLC II (for various other approved short term purposes). Drawals under GLC increased by Rs.678 crore during the year. Besides, outstanding market borrowings through the issue of bonds and debentures increased by Rs.263 crore as compared with the increase of Rs.125 crore in the previous year. The significant increase in other liabilities of NABARD was largely on account of interest accrued on RIDF deposits.

B. Refinance from NABARD

3.33 The aggregate credit limits sanctioned by NABARD to StCBs increased to Rs.7,275.3

3. In view of the increase in sanction of credit limit by NABARD to co-operatives and RRBs, an additional limit of Rs.100 crore under GLC I was sanctioned in April 1999 on request by NABARD.

**Table III.12: Net Accretion in the Resources of NABARD: 1997-98 and 1998-99
(April-March)**

Sr. Type of Resource No.		(Rs. crore)	
		1997-98	1998-99
1	2	3	4
1.	Capital	500	500
2.	Reserves and Surplus	451	89
3.	NRC (LTO) Fund	551	833
4.	NRC (Stabilisation) Fund	101	101
5.	Deposits	-204	92
6.	Bonds and Debentures	125	263
7.	Borrowings from Central Government	-111	-56
8.	Borrowings from RBI		
a.	General Line of Credit	206	678
b.	ARDR Scheme, 1990	-64	-46
9.	Foreign Currency Loans	64	34
10.	RIDF Deposits	1,007	1,209
11.	Other Liabilities	11	81
Total		2,636	3,778

Source: NABARD.

crore as at end-June 1999 from Rs.6,230.6 crore as at end-June 1998 (Table III.13). A major part of this credit was for short-term purpose. Drawals by StCBs at Rs.7,989.7 crore during 1998-99 (July-June) were also higher than the corresponding amount of Rs.6,916.1 crore during the previous year. As a result, the total outstanding credit to StCBs increased to Rs.4,543.0 crore as at end-June 1999 from Rs.3,673.4 crore as at end-June 1998. The limits sanctioned (both short and medium terms) to RRBs also increased to Rs.1,285.8 crore at the end of June 1999 from Rs.1,083.2 crore at the end of June 1998. The drawals made by RRBs during the year were also higher at Rs.1,205.4 crore. Thus, the outstanding credit of NABARD to RRBs as at the end of June 1999 increased to Rs.1,237.2 crore from Rs.1,053.0 crore as at end-June 1998. The credit limit sanctioned by NABARD to State Governments declined to Rs.65.3 crore as at end-June 1999 from Rs.150.0 crore a year ago. Drawals by State

Governments also declined from Rs.139.8 crore during 1997-98 to Rs.40.8 crore during 1998-99. As a result, the outstanding credit to State Governments as at-end June 1999 declined to Rs.499.3 crore from Rs.515.0 crore as at the end of previous year.

C. Rural Infrastructure Development Fund

3.34 RIDF-I was initially set up with a corpus of Rs.2,000 crore in 1995-96 with the objective of providing funds to State Governments and State owned corporations to enable them to complete various types of rural infrastructure projects. This development scheme was continued in the subsequent years as RIDF-II in 1996-97 (Rs.2,500 crore), RIDF-III in 1997-98 (Rs.2,500 crore) and RIDF-IV in 1998-99 (Rs.3,000 crore). As announced in the Union Budget for 1999-2000, RIDF-V is being set up with a corpus of Rs.3,500 crore. The corpus of

Table III.13: NABARD's Credit to State Co-operative Banks, State Governments and Regional Rural Banks: 1997-98 and 1998-99 (July-June)

(Rs. crore)

Category	1997-98				1998-99(P)			
	Limits	Drawals	Repay-ments	Outstan-dings	Limits	Drawals	Repay-ments	Outstan-dings
1	2	3	4	5	6	7	8	9
1. State Co-operative Banks								
a. Short-term	6,067.28	6,637.10	6,613.38	3,406.54	6,845.18 (12.8)	7,639.78 (15.1)	6,991.10 (5.7)	4,055.22 (19.0)
b. Medium-term	163.28	278.96	92.00	266.81	430.12 (163.4)	349.92 (25.4)	128.98 (40.2)	487.75 (82.8)
Total (a+b)	6,230.56	6,916.06	6,705.38	3,673.35	7,275.30 (16.8)	7,989.70 (15.5)	7,120.08 (6.2)	4,542.97 (23.7)
2. State Governments								
a. Long-term	149.95	139.80	43.31	514.96	65.33 (-56.4)	40.84 (-70.8)	56.52 (30.5)	499.28 (-3.0)
3. Regional Rural Banks								
a. Short-term	1,072.60	955.94	871.95	952.62	1,238.11 (15.4)	1,161.93 (21.5)	978.02 (12.2)	1,136.53 (19.3)
b. Medium-term	10.55	8.58	45.79	100.34	47.64 (351.6)	43.44 (406.3)	43.11 (-5.9)	100.67 (0.3)
Total (a+b)	1,083.15	964.52	917.74	1,052.96	1,285.75 (18.7)	1,205.37 (25.0)	1,021.13 (11.3)	1,237.20 (17.5)
Grand Total (1+2+3)	7,463.66	8,020.38	7,666.43	5,241.27	8,626.38 (15.6)	9,235.91 (15.2)	8,197.73 (6.9)	6,279.45 (19.8)

Note: 1. P – Provisional.

2. Figures in brackets are percentage changes over previous year.

Source: NABARD.

these funds is contributed by the scheduled commercial banks to the extent of the shortfall the banks may post for meeting the priority sector lending targets. Till end-March 1999, Rs.3,737.3 crore has been mobilised under the various RIDF schemes (Table III.14). The cumulative sanctions and disbursements of loans under RIDF amounted to Rs.10,269.7 crore and Rs.3,796.9 crore, respectively.

3.35 A more detailed account of State-wise amount of financial assistance provided under RIDF-I, RIDF-II, RIDF-III and RIDF-IV till

end-March 1999 is presented in Appendix Table III.4. Of the total sanctions of Rs.1,830.4 crore under RIDF-I, disbursements amounted to Rs.1,542.5 crore. The highest disbursement was in Uttar Pradesh (Rs.265.9 crore), followed by Andhra Pradesh (Rs.199.4 crore), Madhya Pradesh (Rs.156.3 crore) and Maharashtra (Rs.151.3 crore). Under RIDF-II, total sanctions amounted to Rs.2,614.5 crore, while disbursements were lower at Rs.1,436.4 crore. Uttar Pradesh again topped the list with a high disbursement of Rs.224.4 crore, followed by Andhra Pradesh (Rs.181.8 crore) and Tamil

Table III.14: Deposits Mobilised under RIDF

(Rs. crore)

Year	RIDF-I	RIDF-II	RIDF-III	RIDF-IV	Total
1	2	3	4	5	6
1995-96	350.00	—	—	—	350.00
1996-97	842.30	200.00	—	—	1,042.30
1997-98	187.64	670.00	149.40	—	1,007.04
1998-99	139.95	500.00	498.00	200.00	1,337.95
Total	1,519.89	1,370.00	647.40	200.00	3,737.29

Source: NABARD.

Nadu (Rs.173.2 crore). Under RIDF-III, total sanctions amounted to Rs.2,679.2 crore and total disbursements to Rs.685.7 crore. Uttar Pradesh (Rs.96.5 crore) and Andhra Pradesh (Rs.73.1 crore) continued to occupy the first two places in respect of disbursement of RIDF-III funds as well. Under RIDF-IV, while total sanctions amounted to Rs.3,145.7 crore, only Rs.132.3 crore has been disbursed till end-March 1999.

3.36 Loans under RIDF are given for various

types of rural infrastructural improvements like irrigation projects, flood protection, watershed management, construction of rural roads and bridges, etc. Of the total amount sanctioned under RIDF schemes, about 47 per cent was accounted for by irrigation projects and another 48 per cent by construction of rural roads and bridges (Table III.15).

3.37 The utilisation of RIDF funds has been low in comparison to the sanctions, largely due

Table III.15: Purpose-wise Amount Sanctioned under RIDF (up to March 31, 1999)

(Rs. crore)

Purpose	RIDF-I	RIDF-II	RIDF-III	RIDF-IV	Total	Percentage share
1	2	3	4	5	6	7
Major Irrigation	227.73	412.50	223.88	321.80	1,185.91	11.5
Medium Irrigation	842.08	237.28	203.99	170.96	1,454.31	14.2
Minor Irrigation	643.15	581.15	512.68	453.68	2,190.66	21.3
Watershed Management	80.37	108.61	21.51	32.28	242.77	2.4
Flood Protection	7.56	—	96.47	48.63	152.66	1.5
Rural Bridges	26.09	378.13	385.34	548.23	1,337.79	13.0
Rural Roads	3.39	896.81	1,210.38	1,449.65	3,560.23	34.7
Others	—	—	24.93	120.42	145.35	1.4
Total	1,830.37	2,614.48	2,679.18	3,145.65	10,269.68	100.0

Source: NABARD.

to inadequate budget and flow of funds to the implementing departments and delays in, among others, completion of formalities relating to drawal of funds, preliminary work in respect of irrigation projects, land acquisition formalities, obtaining forest/environmental clearance from the Government of India, tendering formalities, etc. In order to speed up disbursement from RIDF funds, NABARD has advised State Governments to review their respective positions and initiate necessary steps to adhere to the time schedule. The repayment period of loans given to the State Governments is also extended from five to seven years under RIDF-V. The scope of RIDF-V is being widened to allow lending to Gram Panchayats, Self-Help Groups and other eligible organisations for implementing village level infrastructure projects.

D. Policy Initiatives by NABARD

3.38 Major thrust of NABARD during the year was on strengthening the rural credit delivery system to support the growing credit needs of the agricultural and rural sectors. Some of the important policy initiatives taken by NABARD during the year 1998-99 include (i) introduction of Kisan Credit Cards, (ii) augmenting flow of credit in the areas served by weaker co-operative banks, (iii) accelerating flow of credit to the handloom weavers through financing State Handloom Development Corporations, (iv) stimulating investment in minor irrigation and wasteland development, (v) lowering of interest rates on refinance, and (vi) giving special thrust on micro credit development. NABARD also liberalised the terms and conditions for providing long term loans to State Governments for contributing to the share capital of co-operative credit institutions.

3.39 The policy initiatives relating to the non-farm sector during the year included (i) enhancing the ceiling under automatic refinance

facility (ARF) and integrated loan scheme (ILS), (ii) liberalising the small road transport operators' (SRTO) scheme, and (iii) enlarging the scope of soft loan assistance for margin money scheme.

(a) Kisan Credit Card Scheme

3.40 Pursuant to the announcement made in the Union Budget for 1998-99, NABARD formulated a model 'Kisan Credit Card' scheme in consultation with the Reserve Bank and major banks. The scheme aimed at providing ready credit facilities to the farmers covering their entire production credit needs for the full year plus an amount for ancillary activities related to crop production. The model scheme was circulated by the Reserve Bank to commercial banks and by NABARD to co-operative banks and RRBs in August 1998. RRBs and co-operative banks together issued 1.61 lakh cards covering credit facility of Rs.836.8 crore during the year 1998-99.

3.41 In addition, NABARD introduced a system of 'Flexi credit' on a pilot basis in three districts of Kerala to take care of the unique needs of the farmers in the State who raise a wide mix of crops in small holdings around their homes together with rearing of livestock.

(b) Increase in Quantity of Refinance

3.42 In order to augment the flow of credit at the ground-level, the ceiling for sanction of short-term credit limits by NABARD was enhanced for different categories (based on audit classification) of CCBs. While the policy of stipulating minimum levels of involvement (MLI) of own resources by StCBs and CCBs in short-term agricultural lending was continued, certain relaxations in the existing norms were made for those banks which had hardly any eligibility for concessional refinance from NABARD.

3.43 The stipulation of minimum coverage of

small and marginal farmers was modified with a view to increasing credit flow to small and marginal farmers. Similarly, higher credit limits were provided to CCBs operating in tribal areas, with due weightage for loans provided for the consumption needs of tribals. Efforts have also been made to increase the flow of credit to Bihar, Jammu and Kashmir and the North-Eastern Region.

3.44 Considering the importance attached to the handloom sector, NABARD continued to lay special emphasis on meeting the credit requirements of 94 thrust districts spread over 23 States identified by the Government of India for special development. With a view to supplementing the efforts of Handloom Development Corporations set up by some of the State Governments, NABARD in consultation with the Reserve Bank, has decided to extend refinance support to commercial banks and StCBs in respect of their working capital limits to these Corporations.

3.45 In order to channelise larger flow of credit to priority sector under thrust area programmes, an upward revision in the quantum of refinance was made, *inter alia*, for dryland and wasteland development and minor irrigation schemes.

(c) Interest Rates on Refinance

Seasonal Agricultural Operations

3.46 During the year, there was no change in the rates of interest charged by NABARD on its refinance for short-term Seasonal Agricultural Operations (SAO). The rate of interest varied from 4 per cent to 6.5 per cent depending on the involvement of borrowing banks in such loans. However, the minimum rate of interest *i.e.* 4 per cent was charged on the borrowings by StCBs under the special line of credit for financing tribals under the Development of Tribal Population (DTP) programme irrespective of their level of

borrowings. Similarly, the policy of providing refinance to all the co-operative banks in the North-Eastern Region at the minimum interest rate of 4 per cent was continued.

Schematic Refinance

3.47 The interest rates on term loan for three years and above for financing agriculture (other than minor irrigation), small scale industries and the small road transport operators owning up to 2 vehicles, were reduced with effect from December 15, 1998. The rates of interest on refinance before and after the revision are indicated in Table III.16.

Refinance for Minor Irrigation

3.48 To stimulate investment in minor irrigation, the interest rate on refinance for minor irrigation investment was reduced with effect from December 1, 1998. Accordingly, for commercial banks a uniform rate has been fixed at 8.5 per cent per annum, irrespective of the loan size. Similarly, for RRBs and co-operative banks, the rate of interest varied in a narrow range of 6.5 per cent to 8.5 per cent as against the earlier rates which ranged between 6.5 per cent and 12 per cent.

(d) Micro-Finance Innovations

3.49 NABARD's efforts towards increasing the access of the rural poor to formal banking services through promotion and credit-linking of Self Help Groups (SHGs) of the rural poor, and other micro-finance initiatives gathered momentum during the last two years. As many as 18,678 additional SHGs were linked to banks as against the target of linking 10,000 SHGs as envisaged in the Union Budget, 1998-99. The amount of bank loan disbursed through SHGs amounted to Rs.33.3 crore. NABARD continued to provide 100 per cent refinance to banks at the rate of interest of 6.5 per cent per annum. Refinance assistance at Rs.30.7 crore under the programme during 1998-99 was

Table III.16: Rates of Interest on NABARD's Schematic Refinance

(Per cent per annum)

Size of Loan/Limit	StCBS, SCARDBs and RRBs		Commercial Banks	
	Before Revision	After Revision	Before Revision	After Revision
1	2	3	4	5
Upto Rs.25,000	6.5	6.5 (No Change)	8.5	8.5 (No Change)
Over Rs.25,000 and upto Rs.2 lakh	9.5	9.0	10.5	10.0
Over Rs.2 lakh	12.0	11.5	3% below the rate fixed by the bank	3 % below the rate fixed by the bank subject to a minimum of 11.5

Source: NABARD.

much higher than that of Rs.10.7 crore during 1997-98. The cumulative progress made in linking SHGs to banks upto March 1999 is given in Table III.17.

3.50 During the year, 52 new banks joined the linkage programme. In all, 202 banks (comprising

38 commercial banks, 129 RRBs and 35 co-operative banks) are participating in the programme covering 24 States and Union Territories. As many as 550 non-government organisations (NGOs) are participating in the programme. As on March 31, 1999, women SHGs constituted about 84 per cent of the total groups

Table III.17: Cumulative Progress in SHG Linkage Programme

(Rs. crore)

Year	Number of SHGs linked	Bank loan	Refinance assistance
1	2	3	4
1992-93	255	0.29	0.27
1993-94	620	0.65	0.46
1994-95	2,122	2.44	2.30
1995-96	4,757	6.06	5.66
1996-97	8,598	11.84	10.65
1997-98	14,317	23.76	21.39
1998-99	32,995	57.07	52.06

Source: NABARD.

linked. On the whole, the programme has benefited about 5,60,000 rural poor families in 280 districts of the country. NABARD is engaging select NGOs for providing training, awareness building and sensitisation of officials involved in promotion and linking of SHGs with banks.

3.51 In order to address the critical issues for a healthy and orderly growth of the micro-finance sector in the country, and to evolve supportive policy and regulatory framework, a high-powered Task Force with the Managing Director of NABARD as the Chairman, was set up. The Task Force has recently submitted the report. As announced in the Monetary and Credit Policy statement for the year 1999-2000, a special cell, manned by a senior official from the commercial banking sector with practical experience in this area, has been set up in the Reserve Bank to liaise with NABARD and other institutions for augmenting the flow of micro credit.

E. Other Developments

(a) Agricultural Development Finance Companies

3.52 With the prime objective of strengthening the flow of credit to hi-tech/high-value agriculture operations and associated infrastructure, NABARD took the initiative in establishing state level Agricultural Development Finance Companies (ADFCs) in Andhra Pradesh, Tamil Nadu and Karnataka with equity participation between public and private sectors in the ratio of 45:55. During 1998-99, seven schemes involving total financial assistance of Rs.7.7 crore and refinance support of Rs.5.8 crore to Agricultural Development Finance (Tamil Nadu) Ltd. (ADFT-Chennai) and eleven schemes involving loan assistance of Rs.6.9 crore and refinance assistance of Rs.5.1 crore to Agribusiness Finance (AP) Ltd. (ABFL-Hyderabad) were sanctioned by NABARD. While approving refinance proposals to these two ADFCs,

priority was accorded to agro-processing ventures/commercial projects. Karnataka Agriculture Development Finance Company Ltd. (KADFC), which has received a few proposals during the year, is yet to sanction any scheme.

(b) Development Action Plans and Memoranda of Understanding

3.53 The exercise of preparing Development Action Plans (DAPs) and Memoranda of Understanding (MoU) is in operation since 1994-95. In order to make the performance obligations more realistic with changing environment, the system of annual MoU among the co-operative banks, State Government and NABARD was introduced from the year 1997-98. To facilitate effective internal monitoring of DAPs/MoU implementation, the StCBs, CCBs and SCARDBs were advised to constitute 'Institution Development Cells' (IDCs) in their banks. NABARD extends financial support to StCBs and SCARDBs for appointment of expert staff (Financial Analyst) to head these IDCs. So far, financial assistance was availed of by 8 banks under the scheme.

(c) Co-operative Development Fund

3.54 The Co-operative Development Fund (CDF) was set-up by NABARD in 1992-93 for providing assistance to the co-operative banks to improve their functional efficiency. Under the scheme, financial assistance is provided to various StCBs/SCARDBs/CCBs/PCARDBs for infrastructural development, building-up of Management Information System (MIS), hiring of outside agencies for conducting special studies/seminars, etc. and meeting the expenses in connection with performance awards given to co-operative banks based on their performance. Cumulative grants/soft loan assistance amounting to Rs.28.7 crore was sanctioned from CDF as at the end of March 1999, while the disbursements amounted to Rs.15.9 crore.

(d) Supervision of Banks

3.55 NABARD conducts inspections of StCBs, CCBs and RRBs under the provisions of the Banking Regulation Act, 1949. In addition, it has also been conducting periodic inspections of State level institutions such as SCARDBs, Apex Weavers' Societies, Marketing Federations, etc. on a voluntary basis. Such inspections help in assessing the financial and managerial strength of a bank so as to ensure the protection of the interests of depositors as well as the bank's compliance with statutory regulations.

3.56 A Technical Group constituted in 1996 to review the inspection strategy adopted by NABARD had recommended adoption of the CAMELS (Capital Adequacy, Asset Quality, Management, Earning Capacity, Liquidity, Systems and Controls) approach for a sharper focus of NABARD's inspections. In order to have a further refinement in the inspection strategy an Expert Committee to Review the Supervisory Role of NABARD (Chairman: Shri U.K. Sarma) was constituted in January 1998. The Committee submitted its report in April 1998.

3.57 The Expert Committee, while advocating the adoption of the CAMELS approach, emphasised the need for adoption of timely and adequate compliance to inspection reports also as a criteria for judging the performance of banks. Accordingly, it recommended CAMELSC (Capital Adequacy, Asset Quality, Management, Earning Capacity, Liquidity, Systems and Controls and Compliance) approach for inspections. As per these recommendations, the guidelines for on-site supervision of co-operative banks/RRBs were revised in August 1998. In order to effect continuous monitoring over banks, a system of off-site surveillance through a set of returns, both statutory and non-statutory, is being introduced.

3.58 Periodic on-site inspections may throw up the need for in-depth scrutiny of certain aspects of operations. The Expert Committee has, therefore, recommended the on-site examinations to be supplemented by additional instruments like systems study, portfolio inspection, commissioned audit and monitoring visits. Necessary guidelines were developed to undertake such supplementary appraisals.

4. Problems before the Co-operatives

3.59 The development initiatives of both the Reserve Bank and NABARD have facilitated the evolutionary process of the co-operative credit institutions. However, some inherent problems seem to have impeded the co-operatives from performing more efficiently. The factors affecting the financial health of the co-operatives are well known and these include *inter alia*, the poor resource base, high transaction costs with low margins, mounting overdues, lack of professional management and excessive state control. Inability of PACS to mobilise rural deposits and the consequent decline in their borrowing memberships has been affecting the volume of their business. Issues relating to reduction in the transaction costs, and improving the recovery performance are also equally important (Box III.1). With regard to recovery performance, in addition to the initiatives that need to be taken by the co-operative banks themselves, the government will have to improve the legal machinery for quick recovery of dues and ensure that across-the-board loan waivers which vitiates the recovery climate are not granted. The role of strong leadership in the success of co-operative system cannot be overemphasised. Thus, institution of democratically elected management and removal of excessive state control in the working of co-operatives can help in their effective functioning.

3.60 Another commonly cited problem with the co-operative banking system is lack of

Box III.1: Structural Reforms in Co-operative Banking

The rural financial institutions (RFIs) in India have played a catalytic role in mobilising rural savings and stimulating agricultural investment. The institutionalisation of rural credit started with the establishment of co-operatives following the enactment of Co-operative Societies Act in 1904. Efforts to develop the co-operatives were intensified following the recommendations of the Rural Credit Survey Committee (1954). Based on the Recommendations of the All India Rural Credit Review Committee (1969), a multi-agency approach to rural credit was adopted with the commercial banks supplementing the efforts of the co-operative banks. To further strengthen the rural credit system, a third channel to the RFIs was added by instituting Regional Rural Banks in 1975. While these RFIs made impressive gains in terms of branch expansion, deposit mobilisation and credit disbursements, the agricultural sector still suffers from inadequate institutional credit. The problem has been exacerbated by the emergence of a wide range of hi-tech and capital intensive segments in some pockets of the rural economy. Thus, there is an imperative need for rejuvenating the rural credit system so that it can meet the credit requirements of higher order across all sections of the rural economy.

Co-operative banks occupy a pivotal position in the supply of rural credit. As at the end of March 1997, these co-operatives constituted 41 per cent of the total outstanding direct agricultural finance of all institutional agencies. Thus the key to the success in revamping the rural credit delivery system lies in improving the effectiveness of the co-operative system.

Two major problems confronting the co-operative banking system are the high transaction costs and poor repayment performance. Organisational structure of the co-operative banking system in India is a contributory factor for their high transaction costs. Thus, some restructuring of the organisational set-up is considered as one option for improving the viability of the co-operative banking system.

Two alternatives in this regard can be (i) merger of the long-term and short-term structure and (ii) delayering of the short-term structure. As regards the poor recovery performance, linking Self Help Groups to the banks for delivery of rural credit is an innovative strategy which is gaining momentum. These aspects are discussed in details below.

Merger of the Long-term and the Short-term Structure

The co-operative banking system in India has a widespread and elaborate organisational structure. On the basis of a consensus opinion that short-term and long-term credit cannot be supplied by the same organisation, the co-operative banking system was developed with two arms. The short-term structure extending production credit has PACS at the grass root level, CCBs at the intermediate level and StCBs at the apex level. The long-term structure extending investment credit have PCARDBs at the base level which are affiliated to the SCARDBs at the State level. However, subsequently, a number of committees reviewing the performance of the rural credit delivery system recognised the problems associated with this structure and recommended single window system for providing agriculture credit. Finally in 1975, Reserve Bank appointed a Committee (ARDC, 1976), under the chairmanship of Dr. R.K. Hazari for studying the feasibility of integrating the two wings of the co-operative credit structure in the country. Noticing certain imbalances in the growth of the two wings of the credit structure, the Committee felt that the co-operative credit system can fully play its expected role if it is enabled to provide credit facilities in an integrated manner. Integration of the co-operative structure was also perceived to benefit the farmers providing them with one contact point. The Committee concluded that integration would prove to be beneficial from the angle of credit institutions also, as this will help them to improve the scale of their business and consequently their viability, which would in turn enable them to employ full-time paid secretaries and

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function effectively. Thus, the Committee recommended that the two wings of the co-operative credit structure should be integrated at all levels, viz., the primary, the intermediate (district) and the apex (state).

However, in spite of such unequivocal recommendations of various committees, Andhra Pradesh has remained to date the only State which has implemented the integration of short term and long term structure in 1986. A recent study (Satyasai and Vishwanathan, 1998), examining the impact of integration concluded that,

- i) the flow of short term and long term loans was higher during post-integration (1986-87 to 1994-95) than what would have been possible had there been no integration.
- ii) the management costs showed deceleration during the post-integration period.
- iii) bad debts of the co-operatives, in absolute terms and as proportions of working capital/loan outstanding, showed declining trend.

The results of the above study suggest that, integration of the short term and long term structure may have several beneficial impacts.

Delaying of the Co-operative System

Delaying of the co-operative system is considered as another alternative restructuring option to bring down the transaction costs. The mounting overdues of the co-operative institutions have severely restricted their capability of recycling funds for promoting faster agricultural growth. High overdues also make these institutions ineligible for availing of refinance facility from NABARD. In this context, the Second Narasimham Committee on Banking Sector Reforms (1998) urged that consideration be given to delaying of the co-operative credit system with a view to reducing the intermediation costs and providing the benefit of cheaper NABARD credit to the ultimate borrowers. As a first step, StCBs and CCBs could consider skipping one tier, and lend directly to the PACS and the ultimate

borrowers where the intermediate level is weak. It may be necessary for these banks to open more branches and absorb the trained staff of the tier that will be skipped. This will improve the credit delivery system in two ways: there will be reduction in the interest rate for the ultimate borrower due to reduction in the level of intermediation and secondly, it will be possible for NABARD to provide refinance even in cases where one tier of the structure is not able to borrow on account of their ineligibility (due to high percentage of overdues).

Linking of Self Help Groups

Linking Self Help Groups (SHGs) and non-government organisations (NGOs) to banks in the rural credit delivery is considered to be another innovative mechanism, which may help in reducing transaction costs and also ensure better repayment performance. NABARD has been actively encouraging the concept since the launching of a Pilot Project in 1992. Under the scheme, NABARD provides policy support as also 100 percent refinancing to banks for financing the SHGs. As at the end of March 1999, a cumulative total of 32,995 SHGs has been linked covering 5.6 lakh families and involving Rs.57.1 crore of bank lending. In an evaluation study of SHGs in Tamil Nadu (NABARD,1997), it has been shown that the intermediation of NGOs and SHGs helped banks to reduce the transaction costs by 40 per cent initially and upto 60 per cent over a period of time, as the bank personnel gained experience. Similarly the recovery performance improved to 92 per cent. The intermediation also reduced the transaction costs of the borrowers due to elimination of cumbersome documentation procedure and time and cost incurred on repeated visits to banks. The field studies conducted by NABARD revealed that other encouraging features of this linkage programme are the shift in loaning pattern from non-income generating activities to production activities, gradual increase in income levels of members, social

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empowerment of members and the increase in savings levels etc.

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timely data and this masks most of their contemporary financial problems and impedes a proper assessment of their performance. While the reporting of basic data on assets and liabilities are streamlined in respect of the scheduled co-operative banks, the data in respect of non-scheduled co-operative banks are still available with a considerable time lag. The

balance sheets of most of the co-operative banks are not finalised in time due to non-completion of the audit process (Box III.2). Beside availability of data, lack of standardisation of accounting procedures leads to inconsistency in data reported by different layers of co-operative credit institutions. Standardisation of balance sheet formats, on the lines of commercial banks,

Box III.2: Statistics on Co-operative Banking

The need for a strong data base is well recognised in the empirical literature, as strength and relevance of empirical findings depend on the quality of the data used. While India has one of the better statistical systems in the developing world (Srinivasan, 1994), the data in respect of co-operatives remain relatively weak, with lagged availability. Improvement in timeliness of availability of these data is necessary both for empirical research as well as for policy making purposes. While the flow of information from the scheduled co-operative banks is timely (because of statutory provision), those from the non-scheduled segment (which formed 95 per cent of the total deposits of co-operative banks as at end-March 1996) are inordinately delayed.

As far as the published data in respect of co-operative banks are concerned, the *Statistical Statements relating to Co-operative Movements in*

India brought out by the NABARD gives comprehensive coverage of the co-operative sector in terms of number, membership, liabilities and assets and operations of various types of credit and non-credit societies. As on date, the latest period for which data are available is 1994-95. Such an inordinate delay in availability of the information renders it ineffective for the policy formulation purposes.

In order to remove this deficiency and strengthen the data base of the co-operatives, NABARD has started bringing out, in the form of small brochures, a few key statistics in respect of the co-operative banks (except the PACS) within reasonable time span. *Key Statistics on Co-operatives*, covering both the short-term and long-term structure, are brought out within a few months from the closure of the

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financial year. The booklet covers state-wise position of deposits, borrowings, loans outstanding and loans issued as well as the recovery performance (as a percentage to demand) in respect of StCBs, CCBs, SCARDBs and PCARDBs. A more detailed coverage of the co-operative banks' data is made in *Dossier on Co-operatives* published subsequently. The recent edition of the booklet (1997-98) presented state-wise position of resources, investment, outreach, recovery performance, management, profitability, asset classification, erosion in assets and projections (for the next one year), in respect of different types of co-operative institutions. Finally, *Financial Statements of Co-operative Banks* present position of liabilities and assets, income and expenditure and demand, collection and balances for individual co-operative

banks (separately for the short term and long term structure) based on their annual accounts. Firm data for financial year are made available after a considerable time lag of 18-20 months from the close of the year as compared with only 3-4 months lag in the case of commercial banks. One of the principal reasons for the delay in data availability is the delay in auditing of the annual accounts of the co-operative banks. Concerted efforts are, therefore, required to reduce the time lag in the availability of data on co-operatives, so as to be of help in policy making.

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will be helpful in making proper comparison of the performance of co-operative banking sector with the commercial banks and other financial institutions.

3.61 The financial sector reforms initiated since 1992 to improve the efficiency and productivity of banks were initially centred on the commercial banks. These reform measures were subsequently extended, in stages, to the co-operative banks as well. While the measures including interest rate deregulation, application of prudential norms relating to asset classifica-

tion, income recognition and provisioning, etc. have been extended to the co-operative banks, the capital adequacy norms remain to be extended to the co-operative sector. Strengthening of the capital base of the co-operative banks in a phased manner would help in improving the soundness of these institutions.

3.62 In addition to the policy initiatives already being undertaken by the Reserve Bank and NABARD, the above measures can help to make the co-operative credit institutions more strong, efficient and viable.