CHAPTER – III
CONCEPTS IN BANKING

3.1 INTRODUCTION

India economy is predominantly an agrarian economy. In fact it plays pivotal role in shaping the Indian economy. Traditionally the Indian agriculturists are pursuing their agriculture activities with the help of manual or bullock labour. Over the years this labour both manual as well as bullock labour have become a costly affair. Besides availability of the village labour whenever needed particularly during the peak demand for labour is very difficult. After the globalization of the Indian economy there are lots of changes in the various sectors of economy and the Indian agriculture is not an exception to it. In order to ensure timely and economical field operations the agriculturist has to go in for farm mechanization. The agriculturists have to face fierce competition as after the globalization lots of imported food grains are coming to Indian market. These are at many times quality wise better. Hence in order remain in the market the agriculturist has to ensure that the agricultural produce is quality wise of high order and that at the same time it is relatively cheaper than the imported one. Therefore, it is in this context the globalization has in fact responsible for changing the face of the Indian agriculture over the past one and a half decade.

The geographical analysis of the spread of population according to the Indian census for 2011, it has been observed that there are 6,40,867 villages spread all over India. During the period of ten years from 2001-2011 the number of villages is increased by 2,279 villages. Village continues to be the basic unit of the Indian census 2011. According the latest census of 2011 the rural population is 83.3
crores.\textsuperscript{51} The proportion of the rural population decline from 72.19 per cent to 68.84 per cent during the period 2001-11 due to migration of the villagers to the nearby urban or metropolitan centre. Even then the rural population and its agricultural activity continues to be the backbone of the Indian economy. Agriculture provides livelihood to about 65 per cent of the labour force. 43 per cent of the geographical area is used for agriculture purposes. With the spread of irrigation facilities, the introduction of high yielding variety seeds and farm mechanization, the vulnerability of the Indian agricultural sector to the vagaries of the monsoon is on decline.\textsuperscript{52}

Agricultural Sector plays a vital role in the economic development of the country. "As per latest estimates released by Central Statistics Office (CSO) the share of agricultural products/Agriculture and Allied Sectors in Gross Domestic Product (GDP) of the country was 51.9 per cent in 1950-51, which has now come down to 13.7 per cent in 2012-13 at 2004-05 prices. Productivity of food grains has increased from 1,860 kg per hectare in 2007-08 to 2,125 kg a hectare in 2012-13 (fourth advance estimate) India has achieved this coveted mark by multi-pronged strategies and technologies such as Green revolution, Blue revolution, White revolution and is now poised for Rainbow revolution.\textsuperscript{53}

After attaining independence the government of India according top priority in achieving self sufficiency in crop production in general and food production in particular. Policies relating input and output markets, services, financing institutions and their policies, infrastructure requirement were given top priority by the government which had its positive impact in the improvement of the food grains production. However, if we compare the Indian agriculturist’s

\textsuperscript{51} http://censusindia.gov.in/2011-prov-results
\textsuperscript{52} http://censusindia.gov.in/2011-prov-results
\textsuperscript{53} http://www.censusindia.gov.in/2011-common/CensusDataSummary.html
productivity with that of the western agriculturists it is observed that there is still scope for the improvement in productivity.

### 3.2 STRUCTURE OF INDIAN BANKING\(^{54}\)

**Figure 3.1: The Present Indian Banking Structure**

![Diagram of the present Indian banking structure]

Source: M. L. Tanan, “Practice and Law of Banking in India”

**R.B.I. New Proposal for Indian Banking Structure\(^{55}\)**

The Reserve Bank of India (RBI) has proposed a four-tier banking structure as opposed to the existing two-tier model in order to enhance competition and finance higher growth in the country\(^{56}\).

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\(^{54}\) M. L. Tanan, “Practice and Law of Banking in India”

\(^{55}\) DNA : Wednesday, Aug 28, 2013, 8:25 IST | Place: Mumbai

The first tier may consist of three or four large Indian banks with domestic and international presence along with branches of foreign banks in India, the RBI said in a discussion paper released on Tuesday, 27th Aug, 2013\textsuperscript{57}.

Mid-sized banks including niche banks with economy-wide presence may form the second tier. “These are capable of offering a broad range of banking products and services to the domestic economy such as investment banking, wholesale banking and funding large infrastructure projects,” the RBI said.

The third tier would have old private sector banks, regional rural banks and multi-state urban cooperative banks (UCBs).

The fourth tier may consist of many small privately owned local banks and cooperative banks. These would specifically cater to the credit requirements of small borrowers in the unorganized sector in un-banked and under-banked areas.

The present structure is broadly divided into commercial banks and cooperative banks. Commercial Banks include private and public sector banks, foreign banks, regional rural banks and local area banks. The second tier is made up of UCBs and rural cooperatives.

RBI said that while there can be no ideal ‘one-size fits all’ banking structure as such, it is recognized that a banking system should not only be able to meet the needs of the economy, but also be resilient enough to withstand shocks and promote financial stability.

For public sector banks, the RBI said, the government may look at bringing down the fiscal burden of their recapitalization. “Government may consider options from menu of choices available

such as issue of non-voting equity shares or differential voting equity shares, adopting financial holding structure or diluting stake in public sector banks.\textsuperscript{58}

On licensing, RBI said there was a case for reviewing the current ‘stop and go’ policy and replacing it with ‘continuous authorization’ policy to keep the competitive pressure on existing banks.

3.3 SOCIAL CONTROL OVER BANKS

The banks mobilize the savings of the masses and put it to productive use in the form of loans to the needy. To mobilize the resources and channels them to industries and others by way of loans.

It was observed by the Govt. of India that the commercial banks which were in the private sector were mobilizing the resources and those were deployed by these banks in financing a particular class i.e. large and medium industries, and big traders. There was no proper synchronization of the government of India’s planned priorities and the priorities decided by these private sector banks. As a result several vital sectors of the Indian economy namely agriculture, small scale industry, retail traders, transport operators, professionals were being neglected in the matter of allocation of credit. The private sector banks were being represented by the various business houses then prevailing on Indian horizon. E.g. Bank of India was considered to be bank of Thackercy group, etc. These industrial houses were getting priority in the allocation of credit through their banks. In a way these banks were promoted to sub-serve their interest.

In order to overcome this mismatch of the allocation of credit, the Government of India passed, The Banking Laws (Amendment) Act in December 1968 and it came into operation as from 1st February 1969. This scheme was known as “Social Control Over Banks”. The then Deputy Prime Minister Late Mr. Morarjibhai Desai advocated this concept. He had explained that the aim of social control was, "to regulate our social and economic life so as to attain the optimum growth rate for our economy and to prevent at the same time monopolistic trend, concentration of economic power and misdirection of resources”.

The Banking Regulation Act, 1949 provided homogeneity and cohesiveness to the banking system. It gave a sense of direction in deposit mobilization and dispensation of credit. Even at this stage that there is still need for closer dovetailing of credit allocation with the national planned priorities. Banking sector being a key constituent of the nation’s economy, it was expected that this sector should play a more positive role for attainment of social justice. It was also expected from the banking sector should ensure that there is no development of monopolistic tendency, concentration of economic power, and improper use of the resources.

It is on this back drop it was decided to introduce social control over banks with the objective of imposing effective social control over the operations of the commercial banks. The broad objectives set out in social control over banks are:

a) To broaden the spectrum of bank advances and to improve the position of agriculture and the other neglected sectors of economy.

b) To enable the Govt. to effectively implement the five years plans.

c) To broaden the boards of directors so as to ensure that there is proper representation of the neglector sector.
The social control over banks bill called “Banking Laws (Amendment) Bill 1967 was introduced in the parliament in the 3rd week of December 1967. It received the President’s assent in the last week of December 1968. This also gave birth to:

a) The creation of National Credit Council to formulate credit policy.

b) Change in the composition of the board of director of the commercial banks so as to include representatives.

The main provisions of this amendment were as under:

1. Bigger banks should have a full time chairman and Chief Executive Officer and that he/she should have special knowledge and practical banking experience.

2. The majority of the directors on the board should have banking knowledge and they should come from either agriculture, industry, professional, law etc.

3. Banks were prohibited to grant any loans or advances (secured or unsecured) to its board of directors or to any firm or companies in which they were interested.

### 3.4 NATIONALIZATION OF COMMERCIAL BANKS

It was in 1960’s the Indian banking industry had proved that it is an important tool to facilitate the economic development of India. The nationalized banks became a large employer and there was a debate about the possibility of bank nationalization for still speedier growth in achieving social objectives set out before the banking industry.

In the Annual Conference of the Indian National Congress a paper was placed titled, “Stray thoughts on Bank Nationalization”. There was overwhelming response to this paper by the congress party.
Seeing the positive response from the congress party, Smt. Indira Gandhi - the then Prime Minister of India, took a bold decision and the government of India issued an ordinance and nationalized the 14 largest commercial banks with effect from the midnight of July 19, 1969. The Parliament passed the Banking Companies (Acquisition and Transfer of Undertaking) Bill, and it received the presidential approval on 9 August, 1969. In the year 1980, the Govt. of India further nationalized 6 more Indian private sector banks. The reason ascribed for this was stated that the Govt. of India wanted more control over the dispensation of the bank credit. In the year 1993 the Government of India merged the New Bank of India into Punjab National Bank and then the number of nationalized banks became 19. The role played by the nationalized banks has been commended by eminent economists and because of the sound development of banking practices followed by the Indian banks it helped the Indian economy withstand the global financial crisis of 2007-2009.

3.4.1 Objectives behind Nationalization of Banks in India

The nationalization of commercial banks was carried out with a view to achieve following major objectives.

- **Providing Loans to Priority Sector**

  The priority sector in advances is comprised of those sub sectors of the Indian economy mainly, agriculture, Small Scale Industries, Transport Operators, Professionals and Self Employee, Retail Traders, and the weaker section of the society. These sub sectors were deprived of allocation of credit and these sub sectors being important segments of the Indian economy it was considered appropriate to give priority in the allocation of these sectors.

- **Social Welfare**

  In order to strengthen the economic activities carried out by the then neglected sectors of the economy, the nationalized banks were asked to accord in meeting this sectors credit needs and provide an
opportunity to them to improve their earnings and consequential improve their standard of living. Over the years now, it has been proved that the banks have been successful in helping this class of the society.

- **Controlling Private Monopolies**
  As has been stated earlier that the then private sector banks were widely recognized as the banks of various business houses. E.g. Tatas, Birlas, Goenkas, Thackercy’s etc. These business houses were influencing the credit policies of these private sector banks and were directing the country’s resources to sub-serve their interests. Therefore, one of the objectives of nationalization was to restrict the monopoly of these business houses.

- **Expansion of Banking**
  Being in private sectors the banks were obviously interested in earning profit and therefore they were concentrating the opening of their branches which will prove to be financially sound and earning profit. Therefore, it was observed that these banks are reluctant to expand their operations in the rural and un-banked areas. The expansion of the banking in the untapped potential centres was encouraged to enable the banks to mop up the untapped deposits which were very much needed to expand the credit to the neglected sector.

- **Reducing Regional Imbalance**
  In those days there was a regional imbalance so far as growth of banking services is concerned. Therefore, it was expected that the banks will go to the rural and semi urban areas so that the regional imbalance will be reduced. Here it should be noted that when a bank branch is opened at a centre the surrounding area starts developing as the bank provides credit for starting new enterprises.
• **Developing Banking Habits**

Already it has been stated earlier that more than 70 per cent of the Indian population stays in rural areas. It was necessary to inculcate a savings habit in this area and hence the need for bank branches was strongly felt.

The Indian Government has undertaken planned economic development since 1951 through Five Years Plans. It has undertaken the responsibility to generate mass scale employment opportunities and to eradicate poverty. Therefore, the Govt. wanted the banks to do the following:

- The banks should open their bank branches in the rural and semi urban centres and mop up the savings of the individuals to provide credit to support for production and employment generating programmes.
- The banks are expected to finance poor artisans, retailers and small business enterprises with a view to generating employment opportunities.
- The banks are expected to provide credit to agriculture and activities allied to agriculture, to qualified entrepreneurs for starting their small industrial ventures.

As a part of the government economic policies, it has accepted a dominant role for the public sector in the economic development and desired that the banks should serve as instruments for implementation of the government’s economic policies.

3.4.2 **Achievements and Benefits of Nationalization**

After the nationalization there was phenomenal expansion of the banking sector. The nationalized banks started opening their branches in the rural and semi urban areas. Within two decades the number of bank branches reached more than 50,000 at the beginning

59 https://rbi.org.in/Publications
of the year 1991. It amounted to tenfold increase. Commercial banks started financing the agriculture and activities allied to agriculture in a big way. The pave the way for increase in the agricultural production and in a very short span of time India assumed self sufficiency in food production. This achievement has been responsible to give food security. India assumed number one position in the world, in the production of milk and milk products.

At the time of nationalization of 14 Indian commercial banks the total deposits of these banks put together were Rs.5300 crores and today (31st March 2013) the total bank deposits of the nationalized banks stood at Rs. 53901314 million while the aggregate advances stood at Rs. 44961069 million. Undoubtedly this was a spectacular achievement of bank nationalization.

The commercial banks started financing the large scale sector for exports, small scale industries, self employed professionals; small artisans, retailers, and this naturally resulted in giving a boost to the economic development. Gradually it brought prosperity in the country.

Time has proved that the decision of nationalizing the Indian banking sector and changing the lending policies of these banks was a sound decision. The improvement in the style of living of the masses was due to this policy.

3.4.3 Liberalization

In the year 1991 the Indian government embarked upon the policy of globalization, liberalization and privatization. Simultaneously the banking sector reforms were also launched and in that Reserve Bank of India granted small number of private sector banks which are known as New Generation Private Sector Banks. The Global Trust Bank Ltd. was the first bank that was launched and later on it amalgamated in Oriental Bank of Commerce. The other new
generation private sectors banks are: ICICI Bank Ltd. HDFC Bank Ltd. Indusind Bank Ltd. Axis Bank Ltd. (earlier it was UTI Bank). This move has revolutionized the banking industry in India which has given rise to rapid economic growth.

The next important step that was taken was in respect of allowing Foreign Direct Investment in India in Indian banks. The foreign investors were also given voting rights and gradually the original FDI limit of 10% was increased to 49 per cent as at present\(^6\). The new generation banks were techno savvy. Right from day one they were fully computerized banks. All these banks were having an enviable ambience. They introduced several new products and services (both deposits and advances) and their style of functioning was quite unique. Their degree of delegation was quite broad resulting in speedier credit decisions. These banks threw open a fierce competition before the public sector and the old private sector banks. Initially their offices were located at the metropolitan and urban centres but now they have started opening their branches in rural and semi-urban areas.

India adopted the Basel Committee Norms for the banking industry starting from the Public Sector and Commercial Banks and gradually the cooperative banks have also been covered. These norms brought in international standard of transparency in banking transactions. These norms included Capital Adequacy Norms, Classification of Assets, and Provisioning norms. This has led the Indian bank to step up their capital base at International standard level in a phased manner as per the directions of the Reserve Bank of India. These banks have started classifying their assets based on the income generation, as Standard Assets, Sub Standard Assets, Doubtful Assets and Loss Assets. (These are also referred to as Non

Performing Assets). Clear cut guidelines have been issued by the Reserve Bank of India and over a period of time this system of classification of assets has been stabilized. As a result of this total change in the approach of the Reserve Bank of India regarding transparency and full disclosure, the Banks have now are on their toes for recovery of their NPAs as otherwise they have to make provisions from out of their own earnings. A heavy provision on this count reflects on the functioning of the banks.

3.4.4 Key Statistics

According to the Reserve Bank of India (RBI)’s ‘Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks’, March 2013, Nationalized Banks accounted for 52.4 per cent of the aggregate deposits, while the State Bank of India (SBI) and its Associates accounted for 22 per cent. The share of New Private Sector Banks, Old Private Sector Banks, Foreign Banks, and Regional Rural Banks in aggregate deposits was 13.6 per cent, 5.1 per cent, 4 per cent and 2.9 per cent, respectively.

- Nationalized Banks accounted for the highest share of 51 per cent in gross bank credit followed by State Bank of India and its Associates (22.7 per cent) and New Private Sector Banks (14 per cent). Foreign Banks, Old Private Sector Banks and Regional Rural Banks had shares of around 4.9 per cent, 5 per cent and 2.5 per cent, respectively.

- Banks’ credit (loan) growth increased to 18 per cent for the fortnight ended September 6, 2013, while deposits grew by 13.37 per cent showed the data by RBI.

- India's foreign exchange reserves increased to US$ 277.73 billion as of October 4, 2013.

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61 www.rbi.org.in
3.5 HISTORICAL PERSPECTIVE OF COOPERATIVE MOVEMENT IN INDIA

The dictionary meaning of cooperation is working together. This is as old as the human society. This is in fact the basis of domestic and social life. Cooperative effort is ultimately the group instinct in man, which enables him to live together and help each other in times of stress and strain. This principle has been penetrated in the life of human race.

In the history the germs of cooperation can be traced in the religious institutions and traditional customs. These customs and institutions through light on these instincts and mutual assistance, joint possession etc.

In the modern technical sense the genesis of cooperative movement and its applications in the economic field can be traced after the industrial revolution which took place in England during the second half of eighteenth and the first half of the nineteenth century. Today, cooperatives are the most important type of voluntary organization throughout the world. In some countries, they are principal form of organization in agriculture, marketing and provision of credit and distribution of consumer goods. The movement now covers about 98% of the villages and 62% of the total rural population\textsuperscript{62}. The caste, color, Religion etc., have not been any bar for the development of the cooperative movement. The working of the cooperative movement all over the world clearly demonstrates that there is hardly any economic need that cannot be met by organizing cooperative societies and hardly any form social or political organization with which they cannot be reconciled or integrated. The cooperative societies have helped to improve security of tenure of land; to consolidate holdings; to promote conservation of natural resources;

\textsuperscript{62} shodhganga.inflibnet.ac.in/bitstream/10603/23184/8/08\_chapter\%202.pdf
to facilitate land settlement to foster the all important growth and speed of technical knowledge for better farming to secure savings and administer credit; to reduce the charges made for production requisites and use of the larger capital items for farm and small scale industrial production to reduce charges for consumer goods and services including housing to improve the marketing of farm products to minimize risks and to lower the costs of insurance. They have promoted education both general and vocational. They have provided effective training in democracy and self-government. They have been neither class-bound nor state-bound. They have maintained or increased that sense of interdependence so important for social progress.  

3.5.1 Overview of Cooperative Credit Movement

The Indian Cooperatives Movement is probably one of the largest, strongest and the oldest in the world with wide spread spatial coverage, diversified business activities and ample success stories. It has celebrated its Centenary very recently. Rural credit cooperatives in India were originally envisaged as a mechanism for pooling the resources of people with small means and providing them with access to different financial services. Democratic in features, the movement was also an effective instrument for development of degraded waste lands, increasing productivity, providing food security, generating employment opportunities in rural areas and ensuring social and economic justice to the poor and vulnerable.

The history of the cooperative credit movement in India can be divided in four phases. In the First Phase (1900-30), the Cooperative Societies Act was passed (1904) and “cooperation” became a provincial subject by 1919. The major development during the Second Phase (1930-50) was the pioneering role played by RBI in guiding and supporting the cooperatives. However, even during this phase, signs of

sickness in the Indian rural cooperative movement were becoming evident. The 1945 Cooperative Planning Committee had discerned these signs in the movement, finding that a large number of cooperatives were “saddled with the problem of frozen assets because of heavy overdue in repayment.” Even so, also in the Third Phase (1950-90), the way forward was seen to lie in cooperative credit societies. The All India Rural Credit Survey was set up which not only recommended state partnership in terms of equity but also partnership in terms of governance and management. NABARD was also created during this phase. The Fourth Phase from 1990s onwards saw an increasing realization of the disruptive effects of intrusive state patronage and politicization of the cooperatives, especially financial cooperatives, which resulted in poor governance and management and the consequent impairment of their financial health. A number of Committees were therefore set up to suggest reforms in the sector⁶⁴.

3.5.2 Brief History of Urban Cooperative Banks in India

The term Urban Co-operative Banks (UCBs), though not formally defined, refers to primary cooperative banks located in urban and semi-urban areas. These banks, till 1996, were allowed to lend money only for non-agricultural purposes. This distinction does not hold today. These banks were traditionally centered around communities, localities work place groups. They essentially lent to small borrowers and businesses. Today, their scope of operations has widened considerably⁶⁵.

The Beginning

The enactment of Cooperative Credit Societies Act, 1904, however, gave the real impetus to the movement. The first urban cooperative credit society was registered in Canjeevaram (Kanjivaram) in the erstwhile Madras province in October, 1904. Amongst the

⁶⁴ https://www.nabard.org/pdf/Chap_VI.pdf
prominent credit societies were the Pioneer Urban in Bombay (November 11, 1905), the No.1 Military Accounts Mutual Help Co-operative Credit Society in Poona (January 9, 1906). Cosmos in Poona (January 18, 1906), Gokak Urban (February 15, 1906) and Belgaum Pioneer (February 23, 1906) in the Belgaum district, the Kanakavli-Math Co-operative Credit Society and the Varavade Weavers’ Urban Credit Society (March 13, 1906) in the South Ratnagiri (now Sindhudurg) district. The most prominent amongst the early credit societies was the Bombay Urban Co-operative Credit Society, sponsored by Vithaldas Thackersey and Lallubhai Samaldas established on January 23, 1906.

The Cooperative Credit Societies Act, 1904 was amended in 1912, with a view to broad basing it to enable organization of non-credit societies. The Maclagan Committee of 1915 was appointed to review their performance and suggest measures for strengthening them. The committee observed that such institutions were eminently suited to cater to the needs of the lower and middle income strata of society and would inculcate the principles of banking amongst the middle classes. The committee also felt that the urban cooperative credit movement was more viable than agricultural credit societies. The recommendations of the Committee went a long way in establishing the urban cooperative credit movement in its own right.

In the present day context, it is of interest to recall that during the banking crisis of 1913-14, when no fewer than 57 joint stock banks collapsed, there was a flight of deposits from joint stock banks to cooperative urban banks. Maclagan Committee chronicled this event thus:

“As a matter of fact, the crisis had a contrary effect, and in most provinces, there was a movement to withdraw deposits from non-cooperatives and place them in cooperative institutions, the
distinction between two classes of security being well appreciated and a preference being given to the latter owing partly to the local character and publicity of cooperative institutions but mainly, we think, to the connection of Government with Cooperative movement”.

3.5.3 Duality of Control

The constitutional reforms which led to the passing of the Government of India Act in 1919 transferred the subject of “Cooperation” from Government of India to the Provincial Governments. The Government of Bombay passed the first State Cooperative Societies Act in 1925 “which not only gave the movement its size and shape but was a pace setter of cooperative activities and stressed the basic concept of thrift, self help and mutual aid.” Other States followed. This marked the beginning of the second phase in the history of Cooperative Credit Institutions.

However, concerns regarding the professionalism of urban cooperative banks gave rise to the view that they should be better regulated. Large cooperative banks with paid-up share capital and reserves of Rs.1 lakh were brought under the purview of the Banking Regulation Act 1949 with effect from 1st March, 1966 and within the ambit of the Reserve Bank’s supervision. This marked the beginning of an era of duality of control over these banks. Banking related functions (viz. licensing, area of operations, interest rates etc.) were to be governed by RBI and registration, management, audit and liquidation, etc. governed by State Governments as per the provisions of respective State Acts. In 1968, UCBS were extended the benefits of Deposit Insurance.

Towards the late 1960s there was much debate regarding the promotion of the small scale industries. UCBs came to be seen as important players in this context. The Working Group on Industrial

Financing through Co-operative Banks, (1968 known as Damry Group) attempted to broaden the scope of activities of urban co-operative banks by recommending that these banks should finance the small and cottage industries. This was reiterated by the Banking Commission (1969).

The Madhavdas Committee (1979) evaluated the role played by urban co-operative banks in greater details and drew a roadmap for their future role recommending support from RBI and Government in the establishment of such banks in backward areas and prescribing viability standards.

The Hate Working Group (1981) desired better utilization of banks’ surplus funds and that the percentage of the Cash Reserve Ratio (CRR) & the Statutory Liquidity Ratio (SLR) of these banks should be brought at par with commercial banks, in a phased manner. While the Marathe Committee (1992) redefined the viability norms and ushered in the era of liberalization, the Madhava Rao Committee (1999) focused on consolidation, control of sickness, better professional standards in urban co-operative banks and sought to align the urban banking movement with commercial banks.

A feature of the urban banking movement has been its heterogeneous character and its uneven geographical spread with most banks concentrated in the states of Gujarat, Karnataka, Maharashtra, and Tamil Nadu. While most banks are unit banks without any branch network, some of the large banks have established their presence in many states when at their behest multi-state banking was allowed in 1985. Some of these banks are also Authorized Dealers in Foreign Exchange.
3.6 NABARD

3.6.1 Genesis

At the instance of Government of India Reserve Bank of India (RBI), constituted a committee to review the arrangements for institutional credit for agriculture and rural development (CRAFICARD) on 30 March 1979, under the Chairmanship of Shri B. Sivaraman, former member of Planning Commission, Government of India to review the arrangements for institutional credit for agriculture and rural development. The Committee, in its interim report, submitted on 28 November 1979, felt the need for a new organizational device for providing undivided attention, forceful direction and pointed focus to the credit problems arising out of integrated rural development and recommended the formation of National Bank for Agriculture and Rural Development (NABARD). The Parliament, through Act,61 of 1981, approved the setting up of NABARD. The bank came into existence on 12 July 1982 by transferring the agricultural credit functions of RBI and refinance functions of the then Agricultural Refinance and Development Corporation (ARDC). NABARD was dedicated to the service of the nation by the late Prime Minister Smt. Indira Gandhi on 05 November 1982.

NABARD was set up with an initial capital of Rs.100 crore. Consequent to the revision in the composition of share capital between Government of India and RBI, the paid up capital as on 31 March 2013, stood at Rs 4000 crore with Government of India holding Rs.3,980 crore (99.50%) and Reserve Bank of India 20.00 crore (0.50%)67.

Mission

Promote sustainable and equitable agriculture and rural prosperity through effective credit support, related services, institution development and other innovative initiatives.

3.6.2 NABARD – Highlights of 2012-13

NABARD recorded high levels of performance in purveying rural credit during 2012-13. The aggregate assets held by NABARD rose to ₹2,13,170 crore as on 31 March 2013, an increase of ₹30,700 crore (17 %) compared to the position as on 31 March 201268.

3.6.3 Rural Innovations69

NABARD supports rural innovations from out of its Rural Innovation Fund (RIF) since 2005 to promote innovations across the country, having the rural poor in focus. During the year, 2012-13, 90 innovative projects were sanctioned, taking the cumulative number of innovative projects sanctioned to 571. An amount of ₹15.27 crore has been disbursed during the year 2012-13 taking cumulative disbursements to ₹58.36 crore upto 31 March 2013. NABARD instituted award for rural innovations in the year 2012 to commemorate its 30 years of association with India growth story.

3.7 INSTITUTIONAL DEVELOPMENT – REGIONAL RURAL BANKS (RRBS)

As on 31 March 2013, Core Banking Solution (CBS) was implemented in all 64 RRBs. Further, recapitalization assistance to the tune of ₹2015.86 crore has been released to 35 RRBs70. NABARD also coordinated with Institute of Banking Personnel Selection (IBPS) for recruitment of staff and officers in RRBs and was entrusted with

68 NABARD Publications for the year 2013-14
69 NABARD Publications for the year 2013-14
70 https://www.nabard.org/English/rrbs.aspx
the responsibility for coordination and supervision of the selection process, besides finalization of methodology.

### 3.8 INSTITUTIONAL DEVELOPMENT – SHORT TERM AND LONG TERM COOPERATIVES

Training has been imparted to nearly 3.5 lakh personnel from the STCCS in business development and profitability, change management, CAS/MIS and other relevant areas. Studies have shown that these measures have lead to increase in volume of business and credit flow of CCS entities besides cleansing their balance sheets, improved governance and increase in coverage of SF/MF and borrowing membership. Assistance under the Cooperative Development Fund (CDF) has been provided by way of disbursement of ₹ 21.87 crore for the year 2012-13. This assistance has been given separately for training and capacity building of officials of Cooperatives for various skill building initiatives. The cumulative disbursement under CDF was ₹ 130.95 crore as on 31 March 201371.

### 3.9 DISTRICT CENTRAL CO-OPERATIVE BANKS IN INDIA

Before the amendment of Co-operative Societies Act (1912) some banks had been established to cater the financial needs of the primary societies. In Uttar Pradesh the primary co-operative credit society worked as Central Bank in 1906. But the revised Act stimulated the growth of central banks. Thus the period from 1906 to 1918 may be called the period of origin of the DCCBs in India. The number of DCCBs went on increasing. The number of these banks increased from 588 in 1929-30 to 611 in 1936-3772. But co-operative banking organization was very weak and needed considerable rationalization at the time of the launching First Five-Year Plan. According to the All-

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71 https://www.nabard.org/english/about_Highlights.aspx
India Rural Credit Survey Committee’s suggestion, States in India began to follow the process of reorganization and amalgamation of the Central Co-operative Banks. This basic principle of one Central Bank for each district began to be followed in all the States. As a result of this measure, the number of DCCBs came down from 509 in 1950-51 to 338 in 1981-82. Again, it rose to 352 in 1989-90. During 1999-00 the number of DCCBs was 369 which increased up to 371 in 2006-07.

Table 3.1: District Central Co-operative Banks at National Level as on 31.12.2013

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Banks</td>
<td>361</td>
</tr>
<tr>
<td>No. officers including headquarters</td>
<td>11,787</td>
</tr>
<tr>
<td>Total membership (Million)</td>
<td>1.579</td>
</tr>
<tr>
<td>Membership of Co-ops (Million)</td>
<td>0.261</td>
</tr>
<tr>
<td>Total share capital</td>
<td>Rs. 14,345 Million</td>
</tr>
<tr>
<td>Government participation in share capital</td>
<td>18.9%</td>
</tr>
<tr>
<td>Total deposits</td>
<td>Rs. 203,425 Million</td>
</tr>
<tr>
<td>Deposits of co-ops</td>
<td>38.7%</td>
</tr>
<tr>
<td>Reserves</td>
<td>Rs. 15,263 Million</td>
</tr>
<tr>
<td>Total borrowings</td>
<td>Rs. 90,293 Million</td>
</tr>
<tr>
<td>Borrowings from SCB/NABARD</td>
<td>88.7%</td>
</tr>
<tr>
<td>Total working capital</td>
<td>Rs. 334,700 Million</td>
</tr>
<tr>
<td>Total loans advanced</td>
<td>Rs. 326,995 Million</td>
</tr>
<tr>
<td>Percentage of Deposits to Advances</td>
<td>62.2%</td>
</tr>
</tbody>
</table>

3.9.1 District Central Co-operative Banks in Maharashtra

The co-operative credit movement in Maharashtra made a slow start as compared to the other parts of the country. DCCBs played a significant role in Maharashtra. The Bombay Central Co-operative

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74 https://www.nabard.org/english/annualreport.aspx
Bank was registered on 11th October 1911. As the Co-operative Societies Act did not permit the registration of central societies, this bank was got registered by an agreement between the promoters and the Government under the Government of India Act 1904\textsuperscript{76}. During 1911 to 1924 there were 14 DCCBs. As a result of the reorganization, the number was reduced to 11 in 1946-47. At the end of 1955-56 the reconstituted state has 21 central banks, three banking unions. All central banks were of mixed type and made all round progress. On 30th June 1960 there were as many as 34 central banks functioning in 24 districts in the state. The comparative position of growth of DCCBs since 1961 has been given in the following table.

**Table 3.2: Comparison of the Performance of DCCBs in Maharashtra\textsuperscript{77}**

(Members are in thousand while Rs. are in lakhs)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of banks</td>
<td>35</td>
<td>35</td>
<td>26</td>
<td>30</td>
<td>31</td>
<td>31</td>
<td>31</td>
</tr>
<tr>
<td>Branches including HO</td>
<td>N.A.</td>
<td>867</td>
<td>1703</td>
<td>3147</td>
<td>3718</td>
<td>3699</td>
<td>3720</td>
</tr>
<tr>
<td>Total Members</td>
<td>57</td>
<td>55</td>
<td>62</td>
<td>84</td>
<td>144</td>
<td>148</td>
<td>153</td>
</tr>
<tr>
<td>Of which Coop. Societies</td>
<td>22</td>
<td>30</td>
<td>36</td>
<td>60</td>
<td>85</td>
<td>103</td>
<td>101</td>
</tr>
<tr>
<td>Of which individuals</td>
<td>35</td>
<td>25</td>
<td>26</td>
<td>24</td>
<td>29</td>
<td>45</td>
<td>52</td>
</tr>
<tr>
<td>Share Capital</td>
<td>663</td>
<td>2515</td>
<td>4563</td>
<td>1896</td>
<td>68315</td>
<td>149885</td>
<td>168303</td>
</tr>
<tr>
<td>Of which Govt.</td>
<td>199</td>
<td>669</td>
<td>806</td>
<td>774</td>
<td>785</td>
<td>1356</td>
<td>1318</td>
</tr>
<tr>
<td>Owned Funds</td>
<td>820</td>
<td>3474</td>
<td>10206</td>
<td>37587</td>
<td>240999</td>
<td>764870</td>
<td>838100</td>
</tr>
<tr>
<td>Deposits</td>
<td>2647</td>
<td>11323</td>
<td>58814</td>
<td>319940</td>
<td>1786285</td>
<td>4427845</td>
<td>4661118</td>
</tr>
<tr>
<td>Borrowing outstanding</td>
<td>2465</td>
<td>8055</td>
<td>9335</td>
<td>91107</td>
<td>244574</td>
<td>195630</td>
<td>400351</td>
</tr>
</tbody>
</table>


\textsuperscript{77} Cooperative Movement at a Glance in Maharashtra -2011, published by office of the Commissioner for Cooperation & Registrar of Cooperative Societies, Pune. 48\textsuperscript{th} Publication
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Working capital</td>
<td>6093</td>
<td>23637</td>
<td>83526</td>
<td>483492</td>
<td>2427842</td>
<td>5736367</td>
<td>62119382</td>
</tr>
<tr>
<td>Loans advanced during the year</td>
<td>5125</td>
<td>12084</td>
<td>27870</td>
<td>11996</td>
<td>2020830</td>
<td>1946326</td>
<td>2790399</td>
</tr>
<tr>
<td>Of which SAO</td>
<td>N.A.</td>
<td>9531</td>
<td>19692</td>
<td>56359</td>
<td>695461</td>
<td>704295</td>
<td>978590</td>
</tr>
<tr>
<td>Loans outstanding Total</td>
<td>4361</td>
<td>17846</td>
<td>49427</td>
<td>307836</td>
<td>1358906</td>
<td>2510030</td>
<td>30117303</td>
</tr>
<tr>
<td>Of which SAO</td>
<td>N.A.</td>
<td>11081</td>
<td>26174</td>
<td>80725</td>
<td>358850</td>
<td>790921</td>
<td>882458</td>
</tr>
<tr>
<td>Others</td>
<td>N.A.</td>
<td>6765</td>
<td>23253</td>
<td>227111</td>
<td>1000056</td>
<td>139310</td>
<td>105781</td>
</tr>
<tr>
<td>From Societies</td>
<td>6265</td>
<td>17676</td>
<td>47701</td>
<td>283188</td>
<td>1243056</td>
<td>545927</td>
<td>630065</td>
</tr>
<tr>
<td>From Individuals</td>
<td>96</td>
<td>170</td>
<td>1726</td>
<td>24648</td>
<td>115850</td>
<td>311689</td>
<td>420471</td>
</tr>
<tr>
<td>Demand (Principal)</td>
<td>N.A.</td>
<td>13295</td>
<td>36391</td>
<td>162528</td>
<td>15947</td>
<td>1167544</td>
<td>1331122</td>
</tr>
<tr>
<td>Recovery</td>
<td>N.A.</td>
<td>8842</td>
<td>21843</td>
<td>110712</td>
<td>505334</td>
<td>808432</td>
<td>833794</td>
</tr>
<tr>
<td>Percentage of recovery to demand</td>
<td>N.A.</td>
<td>66.5</td>
<td>60</td>
<td>68.1</td>
<td>70.6</td>
<td>69.2</td>
<td>82.6</td>
</tr>
<tr>
<td>Loans overdue</td>
<td>460</td>
<td>4452</td>
<td>14452</td>
<td>56151</td>
<td>201613</td>
<td>524760</td>
<td>584987</td>
</tr>
<tr>
<td>Percentage of overdue to outstanding</td>
<td>10.5</td>
<td>24.9</td>
<td>29.2</td>
<td>18.2</td>
<td>14.8</td>
<td>20.9</td>
<td>19.39</td>
</tr>
<tr>
<td>No. of Banks in Profit</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>22</td>
<td>17</td>
<td>20</td>
</tr>
<tr>
<td>Amount of Profit</td>
<td>50</td>
<td>140</td>
<td>376</td>
<td>1714</td>
<td>9579</td>
<td>17337</td>
<td>20626</td>
</tr>
<tr>
<td>No. of banks in loss</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>8</td>
<td>14</td>
<td>11</td>
</tr>
<tr>
<td>Amount of loss</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>13097</td>
<td>146433</td>
<td>135061</td>
</tr>
</tbody>
</table>

N. A. Not available
SAO – Seasonal Agricultural Operations
**Source:** Cooperative Movement at a Glance in Maharashtra -2011, published by office of the Commissioner for Cooperation & Registrar of Cooperative Societies, Pune. 48th Publication.

It can be seen from the above table that the number of banks has increased which is due to increase in the number of districts and consequent upon the increase in number the number of branches have also increased.
The membership of the cooperative increased and the individual membership have also recorded increase.

There is substantial increase in the share capital which in terms of percentage works out to 25285.06%. This is due to various reasons such as number of societies increased, for adherence to capital adequacy norms the banks had to increase their share capital, and so also it is due to inflation. However the Govt. of Maharashtra’s contribution to share capital increased hardly by 562.31%. It means member’s capital has shown substantial growth.

During the study period the owned funds also recorded growth of 102107.31% which is quite sizable. This is due to ploughing back of profits.

There is many fold growth in the loans granted and the overdue have sizably increased during the study period. Especially during the 2010 and 2011 the percentage of overdue is quite alarming. The banks will have to put in concerted efforts augment recovery and will have to improve their pre sanction credit appraisal as well as post disbursement control and supervision over the advances.

Only 64.50% banks are showing profit and the remaining 35.5% banks are showing losses. The amount involved in losses is quite alarming and the banks will have to take suitable measures to contain the losses on an urgent basis. In case of some banks if there is no immediate improvement their survival will be at stake.

3.9.2 Current status of Agriculture Financing by DCC Banks in Maharashtra

For years together the DCC Banks in the state of Maharashtra dominated in providing Crop loans to the agriculturists and that these

78 Loksatta, Friday 3rd July 2015 page 10
banks have played a major role in deep rooting the Cooperative movement. For the first time this year the share of DCC Banks in the providing crop loans to the agriculturists has gone down to 34 percent and correspondingly the share of crop financing by Nationalized banks has increased. If this trend continues it is feared that the very existence of the DCC Banks will come in danger.

Every year action plan for providing agriculture credit to the farmers is finalized. During the current rubbi season the banks are going to provide agriculture credit of Rs.44,318 crores of which 15,449 crores will be disbursed by the DCC Banks and this share works out to 34 percent. 65% loan disbursement will be done by the nationalized banks. Up till now the DCC banks were enjoying monopoly so far as financing of crop loans. Before five years the share of DCC Banks was 65%. Now this has been reversed.

DCC Banks from Wardha, Nagpur, Buldhana, Oosmanabad, Solapur, Beed, Jalana and Dhule –Nandurbar are not financially sound and hence their share has been reduced. This year Nationalized banks will be providing croploans to the tuen of Rs.23,147 crores, private sector banks will provide 3276 crores and reginal rural banks will be providing 2394 crores.

3.10 PRIMARY AGRICULTURAL CREDIT SOCIETIES (PACS)

Primary Agricultural Credit Societies (PACS) are the grassroots level arm of the short-term co-operative credit structure. PACS deal directly with individual borrowers, grant short to medium term loans and also undertake distribution and marketing functions. There are 91,833 PACS as on March 2013 in all over India, with about 1,39,376 thousand members. A large number of PACS, however, face

79 M. L. Tannan’s Banking Law and Practice in India, (2007) page 31
severe financial problems primarily due to significant erosion of own funds, deposits, and low recovery rates. Various policies such as financial support for computerization, steps towards better effective recovery performance, human resource development. Etc. have been adopted to improve the financial health of the PACS. NABARD has been extending funds to develop the infrastructure for PACS.

The Primary Agricultural Credit Societies (PACS)\(^8\) constitute the `hub’ of the Indian co-op movement. Every fourth co-operative in India is a primary credit society. The main objectives of a PACS are:

- To raise capital for the purpose of giving loans and supporting the essential activities of the members.
- To collect deposits from members with the objective of improving their savings habit.
- To supply agricultural inputs and services to members at remunerative prices.
- To arrange for supply and development of improved breeds of livestock for the members.
- To make all necessary arrangements for improving irrigation on land owned by members.
- To encourage various income-augmenting activities such as horticulture, animal husbandry, poultry, bee-keeping, pisciculture and cottage industries among the members through supply of necessary inputs and services.

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

\(^8\) https://www.nabard.org/pdf/Chap_VI.pdf
PACS continue to rely heavily on external support and have not yet been able to become self-reliant in respect of resources through deposit mobilization and internal accruals, affecting their growth and expansion of business activities.

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

Some of the critical challenges facing primary level cooperative credit institutions, apart from improving resource mobilization, are the following:

- Increasing diversification in business portfolio.
- Improving volume of business.
- Arresting decline in membership by the borrowers.
- Reducing cost of management.
- Correcting imbalance in loans outstanding.
- Improving skills of the staff and introducing professionalism.
- Strengthening management information system.
- Reducing involvement in non/less profitable business.
Table 3.3: National Level Performance of Primary Agriculture Co-Operative Societies (PACS) during the period of 2000-01 to 2013-14 Year\(^{81}\)  
(Rs. In Lakhs)

<table>
<thead>
<tr>
<th>Years</th>
<th>Number of Societies</th>
<th>Total Members ('000)</th>
<th>Total borrowers ('000)</th>
<th>Total Loan Issued</th>
<th>Loan Outstanding</th>
<th>Loan Overdue</th>
<th>% Overdue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>98,843</td>
<td>99,918</td>
<td>46533</td>
<td>2569831</td>
<td>3452233</td>
<td>1003788</td>
<td>34.90</td>
</tr>
<tr>
<td>2001-02</td>
<td>98,247</td>
<td>1,02,141</td>
<td>55545</td>
<td>3076999</td>
<td>4077940</td>
<td>1106727</td>
<td>32.44</td>
</tr>
<tr>
<td>2002-03</td>
<td>1,12,309</td>
<td>1,23,552</td>
<td>63880</td>
<td>3399586</td>
<td>4241124</td>
<td>1528937</td>
<td>37.90</td>
</tr>
<tr>
<td>2003-04</td>
<td>1,03,129</td>
<td>1,35,411</td>
<td>51265</td>
<td>3511924</td>
<td>4387282</td>
<td>1629517</td>
<td>36.84</td>
</tr>
<tr>
<td>2004-05</td>
<td>1,08,779</td>
<td>1,27,406</td>
<td>45070</td>
<td>3921172</td>
<td>4878546</td>
<td>1605223</td>
<td>33.59</td>
</tr>
<tr>
<td>2005-06</td>
<td>1,06,384</td>
<td>1,25,197</td>
<td>46076</td>
<td>4291959</td>
<td>5177866</td>
<td>1547623</td>
<td>30.36</td>
</tr>
<tr>
<td>2006-07</td>
<td>97,224</td>
<td>1,25,792</td>
<td>47910</td>
<td>4961275</td>
<td>5862015</td>
<td>1575150</td>
<td>29.11</td>
</tr>
<tr>
<td>2007-08</td>
<td>94,950</td>
<td>1,31,530</td>
<td>51074</td>
<td>5764248</td>
<td>6566638</td>
<td>2400348</td>
<td>35.67</td>
</tr>
<tr>
<td>2008-09</td>
<td>95,633</td>
<td>1,32,350</td>
<td>46219</td>
<td>5878674</td>
<td>6404424</td>
<td>3793635</td>
<td>44.82</td>
</tr>
<tr>
<td>2009-10</td>
<td>94,647</td>
<td>1,26,419</td>
<td>59800</td>
<td>7493754</td>
<td>7647983</td>
<td>3952400</td>
<td>41.39</td>
</tr>
<tr>
<td>2010-11</td>
<td>93,413</td>
<td>1,21,225</td>
<td>52388</td>
<td>9130382</td>
<td>8776794</td>
<td>2269713</td>
<td>25.15</td>
</tr>
<tr>
<td>2011-12</td>
<td>92,432</td>
<td>1,13,596</td>
<td>44886</td>
<td>10730023</td>
<td>9124321</td>
<td>2430359</td>
<td>26.78</td>
</tr>
<tr>
<td>2012-13</td>
<td>91,833</td>
<td>1,39,376</td>
<td>43083</td>
<td>12606050</td>
<td>10793866</td>
<td>1989372</td>
<td>17.24</td>
</tr>
<tr>
<td>2013-14</td>
<td>93,042</td>
<td>1,30,119</td>
<td>48081</td>
<td>17141956</td>
<td>13005386</td>
<td>2963194</td>
<td>19.01</td>
</tr>
</tbody>
</table>

Source: National Federation of State Co-operative bank Ltd. (NAFSCOB)

It can be seen from the above statistics that the number of PACS has been reduced to some extent. This is mainly because of winding up of some societies, as well as merging up of some societies.

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\(^{81}\) National Federation of State Co-operative bank Ltd. (NAFSCOB)
There is phenomenal growth in the membership and the outstanding borrowing. There is marginal growth in the membership but the growth in the loan outstanding is spectacular. This growth can be attributed to the inflation which has been reflected in the scale of finance of the various crops and equipment. Because of the thrust given on the building of quality asset through the introduction of prudential norms, the overdue percentage has been drastically reduced from 34.90% to 19.01%. This can be looked up on as an indicator but it is not fully reliable as this overdue percentage should have been worked out with reference to the Total demand for the respective year. However, we accept it as this is the cooperative bank’s age old practice. The concept of Demand Collection and Balance is a scientific method to work out the overdue percentage and this has been introduced in the PACS but it is still not stabilized. If we take a bird’s eye view of the overall overdue position we can say that the introduction of prudential norms have brought in transparency and the focus in the recovery efforts of all credit institutions including the PACS.

3.11 NON PERFORMING ASSETS

Definition: A loan or lease that is not meeting its stated principal and interest payments. Banks usually classify as nonperforming assets any commercial loans which are more than 90 days overdue and any consumer loans which are more than 180 days overdue. More generally, an asset which is not producing income.

3.11.1 Types of NPA

Initially NPAs have been divided or classified into following four types:

- **Standard Assets**: A standard asset is a performing asset. Standard assets generate continuous income and repayments.

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82 NABARD’S Circular No. 112/DOS – 22/2009 dated 23rd July 2009
as and when they fall due. Such assets carry a normal risk and are not NPA in the real sense. So, no special provisions are required for Standard Assets.

- **Sub-Standard Assets**: All those assets (loans and advances) which are considered as non-performing for a period of 12 months are called as Sub-Standard assets.

- **Doubtful Assets**: All those assets which are considered as non-performing for period of more than 12 months are called as Doubtful Assets.

- **Loss Assets**: All those assets which cannot be recovered are called as Loss Assets.

These definitions were slightly modified for the PACS and the following table gives the current classification of the NPAs and the classification of the Assets overdue period wise.

### 3.11.2 Provision on types of assets

Provision is allocating money every year to meet possible future loss.

**Table 3.4: Provisions of Assets Currently in vogue in 2014.**

<table>
<thead>
<tr>
<th>Sr.</th>
<th>Type of Assets</th>
<th>Provisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Standard Assets</td>
<td>0.25% for all type of Standard Advances</td>
</tr>
<tr>
<td>2</td>
<td>Sub-Standard Assets overdue up to 3 years.</td>
<td>10% for all types of Sub- Standard Advances</td>
</tr>
<tr>
<td>3</td>
<td>Doubtful Assets</td>
<td></td>
</tr>
<tr>
<td></td>
<td>D-1 – Overdue 3 to 4 years.</td>
<td>100% of unsecured Advances and 20% of secured advances</td>
</tr>
<tr>
<td></td>
<td>D-2 – Overdue 4 to 6 years</td>
<td>100% of unsecured advances and 30% of secured advances</td>
</tr>
<tr>
<td></td>
<td>D-3 – Overdue above 6 years.</td>
<td>100% of unsecured and advances and 50% of secured advances</td>
</tr>
<tr>
<td>4</td>
<td>Loss Assets</td>
<td>100% of unsecured and advances and 100% of secured advances</td>
</tr>
</tbody>
</table>

---

3.12 INTRODUCTION OF CAMEL RATING SYSTEM TO CO-OPERATIVES

This new concept of rating the banks is explained here. 'CAMELS Rating System'.

The six factors examined are as follows:

C - Capital adequacy
A - Asset quality
M - Management quality
E - Earnings
L - Liquidity
S - Sensitivity to Market Risk

Bank supervisory authorities assign each bank a score on a scale of one (best) to five (worst) for each factor. If a bank has an average score less than two it is considered to be a high-quality institution, while banks with scores greater than three are considered to be less-than-satisfactory establishments. The system helps the supervisory authority identify banks that are in need of attention.

With the tightening of prudential norms, the banking sector has been consistently conforming to and adopting international prudential norms and accounting practices. Such strengthening of prudential norms has resulted in increased levels of Non-Performing Assets (NPAs) for the Urban Cooperative Banking Sector. As per CAMELS rating model, the highest weight is given to asset quality components. Today, UCBs are compelled to maintain superior asset quality in the competitive market for their survival. In the wake of large scale defaults of UCBs in India, this study is an attempt to analyze the asset quality in banks under study. This paper also traces the Non-Performing Assets of financial cooperatives in other countries. A comparison of UCBs with financial cooperatives abroad is also done.

84 https://www.rbi.org.in/Publications
Primary (Urban) Cooperative Banks (UCBs) cater to the banking needs of lower/middle class people predominantly comprising businessmen, small traders, artisans, factory workers, salaried persons, etc. in the metropolitan, urban and semi-urban areas. The UCB sector with a population of 1,721 UCBs (as on March 31, 2009) is signified by heterogeneity and dichotomy of regulatory control. As many as 1,429 (83 percent) are small UCBs with deposits not exceeding Rs. 100 crore and operations confined to the same district or adjacent districts. They account for 23.6 percent of the deposits. The number of UCBs varies across the states, with Maharashtra, Gujarat, Andhra Pradesh, Karnataka and Tamilnadu accounting for 79 percent of the UCBs and 89 percent of total deposits. Some other states that have significant presence of UCBs are Uttar Pradesh, Kerala, West Bengal and Rajsthan. All other states have just a few banks. The sector has 53 UCBs whose names appear in the list of banks scheduled under the Reserve Bank of India Act, 1934. There are 40 UCBs which have multi-state operations and whose deposits account for 26 percent of the sector’s deposits.

UCBs are registered as cooperative societies under the provisions of State Cooperative Societies Acts or Multi State Cooperative Societies Act and licensed to undertake banking business under provisions of the Banking Regulation Act, 1949 (As applicable to cooperative societies). UCBs are cooperative societies at the primary level and represent a unitary structure. They operate on a standalone basis, unlike the three tier rural cooperatives credit structure, though loosely integrated to the higher financing agencies, such as District Cooperative Credit Bank (DCCB) and State Cooperative Banks (SCB). The status of UCBs registered under Multi State Cooperative Societies Act in the cooperative structure is not well defined. They are neither linked to any DCCB nor SCB on account of their presence in more than one state.

Over the years, there has been gradual erosion in the clientele of UCBs\(^8\). In a competitive environment, commercial banks, including private sector banks, with their superior financial and technological resources, are also reaching out to the same set of clientele and banking space, as UCBs. Small UCBs with limited human, financial and technological resources at their command are finding it difficult to face the competition.

In recent times, fund management, risk management, asset liability management, etc. have assumed critical importance for any financial organization. UCBs, especially the smaller ones that lack professional competence, have problems in the aforesaid areas.

In India, only scheduled UCBs have direct access to liquidity support from the Reserve Bank under the provisions of the Reserve Bank of India Act, 1934. It is often observed that non-scheduled UCBs, which are very large in number, face considerable difficulties in arranging liquidity in times of need. One of the options available to them is to avail loans against SLR securities from DCCBs/SCBs. However, if the concerned DCCBs/SCBs are themselves financially unsound, they are unable to meet the liquidity needs of UCBs. The sale of SLR securities very often results in losses in distress situations. Thus, temporary liquidity problems snowball into solvency problems, in the absence of timely liquidity support.

UCBs have limited avenues for raising capital funds viz., membership shares, share contribution by members linked to the quantum of loans and advances availed by them and retained earnings. UCBs, being in cooperative sector, are not able to raise resources by way of equity and debts (bonds) from the capital market unlike their counterparts in the private sector, on account of the legal limitations. As per Securities and Exchange Board of India (SEBI) Act,

\(^8\) https://www.rbi.org.in/SCRIPTs/PublicationReport
1992 and Securities Contract Regulation Act, 1956 (SCRA), for a financial instrument to be eligible to be listed in the Stock Exchange, it should be issued by a body corporate as defined under the Companies Act, 1956. A cooperative society is a body corporate as per the Cooperative Societies Acts, but not as per the Companies Act. As such, the financial instruments issued by UCBs cannot be listed in a stock exchange.

In the context of large number of weak and sick UCBs failing to maintain the prescribed CRAR, the Reserve Bank had constituted a Working Group (WG) to examine issues relating to augmenting of capital of UCBs (Vishwanathan Committee, 2006). The Working Group, while suggesting new instruments for raising of capital by UCBs, had observed that creating a legal framework for facilitating the emergence of umbrella organization(s) like those prevalent in many European countries, viz. Credit Agricole Group, Rabobank Group, Raiffeisen Bank Group, etc., appeared to be the only long term solution to enhance the public and depositors' confidence in the cooperative banking sector. This would, however, require amendments to the Cooperative Societies Acts and would also entail changes in the existing supervisory and regulatory framework. The Group had, therefore, recommended that the entire issue of creating an appropriate legislative and supervisory framework be separately examined, taking into consideration the international experiences and systems. Further, during the deliberations in the meeting of the Standing Advisory Committee for UCBs held on December 18, 2007, a view emerged that a Working Group may be set up to look into the issues concerning creation of rehabilitation/revival fund and the liquidity support that may be made available for the weak UCBs.

**Audit class awarded by the statutory auditors**

Each and every bank irrespective of the classification i.e. whether cooperative or commercial is subjected to independent
Statutory Audit as well as periodical inspection by the Reserve Bank of India official. The Statutory Auditors of the cooperative bank upon completion of the audit compile a CAMEL rating form and award marks for each and every aspect of banking.

Bank supervisory authorities assign each bank a score on a scale of one (best) to five (worst) for each factor. If a bank has an average score less than two it is considered to be a high-quality institution, while banks with scores greater than three are considered to be less-than-satisfactory establishments. The system helps the supervisory authority identify banks that are in need of attention.

This form has been nicely devised by the Reserve Bank of India and it comprehensively covers all facets of the banking function right from management and the day to day operations. Upon completely awarding marks the Statutory Auditors classify the functioning of the banks as ‘A’, ‘B’, ‘C’, ‘D’ category. The banks are under obligation to disclose this audit classification awarded to them by the statutory auditors. It reflects on the bank’s functioning as a whole. If the bank is awarded ‘A’ class its functioning is good. If it is ‘B’ class then the bank has to improve in respect of certain weak areas disclosed by the CAMEL form. If it is ‘C’ or ‘D’ that means the banks are weak and corrective action is needed and the Reserve Bank of India closely monitors these banks and wherever necessary takes appropriate action. It is observed from the annual reports of these banks under study that all these banks have secured Audit Rating of “A” category during the study period.

3.13 HEALTH OF RURAL CREDIT COOPERATIVES

Despite the phenomenal outreach and volume of operations, the health of a very large proportion of these rural credit cooperatives has

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87 [https://www.nabard.org/pdf/Chap_VI.pdf](https://www.nabard.org/pdf/Chap_VI.pdf)
deteriorated significantly. The institutions are beset with problems like low resource base, high dependence on external sources of funding, excessive Governmental control, dual control, huge accumulated losses, imbalances, poor business diversification, low recovery, etc. Around half of the PACS, a fourth of the intermediate tier, viz., the DCCBs, and under a sixth of the State-level apex institutions, viz., the SCBs are loss-making. The accumulated losses of the system aggregate over Rs. 9,100 crore. Non-performing assets (NPA), as a percentage of loans outstanding at the level of SCBs and DCCBs, at the end of March 2006 were around 16% and 20% respectively. These institutions do not, therefore, inspire confidence among their existing and potential members, depositors, borrowers and lenders. Thus, there is a need to find ways for strengthening the cooperative movement and making it a well-managed and vibrant medium to serve the credit needs of rural India, especially the small and marginal farmers.

**Need for Revival of the Cooperative Credit Institutions**

Given the above indicators, there has been considerable debate on whether there is an imperative need for revival of these institutions. Herein, it may be pertinent to reiterate the following points:

1. In the first place, India is a country with a population of more than 100 crore, of which around 70 crore reside in a little over 6 lakh villages. As there are a little over one lakh PACS in the country, the first fact to be appreciated, therefore, is that every 6th village, on an average, has an existing cooperative credit outlet.

2. Secondly, although the rural credit system includes about 45,000 rural and semi urban branches of commercial banks and RRBs, if one would net out the cooperatives from the aggregate rural presence of all RFIs, the per outlet population

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88 https://www.nabard.org/pdf/Chap_VI.pdf
coverage deteriorates from 1:4,393 to 1:14,893. The short point is that on grounds of outreach, cooperatives cannot be ignored.

3. Thirdly, the outreach is significant not merely in absolute numbers but also in terms of location of outlets. The number of PACS located in hilly terrains, deserts and other areas with poor access far exceed the number of rural branches of commercial banks and RRBs.

4. The same set of conclusions flow when the system is viewed in the context of its membership. Assuming an artificially low family size of 4, a back of envelope calculation shows that cooperative membership touches the lives of nearly 48 crore rural people which is more than half the aggregate rural population.

5. As regards number of agricultural credit accounts, the credit cooperatives have 50% more accounts than scheduled commercial banks (including RRBs). Of these, 70% are estimated to be marginal and sub-marginal farmers.

6. On the financial side, it is sometimes argued that in terms of deposits, rural and semi-urban branches of commercial banks have nearly six times more deposits than cooperatives. While this is true, it is also true that this is part of a historic policy infirmity which allowed cooperatives to be treated as “refinance windows” instead of incentivizing them into becoming genuine thrift and credit institutions.

7. Coming to the assets side of the balance sheet we find that cooperatives have a 37% share in the aggregate crop loans provided by the RFIs. However, in many districts, particularly in remote, hilly and desert areas the share is upwards of 50%.

8. Notwithstanding a larger client base, the share of cooperatives in institutional credit is lower than that provided by the commercial banks. This is because the average loan size of cooperatives is smaller at Rs. 6,637 as compared to Rs. 31,585 of commercial banks which also confirms the claim that nearly
70% of the cooperative structure's clients are small and marginal farmers.

9. A little known fact is that the system has nearly 64,000 godowns. Given an appropriate policy dispensation entailing private partnership, conditions can be created for holding of crops by farmers at the ground level in these godowns while allowing them to negotiate the godown receipts in the market. A specific plan to revitalize these godowns in cooperative sector be drawn to make them the nerve centres of rural economy on a ‘kiosk’ model providing storage and financial services.