

Developments in Cooperative Banking

This chapter analyses the financial performance of urban cooperative banks during the year 2008-09 and that of rural credit cooperatives for the year 2007-08 (given the lagged availability of data for these institutions) in the context of various policy initiatives by the Reserve Bank as discussed in Chapter III. During the year, there has been a continued progress towards consolidation of the urban cooperative banking sector with a growth in financially stronger entities and exit of weaker ones. Urban Cooperative Banks (UCBs) have posted high growth in credit and deposits during the year unlike their rural counterparts. Further, credit to small enterprises as part of priority sector lending of UCBs too has increased significantly during the year contrary to the expectations of a decline following the global crisis. However, both urban and rural cooperatives remain geographically concentrated having a dominant presence in the western region. In the case of urban cooperatives, there has been an increase in the concentration of banking business in few large entities. Moreover, high levels of Non-Performing Assets (NPAs) for UCBs and rural credit cooperative institutions continue to be the major area of concern and thus, cooperative sector, as observed by the Committee on Financial Sector Assessment (CFSA) 2009, remains 'one of the weak links in the Indian financial landscape'.

1. Introduction

5.1 Cooperatives occupy an important position in the Indian financial system. Cooperatives were the first formal institution to be conceived and developed to purvey credit to rural India. Thus far, cooperatives have been a key instrument of financial inclusion in reaching out to the last mile in rural areas. The urban counterparts of rural cooperatives, the Urban Cooperative Banks (UCBs), too have traditionally been an important channel of financial inclusion for the middle and low income sections in the semi-urban and urban areas.

5.2 Notwithstanding the important role played by cooperatives in financial inclusion, their financial viability and soundness remain some of the key areas of concern. Expectedly, enhancing the financial health of these institutions would further strengthen their efforts towards financial inclusion.

5.3 While there has been an improvement in the financial performance of the urban cooperative banking sector in recent times, the

high levels of NPAs of UCBs continue to pose a threat to the financial soundness of these institutions. Rural credit cooperative institutions both of the short- and long-term nature too are beset with several structural weaknesses, such as poor resource base and high levels of accumulated losses. Besides, both rural and urban cooperatives have traditionally been subjected to a multiplicity of control from the Reserve Bank and State Governments. The CFSA (2009) characterises the dual control as “the single most important regulatory and supervisory weakness” in the cooperative banking sector.

5.4 In order to deal with the issue of dual control, the Reserve Bank has taken several steps to develop a stronger and unified regulatory framework for the cooperative sector. These steps include the preparation of a Vision Document by the Reserve Bank in 2005, which recommended a State-specific strategy of the State Governments entering into a Memorandum of Understanding (MoU) with the Reserve Bank to deal with the dual regulatory control over UCBs and the establishment of a Task Force for UCBs in these

States as already discussed in Chapter III of the Report. Similarly, the Task Force on Revival of Cooperative Credit Institutions constituted by the Government of India in 2004 recommended the State Governments to enter into MoU with the Central Government and National Bank for Agriculture and Rural Development (NABARD) for implementation of the revival package for rural cooperative institutions.

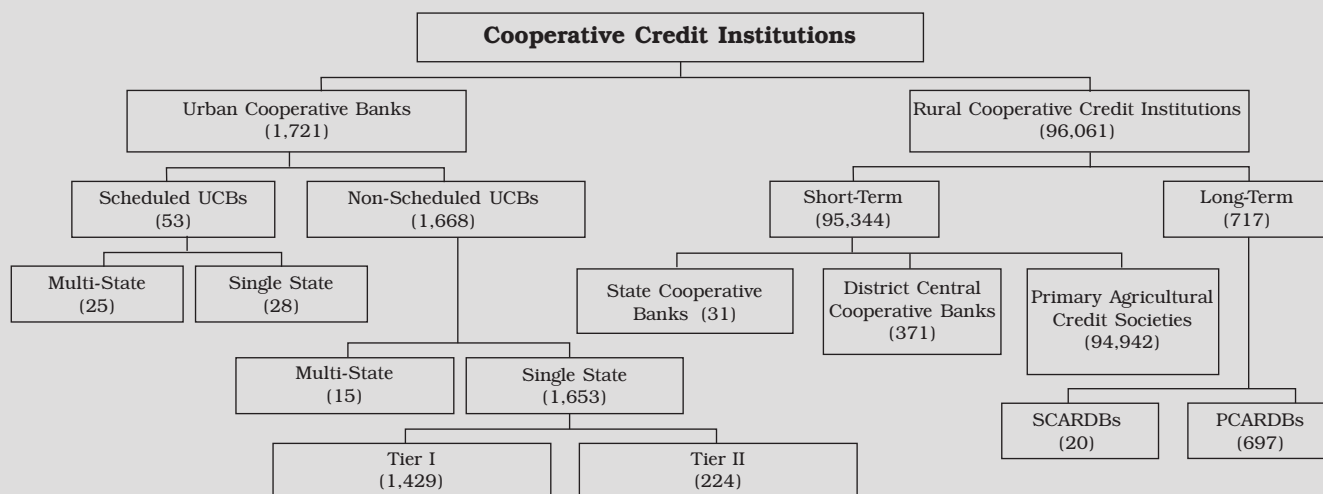
5.5 This chapter provides an analysis of the recent trends in the operations and performance of the urban and rural cooperative credit institutions. This chapter is organised into six sections. Section 2 discusses the existing structure of the cooperative credit institutions in India. Section 3 discusses the business operations and performance of UCBs during 2008-09, while Section 4 focuses on the performance of rural cooperative credit institutions during 2007-08. Section 5 discusses the initiatives taken by NABARD in

the development of rural credit cooperatives during 2008-09 followed by conclusions in Section 6.

2. Structure of Cooperative Credit Institutions in India

5.6 The distinctive feature of the cooperative credit structure in India is its heterogeneity. The structure differs across rural and urban areas as well as across States and tenures of loans (Chart V.1). The urban areas are served by Urban Cooperative Banks (UCBs), which are further sub-divided into scheduled and non-scheduled UCBs. Scheduled UCBs form a small proportion of the total number of UCBs. The operations of both scheduled and non-scheduled UCBs are limited to either one State (single-State) or stretch across States (multi-State). Most of the non-scheduled UCBs are primarily single State UCBs having a single tier structure¹.

Chart V.1: Structure of Cooperative Credit Institutions in India



SCARDBs: State Cooperative Agriculture and Rural Development Banks.

PCARDBs: Primary Cooperative Agriculture and Rural Development Banks.

Note: 1. Figures in parentheses indicate the number of institutions at end-March 2009 for UCBs and at end-March 2008 for rural cooperative credit institutions.
2. For rural cooperatives, the number of banks refers to reporting banks.

¹ Tier 1 UCBs include i) banks with deposits below Rs.100 crore, whose branches are located in a single district; ii) banks with deposits below Rs.100 crore having branches in more than one district, provided the branches are in contiguous districts and deposits and advances of branches in one district separately constitute at least 95 per cent of the total deposits and advances respectively of the bank; and iii) banks with deposits below Rs.100 crore, whose branches were originally in a single district but subsequently, became multi-district due to reorganisation of the district.

5.7 Rural cooperatives structure is bifurcated into short-term and long-term structure. The short-term cooperative structure is a three tier structure having State Cooperative Banks (StCBs) at the apex level followed by District Central Cooperative Banks (DCCBs) at the intermediate district level followed by Primary Agricultural Credit Societies (PACS) at the village level. This structure is often referred to as federal structure of the short-term credit cooperatives. The unitary structure is mainly observed in the North-eastern region, wherein the StCBs provide credit directly to PACS instead of any district level intermediary.

5.8 The long-term cooperative structure has the State Cooperative Agriculture and Rural Development Banks (SCARDBs) at the apex level followed by the Primary Cooperative Agriculture and Rural Development Banks (PCARDBs) at the district or block level. This is often referred to as the federal structure of long-term credit cooperatives. There is also a unitary structure under which the SCARDBs channel credit through their own branches. Finally, in some States, there is also a mixed structure under which both unitary and federal structures co-exist. In the States that do not have the long-term structure, separate sections of the StCBs look after the long-term credit requirements of rural areas. In 2008, this was the case with all States from the north-eastern region except Assam, Manipur and Tripura, which had a separate long-term structure. In 2008, 10 States

had a federal structure, while two States namely, West Bengal and Himachal Pradesh had a mixed structure of long-term cooperative credit. Further, eight States had a unitary structure of long-term cooperative credit institutions.

3. Urban Cooperative Banks

A Profile of UCBs

Grade-wise Distribution of UCBs

5.9 UCBs are graded into four categories on the basis of their financial performance. This financial performance is determined by various parameters including capital adequacy, level of NPAs and history of profit/loss. While UCBs from Grades I and II can be considered as relatively stronger banks, the banks belonging to Grades III and IV can be classified as sick or weak banks.

5.10 There was a decline in the number of UCBs from 1,770 at end-March 2008 to 1,721 at end-March 2009. This decline was an outcome of the process of consolidation of this sector as evident from a fall in the number of sick/weak banks belonging to Grade III and IV (Table V.1 read with Box V.1). On the other hand, the number of UCBs in Grade I increased over the year. On account of the increase, the percentage share of UCBs, which were financially more sound belonging to Grades I and II, increased further to 77.2 per cent at end-March 2009.

5.11 More importantly, the percentage share of UCBs from Grade I in total deposits increased

Table V.1: Grade-wise Distribution of Urban Cooperative Banks

End-March	No. of UCBs	Grade I	Grade II	Grade III	Grade IV	Grade I+II	Grade III+IV	Grade I+II (As percentage to total)	Grade III+IV (As percentage to total)
1	2	3	4	5	6	7	8	9	10
2008	1,770	748	526	258	238	1,274	496	71.9	28.0
2009 P	1,721	845	484	219	173	1,329	392	77.2	22.8

P: Provisional.

Box V.1: Impact of MoUs and TAFUCBs on the UCB Sector: Exit of Weak Banks

Pursuant to the announcement in the Mid-Term Review of the Annual Policy Statement for 2004-05, a Vision Document for UCBs was prepared and placed in public domain in March 2005. Based on the feedback received on this Document, a Medium-Term Framework (MTF) for UCBs was put into place. The Vision Document and MTF envisaged regulatory coordination between the two main regulatory authorities of the urban cooperative banking sector, viz., the Reserve Bank and the respective State Governments (Central Government for multi-State UCBs). This coordination was to be achieved by signing of a Memorandum of Understanding (MoU) in each State to address the problems of dual control, within the existing legal framework.

As on July 20, 2009, MoUs were signed with 26 States. MoU has also been entered into with the Central Government in respect of multi-State UCBs. As such, over 99 per cent of total number of UCBs have been covered under MoUs accounting for 99.2 per cent of total deposits as well as advances of the sector. Following the MoUs, the Reserve Bank is committed to constituting State level Task Force for Cooperative Urban Banks (TAFUCB) comprising representatives of the Reserve Bank, State Government and the UCB sector. Accordingly, TAFUCBs have been constituted in all States with which MoUs have been signed. A Central TAFUCB has also been constituted for the multi-State UCBs. TAFUCBs identify potentially viable and non-viable UCBs in the States and suggest revival path for the viable and non-disruptive exit route for the non-viable ones. The exit of non-viable banks could be through merger/

amalgamation with stronger banks, conversion into societies or liquidation, as the last option. The supervisory actions taken on the basis of the recommendations of the TAFUCBs include exiting banks through mergers with other UCBs, cancellation of licenses of non-viable UCBs and rejection of license applications of unlicensed UCBs.

There has been a distinct positive impact of the MoUs and TAFUCBs on the UCB sector. This is evident from a decline in the number of UCBs in Grade III and Grade IV taken together, signifying weak or sick banks from 725 as at end-March 2005 to 392 as on end-March 2009. In particular, there has been a steady decline in the number of UCBs in Grade III after 2004. Although UCBs in Grade IV increased at end-March 2005 and 2006, the number declined thereafter – from 270 as at end-March 2006 to 173 at end-March 2009 (Table 1).

Table 1: Changing Profile of the UCB Sector

Year (as at end-March)	No of UCBs	No. of banks in Grade				Percentage of Banks in Grade III and IV
		I	II	III	IV	
1	2	3	4	5	6	7
2004	1,919*	880	307	529	203	38
2005	1,872	807	340	497	228	39
2006	1,853	716	460	407	270	37
2007	1,813	652	598	295	268	31
2008	1,770	748	526	258	238	28
2009	1,721	845	484	219	173	23

* Out of 1,926 UCBs.

significantly from 53.3 per cent at end-March 2008 to 65.2 per cent at end-March 2009. A similar increase could also be seen in the percentage share of advances of UCBs from Grade I. This increase for the Grade I UCBs in deposits and advances meant a decline in the

shares of UCBs from all the remaining categories of UCBs. The changing composition of deposits and advances of UCBs across grades implied the growing concentration of banking business in UCBs with sound financial performance (Table V.2).

Table V.2: Grade-wise Distribution of Deposits and Advances of Urban Cooperative Banks
(As at end-March 2009)

(Amount in Rs. crore)

Grade	Number of banks	Number of banks as percentage to total	Amount of Deposits	Deposits as percentage to total	Amount of Advances	Advances as percentage to total
1	2	3	4	5	6	7
I	845	49.1	1,03,432	65.2	62,842	64.2
II	484	28.1	30,956	19.5	19,251	19.7
III	219	12.7	8,040	5.1	5,498	5.6
IV	173	10.1	16,304	10.3	10,326	10.5
Total	1,721	100.0	1,58,733	100.0	97,918	100.0

Note: Data for 2009 are provisional.

Distribution of UCBs by Size of Business and Assets

5.12 For the analysis in this section, UCBs were classified on the basis of the size of their business (deposits and advances) and assets. The distribution of UCBs by the size of their deposits was highly skewed with few UCBs commanding a large percentage of the total deposit base of the UCB sector. At end-March 2009, only 1.2 per cent of the total number of UCBs had a deposit base exceeding Rs.1,000 crore and these UCBs together accounted for 33.6 per cent of the total deposits of the entire UCB sector (Table V.3). Moreover, the distribution of deposits of UCBs has become increasingly skewed in the recent years. This is evident from the fact that as at end-March 2008, only 0.9 per cent of UCBs had a deposit base exceeding Rs.1,000 crore and these UCBs held about 28.8 per cent of the total deposits of the UCB sector.

5.13 The pattern of distribution of advances of UCBs was similar to that of deposits (Table V.4). At end-March 2009, less than one per cent of the total UCBs accounted for about one-fourth

Table V.3: Distribution of Urban Cooperative Banks by Size of Deposits
(As at end-March 2009)

Deposit base (Rs. crore)	Number of UCBs		Deposits	
	Number	Percentage share in total	Amount (Rs. crore)	Percentage share in total
1	2	3	4	5
D ≥ 1000	20	1.2	53,281	33.6
500 ≤ D < 1000	27	1.6	18,749	11.8
250 ≤ D < 500	56	3.3	20,754	13.1
100 ≤ D < 250	189	11.0	28,526	18.0
50 ≤ D < 100	196	11.4	15,069	9.5
25 ≤ D < 50	317	18.4	11,757	7.4
10 ≤ D < 25	452	26.3	7,621	4.8
D < 10	464	27.0	2,975	1.9
Total	1,721	100.0	1,58,733	100.0

D : Deposit base.
Note: Data are provisional.

Table V.4: Distribution of Urban Cooperative Banks by Size of Advances
(As at end-March 2009)

Size of advances (Rs. crore)	Number of UCBs		Advances	
	Number	Percentage share in total	Amount	Percentage share in total
1	2	3	4	5
Ad ≥ 1000	11	0.6	25,033	25.6
500 ≤ Ad < 1000	16	0.9	11,093	11.3
250 ≤ Ad < 500	37	2.1	12,668	12.9
100 ≤ Ad < 250	116	6.7	17,721	18.1
50 ≤ Ad < 100	154	8.9	11,634	11.9
25 ≤ Ad < 50	236	13.7	8,658	8.8
10 ≤ Ad < 25	441	25.6	7,279	7.4
Ad < 10	710	41.3	3,831	3.9
Total	1,721	100.0	97,918	100.0

Ad : Size of advances.
Note: Data are provisional.

of the total advances. As advances constituted about half of the total assets of these banks, the pattern of distribution of advances was comparable with that of assets (Table V.5). Evidently, as the consolidation has been in progress in the UCB sector, there has been a growing concentration of banking business in favour of a few UCBs.

Table V.5: Distribution of Urban Cooperative Banks by Size of Assets
(As at end-March 2009)

Asset size (Rs. crore)	Number of UCBs		Assets	
	Number	Percentage share in total	Amount (Rs. crore)	Percentage share in total
1	2	3	4	5
A ≥ 2000	16	0.9	62,339	31.7
1000 ≤ A < 2000	10	0.6	12,378	6.3
500 ≤ A < 1000	39	2.3	26,422	13.5
250 ≤ A < 500	73	4.2	24,365	12.4
100 ≤ A < 250	226	13.1	33,554	17.1
50 ≤ A < 100	244	14.2	16,204	8.3
25 ≤ A < 50	336	19.5	11,567	5.9
15 ≤ A < 25	285	16.6	5,130	2.6
A < 15	492	28.6	4,436	2.3
Total	1,721	100.0	1,96,395	100.0

A : Asset size.
Note: Data are provisional.

Table V.6: A Profile of Urban Cooperative Banks
(As at end-March 2009)

(Amount in Rs. crore)

Category	No. of UCBs	Deposits	Loans and Advances	Assets
1	2	3	4	5
All UCBs	1,721	1,58,733 (100.0)	97,918 (100.0)	1,96,395 (100.0)
Scheduled UCBs	53	67,929 (42.8)	42,234 (43.1)	85,895 (43.7)
Non-Scheduled UCBs	1,668	90,804 (57.2)	55,684 (56.9)	1,10,500 (56.3)

Note: Data are provisional.*Distribution of UCBs as Scheduled and Non-Scheduled Banks*

5.14 The non-scheduled UCBs outnumber scheduled UCBs. At end-March 2009, the number of scheduled UCBs remained unchanged at 53, while the number of non-scheduled UCBs declined to 1,668 from 1,717 in the previous year. In other words, all the UCBs from Grade III/IV that wound up their business between 2008 and 2009 were non-scheduled UCBs.

5.15 At end-March 2009, non-scheduled UCBs had a relatively larger share in total deposits as well as advances of all UCBs (Table V.6). However, there has been a fall in the share of non-scheduled UCBs in total deposits and advances in the recent years. Scheduled UCBs accounted for 42.8 per cent of total deposits at end-March 2009 as compared to 41.8 per cent at end-March 2008. Further, the share of

scheduled UCBs in total advances was 40.0 per cent at end-March 2008, which increased to 43.1 per cent at end-March 2009.

Tier-wise Distribution of UCBs

5.16 UCBs are categorised into two tiers, namely Tier I and Tier II, for regulatory purposes. As at end-March 2009, the number of Tier I UCBs far exceeded the number of Tier II UCBs. However, the share of Tier I UCBs in total deposits and advances ranged less than 24 per cent; the remaining was accounted for by Tier II UCBs (Table V.7).

Balance Sheet Operations of UCBs

5.17 There was a slowdown in the rate of growth of total assets of UCBs during 2008-09. The growth in total assets of UCBs declined from 11.1 per cent during 2007-08 to 9.5 per cent during 2008-09 (Table V.8). Loans and advances, which constituted about half of the total assets of UCBs, posted a growth of 8.3 per cent during the year. The most important driving factor on the assets side during 2008-09 were investments of UCBs, which grew at the rate of 12.8 per cent. On the liabilities side, the major source of expansion was from deposits, which grew at the rate of 13.5 per cent during the year down by 1.7 percentage points from the growth of 15.2 per cent during the previous year. However, the sustained double digit growth in deposits during the last two years as compared with the growth of 6.1 per cent recorded during

Table V.7: Tier-wise Distribution of Urban Cooperative Banks
(As at end-March 2009)

(Amount in Rs. crore)

Tier	Number of UCBs		Deposits		Advances		Assets	
	Number	Percentage share in total	Amount	Percentage share in total	Amount	Percentage share in total	Amount	Percentage share in total
1	2	3	4	5	6	7	8	9
Tier I UCBs	1,429	83.0	37,937	23.9	22,913	23.4	47,528	24.2
Tier II UCBs	292	17.0	1,20,796	76.1	75,005	76.6	1,48,867	75.8
All UCBs	1,721	100.0	1,58,733	100.0	97,918	100.0	1,96,395	100.0

Note: Data are provisional.

Table V.8: Liabilities and Assets of Urban Cooperative Banks

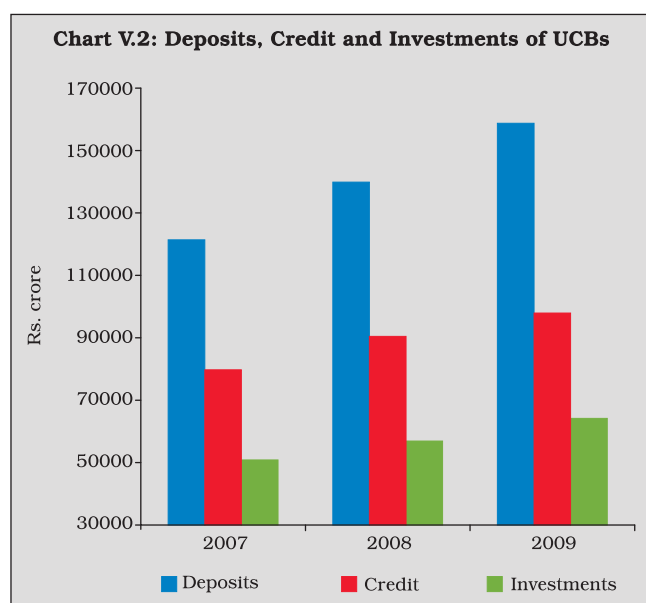
(Amount in Rs. crore)

Item	As at end-March		Percentage variation	
	2008	2009P	2007-08	2008-09P
1	2	3	4	5
Liabilities				
1. Capital	4,769 (2.7)	5,261 (2.7)	20.2	10.3
2. Reserves	15,339 (8.5)	15,591 (7.9)	7.7	1.6
3. Deposits	1,39,871 (78.0)	1,58,733 (80.8)	15.2	13.5
4. Borrowings	2,680 (1.5)	2,554 (1.3)	0.9	-4.7
5. Other Liabilities	16,752 (9.3)	14,256 (7.3)	-12.7	-14.9
Assets				
1. Cash in Hand	1,935 (1.1)	1,907 (1.0)	19.3	-1.4
2. Balances with Banks	17,555 (9.8)	18,193 (9.3)	97.1	3.6
3. Money at Call and Short Notice	1,895 (1.1)	2,112 (1.1)	0.6	11.5
4. Investments	56,912 (31.7)	64,171 (32.7)	11.9	12.8
5. Loans and Advances	90,444 (50.4)	97,918 (49.9)	13.4	8.3
6. Other Assets	10,671 (5.9)	12,095 (6.2)	-42.2	13.3
Total Liabilities/Assets	1,79,412 (100.0)	1,96,395 (100.0)	11.1	9.5

P: Provisional.

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

2006-07 indicated the growing public confidence in this sector (Chart V.2).



5.18 UCBs relied heavily on deposits as a source of funds, which accounted for 80.8 per cent of their total liabilities in 2009. Borrowings on the other hand formed only 1.3 per cent of their liabilities. This dependence on deposits over borrowings marked the striking difference between the operations of the urban and rural cooperative banks.

5.19 Similar to rural cooperative banks and also SCBs, SLR investment was the most preferred form of investment for UCBs. SLR investments accounted for the bulk of total investments of UCBs with a share of 91.4 per cent at end-March 2009 (Table V.9). As noted in Chapter III, UCBs are also allowed to treat the term deposits held by them with DCCBs of the district concerned and StCBs of the State concerned as SLR investments. During 2008-09, term deposits with StCBs and DCCBs together were the second most important form of SLR investments for UCBs after investments in Central Government securities.

Table V.9: Investments by Urban Cooperative Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage variation
	2008	2009P	
1	2	3	4
Total Investments (A+B)	56,912 (100.0)	64,171 (100.0)	12.8
A. SLR Investments (i to vi)	52,302 (91.9)	58,677 (91.4)	12.2
i) Central Government Securities	33,408 (58.7)	36,205 (56.4)	8.4
ii) State Government Securities	4,330 (7.6)	4,564 (7.1)	5.4
iii) Other Approved Securities	1,040 (1.8)	819 (1.3)	-21.3
iv) Term Deposits with StCBs	4,081 (7.2)	5,406 (8.4)	32.5
v) Term Deposits with DCCBs	8,163 (14.3)	9,258 (14.4)	13.4
vi) Others, if any	1,280 (2.2)	2,425 (3.8)	89.5
B. Non-SLR Investments (in bonds of public sector institutions/AIFIs, shares of AIFIs and Units of UTI)	4,610 (8.1)	5,494 (8.6)	19.2

P: Provisional.

Note: Figures in parentheses are percentages to total.

Balance Sheet Operations of Scheduled and Non-Scheduled UCBs

5.20 The year 2008-09 was a year of considerable expansion in the size of the balance sheet of scheduled UCBs as compared to non-scheduled UCBs (Tables V.10 and V.11)². The decline in balance sheet size of non-scheduled UCBs came about from its two important components on the assets and liabilities side, namely, advances and deposits. Despite a decline in deposit growth during 2008-09 for non-scheduled UCBs, there was a rise in the

Table V.10: Liabilities and Assets of Scheduled Urban Cooperative Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage variation	
	2008	2009P	2007-08	2008-09P
1	2	3	4	5
Liabilities				
1. Capital	1,322 (1.8)	1,510 (1.8)	32.9	14.2
2. Reserves	6,759 (9.0)	6,900 (8.0)	-2.0	2.1
3. Deposits	58,871 (78.5)	67,929 (79.1)	15.0	15.4
4. Borrowings	1,476 (2.0)	1,833 (2.1)	9.7	24.2
5. Other Liabilities	6,600 (8.8)	7,724 (9.0)	-43.5	17.0
Assets				
1. Cash in hand	546 (0.7)	508 (0.6)	28.8	-7.0
2. Balances with Banks	7,584 (10.1)	7,774 (9.1)	67.0	2.5
3. Money at call and short notice	1,009 (1.3)	1,425 (1.7)	-8.0	41.2
4. Investments	25,776 (34.4)	29,210 (34.0)	12.7	13.3
5. Loans and Advances	36,147 (48.2)	42,234 (49.2)	10.2	16.8
6. Other Assets	3,966 (5.3)	4,744 (5.5)	-61.6	19.6
Total Liabilities/Assets	75,028 (100.0)	85,895 (100.0)	4.1	14.5

P: Provisional.

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

Table V.11: Liabilities and Assets of Non-Scheduled Urban Cooperative Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage variation	
	2008	2009P	2007-08	2008-09P
1	2	3	4	5
Liabilities				
1. Capital	3,447 (3.3)	3,752 (3.4)	15.9	8.8
2. Reserves	8,580 (8.2)	8,691 (7.9)	16.9	1.3
3. Deposits	81,000 (77.6)	90,804 (82.2)	15.4	12.1
4. Borrowings	1,204 (1.2)	722 (0.7)	-8.2	-40.0
5. Other Liabilities	10,152 (9.7)	6,532 (5.9)	35.0	-35.7
Assets				
1. Cash in Hand	1,388 (1.3)	1,398 (1.3)	15.9	0.7
2. Balances with Banks	9,971 (9.6)	10,419 (9.4)	128.5	4.5
3. Money at Call and Short Notice	885 (0.8)	687 (0.6)	12.5	-22.4
4. Investments	31,136 (29.8)	34,961 (31.6)	11.3	12.3
5. Loans and Advances	54,297 (52.0)	55,684 (50.4)	15.7	2.6
6. Other Assets	6,705 (6.4)	7,351 (6.7)	-17.3	9.6
Total Liabilities/Assets	1,04,383 (100.0)	1,10,500 (100.0)	16.8	5.9

P : Provisional.

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

share of deposits in the total liabilities of these banks. For scheduled UCBs, there was an increase in the growth as well as share of deposits in total liabilities. Borrowings constituted a relatively small source of funds for both scheduled and non-scheduled UCBs.

5.21 Loans and advances accounted for a relatively smaller share in the balance sheets of scheduled UCBs as compared to non-scheduled UCBs. The annual rate of growth of loans and advances for scheduled UCBs, however, was observed to be significantly higher than that for non-scheduled UCBs during 2008-09.

² Bank-wise details about the financial performance of scheduled UCBs have been given in Appendix Tables V.1 and V.2.

Table V.12: Composition of Investments of Scheduled and Non-Scheduled Urban Cooperative Banks

(Amount in Rs. crore)

Item	Scheduled UCBs		Non-Scheduled UCBs		All UCBs	
	2007-08	2008-09P	2007-08	2008-09P	2007-08	2008-09P
1	2	3	4	5	6	7
SLR Investments	22,986 (89.2)	26,067 (89.2)	29,315 (94.2)	32,610 (93.3)	52,302 (91.9)	58,677 (91.4)
Non-SLR Investments	2,790 (10.8)	3,143 (10.8)	1,821 (5.8)	2,351 (6.7)	4,610 (8.1)	5,494 (8.6)
Total Investments	25,776 (100.0)	29,210 (100.0)	31,136 (100.0)	34,961 (100.0)	56,912 (100.0)	64,171 (100.0)

P : Provisional.
Note: Figures in parentheses are percentages to total.

5.22 The importance of SLR investments could be seen in the investment profile of both scheduled and non-scheduled UCBs (Table V.12). However, in the case of scheduled UCBs, SLR investments posted a higher rate of growth during 2008-09 than non-scheduled UCBs. Moreover, during the year, the share of SLR investments in total investments of non-scheduled UCBs posted a fall, while that for scheduled UCBs remained unchanged.

Financial Performance of UCBs

5.23 During 2008-09, there was a slowdown in the growth of operating profits of UCBs. The decline in the growth of net profits was relatively starker on account of an increase in provisions and contingencies. However, it is noteworthy that net profits of UCBs have consistently posted positive growth during the last two years. Moreover, with respect to profitability, UCBs have outperformed rural cooperatives during 2007-08 (the comparable year for which data are available for rural cooperatives) (Table V.13 read with Tables V.26 and V.29).

Financial Performance of Scheduled and Non-Scheduled UCBs

5.24 The net interest income for non-scheduled UCBs increased significantly during the year. As a result, net profits registered a growth of 37.3 per cent during the year. In

contrast, scheduled UCBs experienced a small reduction in their profitability during the year (Tables V.14 and V.15).

Table V.13: Financial Performance of Urban Cooperative Banks

(Amount in Rs. crore)

Item	Amount		Percentage variation	
	2007-08	2008-09P	2007-08	2008-09P
1	2	3	4	5
A. Total Income (i+ii)	15,385 (100.0)	18,952 (100.0)	25.3	23.2
i. Interest Income	13,833 (89.9)	17,027 (89.8)	23.3	23.1
ii. Non-Interest Income	1,552 (10.1)	1,925 (10.2)	45.7	24.0
B. Total Expenditure (i+ii)	12,400 (100.0)	15,402 (100.0)	26.6	24.2
i. Interest Expenditure	8,966 (72.3)	10,992 (71.4)	33.9	22.6
ii. Non-Interest Expenditure	3,434 (27.7)	4,411 (28.6)	10.8	28.5
of which: Wage Bill	1,836	2,445	59.8	33.2
C. Profit				
i. Amount of Operating Profit	2,985	3,549	20.2	18.9
ii. Provisions, Contingencies, Taxes	1,464	1,803	11.8	23.2
iii. Amount of Net Profit	1,520	1,746	29.6	14.9

P: Provisional.
Note: Figures in the parentheses are percentages to respective totals.

Soundness Indicators

Asset Quality

5.25 Notwithstanding the slowdown in economic activity and expectations about higher loan defaults following the global crisis, there was a decline in the (gross) NPA ratio of the UCB sector in 2008-09. Further, during the year, there was a decline in the amount of (gross) NPAs as well (Table V.16). It is also noteworthy that the NPA ratio for UCBs was on a decline between 2005 and 2009 reflecting the growing financial soundness of this sector (Chart V.3)³.

5.26 Though there has been a decline in the NPA ratio for UCBs, the ratio still remains much higher

Table V.14: Financial Performance of Scheduled Urban Cooperative Banks

(Amount in Rs. crore)

Item	Amount		Percentage variation	
	2007-08	2008-09P	2007-08	2008-09P
1	2	3	4	5
A. Total Income (i+ii)	6,420	8,205	39.7	27.8
	(100.0)	(100.0)		
i. Interest Income	5,605	7,161	38.1	27.8
	(87.3)	(87.3)		
ii. Non-Interest Income	815	1,044	52.9	28.1
	(12.7)	(12.7)		
B. Total Expenditure (i+ii)	5,039	6,527	32.9	29.5
	(100.0)	(100.0)		
i. Interest Expenditure	3,574	4,713	43.6	31.9
	(70.9)	(72.2)		
ii. Non-Interest Expenditure	1,465	1,814	12.5	23.8
	(29.1)	(27.8)		
of which: Wage Bill	773	903	96.2	16.8
C. Profit				
i. Amount of Operating Profit	1,381	1,678	72.0	21.5
ii. Provisions, Contingencies, Taxes	472	772	58.4	63.6
iii. Amount of Net Profit	909	906	80.0	-0.3

P: Provisional.
Note: Figures in the parentheses are percentages to respective totals.

Table V.15: Financial Performance of Non-Scheduled Urban Cooperative Banks

(Amount in Rs. crore)

Item	Amount		Percentage variation	
	2007-08	2008-09P	2007-08	2008-09P
1	2	3	4	5
A. Total Income (i+ii)	8,965	10,747	16.6	19.9
	(100.0)	(100.0)		
i. Interest Income	8,228	9,866	15.0	19.9
	(91.8)	(91.8)		
ii. Non-Interest Income	736	881	38.3	19.7
	(8.2)	(8.2)		
B. Total Expenditure (i+ii)	7,361	8,875	22.6	20.6
	(100.0)	(100.0)		
i. Interest Expenditure	5,391	6,279	28.1	16.5
	(73.2)	(70.7)		
ii. Non-Interest Expenditure	1,969	2,596	9.5	31.8
	(26.7)	(29.3)		
of which: Wage Bill	1,063	1,542	40.8	45.1
C. Profit				
i. Amount of Operating Profit	1,604	1,871	-4.5	16.6
ii. Provisions, Contingencies, Taxes	992	1,031	-2.0	3.9
iii. Amount of Net Profit	612	840	-8.4	37.3

P : Provisional.
Note: Figures in parentheses are percentages to respective totals.

than that of SCBs. The ratio for UCBs, however, is fairly lower than their rural counterparts, namely, rural cooperatives (Table V.16 read with Table V.23).

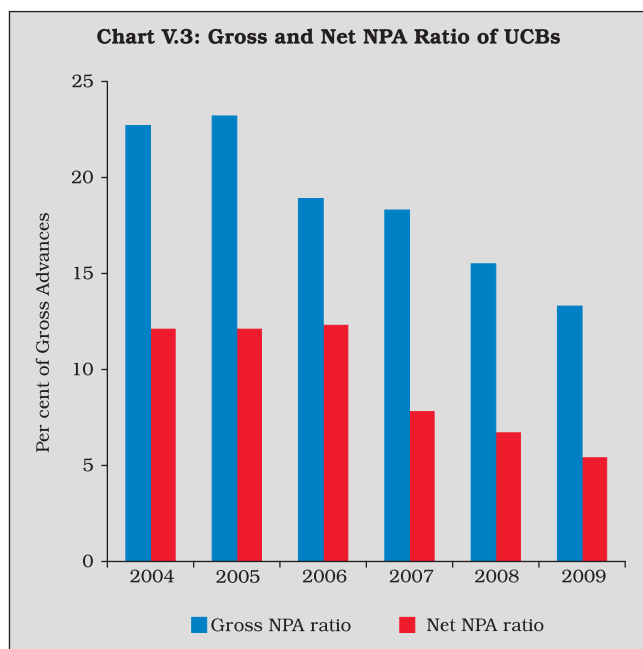
Table V.16: Gross Non-Performing Assets of Urban Cooperative Banks

(Amount in Rs. crore)

As at end-March	No. of reporting UCBs	Gross NPAs	Gross NPAs as percentage of Gross Advances	Net NPAs	Net NPAs as percentage of Net Advances
1	2	3	4	5	6
2007	1,813	14,541	18.3	6,235	8.8
2008	1,770	14,037	15.5	6,083	7.7
2009P	1,721	13,043	13.3	5,318	6.1

P: Provisional.

³ In Chart V.3, gross and net NPAs of UCBs are taken as per cent of gross advances, as data on net advances are available only for the years after 2007.



Capital Adequacy

5.27 At present, the regulatory minimum CRAR for UCBs stands at 9 per cent. As at end-March 2009, 1,485 UCBs of the total 1,721 were complying with the regulatory minimum (Table V.17). There has been an improvement in capital adequacy for UCBs as evident from

Table V.17: Distribution of Urban Cooperative Banks by CRAR
(As at end-March 2009)

Range of CRAR (Per cent)	CRAR <3	3 ≤ CRAR <6	6 ≤ CRAR <9	CRAR ≥9	Total
1	2	3	4	5	6
Non-Scheduled UCBs	136	24	66	1,442	1,668
Scheduled UCBs	8	1	1	43	53
All UCBs	144	25	67	1,485	1,721

Note: Data are provisional.

an increasing proportion of banks having CRAR of 9 per cent and above; as at end-March 2008, their proportion was 82.3 per cent, which had risen to 86.3 per cent at end-March 2009.

5.28 Notwithstanding the overall improvement in capital adequacy, it is noteworthy that about 8 per cent of the non-scheduled UCBs and 15 per cent of the scheduled UCBs had CRAR below 3 per cent signifying serious inadequacy of capital for these banks to cushion any potential loss. The stress test carried out by the CFSA for UCBs also revealed the underlying fragility of this sector (Box V.2).

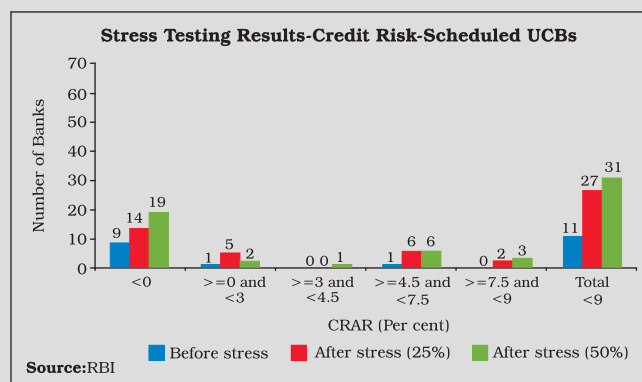
Box V.2: Financial Assessment of the UCB Sector by the CFSA

The Committee on Financial Sector Assessment (CFSA) undertook a comprehensive self-assessment of the Indian financial system. Among other sectors, the CFSA assessed the financial health of the UCB sector. Apart from discussing some of the major concerns related to the UCBs sector, such as duality of control and high levels of NPAs, the Committee also carried out stress tests on this sector, which highlighted the weak financial health of this sector.

On account of data limitations, the stress tests were carried out on 52 scheduled UCBs accounting for 43 per cent of the total assets at end-March 2007 of all scheduled UCBs. The tests were restricted to the credit portfolio of these banks. The credit portfolios of the UCBs were given shocks in the form of an increase in the provisioning requirement and an increase of 25 per cent and 50 per cent in the non-performing assets.

The tests revealed that as at end-March 2007, 27 banks (accounting for 38 per cent of scheduled UCBs' assets) would not have been able to comply with the 9 per cent CRAR norm with an increase in NPA levels by 25 per

cent. At the system level, the CRAR declined from 11.4 per cent to 5.6 per cent at 25 per cent stress in NPAs. Further, with an increase in NPA levels by 50 per cent, the number of banks that would not have been able to comply with the stipulated minimum increased to 31. Moreover, at the system level, the CRAR dipped sharply to 2.8 per cent (Chart below).



Priority Sector Advances

5.29 UCBs were subjected to priority sector lending targets in 1983 on account of the important role played by these institutions in purveying banking facilities to low and middle income groups from urban and semi-urban areas. Presently, UCBs have to extend 40 per cent of their Adjusted Net Bank Credit (ANBC) or credit equivalent of Off-Balance Sheet Exposure (OBE), whichever is higher, as on March 31 of the previous year, to priority sectors. Of this target, at least 25 per cent needs to be given to 'weaker sections'. However, unlike SCBs, UCBs are not bound by any separate target for agriculture given the primarily urban focus of these banks.

5.30 As at end-March 2009, a large part (38.5 per cent) of the priority sector advances of UCBs was towards small enterprises closely followed by housing loans (with a share of 25.1 per cent).

Table V.18: Advances to Priority Sectors and Weaker Sections by Urban Cooperative Banks
(As at end-March 2009)

Sector	Priority Sector		Weaker Sections	
	Amount	Per-centage share in total advances	Amount	Per-centage share in total advances
1	2	3	4	5
Agriculture and Allied Activities	4,731	4.8	1,732	1.8
1. Direct Finance	1,415	1.4	537	0.5
2. Indirect Finance	3,316	3.4	1,195	1.2
Retail Trade	10,235	10.5	2,958	3.0
Small Enterprises	21,283	21.7	3,748	3.8
1. Direct Finance	15,331	15.7	2,866	2.9
2. Indirect Finance	5,952	6.1	882	0.9
Educational Loans	1,461	1.5	557	0.6
Housing Loans	13,882	14.2	4,271	4.4
Micro Credit	3,130	3.2	1,035	1.1
State Sponsored Organisations for SC/ST	526	0.5	273	0.3
Total Credit to Priority Sectors	55,248	56.4	14,573	14.9

Note: Data are provisional.

Further, UCB credit to small enterprises recorded a phenomenal growth of 41.7 per cent during 2008-09 contrary to the concerns about a slowdown in bank credit to these enterprises following the global crisis. As a result, loans to small enterprises, which had a share of 16.9 per cent in total advances of UCBs as at end-March 2008 increased 21.7 per cent at end-March 2009 (Table V.18).

Regional Profile of UCBs

5.31 The operations of UCBs were largely concentrated in three States, viz., Maharashtra (including Goa), Gujarat and Karnataka. These three States together accounted for 64.8 per cent of the total number of UCBs operational in the country as at end-March 2009 (Table V.19). The

Table V.19: State-wise Distribution of Number of Urban Cooperative Banks
(As at end-March 2009)

State	Number of UCBs	Number of Branches*	Number of Extension Counters	Number of ATMs**
1	2	3	4	5
Andhra Pradesh	114	234	7	1
Assam/North-east	17	28	0	0
Bihar/Jharkhand	5	6	1	0
Chattisgarh	13	21	2	1
Gujarat	260	886	10	57
Jammu and Kashmir	4	16	4	0
Karnataka	273	828	9	16
Kerala	60	332	2	0
Madhya Pradesh	55	84	0	0
Maharashtra/Goa	583	4,148	165	573
New Delhi	15	62	1	0
Orissa	13	50	4	4
Punjab/Haryana/Himachal Pradesh	16	40	3	1
Rajasthan	39	149	3	1
Tamil Nadu/Puducherry	130	310	0	1
Uttar Pradesh	70	179	19	0
Uttarakhand	5	49	2	3
West Bengal/Sikkim	49	100	2	1
Total	1,721	7,522	234	659

* : Including head office cum branch.
** : Out of 659 ATMs, 12 were offsite ATMs and rest were onsite ATMs. All offsite ATMs were located in Maharashtra.
Note: Data are provisional.

Table V.20: State-wise Distribution of Deposits and Advances of Urban Cooperative Banks
(As at end-March 2009)

(Amount in Rs. crore)

State	Deposits		Advances		Total number of districts with presence of UCBs
	Amount	Percentage share in total	Amount	Percentage share in total	
1	2	3	4	5	6
Andhra Pradesh	3,653	2.3	2,541	2.6	21
Assam	269	0.2	155	0.2	6
Bihar	41	0.02	22	0.02	2
Chhattisgarh	271	0.2	90	0.1	7
Gujarat	25,564	16.1	14,091	14.4	26
Haryana	274	0.2	160	0.2	7
Himachal Pradesh	266	0.2	161	0.2	4
Jammu & Kashmir	253	0.2	153	0.2	5
Jharkhand	11	0.006	7	0.007	2
Karnataka	10,391	6.5	7,183	7.3	26
Kerala	3,849	2.4	2,493	2.5	14
Madhya Pradesh	1,027	0.6	498	0.5	25
Goa	1,290	0.8	751	0.8	5
Maharashtra	96,249	60.6	60,634	61.9	35
Manipur	129	0.1	58	0.1	3
Meghalaya	60	0.03	28	0.02	3
Mizoram	10	0.006	4	0.004	1
New Delhi	1,241	0.8	523	0.5	1
Orissa	854	0.5	532	0.5	13
Puducherry	101	0.1	79	0.1	1
Punjab	552	0.3	277	0.3	2
Rajasthan	2,468	1.6	1,402	1.4	23
Sikkim	5	0.003	4	0.004	1
Tamil Nadu	3,598	2.3	2,608	2.7	30
Tripura	10	0.003	6	0.006	1
Uttar Pradesh	2,554	1.6	1,483	1.5	36
Uttarakhand	1,194	0.8	668	0.7	7
West Bengal	2,551	1.6	1,309	1.3	11
Total	1,58,733	100.0	97,918	100.0	318

Note: 1. Data are provisional.

2. State-wise figures on credit and deposits may not add up exactly to the total due to rounding off.

State-wise distribution of advances and deposits of UCBs was even more skewed with Maharashtra alone accounting for over 60 per cent of the total advances and deposits of all UCBs (Table V.20). Across all centres in the country, the percentage of sound UCBs belonging to Grades I and II was more than 50 per cent (Table V.21).

4. Rural Cooperatives

Supervision of Rural Cooperatives

5.32 The supervision of StCBs and DCCBs rests with NABARD in accordance with the powers vested with it under Section 35(6) of the B. R. Act, 1949 (AACS). For effective

Table V.21: Centre-wise Number of Urban Cooperative Banks classified by Grades
(As at end-March 2009)

State	Grade I	Grade II	Grade III	Grade IV	Total
1	2	3	4	5	6
Ahmedabad	116	100	16	28	260
Bangalore	128	82	47	16	273
Bhopal	13	25	12	5	55
Bhubaneswar	3	4	3	3	13
Chandigarh	10	2	1	3	16
Chennai	88	34	3	5	130
Dehradun	4	-	1	-	5
Guwahati	7	8	1	1	17
Hyderabad	75	25	6	8	114
Jaipur	25	11	1	2	39
Jammu	3	-	1	-	4
Kolkata	27	11	1	10	49
Lucknow	46	10	9	5	70
Mumbai	202	100	64	54	420
Nagpur	55	40	39	29	163
New Delhi	11	2	1	1	15
Patna	5	-	-	-	5
Raipur	7	3	1	2	13
Thiruvananthapuram	20	27	12	1	60
Total	845	484	219	173	1,721

Note: Data are provisional.

regulation, NABARD's inspections are focussed on ensuring conformity with banking regulations and facilitating internalisation of prudential norms.

5.33 In 2008-09, the frequency for statutory inspections of all StCBs and DCCBs, which did not comply with minimum capital requirements continued to be annual. The frequency was annual for voluntary inspections of all SCARDBs as well. The statutory inspections of DCCBs having positive net worth were conducted once in two years. During the year, NABARD conducted statutory inspections of 273 banks (30 StCBs and 243 DCCBs) and voluntary inspections of 17 SCARDBs.

5.34 The inspections by NABARD during the year revealed, *inter alia*, the following supervisory concerns: (i) non-compliance with statutory provisions; (ii) high level of NPA/

erosion of assets; (iii) deficiencies in sanction, appraisal of loans/ advances and post-disbursement follow-up; (iv) inadequate risk management systems; (v) delay in submission of returns and satisfactory compliance to inspection observations; (vi) lack of corporate governance and (vii) incidence of frauds.

5.35 The Board of Supervision (BoS) was constituted by NABARD under Section 13(3) of NABARD Act, 1981 as an Internal Committee to the Board of Directors of NABARD. The Board primarily gives directions and guidance in respect of policies and matters relating to supervision and inspection of StCBs, DCCBs and RRBs. The Board met three times during the year. Among other issues, it reviewed the following: (i) functioning of StCBs and SCARDBs; (ii) functioning of cooperative credit institutions and RRBs of Kerala, Bihar and Rajasthan; (iii) functioning of insolvent,

weak DCCBs and RRBs; (iv) impact of supervision on banks' performance; (v) scheduling of amalgamated RRBs; and (vi) supervisory trends pertaining to rating of banks.

5.36 NABARD revised the inspection guidelines for all banks keeping in view the latest developments and policy environment. The revised guidelines stressed *inter alia* on the following: (i) asset liability management; (ii) Codes of Standards and Fair Practices; (iii) lenders' financial discipline and (iv) CRAR norms.

Management of Cooperatives

5.37 The phenomenon of supersession of elected Boards continued during the year in some States despite the policy of NABARD to emphasise on the need for cooperative banks to be managed by duly elected Boards of Management. However, there was a decline in the percentage of institutions where such supersession was observed. As on March 31, 2008, the percentage of (reporting) institutions where the elected boards were superseded was 41.9 per cent as compared to 46.4 per cent last year (Table V.22). The phenomenon of supersession was most prominent among SCARDBs and DCCBs.

Operations and Financial Performance of Rural Cooperatives

5.38 Data for rural credit cooperatives (comprising StCBs, DCCBs, PACS, SCARDBs and PCARDBs) are available with a lag of one

year and hence, the analysis in the present section relates to 2007-08.

5.39 During 2007-08, there was a fall in the total number of rural credit cooperatives by 2,282; this was attributable primarily to the fall in the number of PACS (Table V.23). Further, there was a considerable deterioration in the asset quality of both short-term and long-term cooperative institutions during 2007-08. The overall ratio of NPAs to loans outstanding for all credit cooperatives moved up to 25.9 per cent as at end-March 2008 from 19.8 per cent as at end-March 2007. Also, the number of loss making credit cooperatives far exceeded the number of profit making entities at end-March 2008, which has been a regular feature of credit cooperatives in the past. All credit cooperatives taken together booked an overall loss of Rs.3,954 crore during the year.

Short-term Structure of Rural Cooperatives

5.40 The short-term structure comprising State, district and primary cooperative credit institutions caters primarily to the various short/medium-term production and marketing credit needs in agriculture. Of the total credit outstanding with the cooperative structure as a whole in 2007-08, short-term credit structure had a dominant share of about 88 per cent (Table V.23). Further, of the total deposits mobilised through the rural cooperative structure as a whole, about 99 per cent were mobilised by the short-term cooperative credit institutions.

Table V.22: Elected Boards under Supersession
(As at end-March 2008)

Item	StCBs	DCCBs	SCARDBs	PCARDBs	Total
1	2	3	4	5	6
(i) Total number of Institutions	31	371	20	697	1,119
(ii) Number of Reporting Institutions	28	324	15	642	1,009
(iii) Number of Institutions where Boards were under Supersession	9	146	8	260	423
Percentage of Reporting Boards under Supersession [(iii) as per cent of (ii)]	32.1	45.1	53.3	40.5	41.9

Source: NABARD.

Table V.23: A Profile of Rural Cooperative Credit Institutions
(At end-March 2008)

(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 Cooperative Banks	31	371	94,942	20	697	96,061
B. Balance Sheet Indicators						
i) Owned Funds (Capital + Reserves)	10,718	24,754	10,984	3,713	3,039	53,208
ii) Deposits	52,973	1,02,986	25,449	645	331	1,82,384
iii) Borrowings	22,164	26,096	47,848	15,843	10,206	1,22,157
iv) Loans and Advances Issued*	57,455	93,162	57,643	2,226	1,773	2,12,259
v) Loans and Advances Outstanding	48,228	91,374	65,666	18,217	9,529	2,33,014
vi) Investments	29,060	44,419	-	2,526	752	76,757
vii) Total Liabilities/Assets	90,151	1,61,932	88,107 +	24,403	18,209	3,82,802
C. Financial Performance ^ ^						
i) Institutions in Profit						
a) No.	23	234	38,307	9	203	38,776
b) Amount of Profit	234	760	2,230	151	170	3,545
ii) Institutions in Loss						
a) No.	5	88	48,520	8	258	48,879
b) Amount of Loss	-49	-825	-5,711	-398	-516	-7,499
iii) Overall Profit/Loss	185	-65	-3,481	-247	-346	-3,954
iv) Accumulated Loss	-429	-6,106	-	-1,257	-3,214	-11,006
D. Non-performing Assets**						
i) Amount	6,169	18,728	24,004 ++	6,292	5,114	60,307
ii) As percentage of Loans Outstanding	12.8	20.5	36.6 ^ ^ ^	34.5	53.7	25.9
iii) Recovery of Loans to Demand (Per cent)	84.6	55.6	64.3	49.0	44.0	

^ : Data for PCARDBs in Himachal Pradesh, Kerala, and Tamil Nadu are not available.

** : NPA and Recovery to Demand data for StCBs in Bihar, Himachal Pradesh and Manipur and DCCBs from Bihar and Himachal Pradesh are repeated from previous year for the all-India calculation.

: Profit/loss data in respect of DCCBs in Andhra Pradesh, Bihar and Himachal Pradesh are not available.

^ ^ : One DCCB in Gujarat and Madhya Pradesh each was in no profit no loss position.

@ : Data for Bihar, Himachal Pradesh and Tamil Nadu SCARDB are not available.

+ : Working capital. * : April- March. ^ ^ ^ : Percentage of overdues to loans outstanding. ++ : Total overdues.

- : Not available.

Note: 1. SCARDB in Manipur is defunct.

2. Data are provisional.

Source: NABARD and NAFSCOB.

State Cooperative Banks

5.41 The growth in the balance sheets of StCBs slowed down during 2007-08 with the total assets/liabilities growing at a decelerated rate of 5.1 per cent as compared to 12.1 per cent during the previous year (Table V.24). This slowdown came about mainly from a sharp fall in the growth of loans and advances of StCBs on the assets side. This fall in growth resulted

in bringing down the share of loans and advances in the total assets of StCBs *albeit* marginally. Loans and advances continued to constitute more than half of the total assets of these institutions. As a major part of the loans from StCBs being apex level institutions go towards the lower tier institutions in short-term credit structure, a decline in the growth of loans from StCBs implied reduced lending to the lower tier institutions. Compensating for a fall

Table V.24: Liabilities and Assets of State Cooperative Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage variation	
	2006-07	2007-08P	2006-07	2007-08P
1	2	3	4	5
Liabilities				
1. Capital	1,246 (1.5)	1,468 (1.6)	11.8	17.9
2. Reserves	9,303 (10.8)	9,250 (10.3)	-1.4	-0.6
3. Deposits	48,560 (56.6)	52,973 (58.8)	6.9	9.1
4. Borrowings	22,256 (26.0)	22,164 (24.6)	31.0	-0.4
5. Other Liabilities	4,392 (5.1)	4,296 (4.8)	24.0	-2.2
Assets				
1. Cash and Bank Balance	9,290 (10.8)	8,065 (8.9)	114.9	-13.2
2. Investments	24,140 (28.1)	29,060 (32.2)	-12.8	20.4
3. Loans and Advances	47,354 (55.2)	48,228 (53.5)	19.3	1.8
4. Other Assets	4,971 (5.8)	4,798 (5.3)	4.0	-3.5
Total Liabilities/Assets	85,756 (100.0)	90,151 (100.0)	12.1	5.1

P: Provisional.

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

2. 'Reserves' include credit balance in profit and loss account shown separately by some of the banks.

Source: NABARD.

in the share of loans and advances were investments by StCBs, which grew at high rate of 20.4 per cent in 2007-08. Consequently, their share in total assets rose by about four percentage points during the year. This increase in investments of StCBs was in the form of SLR investments, which constituted over 60 per cent of the total investments of these institutions in 2007-08.

5.42 Section 42(2) data are available on some of the major heads of assets and liabilities for 16 scheduled StCBs as on the last reporting Friday of March 2009. These data indicate a steep increase in aggregate deposits of StCBs,

Table V.25: Salient Balance Sheet Indicators of Scheduled StCBs

(Amount in Rs. crore)

Item	As on Last Reporting Friday of March		
	2007	2008	2009
1	2	3	4
Aggregate Deposits	36,544	42,396 (16.0)	52,568 (24.0)
Bank Credit	44,663	46,886 (5.0)	42,372 (-9.6)
SLR Investments	13,408	15,773 (17.6)	17,179 (8.9)

Note: Figures in parentheses indicate percentage change over the previous year.
Source: Form B returns of Section 42(2) data.

which is the most important component of liabilities of these institutions. Aggregate deposits grew by 24.0 per cent during 2008-09 over and above a growth of 16.0 per cent during 2007-08 (Table V.25). During 2008-09, there was a fall in bank credit of these institutions at the rate of 9.6 per cent as compared to an increase by 5.0 per cent during 2007-08.

StCBs - Financial Performance

5.43 Unlike Scheduled Commercial Banks, sources of non-interest income are relatively weak for StCBs. Interest income constituted the largest component having a share of 98.4 per cent in the total income of StCBs in 2007-08 (Table V.26). Moreover, the growth as well as share of interest income was on a rise for these institutions. Similarly, on the expenditure side, the most important component was interest expended by StCBs. Like interest earned, interest expended too posted an increase in terms of growth and share during 2007-08. In the entire short-term structure, StCBs were the only institutions that made net profits during the year (Table V.23). About 82 per cent of the total number of reporting StCBs were in profit in 2007-08. Although StCBs booked net profits during the year, there was a decline in the rate of growth of their profits (Table V.26).

Table V.26: Financial Performance of State Cooperative Banks

(Amount in Rs. crore)

Item	Amount		Percentage variation	
	2006-07	2007-08P	2006-07	2007-08P
1	2	3	4	5
A. Income (i+ii)	5,242	5,750	-7.3	9.7
	(100.0)	(100.0)		
i. Interest Income	4,974	5,657	-6.5	13.7
	(94.9)	(98.4)		
ii. Other Income	269	93	-20.0	-65.4
	(5.1)	(1.6)		
B. Expenditure (i+ii+iii)	4,967	5,565	-5.9	12.0
	(100.0)	(100.0)		
i. Interest Expended	3,708	4,397	1.4	18.6
	(74.7)	(79.0)		
ii. Provisions and Contingencies	502	372	-51.7	-25.8
	(10.1)	(6.7)		
iii. Operating Expenses	757	796	30.3	5.1
	(15.2)	(14.3)		
<i>of which: Wage Bill</i>	398	425	4.4	6.8
	(8.0)	(7.6)		
C. Profit				
i. Operating Profit	777	557	-45.2	-28.3
ii. Net Profit	275	185	-27.2	-32.8
D. Total Assets (end-March)	85,756	90,151	12.1	5.1

P: Provisional.

Note: Figures in parentheses are percentages to the respective totals.**Source:** NABARD.

StCBs - Asset Quality and Recovery Performance

5.44 During 2007-08, NPAs of StCBs posted a decline in absolute terms (Table V.27). The ratio of NPAs (to loans outstanding) also stood at a lower level of 12.8 per cent at end-March 2008 as compared to its corresponding level of 14.2 per cent at end-March 2007. Recent trends in the asset quality of these institutions are summarised in Box V.3.

5.45 A cursory comparison of the NPA ratio of StCBs with that of scheduled commercial banks reveals that the asset quality of StCBs was considerably weaker with a (gross) NPA ratio of 12.8 per cent at end-March 2008. Nevertheless, StCBs seemed better placed in terms of asset quality than their urban counterparts namely the UCBs, which had a

Table V.27: Asset Quality of State Cooperative Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage variation	
	2007	2008P	2006-07	2007-08P
1	2	3	4	5
A. Total NPAs (i+ii+iii)	6,704	6,169	-0.5	-8.0
i) Sub-standard	2,957	2,779	7.0	-6.0
ii) Doubtful	2,625	2,652	14.5	1.1
iii) Loss	1,122	737	-33.2	-34.3
B. NPAs to Loans Ratio	14.2	12.8		
<i>Memo Item:</i>				
C. Recovery to Demand (Per cent)	85.7	84.6		
D. Provisions Required	2,820	2,654	-15.9	-5.9
E. Provisions Made	3,200	2,998	-11.1	-6.3

P : Provisional.

Source: NABARD.

higher (gross) NPA ratio of 15.5 per cent at end-March 2008 (reference to Table V.16).

5.46 Of the various categories of NPAs, 'sub-standard' and 'doubtful' assets each constituted over 40 per cent of the total NPAs of StCBs at end-March 2008. The third category of 'loss' assets had a share of 11.9 per cent at end-March 2008. There was a fall in terms of both growth and share of 'loss' assets between 2007 and 2008 (Chart V.4).

StCBs - Regional Profile

5.47 There was considerable variation in the profitability and asset quality of StCBs across States (Appendix Table V.3). While on the one hand, StCBs from the northern region had the lowest NPA ratio of around 3 per cent during 2007-08, the StCBs from the north-eastern region had as high as 40 per cent of their total loan assets classified as non-performing in nature. However, it is noteworthy that the NPA ratio for the north-eastern region as a whole has been on a decline in the recent past signifying relative improvement in the asset quality of these banks over the years. The improvement in asset quality was particularly discernible in the case of StCB of Assam. In the

Box V.3: Recent Trends in Asset Quality of StCBs and DCCBs

The application of prudential regulations in 1996-97 for StCBs and DCCBs introduced the norms for income recognition, asset classification and provisioning. In a study, Sharma *et al* (2001) attempted to analyse the trends in asset quality of StCBs taking data for two years (1996-97 and 1997-98) after the prudential regulations were made applicable to these institutions. During the short span of two years, they found a substantial increase in absolute terms in NPA levels for StCBs and DCCBs. Taking the same exercise forward for the years after 2000-01, it can be seen that there was a rising trend in the NPA ratio for StCBs till 2002-03. Thereafter, there was a falling trend in this ratio (Table 1). The ratio has continued to be significantly higher than the corresponding ratio for Scheduled Commercial Banks (SCBs). The amount of NPAs has grown at a positive rate between 2000-01 and 2007-08, which has been lower than the rate of growth of total loans outstanding of these institutions over the corresponding period. However, there has been

particularly high growth in assets classified as loss making assets of StCBs over this period.

The NPA ratio for DCCBs has shown a by and large increasing trend between 2000-01 and 2007-08 (Table 2). The rate of growth of NPAs has been relatively higher than the growth in total advances of DCCBs over this period. The growth in 'loss' assets has also been comparatively higher than the other two asset categories for DCCBs. In other words, there has been a considerable deterioration in the asset quality of DCCBs as compared to StCBs in the recent period.

Table 1: Asset Quality of StCBs

(Amount in Rs. crore)

Year	Sub-Standard Assets	Doubtful Assets	Loss Assets	Total NPAs	Total Loans Outstanding	NPAs to Loans Outstanding Ratio (Per cent)
1	2	3	4	5	6	7
2000-01	2,178	1,520	191	3,889	29,848	13.0
2001-02	2,403	1,821	261	4,485	32,111	14.0
2002-03	3,535	2,443	306	6,284	32,798	19.2
2003-04	3,288	3,010	250	6,548	35,105	18.7
2004-05	2,961	1,975	1,136	6,072	37,346	16.3
2005-06	2,763	2,292	1,680	6,735	39,684	17.0
2006-07	2,957	2,625	1,122	6,704	47,354	14.2
2007-08	2,779	2,652	737	6,169	48,228	12.8
CGR (Per cent)	3.1	7.2	18.4	5.9	6.2	-

Note: CGR- Compound annual rate of growth.
Source: NABARD.

Table 2: Asset Quality of DCCBs

(Amount in Rs. crore)

Year	Sub-Standard Assets	Doubtful Assets	Loss Assets	Total NPAs	Total Loans Outstanding	NPAs to Loans Outstanding Ratio (Per cent)
1	2	3	4	5	6	7
2000-01	4,994	3,466	911	9,371	52,491	17.9
2001-02	6,325	4,245	1,268	11,838	59,269	20.0
2002-03	7,603	5,060	1,199	13,862	63,198	21.9
2003-04	8,428	6,068	1,648	16,144	67,152	24.0
2004-05	6,468	6,053	1,999	14,520	73,125	19.9
2005-06	6,905	6,699	2,106	15,709	79,202	19.8
2006-07	6,375	7,648	2,471	16,495	89,037	18.5
2007-08	7,858	8,210	2,660	18,728	91,374	20.5
CGR (Per cent)	5.8	11.4	14.3	9.0	7.2	-

Note: CGR- Compound annual rate of growth.

Source: NABARD.

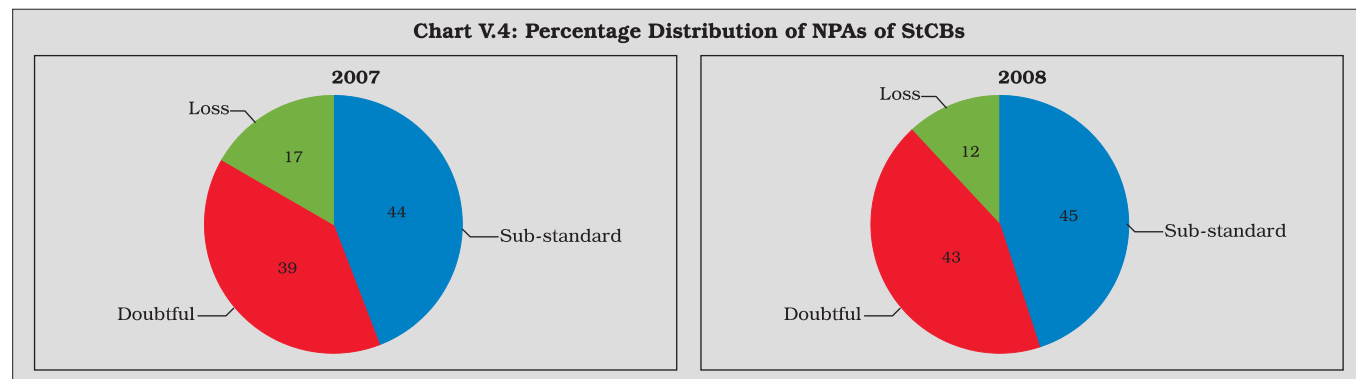
Reference:

Sharma, K. C., P. Josh, J.C. Mishra, Sanjay Kumar (2001), "Recovery Management in Rural Credit", NABARD Occasional Paper No. 21.

northern region, the NPA ratio was exceptionally low for StCBs of Haryana and Punjab ranging less than 2 per cent. More importantly, this

trend of low NPA ratio for Haryana and Punjab StCBs was not a one-year phenomenon but has been observed consistently over the years.

Chart V.4: Percentage Distribution of NPAs of StCBs



StCBs, which had high NPA ratios, such as those from the north-eastern region, reported net losses during the year.

District Central Cooperative Banks

5.48 The balance sheets of District Central Cooperative Banks (DCCBs) seem fairly comparable with that of StCBs (Table V.28 read with Table V.24). Loans and advances constitute the most important form of assets for DCCBs; the share of loans and advances worked out to 56.4 per cent at end-March 2008. Investments were next in line with a share of 27.4 per cent. Similarly, deposits made up the largest portion of the total liabilities of DCCBs; the share of deposits at end-March 2008 was about 63.6 per cent.

Table V.28: Liabilities and Assets of District Central Cooperative Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage variation	
	2007	2008P	2006-07	2007-08P
1	2	3	4	5
Liabilities				
1. Capital	5,458 (3.4)	4,967 (3.1)	15.0	-9.0
2. Reserves	20,722 (13.0)	19,787 (12.2)	10.8	-4.5
3. Deposits	94,529 (59.5)	1,02,986 (63.6)	8.0	8.9
4. Borrowings	29,912 (18.8)	26,096 (16.1)	23.5	-12.8
5. Other Liabilities	8,273 (5.2)	8,096 (5.0)	4.8	-2.1
Assets				
1. Cash and Bank Balance	11,274 (7.1)	9,759 (6.0)	5.4	-13.4
2. Investments	41,006 (25.8)	44,419 (27.4)	12.0	8.3
3. Loans and Advances	89,038 (56.0)	91,374 (56.4)	12.4	2.6
4. Other Assets	17,576 (11.1)	16,380 (10.1)	6.1	-6.8
Total Liabilities/ Assets	1,58,894 (100.0)	1,61,932 (100.0)	11.0	1.9

P: Provisional

Note: 1. Figures in parentheses are percentages to total.

2. 'Reserves' include credit balance in profit and loss account shown separately by some of the banks.

Source: NABARD.

5.49 Notwithstanding the broad similarities, there are certain features about the balance sheet of DCCBs which set them apart from StCBs. First, the dependence of DCCBs on deposits was relatively more than StCBs. DCCBs relied less on borrowings. Needless to say, borrowings of DCCBs are primarily from the StCBs given that StCBs are the apex institutions in the short-term cooperative hierarchy providing finance to the lower tiers. It is also noteworthy that the deposits of DCCBs have shown a consistent rise in the recent past with their rate of growth picking from 3.8 per cent in 2004-05 to 8.9 per cent in 2007-08. Borrowings, on the other hand, have been a fairly variable component of the liabilities of DCCBs showing considerable fluctuations in terms of growth year after year but with their share showing by and large a declining trend.

DCCBs - Financial Performance

5.50 The most salient feature of the financial performance of DCCBs is their relatively high share of 'other' (non-interest) income in comparison with StCBs (Table V.29 read with Table V.26). In 2007-08, other income had a share of 7.8 per cent for DCCBs *vis-à-vis* 1.6 per cent in the case of StCBs. Further, wage bill was a more important constituent of the operating expenses of DCCBs as compared to StCBs. During the year, share of wage bill in the total expenses of DCCBs worked out to 15.9 per cent *vis-à-vis* 7.6 per cent for StCBs.

5.51 DCCBs recorded overall losses during 2007-08 as against profits in the previous year. What is more, profits of DCCBs have been on a decline in the recent past falling rapidly from Rs.971 crore in 2004-05 to (-) Rs.65 crore in 2007-08. Notwithstanding the overall losses at the aggregate level, it needs to be noted that about 73 per cent of the total number of (reporting) DCCBs were in profits during 2007-08 (reference to Table V.23). One of the reasons

Table V.29: Financial Performance of District Central Cooperative Banks

(Amount in Rs. crore)

Item	Amount		Percentage variation	
	2006-07	2007-08P	2006-07	2007-08P
1	2	3	4	5
A. Income (i+ii)	11,652	11,702	-0.3	0.4
	(100.0)	(100.0)		
i. Interest Income	10,597	10,793	-0.8	1.8
	(90.9)	(92.2)		
ii. Other Income	1,055	909	5.5	-13.8
	(9.1)	(7.8)		
B. Expenditure(i+ii+iii)	11,622	11,767	1.2	1.2
	(100.0)	(100.0)		
i. Interest Expended	6,668	7,038	1.4	5.5
	(57.4)	(59.8)		
ii. Provisions and Contingencies	2,284	1,934	-10.9	-15.3
	(19.7)	(16.4)		
iii. Operating Expenses	2,670	2,795	14.0	4.7
	(23.0)	(23.7)		
<i>of which, Wage Bill</i>	1,837	1,865	11.5	1.5
	(15.8)	(15.9)		
C. Profit				
i. Operating Profit	2,314	1,869	-16.4	-19.2
ii. Net Profit	31	-65	-85.0	-
D. Total Assets (end-March)	1,58,893	1,61,932	11.0	1.9

P : Provisional
Note: Figures in parentheses are percentages to total.
Source: NABARD.

for the deterioration in the overall profitability of DCCBs during 2007-08 was a steep fall in their 'other' income.

Table V.30: Asset Quality of District Central Cooperative Banks

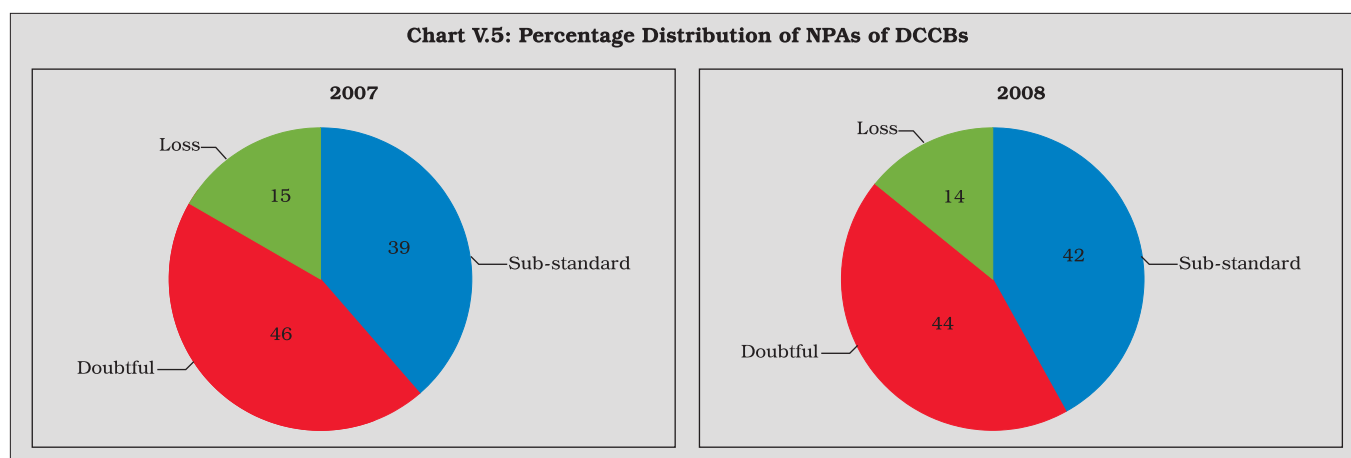
(Amount in Rs. crore)

Item	As at end-March		Percentage variation	
	2007	2008P	2006-07	2007-08P
1	2	3	4	5
A. Total NPAs (i+ii+iii)	16,495	18,728	5.0	13.5
i) Sub-standard	6,375	7,858	-7.7	23.3
ii) Doubtful	7,648	8,210	14.2	7.3
iii) Loss	2,471	2,660	17.4	7.6
B. NPAs to Loans ratio	18.5	20.5		
<i>Memo Item:</i>				
i) Recovery to Demand (Per cent)	71.0	55.6		
ii) Provisions Required	10,222	10,391	17.3	1.7
iii) Provision Made	12,163	12,075	17.4	-0.7

P: Provisional.
Source: NABARD.

DCCBs - Asset Quality and Recovery Performance

5.52 There was deterioration in the NPAs to loans ratio in 2007-08 for DCCBs (Table V.30). However, the increased NPAs were primarily in the 'sub-standard' category, while there was a reduction in the NPAs in the 'doubtful' and 'loss' category (Chart V.5). Hence, there was a migration of loan assets towards sub-standard category during 2007-08 as was also the case with StCBs. This was a positive development with regards to the NPA profile of DCCBs.

Chart V.5: Percentage Distribution of NPAs of DCCBs


Further, DCCBs like StCBs made more provisions than what was required for their NPAs levels during 2007-08.

DCCBs - Regional Profile

5.53 Similar to StCBs, the profitability and asset quality of DCCBs varied widely across regions/States (Appendix Table V.4)⁴. The DCCBs from the northern region in general outperformed other regions in terms of the number of (reporting) DCCBs that were earning profits during 2007-08. The percentage of DCCBs from the northern region that made profits during the year was about 78 per cent in comparison with the all-India average of 73 per cent. Furthermore, DCCBs from each region except the northern and southern regions booked an overall loss during the year. The NPA ratio too was the lowest for the DCCBs from the northern region in general and Haryana in particular, in 2007-08. For DCCBs from Haryana, only 5.1 per cent of their loans outstanding were classified non-performing in 2007-08. It needs to be reiterated that the NPA ratio was also the lowest in the country for the StCB from Haryana (0.1 per cent) (Appendix Table V.3). In contrast with Haryana, the DCCBs from Jharkhand (at 75.9 per cent) followed by Bihar (at 54.5 per cent) had the highest NPA ratio in the country.

Primary Agricultural Credit Societies

5.54 Primary Agricultural Credit Societies (PACS) form the third and lowest tier in the short-term credit cooperative structure that operates directly at the grassroots *i.e.* in villages. As these institutions are the direct purveyors of credit to the rural borrowers, both the coverage and viability of PACS needs to be strengthened in order to ensure inclusive finance from the cooperative structure as well

as to enhance the stability of the short-term cooperative structure, itself. Further, given that the business of the short-term cooperative credit and banking structure - in terms of both credit and deposits - is a more dominant constituent of the rural cooperative structure, the stability of the short-term structure has major implications for the stability of the entire rural cooperative structure and thereby, of the rural financial system as a whole.

5.55 Borrowings constituted about 56.7 per cent of the total resources of PACs during 2007-08 (Table V.31). In 2007-08, borrowings registered a growth of 9.5 per cent while deposits posted a growth of 8.4 per cent. Consequently, borrowings by PACS in 2007-08 were almost double of their deposits.

5.56 The percentage of overdues to total loans outstanding, which is a rough indicator of the non-performing assets of PACS, worked out to be the highest among all three tiers of the short-term cooperative credit structure (Table V.31 read with Table V.30 and Table V.27). Moreover, there was a sharp increase in this ratio from 26.9 per cent at end-March 2007 to 36.6 per cent at end-March 2008.

5.57 Of the total number of (reporting) PACS, 44 per cent were making profits, while the remaining 56 per cent were in losses during 2007-08 (Table V.23). During the year, PACS reported an overall loss of Rs.3,481 crore.

PACS - Profile of Members and Borrowers

5.58 The profile of members and borrowers of PACS provides an insight into whether or not the PACS are able to cater to the credit needs of the vulnerable sections of the rural population as they are expected to. It is thus a reflection of the role of PACS in the financial inclusion process.

⁴ As States from the north-eastern region have a unitary short-term cooperative credit structure, there are no DCCBs in these States.

Table V.31: Primary Agricultural Credit Societies - Select Balance Sheet Indicators

(Amount in Rs. crore)

Item	As at end-March		Percentage variation	
	2007	2008	2006-07	2007-08
1	2	3	4	5
A. Liabilities				
1. Total Resources (2+3+4)	78,237	84,281	12.0	7.7
2. Owned Funds (a+b)	11,038	10,984	18.8	-0.5
a) Paid-up Capital	6,138	6,597	8.8	7.5
<i>of which,</i>				
Government Contribution	648	629	4.2	-2.9
b) Total Reserves	4,900	4,387	34.3	-10.5
3. Deposits	23,484	25,449	20.1	8.4
4. Borrowings	43,715	47,848	6.6	9.5
5. Working Capital	79,959	88,107	9.0	10.2
B. Assets				
1. Total Loans Issued (a+b)*	49,613	57,643	15.6	16.2
a) Short-Term	40,796	47,390	14.5	16.1
b) Medium-Term	8,817	10,253	20.8	16.3
2. Total Loans Outstanding (a+b)	58,620	65,666	13.2	12.0
a) Short-Term	37,764	43,696	10.6	15.7
b) Medium-Term	20,856	21,970	18.2	5.3
C. Overdues				
1. Total Demand	54,112	67,293	6.1	24.4
2. Total Collection	38,359	43,290	8.0	12.9
3. Total Overdues (a+b)	15,753	24,003	1.8	52.4
a) Short-Term	11,558	20,182	1.5	74.6
b) Medium-Term	4,194	3,821	2.6	-8.9
4. Percentage of Overdues to Loans Outstanding	26.9	36.6		

* : During the year.

Source: NAFSCOB.

5.59 During 2007-08, PACS had a remarkably high borrower to member ratio of 60 per cent as compared to only 38 per cent during the previous year. Being a member is a necessary but not a sufficient condition for being a borrower of a cooperative society, and hence, an increasing proportion of borrowing members needs to be taken as a positive reflection of an increasing access to cooperative credit among the members of PACS. Of the total members,

Table V.32: Primary Agricultural Credit Societies - Members and Borrowers

Item	As at end-March	
	2007	2008
1	2	3
1. No. of Societies	97,224	94,942
2. Total Membership (in million)	126	132
<i>of which:</i>		
a) SC	29 (23.0)	30 (22.7)
b) ST	11 (8.7)	11 (8.3)
3. Total number of Borrowers (in million)	48	79
<i>of which:</i>		
a) SC	6 (12.5)	8 (10.1)
b) ST	3 (6.2)	5 (6.3)
Note: 1. Figures in parentheses are percentages to respective totals. 2. SC- Scheduled Castes; ST – Scheduled Tribes.		
Source: NAFSCOB.		

30 per cent were from Scheduled Castes and Tribes (SC/ST) categories together (Table V.32). In the recent years, however, while there has been a growing presence of small farmers as members and borrowers of PACS, there has been a reduction in the number of SC/ST member and borrowers (Box V.4).

PACS – Regional Profile

5.60 Apart from the profile of members and borrowers, the regional profile of PACS is also a reflection of their role in financial inclusion. One of the striking features of the regional profile of PACS has been the disparity in the development of the PACS network across regions in India. There has been a considerable concentration of PACS in the western region, particularly in the State of Maharashtra (Appendix Table V.5). In 2007-08, on an average, there were seven villages per PACS for India as a whole, while the ratio was only two for the western region. On the other hand, the ratio exceeded ten villages per PACS for central,

Box V.4: Coverage of Vulnerable Sections of the Rural Population by PACS

PACS being the grass-root level institution in the short-term cooperative credit structure are looked upon as an important channel of financial inclusion in rural areas. They are expected to purvey credit to vulnerable sections of the rural population including *inter alia* small, marginal farmers, Scheduled Castes and Tribes (SC/ST).

An analysis of the profile of members and borrowers since 2002-03 reveals that there has been an increasing trend in the proportion of small farmers in the total number of members and borrowers of PACS. Further, it is noteworthy that the number of small farmers as borrowers of PACS has grown at a much faster rate (7.2 per cent per annum)

than the number of members (2.0 per cent) (Table 1). This indicated that an increasing number of small farmers were able to seek credit from PACS in recent times.

Between 2002-03 and 2007-08, however, there has been a fall in the percentage of SC/ST in the total number of members and borrowers of PACS barring an increase in 2004-05. Similarly, there has been a fall in the percentage share of rural artisans in total members and borrowers of PACS. Moreover, the actual number of SC/ST members and borrowers too has fallen over this period. With unorganised segment meeting a significant portion of the rural debt, there is an urgent need to make PACS more inclusive in their operations.

Table 1: Profile of Borrowers and Members of PACS

Category	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	CGR (Per cent)
1	2	3	4	5	6	7	8
Members							
Total members	1,23,552 (100.0)	1,35,411 (100.0)	1,27,406 (100.0)	1,25,197 (100.0)	1,25,792 (100.0)	1,31,530 (100.0)	1.0
<i>Of which,</i>							
1. SC	(26.9)	(22.6)	(24.3)	(24.4)	(23.4)	(22.6)	-1.8
2. ST	(9.7)	(8.8)	(9.3)	(9.3)	(8.8)	(8.5)	-1.2
3. Small Farmers	(35.2)	(37.0)	(38.8)	(35.7)	(35.1)	(37.3)	2.0
4. Rural Artisans	(6.1)	(4.7)	(5.7)	(5.2)	(3.4)	(3.6)	-7.5
Borrowers							
Total borrowers	63,880 (100.0)	51,265 (100.0)	45,070 (100.0)	46,081 (100.0)	47,910 (100.0)	79,408 (100.0)	3.7
<i>Of which,</i>							
1. SC	(18.0)	(9.2)	(16.1)	(15.1)	(11.8)	(9.7)	-6.4
2. ST	(12.6)	(6.7)	(7.7)	(7.2)	(7.2)	(6.3)	-7.6
3. Small Farmers	(26.9)	(26.3)	(28.2)	(31.8)	(32.2)	(32.8)	7.2
4. Rural Artisans	(4.8)	(4.9)	(4.7)	(3.9)	(4.0)	(2.6)	-6.4

CGR : Compound Annual Growth Rate

SC : Scheduled Castes;

ST : Scheduled Tribes

Small farmers : With land up to two hectares.

Note: Figures in parentheses are percentages to total.

Source: NAFSCOB.

eastern and north-eastern regions reflecting poor penetration of PACS in these regions⁵.

5.61 The percentage of PACS reporting profits in 2007-08 was the highest for the northern region. Though Maharashtra had a remarkably widespread network of PACS, it had one of the lowest percentage of profit making PACS in the country. Punjab, Haryana and Kerala were the States with the highest percentage of PACS classified as viable.

Long-Term Structure of Rural Cooperatives

5.62 The long-term structure of rural cooperatives comprises State and Primary Cooperative Agriculture and Rural Development Banks. These institutions were conceived with the objective of meeting long-term credit needs in agriculture. Though the volume of business of the long-term cooperative credit institutions is relatively smaller than that of the short-term cooperative credit institutions, the long-term

⁵ Village per PACS, however, is a basic indicator of the spread of PACS. It offers limited insight into the effective access to PACS given the differences in the population size of villages and distance between villages across regions.

credit institutions have a definite and specialised role to play in the rural financial system. Further, the long-term institutions have certain structure-specific concerns and hence, the operations of these institutions merits a separate treatment.

State Cooperative Agriculture and Rural Development Banks

5.63 The balance sheets of SCARDBs bring out the heavy dependence of these institutions on borrowings from sources, such as NABARD. Borrowings constituted about 64.9 per cent of the total liabilities of these institutions in 2007-08 as against deposits, which constituted only 2.6 per cent of their total liabilities (Table V.33).

5.64 On the assets side, loans and advances constituted about three fourths of the total assets of SCARDBs in 2007-08, while investments made up about 10 per cent of their assets. However, it is noteworthy that over the recent past, there has been an increasing share of investments in the total assets of these institutions.

SCARDBs - Financial Performance

5.65 SCARDBs like StCBs have limited sources of non-interest income. In 2007-08, the share of 'other' income was only 7.7 per cent for SCARDBs (Table V.34). Moreover, during 2007-08, there was a steep fall in the growth of 'other' income for SCARDBs resulting in a sharp decline in its share in the total income of these institutions.

SCARDBs - Asset Quality and Recovery Performance

5.66 The NPAs to loans ratio of SCARDBs was placed at a high of 34.5 per cent in 2007-08. Apart from an increase in the NPA ratio, there was a migration of the loan assets from the 'sub-standard' category down to the 'doubtful' and 'loss' assets categories during the year signifying

Table V.33: Liabilities and Assets of State Cooperative Agriculture and Rural Development Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage variation	
	2007	2008P	2006-07	2007-08P
1	2	3	4	5
Liabilities				
1. Capital	794 (3.3)	1,208 (5.0)	-0.9	52.1
2. Reserves	2,137 (8.8)	2,505 (10.3)	-9.2	17.2
3. Deposits	605 (2.5)	645 (2.6)	-4.9	6.6
4. Borrowings	16,662 (68.5)	15,843 (64.9)	-2.4	-4.9
5. Other Liabilities	4,138 (17.0)	4,202 (17.2)	-10.7	1.5
Assets				
1. Cash and Bank Balance	279 (1.1)	239 (1.0)	-23.6	-14.3
2. Investments	1,916 (7.9)	2,526 (10.3)	1.6	31.8
3. Loans and Advances	18,644 (76.6)	18,217 (74.7)	5.3	-2.3
4. Other Assets	3,497 (14.4)	3,421 (14.0)	-24.6	-2.2
Total Liabilities/Assets	24,336 (100.0)	24,403 (100.0)	-1.1	0.3
P: Provisional				
Note: Figures in parentheses are percentages to total.				
Source: NABARD.				

the deterioration of the NPA profile of SCARDBs (Table V.35).

SCARDBs - Regional Profile

5.67 During 2007-08, SCARDBs reported overall loss of Rs.247 crore, which was primarily attributable to the losses made by SCARDBs from western, eastern and central regions (Appendix Table V.6). The most prominent among the loss making SCARDB was the Maharashtra SCARDB from the western region, which reported losses of Rs.203 crore during the year. SCARDBs from Punjab and Haryana from the northern region, and Tamil Nadu and Kerala from the southern region were

Table V.34: Financial Performance of State Cooperative Agriculture and Rural Development Banks

(Amount in Rs. crore)

Item	Amount		Percentage variation	
	2006 -07	2007 -08P	2006 -07	2007 -08P
1	2	3	4	5
A. Income (i+ii)	2,293	1,790	-3.2	-21.9
	(100.0)	(100.0)		
i. Interest Income	1,809	1,652	-20.3	-8.7
	(78.9)	(92.3)		
ii. Other Income	484	139	380.4	-71.3
	(21.1)	(7.7)		
B. Expenditure (i+ii+iii)	2,204	2,037	4.6	-7.5
	(100.0)	(100.0)		
i. Interest Expended	1,280	1,262	-4.1	-1.4
	(58.1)	(61.9)		
ii. Provisions and Contingencies	667	557	-25.7	-16.5
	(30.3)	(27.3)		
iii. Operating Expenses	256	218	15.3	-14.8
	(11.6)	(10.7)		
<i>of which, Wage Bill</i>	185	160	9.7	-13.8
	(8.4)	(7.8)		
C. Profit				
i. Operating Profit	757	310	40.6	-59.1
ii. Net Profit	89	-247	-261.2	-
Total Assets (end-March)	24,336	24,403	-1.1	0.3

P: Provisional
Note: Figures in parentheses are percentages to total.
Source: NABARD.

the major profit making SCARDBs. The NPA ratio was also remarkably low for these institutions. As discussed earlier, the profitability and asset quality of StCBs of Punjab and Haryana was also comparatively more robust than other StCBs in the country.

Primary Cooperative Agriculture and Rural Development Banks

5.68 In 2007-08, there was a sharp contraction of the balance sheets of PCARDBs by 16.4 per cent attributable mainly to a decline in both deposits and borrowings on the liabilities side (Table V.36). Deposits were not

Table V.35: Asset Quality of State Cooperative Agriculture and Rural Development Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage variation	
	2007	2008P	2006-07	2007-08P
1	2	3	4	5
A. Total NPAs (i+ii+iii)	5,643	6,292	-2.4	11.5
i) Sub-standard	4,315	3,238	15.0	-25.0
	(76.5)	(51.5)		
ii) Doubtful	1,310	2,845	-34.8	117.1
	(23.2)	(45.2)		
iii) Loss	17	209	-5.6	1129.4
	(0.3)	(3.3)		
B. NPAs to Loans Ratio	30.3	34.5		
<i>Memo Item:</i>				
i) Recovery to Demand (Per cent)	43.9	49.0		
ii) Provisions Required	1,287	1,410	-18.4	9.6
iii) Provisions Made	1,287	1,433	-18.4	11.4

P : Provisional
Note: Figures in parentheses are percentages to total.
Source: NABARD.

a significant source of funds for PCARDBs. These institutions depended heavily on borrowings.

5.69 On the assets side, the contraction in the balance sheet of PCARDBs came about from a perceptible fall in the loans and advances made by these institutions during the year. Unlike StCBs and DCCBs, investments had a relatively small share in the total assets of SCARDBs as well as PCARDBs.

PCARDBs - Financial Performance

5.70 PCARDBs reported an overall loss during 2007-08 (Table V.37). The trend of losses was not limited to 2007-08, it could be observed even during the earlier years in the recent past indicating a significant erosion of financial viability of these institutions. There was a sharp decline in the operating profits of PCARDBs during the year. The fall in operating profits was on account of a slowdown in the net interest income of these institutions.

Table V.36: Liabilities and Assets of Primary Cooperative Agriculture and Rural Development Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage variation	
	2007	2008P	2006-07	2007-08P
1	2	3	4	5
Liabilities				
1. Capital	918 (4.2)	703 (3.9)	-0.4	-23.4
2. Reserves	2,678 (12.3)	2,336 (12.8)	0.5	-12.8
3. Deposits	341 (1.6)	331 (1.8)	-10.7	-2.9
4. Borrowings	12,751 (58.6)	10,206 (56.0)	-2.4	-20.0
5. Other Liabilities	5,085 (23.4)	4,633 (25.4)	17.4	-8.9
Assets				
1. Cash and Bank Balances	223 (1.0)	119 (0.7)	-0.4	-46.7
2. Investments	824 (3.8)	752 (4.1)	5.9	-8.6
3. Loans and Advances	12,114 (55.6)	9,529 (52.3)	-4.9	-21.3
4. Other Assets	8,612 (39.6)	7,809 (42.9)	-13.0	-9.3
Total Liabilities/Assets	21,774 (100.0)	18,209 (100.0)	1.9	-16.4

P : Provisional
Note: Figures in parentheses are percentages to total.
Source: NABARD.

PCARDBs - Asset Quality and Recovery Performance

5.71 The NPAs of PCARDBs, both in absolute terms and as percentage of loans, increased significantly in 2007-08. Interestingly, there was no major change in the NPA composition of PCARDBs during 2007-08. The percentage of 'sub-standard', 'doubtful' and 'loss' assets of these institutions remained largely unchanged between 2007 and 2008 (Table V.38).

PCARDBs - Regional Profile

5.72 In 2007-08, out of 470 reporting PCARDBs (out of a total of 697), only 42 per cent made profits, while the rest were in losses. PCARDBs booked an overall loss of Rs.346 crore in 2007-08. This reflected the poor

Table V.37: Financial Performance of Primary Cooperative Agriculture and Rural Development Banks

(Amount in Rs. crore)

Item	Amount		Percentage variation	
	2006-07	2007-08P	2006-07	2007-08P
1	2	3	4	5
A. Income (i+ii)				
	2,446 (100.0)	1,425 (100.0)	15.3	-41.8
i) Interest Income	1,923 (78.6)	1,276 (89.5)	13.8	-33.7
ii) Other Income	524 (21.4)	149 (10.5)	20.7	-71.5
B. Expenditure (i+ii+iii)				
	2,594 (100.0)	1,771 (100.0)	16.2	-31.7
i) Interest Expended	1,259 (48.5)	947 (53.5)	1.6	-24.8
ii) Provisions and Contingencies	1,014 (39.1)	535 (30.2)	45.3	-47.3
iii) Operating Expenses	321 (12.4)	289 (16.3)	8.8	-9.9
of which, Wage Bill	221 (8.5)	191 (10.8)	7.8	-13.7
C. Profit				
i) Operating Profit	867	189	47.2	-78.2
ii) Net Profit	-147	-346	-34.9	-134.5
Total Assets (end-March)	21,774	18,209	1.9	-16.4

P : Provisional
Note: Figures in parentheses are percentages to total.
Source: NABARD.

incidence and extent of profitability among PCARDBs in the country. The percentage of profit making PCARDBs was the highest in the northern region, particularly in Rajasthan, Haryana and Punjab (Appendix Table V.7). It is noteworthy that the northern region (particularly Haryana and Punjab) was earlier identified as the region having relatively better profitability as well as asset quality not just for PCARDBs and SCARDBs but also for StCBs and DCCBs. The NPA ratio, which was the yardstick of measuring asset quality, was the lowest for PCARDBs in West Bengal at 17 per cent in 2007-08. In contrast, the NPA ratio of PCARDBs was the highest at levels exceeding 80 per cent in Orissa, Maharashtra and Tamil Nadu during 2007-08.

Table V.38: Asset Quality of Primary Cooperative Agriculture and Rural Development Banks

(Amount in Rs. crore)

Item	As at end-March		Percentage variation	
	2007	2008P	2006-07	2007-08P
1	2	3	4	5
A. Total NPAs (i+ ii + iii)	4,316	5,113	-5.9	18.5
i) Sub- standard	2,512 (58.2)	2,980 (58.3)	-5.7	18.6
ii) Doubtful	1,783 (41.3)	2,105 (41.2)	-4.8	18.0
iii) Loss	21 (0.5)	28 (0.5)	-55.1	30.0
B. NPAs to Loans Ratio	35.4	53.7		
<i>Memo Item:</i>				
C. Recovery to Demand (Per cent)	52.0	44.0		
D. Provisions Required	799	902	-26.1	12.9
E. Provisions Made	799	948	-26.1	18.7

P: Provisional

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

5. NABARD and Rural Credit

5.73 Since its inception in 1982, NABARD has played a pivotal role in the area of rural finance as the apex financing institution. NABARD was set up with the mandate of providing refinance to lending institutions operating in rural areas including credit cooperatives and Regional Rural Banks to step up the flow of production and investment credit to agriculture and other rural activities such as, cottage and village industries, handicrafts and other rural crafts. Apart from refinance, it has also strived towards capacity building of the rural lending institutions over the years. As part of its capacity building efforts, NABARD has been concerned with the growth and financial health of rural financial institutions. Further, NABARD has also been involved in supporting innovative initiatives in rural areas, such as the micro-finance initiative. NABARD maintains liaison with the Government of India, the State Governments, the Reserve Bank and other

national level institutions with regard to the policy formulation relating to rural development.

Resources of NABARD

5.74 Till 2005-06, the Reserve Bank provided two General Lines of Credit (GLC) to NABARD under Section 17(4E) of the RBI Act, 1934 in order to enable NABARD to meet the short-term requirements of SCBs, StCBs and RRBs. NABARD was permitted to operate the GLC limit sanctioned for 2005-06 for drawals as well as for repayments up to December 31, 2006. After this date, however, the Reserve Bank discontinued finance through GLC and instead advised NABARD to tap the market for funds. Following the announcement in the Union Budget 2008-09, a Short Term Cooperative Rural Credit (Refinance) (STCRC) Fund was set up in NABARD with a corpus of Rs.5,000 crore with contributions from SCBs that failed to meet their priority sector lending targets under agriculture. This Fund was aimed at enhancing the refinance to short-term cooperative institutions. The financial resources with NABARD increased during 2008-09 through the issue of corporate bonds, Bhavishya Nirman Bonds, Rural Infrastructure Development Fund (RIDF) deposits, commercial papers and term money borrowings. Further, Rs.400 crore was transferred to the National Rural Credit (NRC) Long Term Operations (LTO) Fund and Rs.10 crore to the NRC (Stabilisation) Fund. On the whole, there was an increase of about 11.4 per cent in the resources of NABARD in 2008-09 (Table V.39).

Credit extended by NABARD

5.75 Being the apex refinancing agency for rural lending institutions, NABARD provides short-term credit facilities to StCBs mainly for financing seasonal agricultural operations. Short-term credit support to StCBs has generally been the most important form of credit extended by NABARD. In 2008-09, short-term

Table V.39: Net Accretion to the Resources of NABARD

(Amount in Rs. crore)

Type of Resource	2007-08	2008-09
1	2	3
1. Capital	-	-
2. Reserves and Surplus	801	932
3. National Rural Credit (NRC) Funds (i+ii)	412	412
i) Long Term Operations (LTO) Fund	401	401
ii) Stabilisation Fund	11	11
4. Deposits (i+ii+iii)	10,462	21,428
i) Ordinary Deposits	24	376
ii) STCRC Fund	-	4,622
iii) RIDF Deposits	10,438	16,430
5. Borrowings (i+ii+iii+iv+v+vi+vii)	1,437	-3,302
i) Bonds and Debentures	-192	-4,996
ii) Certificates of Deposit	1,422	394
iii) Commercial Papers	-	181
iv) Term Money Borrowings	-	244
v) Borrowings from Central Government	-12	-16
vi) Foreign Currency Loans	219	-10
vii) Borrowings from Commercial Banks	-	-2,000
6. Other Liabilities	4,374	2,901
Total	17,486	19,470

- : Nil/Negligible.

Source: NABARD.

credit to StCBs constituted 80 per cent of the total credit limit sanctioned by NABARD (Table V.40). Apart from short-term credit, NABARD also provides medium-term facilities to StCBs and RRBs, which includes loans under the liquidity support scheme. Credit provided to State Governments constitutes the smallest percentage of credit extended by NABARD. In 2008-09, NABARD did not sanction any credit limits to the State Governments.

5.76 The interest rate structure of NABARD for refinance for term/investment credit is generally designed to provide cheaper refinance to commercial banks operational in the North-eastern region and Sikkim, Andaman and Nicobar Islands and hilly States, and all RRBs, StCBs, UCBs, SCARDBs and North-eastern Development Finance Corporation (NEDFi). The rate of interest is fixed higher for commercial banks operational elsewhere.

5.77 The trends in interest rate during 2008-09 indicate that the rates were revised six times depending on money market conditions and

Table IV.40: NABARD's Credit to StCBs, State Governments and RRBs

(Amount in Rs. crore)

Item	2007-08				2008-09			
	Limits	Drawals	Repayments	Outstanding	Limits	Drawals	Repayments	Outstanding
1	2	3	4	5	6	7	8	9
1. State Cooperative Banks (a+b)	15,415	14,108	9,751	15,784	20,133	17,778	17,858	15,704
a. Short-term	15,199	14,003	8,889	14,496	20,053	17,778	16,636	15,638
b. Medium-term	216	105	862	1,288	80	-	1,222	66
2. State Governments								
a. Long-term	21	18	63	290	-	18 **	56	252
3. Regional Rural Banks (a+b)	3,252	2,924	2,418	3,655	4,829	4,061	3,914	3,803
a. Short-term	3,092	2,763	2,400	2,885	4,829	4,061	3,291	3,656
b. Medium-term	161	161	18	770	-	-	623	147
Grand Total (1+2+3)	18,689	17,049	12,232	19,730	24,962	21,858	21,828	19,759

** : Drawals against limits sanctioned during the previous year.

Note: 1. Short-term includes Seasonal Agricultural Operations (SAO) and Other than Seasonal Agricultural Operations (OSAO). For 2008-09, short-term also includes liquidity support scheme for Kharif and Rabi.

2. For StCBs and State Governments, the period is from April to March. For RRBs, it is from July to June.

3. Medium-term includes MT Conversion, MT (NS) and MT liquidity support scheme.

Source: NABARD.

cost of borrowings for NABARD (Appendix Table V.8). The rates were raised till August 2008 by NABARD. Following the global crisis and the subsequent measures taken by the Reserve Bank to enhance liquidity in the money market, the rates in all categories were brought down by NABARD.

Rural Infrastructure Development Fund (RIDF)

5.78 The Government instituted the RIDF with NABARD in 1995-96, with an initial corpus of Rs.2,000 crore by way of deposits from commercial banks to the extent of their respective shortfalls in lending to agriculture under priority sector. The Fund was set up to provide finance to State Governments for rural infrastructural development. In 1999-2000, the scope of RIDF was widened to enable utilisation of loans by *panchayati raj* institutions and Self-Help Groups (SHGs), among others.

5.79 Since 1995-96, the Government has announced an annual allocation in each Union Budget to the Fund. The Union Budget 2008-09 announced XIV Tranche to the Fund raising the aggregate allocation to Rs.86,000 crore (Table V.41). The Interim Budget 2009-10 (February 2009) announced the next tranche of RIDF XV, with a corpus of Rs.14,000 crore, and a separate window under RIDF XV for rural roads component of *Bharat Nirman Programme*, with a corpus of Rs.4,000 crore, to be set up with NABARD. Further, in the Union Budget for 2009-10 (July 2009), it was announced that a separate fund would be set up with Small Industries Development Bank of India (SIDBI) to incentivise banks and State Finance Corporations to lend to Micro and Small Enterprises (MSEs). The Union Budget 2009-10 also announced that a Rural Housing Fund would be set up with National Housing

Table IV.41: Loans Sanctioned and Disbursed under RIDF
(As at end-March 2009)

RIDF	Year	No. of Projects	Corpus (Rs. crore)	Loans Sanctioned (Rs. crore)	Loans Disbursed (Rs. crore)	Ratio of loans disbursed to loans sanctioned (Per cent)
1	2	3	4	5	6	7
I	1995	4,168	2,000	1,906	1,761	92.4
II	1996	8,193	2,500	2,636	2,398	91.0
III	1997	14,345	2,500	2,733	2,454	89.8
IV	1998	6,171	3,000	2,903	2,482	85.5
V	1999	12,106	3,500	3,434	3,055	89.0
VI	2000	43,168	4,500	4,489	4,071	90.7
VII	2001	24,598	5,000	4,582	4,053	88.5
VIII	2002	20,887	5,500	5,950	5,142	86.4
IX	2003	19,548	5,500	5,639	4,870	86.4
X	2004	17,190	8,000	7,717	6,198	80.3
XI	2005	29,875	8,000	8,301	5,728	69.0
XII	2006	42,279	10,000	10,601	5,771	54.4
XIII	2007	36,948	12,000	12,749	5,057	39.7
XIV	2008	85,527	14,000	14,719	3,013	20.5
Total		3,65,003	86,000	88,359	56,052	63.4
Separate window of Bharat Nirman Programme						
XII	2006		4,000	4,000	4,000	100.0
XIII	2007		4,000	4,000	4,000	100.0
XIV	2008		4,000	4,000	4,000	100.0
Total			12,000	12,000	12,000	100.0
Grand Total		3,65,003	98,000	1,00,359	68,052	67.8

Source: NABARD.

Bank (NHB) to support its refinance operations in rural housing sector. The above Funds have been established with NABARD/SIDBI/NHB during the year 2009-10.

5.80 There has been an increasing trend in the number of projects sanctioned under RIDF since the inception of the Fund. However, loans disbursed as a percentage of loans sanctioned under each tranche have shown a declining trend over this period. Of the total amount sanctioned under RIDF till end-March 2009, 63.4 per cent was disbursed (Table V.41). Further, the State-wise analysis of RIDF loans shows that as at end-March 2009, over 70 per cent of the total sanctions as well as disbursements were to the northern, southern and western regions taken together (Appendix Table V.9).

Kisan Credit Card Scheme

5.81 The Kisan Credit Card (KCC) scheme has been implemented through cooperative banks, RRBs and public sector commercial banks to provide an easy access to adequate, timely and cost effective credit to farmers. In addition to meeting the term credit and working capital requirements of agriculture, KCC also covers consumption credit needs of farmers. The endeavour of NABARD has been to bring all farmers including *inter alia* oral lessees, tenant farmers, and share croppers into the ambit of KCC.

5.82 Of the total number of KCCs (84.6 million) issued till end-March 2009 since the inception of the scheme, the largest percentage has been issued by commercial banks. Moreover, there has been a more or less steady increase in the number of cards issued through commercial banks since the scheme was started. As against this, the number of cards issued by cooperative banks after peaking in 2000-01, has been on steady fall. Consequently, there has been a steep fall in the share of cooperatives banks between 2000-01 and 2008-09 from 64.2 per cent to 42.7 per cent in the total number of KCCs issued (Table V.42).

Table V.42: Number of Kisan Credit Cards Issued
(As at end-March 2009)

(Numbers in million)

Year	Cooperative Banks	RRBs	Commercial Banks	Total
1	2	3	4	5
1998-99	0.16	0.01	0.62	0.78
1999-00	3.59	0.17	1.37	5.13
2000-01	5.61	0.65	2.39	8.65
2001-02	5.44	0.83	3.07	9.34
2002-03	4.58	0.96	2.70	8.24
2003-04	4.88	1.27	3.09	9.25
2004-05	3.56	1.73	4.40	9.68
2005-06	2.60	1.25	4.16	8.01
2006-07	2.30	1.41	4.81	8.51
2007-08	2.09	1.77	4.60	8.46
2008-09	1.34	1.41	5.83	8.58
Total	36.2	11.5	37.0	84.6
Percentage share in Total	42.7	13.5	43.8	100.0

Source: NABARD.

5.83 Notwithstanding the overall impressive increase in the number of cards issued till now, there has been a wide variation in implementation of the scheme across States. Three States alone, *viz.*, Uttar Pradesh, Andhra Pradesh and Maharashtra accounted for over 45 per cent of the total number of cards issued and 36 per cent of the total loan amount sanctioned under KCC as at end-March 2009. On the other hand, the hilly States, States from the north-eastern region and Sikkim showed relatively poor progress in the spread of KCC (Appendix Table V.10).

Revival of Rural Cooperatives

Revival of the short-term structure

5.84 Following the recommendations of the Task Force on Revival of Rural Cooperative Credit Institutions (Chairman: Prof. A. Vaidyanathan), the Government of India in consultation with the State Governments approved a Package for revival of the short-term rural cooperative credit structure. The Revival Package aimed at reviving the short-term structure to make it a more well-managed and

vibrant medium to serve the credit needs of rural India, especially the vulnerable sections. The total estimated outlay of the package was Rs.13,596 crore. The package sought to do the following:

- (a) provide financial assistance to bring the system to an acceptable level of health;
- (b) introduce legal and institutional reforms necessary for its democratic, self-reliant and efficient functioning; and
- (c) take measures to improve the quality of management.

5.85 The States willing to participate were required to enter into MoU with the Central Government and NABARD. As at end-May, 2009, 25 States (Andhra Pradesh, Arunachal Pradesh, Assam, Bihar, Chattisgarh, Gujarat, Haryana, Jammu and Kashmir, Jharkhand, Karnataka, Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Mizoram, Nagaland, Orissa, Punjab, Rajasthan, Sikkim, Tamil Nadu, Tripura, Uttarakhand, Uttar Pradesh and West Bengal) have entered into MoUs. This meant the coverage of more than 96 per cent of the short-term cooperative credit structure in the country. Ten states (Andhra Pradesh, Chhattisgarh, Gujarat, Haryana, Madhya Pradesh, Maharashtra, Orissa, Tamil Nadu, Uttar Pradesh and West Bengal) made the necessary amendments in their cooperative Societies Acts as at end-May, 2009. An aggregate amount of Rs.6,073 crore was released by NABARD up to end-May 2009 as the Government of India's share under the package to PACS in these ten States.

Revival of the long-term Structure

5.86 Pursuant to the recommendations by the Task Force, it was announced in the Union Budget 2008-09 that the Central Government and State Governments had reached an agreement on the contents of the package for the revival of the long-term cooperative credit structure. The cost of the package was estimated at Rs.3,074 crore, of which the Central Government's share would be Rs.2,642 crore.

5.87 The Government of India has constituted a Task Force (Chairman: G. C. Chaturvedi, Additional Secretary, Ministry of Finance, Government of India) to look into the various aspects of the long-term cooperative credit structure, especially in respect of viability and relevance of a separate package for this structure in the backdrop of the implementation of the revival package for the short-term cooperative credit structure. The Task Force is required to suggest a strategy for dealing with the existing long-term cooperative credit structure, in case a separate package for the structure is not to be undertaken. The Task Force is also required to assess the impact of the implementation of the Agricultural Debt Waiver and Debt Relief scheme on the long-term structure. The Task Force is required to submit its report by January 15, 2010.

Recent Initiatives by NABARD

5.88 A number of developmental initiatives have been taken by NABARD during 2008-09 to step up credit flow to rural areas as well as to strengthen capacities in rural financial institutions (Box V.5).

6. Conclusion

5.89 This chapter provided an analysis of the performance of urban and rural cooperative credit institutions during 2008-09 and 2007-08 respectively, in a comparative perspective with the earlier years in the backdrop of the recent policy initiatives taken by the Reserve Bank as discussed in Chapter III. The UCB sector witnessed further progress towards consolidation consequent to the MoUs and TAFCUBs under the supervision of the Reserve Bank. As part of the consolidation, there has been reduction in the number of weak/sick banks with a concomitant increase in financially stronger banks during the year. However, there has also been a growing concentration of the banking business of the UCB sector in few large banks. This is evident from the increasing shares of loans and deposits with

Box V.5: Salient Developmental Initiatives by NABARD – 2008-09

The developmental initiatives by NABARD can be broadly classified into farm and non-farm sector initiatives.

Farm sector initiatives

- *Farmers Technology Transfer Fund (FTTF)* was operationalised from April 1, 2008 with a corpus of Rs.25 crore with the aim of promoting technology transfer for enhancing production and productivity in agriculture and farm related activities. During 2008-09, 12 proposals involving a grant assistance of Rs.233 lakh in 6 States were sanctioned for activities like value chain in oil-production, turmeric processing, information and commodity trading centre.
- *Watershed Development Fund (WDF)*: During the year, 38 watershed projects were newly sanctioned under the Fund taking the cumulative number of projects to 454 so far. Further, the corpus of the Fund was augmented by Rs.561 crore during the year.
- *Pilot Project for Integrated Development (PPID) of Backward Blocks*: The Project launched in 2003 was aimed at enabling integrated development through credit and convergence of development programmes in these blocks. As at end-March 2009, PPID was being implemented in 40 blocks across 6 States.
- *Tribal Development Fund (TDF)*: The Fund was created in 2004 for developing the tribal dominated areas. It also included developing *inter alia* micro-enterprises by the landless, community health and building people's organisations. During 2008-09, assistance was granted for 74 projects covering 61,924 tribal families in 14 States.
- *Farm Innovation and Promotion Fund*: During the year, 14 projects involving assistance of Rs.1.81 lakh in six States was sanctioned under the Fund. Projects financed included commodity exchange, orcharding in guava and protected vegetable cultivation.
- *Farmers' Clubs (FCs)*: During the year, NABARD launched 9,989 Farmers' Clubs (FC) taking the total number of clubs to 38,215 covering 87,724 villages in 581 districts. NABARD reviewed its policy for supporting FCs through various agencies and decided to extend uniform support of Rs.10,000 for three

years to all commercial banks, RRB, cooperative banks and grass-root organisations.

Non-farm sector initiatives

- *Rural Innovation Fund (RIF)*: The Fund was created in 2005 to provide assistance for innovative projects in farm, non-farm and micro-finance sectors with potential to generate employment opportunities. During the year, 65 innovative projects were sanctioned by NABARD.
- *Cluster Development Programme*: To promote rural industrialisation through the cluster approach, NABARD has launched the programme to develop 55 clusters within a period of 3-5 years. During 2008-09, 37 participatory, 1 intensive and 1 eco-tourism clusters were sanctioned. Further, in view of Government's special emphasis on developing the handloom sector, NABARD has initiated the development of handloom clusters.
- *Rural Entrepreneurship Development Programme (REDP) and the Skill Development Programme (SDP)*: NABARD has initiated these Programmes for generating employment opportunities in rural areas. During 2008-09, grant support of Rs.1,304 lakh was provided covering 50,264 rural youth. Further, an amount of Rs.88 lakh was sanctioned to Rural Development and Self Employment Training Institutes (RUDSETI) for capital expenditure.
- *Swarozgar Credit Cards (SCCs)*: NABARD issued 1.50 lakh Swarozgar Credit Cards (SCC) involving credit limits of Rs.628 crore during 2008-09.
- *Gender Development Programmes*: NABARD continued to support gender development programmes through its schemes such as Marketing of Non-Farm Products of Rural Women (MAHIMA) and Assistance to Rural Women in Non-Farm Development (ARWIND) programmes. During the year, grant assistance of Rs.6 lakh and Rs.7 lakh were released under MAHIMA and ARWIND, respectively. Further, NABARD initiated the establishment of Women Development Cells (WDCs) and by end-March 2009, 102 WDCs in 56 RRBs, 43 DCCBs and 3 SCARDBs were sanctioned.

few banks in the recent years. Moreover, regionally, UCBs remain concentrated in the western region comprising Maharashtra and Gujarat. During the year, there has been a continued expansion in the business of UCBs in general and scheduled UCBs in particular, as evident from a high growth in loans and advances as well as deposits signaling a growing public confidence in these institutions. Net profits of the

UCB sector as a whole grew at a slower pace during the year, but there was a significant growth in the profits of non-scheduled UCBs. There has been an increase in the levels of capital adequacy for the UCB sector as a whole. There are, however, pockets within the sector comprising of banks whose capital levels remain considerably low. The UCBs have continued to play an important role in financial inclusion through their credit delivery

to sectors, such as the small enterprises. During the year, belying the expected decline in credit to the small enterprises following global developments, UCB's credit to small enterprises has registered a high growth.

5.90 As against UCBs, all rural cooperatives except StCBs have reported overall losses during the year. The lowest tier of rural cooperatives, namely PACS, have seen a rise in the representation of small farmers in their members and borrowers. There has, however, been a decline in the number of SC/ST members and borrowers for these institutions.

5.91 Further, high levels of NPAs continue to afflict both urban and rural cooperative sectors. Notwithstanding the slow decline in the NPA ratio for UCBs in recent years, the ratio remained high at 13.3 per cent in 2009.

5.92 Under NABARD's initiatives for the cooperative sector and rural development, there has been a significant increase in deposits and credit sanctioned under RIDF (with Bharat Nirman Programme) during the recent years. However, there has been a declining trend in the percentage of loans disbursed under RIDF. The total number of KCCs has risen sharply reflecting its popularity as means of agricultural finance among farmers. However, this increase has come about primarily from commercial banks, while the KCCs issued by cooperative banks have been on a decline.

5.93 To sum up, there is a need to make the cooperative credit system – both rural and urban – more viable and vibrant in order to deepen financial inclusion as well as add to stability of the financial system as a whole.