Azadi Ka Amrit Mahotsav

Ministry of Cooperation
Government of India

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Draft Report on

Reforms, Restructuring and Innovations in Agriculture & Rural Development Banks (ARDBs)

NABARD
National Bank for Agriculture and Rural Development

NABCONS
NABARD Consultancy Services (NABCONS)

Ministry of Cooperation
Government of India

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Study on Reforms, Restructuring and Innovations in Agriculture & Rural Development Banks (ARDBs)

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MR. CARDHOLD

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LETTER OF TRANSMITTAL

30 June 2023

The Managing Director
NABARD Consultancy Services Pvt. Ltd.
New Delhi

Dear Sir,

Study on Reforms, Restructuring and Innovations in ARDBs

The Report of the Study Team on Reforms, Restructuring and Innovations in ARDBs is enclosed. The Report covers the various terms of reference of the Study and is based primarily on inputs received from interactions and field level discussions with various stakeholders. The Report is the result of intense discussion and consensus reached among us on various issues.

We would like to take this opportunity to place on record our appreciation to the Associate Members of our team and the support provided by your team in this entire exercise.

We hope that the Report would be widely discussed among the stakeholders and pave the way for strengthening of the LTCCS in the country.

Yours sincerely,

(Arvind Kumar Srivastava)
Team Leader

(R. Srinivasan)	**(Arun P. Das)**	**(Rakesh Srivastava)**	**(P.A. Premakumar)**
Team member	**Team member**	**Team member**	**Team member**

ABBREVIATIONS

ACABC	Agri Clinic and Agribusiness Centres
ACD	Agriculture Credit Department
ACRC	Agriculture Credit and Review Committee
AD	Active Directory
AI	Artificial Intelligence
AIRCRC	All India Rural Credit Review Committee
AIRCSC	All India Rural Credit Survey Committee
ALM	Asset Liability Management
AMLA	Aggregation, Market Linkage & Advisory
APSCARDB	Andhra State Cooperative Agricultural and Rural Development Bank
AO	Agriculture Officer
APMC	Agricultural Produce Market Committee
APStCB	Andhra Pradesh State Cooperative Bank
AR	Annual Report
ARC	Agricultural Refinance Corporation
ARDB	Agriculture and Rural Development Bank
ARDC	Agricultural Refinance and Development Corporation
ASP	Application Software Provider
ASCARDB	Assam State Cooperative Agriculture and Rural Development Bank
AVC	Agri Value Chain
AVCF	Agri Value Chain Financing
AWS	Amazon Web Services
BaFin	Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority)
BPCE	Banque Populaire Caisse d'Epargne
BC	Business Correspondent
BCP	Business Continuity Plan
BIRD	Banker's Institute of Rural Development
BPKP	Bharatiya Prakatik Krishi Paddathi
BR Act	Banking Regulation Act
BRICS	Brazil, Russia, India, China and South Africa
BUDS Act	Banning of Unregulated Deposit Schemes Act
BVR	Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (Association of German Cooperative Banks)

CAMELSC	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, Systems & Compliance
CB	Commercial Bank
CBS	Core Banking Solution
CCB	Central Cooperative Bank
CCLDB	Committee on Cooperative Land Development Banks
CCU	Cooperative Credit Union
CDMA	Code Division Multiple Access
CEO	Chief Executive Officer
CHC	Custom Hiring Centres
CGFSSI	Credit Guarantee Fund Scheme for Small Industries
CGTMSE	Credit Guarantee Fund Trust for Micro and Small Enterprises
CIC	Credit Information Company
CICCI	Committee on Integration of Cooperative Credit Institutions
CLMB	Central Land Mortgage Bank
CNCM	Confederation Ndu Credit Mutuel
C-PEC	Centre For Professional Excellence in Cooperatives
CRAFICARD	Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development
CRAR	Capital to Risk-weighted Assets Ratio
CRISIL	Credit Rating Information Services of India Ltd.
CRR	Cash Reserve Ratio
CSA	Climate Smart Agriculture
CSC	Common Services Centre
CSITE	Cyber Security and Information Technology Examination
CSKGVB	Chattisgarh Sahkari Krishi and Gramin Vikas Bank
CSS	Central Sector Scheme
CTS	Cheque Truncation System
CUSO	Credit Union Service Organisation
DAP	Development Action Plan
DBT	Direct Benefit Transfer
DC	Data Centre
DCCB	District Central Cooperative Bank
DDO	Drawing and Disbursing Official
DET	Data Entry Tool
DFI	Development Financial Institution
DGS	Deposit Guarantee Scheme

DO	District Office
DPCARDB	District Primary Cooperative Agriculture & Rural Development Bank
DR	Disaster Recovery
DRA	Direct Recovery Agent
DRC	Disaster Recovery Centre
DRP	Disaster Recovery Plan
DRT	Debt Recovery Tribunal
DSS	Detailed System Study
EACB	European Association of Cooperative Banks
ECS	Electronic Clearance Service
ECRC	Expert Committee on Rural Credit
e-NAM	e-National Agriculture Market
EATA	Employee Attendance Tracking Application
EACB	European Association of Cooperative Bank
EDEG	Entrepreneurship Development and Employment Generation
ERT	Emergency Response Team
FaaS	Farming as a Service
FDR	Fixed Deposit Receipt
FI	Financial Institution
FPO	Farmer Producer Organisation
GAD	Gap Analysis Document
GCA	Gross Cropped Area
GCF	Gross Capital Formation
GDP	Gross Domestic Product
GIS	Geographic Information System
GLC	Ground Level Credit
GoI	Government of India
GSCARDB	Gujarat State Cooperative Agricultural and Rural Development Bank
GZ Bank	Central Bank to German Cooperative Credit Institutions
GVA	Gross Value Addition
G20	Group of Twenty
HSCARDB	Haryana State Cooperative Agricultural and Rural Development Bank
HPSCARDB	Himachal Pradesh State Cooperative Agriculture and Rural Development Bank
HR	Human Resources
HRMS	Human Resource Management System

IAS	Indian Administrative Service
IBC	Insolvency Bankruptcy Code
IBPS	Institute of Banking Personnel Selection
ICBEC	Indian Central Banking Enquiry Committee
ICMARD	Institute of Cooperative Management for Agriculture and Rural Development
ID	Identity Document
IDEA	India Digital Ecosystem for Agriculture
IDRBT	Institute for Development& Research in Banking Technology
IFFCO	Indian Farmers Fertilizer Cooperative Ltd.
IIBF	Indian Institute of Banking and Finance
IMPS	Immediate Payment Service
IOT	Internet Of Things
IP	Internet Protocol
IPS	Institutional Protection System
IRAC	Income Recognition and Asset Classification
ISDN	Integrated Services Digital Network
ISS	Interest Subvention Scheme
ITM	Institute of Training and Management
IYM	International Year of Millets
J&K	Jammu and Kashmir
J&KSCARDB	J&K State Cooperative Agriculture and Rural Development Bank
JLG	Joint Liability Group
KCC	Kisan Credit Card
KCSEB	Kerala Cooperative Service Examination Board
KFDRC	Kerala Fishermen Debt Relief Commission
KPSC	Kerala Public Service Commission
KRIBHCO	Krishak Bharati Cooperative Ltd
KSCARDB	Karnataka State Cooperative Agriculture and Rural Development Bank
KSCARDB	Kerala State Cooperative Agricultural and Rural Development Bank
KSFDRC	Kerala State Farmers' Debt Relief Commission
KVK	Krishi Vigyan Kendra
KYC	Know Your Customer
L1/L2/L3	Level 1/2/3
LAN	Local Area Network
LDB	Land Development' Bank.
LILA	Land Improvement Loans Act

LMB	Land Mortgage Bank
LT	Long Term
LTCCS	Long Term Cooperative Credit Structure
LTMS	Letter Tracking Management System
LTRCF	Long Term Rural Credit Fund
MSC	Multi Service Centres
MSCARDB	Maharashtra State Cooperative Agricultural and Rural Development Bank
MPSCARDB	Madhya Pradesh State Cooperative Agriculture and Rural Development Bank
MCCLMB	Madras Cooperative Central Land Mortgage Bank
MD	Managing Director
ML	Machine Learning
MSCARDB	Manipur State Cooperative Agriculture and Rural Development Bank
MSMED	Micro, Small and Medium Enterprises Development
MFI	Microfinance Institution
MIS	Management Information System
ML	Machine Learning
MoC	Ministry of Cooperation
MoF	Ministry of Finance
MPD	Master Paramatersation Document
MPLS	Multi Protocol Label Switching
MT	Metric Ton
MSC	Multi Service Centre
MSCS Act	Multi State Cooperative Societies Act
MSP	Minimum Support Price
NAFIS	NABARD All India Rural Financial Inclusion Survey
NABARD	National Bank for Agriculture and Rural Development
NACH	National Automated Clearing House
NAFCUB	National Federation of Urban Cooperative Banks and Credit Societies
NAFSCOB	National Federation of State Co-operative Banks
NAPCC	National Action Plan on Climate Change
NBCDFC	National Backward Caste Development and Finance Corporation
NBFC	Non- Banking Financial Company
NBFI	Non- Banking Financial Institutions
NCDC	National Cooperative Development Corporation
NEFT	National Electronic Fund Transfer
NER	North Eastern Region

NFPM	National Food Processing Mission
NFS	Network File System
NFSA	National Food Security Act
NHB	National Housing Bank
NIRB	National Institute of Rural Banking
NMSA	National Mission for Sustainable Agriculture
NPA	Non-Performing Asset
NRLM	National Rural Livelihood Mission
NSCDFC	National Scheduled Caste Development and Finance Corporation
OS	Operating System
OSS	Operations Support System
OTP	One Time Password
PACS	Primary Agricultural Credit Societies
PC	Personal Computer
PCARDB	Primary Cooperative Agriculture & Rural Development Bank
PCCLDB	Pondicherry Cooperative Central *Land Development Bank*
PFDC	Precision Farming Development Centre
PFMS	Public Financial Management System
PGS	Participatory Guarantee Scheme
PLDB	Primary Land Development Bank
PLMB	Primary Land Mortgage Bank
PLMC	Provincial Land Mortgage Corporation
PMU	Project Monitoring Unit
PoC	Proof of concept
PSL	Priority Sector Lending
PSLC	Priority Sector Lending Certificates
PSCADB	Punjab State *Cooperative Agricultural Development Bank*
QR	Quick Response
RBI	Reserve Bank of India
RCA	Royal Commission on Agriculture
RCCI	Rural Cooperative Credit Institutions
RCS	Registrar of Cooperative Societies
RDB	Recovery of Debts and Bankruptcy
RF	Radio Frequency
RFI	Rural Financial Institution
RO	Regional Office

RPCC	Rural Planning and Credit Cell
RRB	Regional Rural Bank
RTGS	Real Time Gross Settlement
SACCO	Savings and Credit Cooperatives
SAFAL	Simple and Fast Agri Loans
SARFAESI	Securitisation and Reconstruction of Financial Assets and enforcement of Security Interest
SCADB	State Cooperative Agricultural Development Bank
SCARDB	State Cooperative Agricultural Rural Development Bank
SKBY	Saral Krishi Bima Yojana
SDD	Special Development Debentures
SFB	Small Finance Bank
SHG	Self Help Group
SIDBI	Small Industries Development Bank of India
SIT	System Integration Test
SLDB	State Land Development Bank
SLR	Statutory Liquidity Ratio
SMS	Short Message Service
SRLM	State Rural Livelihood Mission
SRO	Special Recovery Officer
ST	Short Term
StCB	State Cooperative Bank
STCCS	Short Term Cooperative Credit Structure
STCRC	Short Term Cooperative Rural Credit
STP	State Training Provider
TDS	Tax Deducted at Source
TFR	Total Fertility Rate
TNSCARDB	Tamil Nadu State Cooperative Agriculture and Rural Development Bank
TO	Technical Officer
ToR	Terms of Reference
TSCARDB	Tripura State Cooperative Agriculture and Rural Development Bank
UAT	User Acceptance Test
UCB	Urban Cooperative Bank
UK	United Kingdom
UO	Umbrella Organization
UPI	Unified Payment Interface

UPS	Uninterruptible Power Supply
UPSDM	Uttar Pradesh Skill Development Mission
UPSGVB	Uttar Pradesh State Grama Vikas Bank
USA	United States of America
UKStCB	Uttarakhand State Cooperative Bank
VSAT	Very Small Aperture Terminal
WBSCARDB	West Bengal State Cooperative Agriculture and Rural Development Bank
WGZ	Westdeutsche Genossenschaft Zentralbank (Central Bank of the People Cooperative Banks in Rhineland and Westphalia)
Wi-Fi	Wireless Fidelity
WIMAX	Worldwide Interoperability for Microwave Access
WTO	World Trade Organisation
ZBNF	Zero-Budget Natural Farming

Executive Summary

1. Long Term Cooperative Credit Structure (LTCCS), which had played a crucial role in capital formation in agriculture, is in a phase of decline and has been making representations to the stakeholders for revival of the structure. The present study on "Reforms, Restructuring and Innovations in ARDBs" is the result of acknowledgement of the need for such revival.
2. The approach of the study has been to suggest measures on the basis of examination of different aspects of functioning of Agriculture and Rural Development Banks (ARDBs) and role of various stakeholders. The understanding of ground realities based on field level interactions with all the major stakeholders has been the key approach. The reference to earlier studies and supporting data have helped in-depth examination of the matter. Structured discussions were held with National Cooperative Agriculture and Rural Development Bank Federation (NCARDBF), all the 16 SCARDBs and a few select branches of SCARDBs and PCARDBs. The Study team also had discussions with senior officials of NABARD and concerned officers of the Cooperative Department in different states.
3. Since the establishment of first Land Mortgage Bank in 1920 in Punjab to provide loans for redemption of debt, the structure has witnessed wide expansion. The uneven development of the LTCCS after independence led All India Rural Credit Survey Committee (AIRCSC), 1954 to recommend for state partnership in these cooperatives. Since then, the LTCCS has witnessed involvement of the state government in all its spheres. An important committee which reviewed the functioning of the structure was Madhava Das Committee, 1974. The committee recommended diversification of the lending activities and greater coordination with the Short Term Cooperative Credit Structure (STCCS). Some important aspects like deposit mobilisation by ARDBs and the integration of structure have also been studied in the past.
4. In the first decade of this century, the Task Force on LTCCS reviewed their functioning and recommended a financial package along with other measures. The financial package could not be implemented. The enhanced competition and lack of support from the stakeholders affected the performance of the institutions/ARDBs. The announcement of Agriculture and Rural Debt Waiver Scheme, 2008 by GoI and subsequent loan waiver schemes announced by the state governments took a toll on the structure.

5. At present 13 functional SCARDBs are operating under unitary, federal and mixed structures. The SCARDBs in Manipur, Madhya Pradesh and Maharashtra have been liquidated. Odisha has taken a decision to liquidate the structure and started implementing it. The LTCCS in Bihar and Assam are non-functional. The Structure in Andhra Pradesh and Chhattisgarh have been merged with STCCS. A total of 603 PCARDBs are operational at ground level in different States in specified geographical areas having federal structure.
6. The agriculture sector has been the mainstay of Indian economy. It employs the largest labour force and has recorded impressive growth rates in the period of stress. It has created a milestone in terms of production and agriculture exports. The productivity has been supported by capital formation in agriculture and a lion's share has come from private sector. LTCCS has provided credit support for capital formation over a long period of time. During the process of growth, share of short term loan has increased while the share of long term loan has declined. The recent initiatives of promoting micro irrigation, farm mechanization, organic farming, kisan drones and agriculture infrastructure provide the SCARDBs an opportunity to equip themselves for financing these activities. Focus on collectivization through FPOs also offers a readymade tool for reaching out to new clients and gain business.
7. In the international arena, Credit Cooperatives evolved in Germany and subsequently expanded to United Kingdom, Canada and United States for creation of a democratic and member driven financial institutions for promoting thrift and meeting credit requirements of their members on easy terms. Today, credit cooperatives are operating in 118 countries serving a population of around 40 crores. Some of the large cooperative banks in Europe like Credit Agricole, Credit Mutuel and Banque Populaire Caisse d'Epargne (BPCE) in France, Cooperative Financial Network of Germany and Rabo Bank in Netherlands have established themselves with major market share in the banking business. As the socio-economic context of these countries are very different from our country, it is difficult to identify the practices, which can be replicated. However, their focus on serving their members, creating umbrella organisation for delivery of services and policy advocacy are worth examining. The Institutional Protection System of Germany, which has elements of both deposit guarantee, and protection of cooperative institutions through mutual help has the potential of replication in our context with suitable modifications.
8. The loan business of ARDBs have almost remained stagnant during the last few years. They have been facing challenges in expanding their business due to high competition, very low recovery, lack of availability of resources from NABARD and low deposit mobilization. The limited suite of products and outdated technology also do not instill confidence in customers of younger generation. The restrictions on lending purposes, clients, and quantum also affected their business opportunities. Their investments have been mostly made in the term deposits of banks to manage liquidity. Small corpus and lack of expertise has not encouraged them to explore other avenues. The SCARDB and PCARDBs have generally not thought of extending non-credit facilities to their members. In

contrast, the performance of STCCS has been better due to continuous support to their lending activities, manpower development and technology support.

9. The SCARDBs mobilise their resources largely from borrowing with marginal support from own funds and deposits. The scope for share capital mobilization is limited in view of the low ratio of share linkage and volume of loan disbursements. The SCARDBs are either incurring losses or generating low profits which do not help build their reserves except in case of Gujarat and Kerala. SCARDBs have been allowed to mobilise term deposits with certain restrictions. The deposit portfolio has been hovering around ₹ 2,500 crore over past some years and not shown much promise due to their inability to mobilise all types of deposits and absence of any deposit guarantee schemes. Incidentally, Kerala Government has launched a Deposit Guarantee Fund for deposits of cooperative societies.
10. The LTCCS continues to depend on the borrowings, the major part of which comes from NABARD. This has also stagnated because of their ineligibility due to low recovery and lack of government guarantee. Other sources of funds include loan from the state governments, STCCS and other commercial banks. These loans are often costlier. There has been demand for release of NABARD refinance without government guarantee.
11. The major source of income for SCARDBs is interest from loans and advances (90%) while the balance 10% is derived from the investments. The accounting system followed by them treating accrued interest as income, with matching provision, has resulted in their yields on assets look impressive. However, their net margin becomes very low after accounting for risk cost. The cost of deposits is often higher as compared to banks, due to stiff competition and also fixation of rate by Committee headed by RCS in some states. The growth in deposits have also been affected after the enactment of BUDS Act 2019, as necessary action is yet to be initiated by the State Govts. It is pertinent to mention here that the state governments are yet to extend the permission under BUDS Act.
12. Since LTCCS is largely dealing with credit, failure to recover its loans would result in choking their operations. The poor experience at the time of availment of loan, absence of awareness among borrowers about due date for repayment, lack of close relationship with the borrowers and lack of follow up have affected recovery in normal course of their operations. The vitiated socio- political climate for recovery of loans and loan waiver schemes, which very often did not cover the borrowers of LTCCS, not only created a tendency of wilful default among the borrowers but also crippled the financial health of the structure. The long period of repayment, non-availability of facility of re-schedulement in case of natural calamities are also contributing factors. Above all, a false sense of complacency arising out of land mortgage as security created an overall apathy on the part of functionaries of the bank to be proactive towards recovery of the loan. The SCARDBs do not have recourse to legal provisions of the RDB Act,1993 or the SARFAESI Act,2002 which provide for special procedure of dealing with secured assets in case of default.
13. The LTCCS has not been able to take recourse to special provisions in the State Cooperative Societies Act providing coercive powers viz. power of distraint and sale of mortgaged land without the intervention of the court. The socio political

factors has forced the state governments to avoid support to such actions.

14. The NPA in the unitary and federal structure was at 58% and 30% respectively. The lower NPA in federal structure was primarily because the greater burden of the same was reflected at primary level. The NPA was more than 80% in case of UP, Which had the second highest loan outstanding within LTCCS. Almost all loans were NPA in case of Tripura SCARDB. Even in federal structure, Haryana and Rajasthan had high level of NPAs at 78% and 54% respectively. Kerala SCARDB had the lowest level of NPA at 11% as on March 22.
15. There was imbalance at least to the extent of ₹ 1,950 crore at PCARDB level as their loan outstanding against the borrowers was less than their borrowing outstanding from the SCARDBs A detailed assessment of imbalance at the level of individual PCARDBs would increase this amount further.
16. The power of Award / Certificate provided in the State Cooperative Societies Act was being used by the LTCCS to some effect. The post dated cheques obtained at the time of sanction also contributed to recovery to some extent. The SCARDBs have been implementing OTS to recover the old loan overdues. Some state governments like Rajasthan, Karnataka and Haryana have launched interest rebate scheme to incentivize prompt repayment of loans availed through LTCCS.
17. The Board of Directors were superseded in respect of 07 SCARDBs, some of them for even more than a decade. Even otherwise, the State Govt. had its nominee on the Board who exercised a lot of influence. The State Govt. appointed Administrator /Special Officer were at the helm of affairs. The Board did not have professional members nor they had co-opted them though provided for in the statutes. Various committees of Board like Audit Committee and Risk Management Committee were either not constituted or the meetings were not conducted regularly.
18. The CEO of the SCARDB in some states and even at the PCARDB level like in Rajasthan belonged to the state government. At times the MD/ CEO of SCARDB also held additional charge which diluted the focus. State Govt. deputed other top management officials in some SCARDBs. As such, the State Govt. exercised complete control over the SCARDBs.
19. In the absence of proper manpower assessment and recruitment, the LTCCS felt acute shortage of staff, both at the SCARDB and the PCARDB level. The institutions are not only facing staff shortage but also have skill shortage to handle modern day banking. Unplanned recruitment has been the bane of the system, as seen in most SCARDBs. It is interesting to note that one SCARDB alone had more than half of the staff of all the SCARDBs in the country. Though some SCARDBs had made recruitment through State Public Service Commission and IBPS, the system in general lacked transparency in other cases. Some training institutions run by them and also accredited by C-PEC, BIRD (NABARD), were largely catering to the training of PCARDBs in states having federal structure. The capacity building of the SCARDB staff in particular require similar attention.
20. LTCCS in Tamil Nadu and Puducherry present a curious case where in the face of financial crisis, both the SCARDBs have reinvented themselves and in the process deviated far from the original mandate of long term credit delivery for agriculture purpose. LTCCS in both Tamil Nadu and

Puducherry became ineligible for NABARD refinance due to high overdues and state government's refusal to extend government guarantee. Both started providing non-agricultural loans against the security of gold and have survived till date. Tamil Nadu SCARDB has been continuously making profits and has sizeable own fund of ₹ 1,065 crore. Many of the PCARDBs in the state are also in profit. Pondicherry Cooperative Central Land Development Bank (PCCLDB), operating in Unitary Structure, has opted for a similar strategy consequent upon stoppage of refinance from NABARD since 2009-10.The operational area of the bank is limited so it has a low level of loan outstanding at ₹ 44.39 crore. However, with greater emphasis on financing non agriculture loan against security of gold, the bank has managed to maintain a good asset quality.

21. PCARDBs are the ground level institutions meeting the credit requirement of ultimate borrowers in the federal structure of LTCCS. The loan disbursements by PCARDBs have increased from ₹ 4,160 crore in 2020 to ₹ 5,556 crore in the year 2022, though without corresponding increase in loan outstanding because of increase in short term loans in some states like Tamil Nadu. The major source of lending is borrowing from SCARDBs. The deposits and owned funds contributed little to asset creation. Their average recovery was 40% of the demand during the year 20-21 and 21-22. The recovery of PCARDBs in Haryana and Punjab has been abysmally poor while the recovery of southern states was better.
22. The financial performance of PCARDBs is a matter of concern, as out of 603 PCARDBs, 459 PCARDBs had accumulated losses to the tune of ₹ 6,347.53 crore. The PCARDBs in Punjab and Haryana account for more than 50% of the accumulated losses. Their overall performance as reflected in audit classification presents a dismal picture. 400 out of the total 603 PCARDBs have been rated as 'C' while only 63 PCARDBs have been rated as 'A'. Strengthening of PCARDBs should be given priority while attempting revival of the structure.
23. The SCARDBs primarily function within the ambit of State Cooperative Societies Act. Some states like Punjab, UP and Kerala have separate Acts for governing their affairs. The State Acts have provisions relating to their business activities and management, among other things, which may require improvement. Some Central Acts like Banking Regulation Act, NABARD Act and BUDS Act also affect their functioning. There is a need for some improvement in these laws to bring in greater clarity about their status and ensure a better level playing field for them. The Report provides some headway in this regard and some components for a model SCARDB Act has also been suggested. The report has also examined the issue of establishment of a new multi-State ARDB/ conversion of existing SCARDB into multi-state ARDBs in the light of Amendment in MSCS Act in the year 2023.
24. Besides complete control on management, the State Govt. played an all-pervasive role in the affairs of LTCCS. They provided support in the form of share capital contribution and financial assistance like incentive for prompt repayment and waiver of overdue loans. Some states have also provided financial support to help SCARDB for Liquidity support to meet repayment obligation and pension liabilities of retired staff (Punjab), cover portion of interest liability of the borrowers (Damduppat Scheme, Karnataka), OTS scheme (Haryana) and for reducing imbalances (West Bengal).

25. State Government played an important role in conduct of elections, audit, recruitment of staff and even routine management function of fixing of interest rate. Such a close involvement of the state governments has very often proved to be stumbling block in the progress of the SCARDBs. This has throttled any initiative on the part of the LTCCS resulting in slackness and stagnancy in the structure. Their informal ban on coercive action for recovery and auction of agricultural land in case of default has often resulted in substantial increase in NPAs.
26. The financial support to SCARDBs from NABARD during the last few years has been in the range of ₹2,000-2,500 crore, however, there here has been a sharp decline in the share of refinance disbursed to SCARDBs over a period of time. The deteriorating financial performance of the SCARDBs and the expansion of clients and products by NABARD are the main contributing factors for this development. The continuance of refinance support becomes extremely important in view of the heavy dependence of SCARDBs on the borrowings from NABARD. The report has also highlighted the need for reimagining the institutional development and supervision framework for LTCCS.
27. A Working Group constituted by Department of Financial Services, Ministry of Finance in 2021 has estimated a credit requirement of ₹ 10.22 lakh crore for Agri Value Chain with major part of the loan requirement in allied sector like Dairy, Poultry and Fisheries. The SCARDBs being the traditional lenders in these segments can utilize the opportunity. The Study Team has recommended "ROE" approach for financing AVCF. The financially strong SCARDBs can use their own resources, while other SCARDBs can use the existing resources and also adopt consortium route for financing. The target for setting up 2 lakh multi-purpose PACS/dairy /fisheries and other cooperatives and FPOs already formed under CSS, present the opportunity for tie up with these institutions and extend finance. The enablers, in the form of membership of Credit Guarantee Scheme for FPOs or any other credit guarantee fund to be launched in future and trained manpower, have also been highlighted.
28. The proposed financial package recommends for inclusion of both SCARDBs and PCARDBs in the federal structure. The assistance needs to be based on the special audit to be conducted by the Chartered Accountants to ascertain the actual financial position. The package may cover accumulated losses, support for achieving a desired level of CRAR, amount of imbalance in federal structure, cost of computerization and implementation cost of the financial package. An important highlight of the package suggests providing financial assistance for 100% provision in respect of Doubtful (secured) Category 3 of NPA, which at present require 50% provision. The Study Team has treated this amount as unsecured as the security of land has not been enforced in spite of amount being long overdue.
29. The Study Team recommends a bottom-up approach in respect of federal structure i.e. first PCARDBs should be provided assistance and after accounting for their impact on SCARDBs' financial position, the SCARDBs should be provided assistance. The eligible PCARDBs are to be identified by a State Level Committee primarily on the basis of minimum 25% recovery in any of the last three years as also some other benchmarks, but with lower weightage. The Report has highlighted the limitation of the impact of a financial package in view of

field level situation in respect of some of the SCARDBs, to enable the stakeholders to take an appropriate decision in their respect. A rough estimate of ₹ 10,000 crore has been made as the financial package required in this regard for LTCCS.

30. The report has consciously suggested a sharing pattern which imposes the least financial burden on the state governments. This has been done keeping in view their budgetary constraints and to enhance their willingness to implement the suggested reforms in the true spirit. A strategy for implementation of the package has also been included.
31. The adoption of technology is key for the revival of the structure. The report provides details of various technological requirements for different future business scenario of the SCARDBs to serve as a guide in this regard. The preparedness of manpower, data, infrastructure, books of accounts, etc. have been provided so as to ensure success of the effort. The aim is to ensure that all the activities are conducted in a digital environment, enabling generation of all reports/ returns and effective management of the working of ARDBs.
32. The Report lays a lot of emphasis on the "reforms, restructuring and innovations" in the LTCCS and the same have been presented in a separate chapter. The suggestions have been centered around BHARAT approach which covers Business Expansion, Human Resources, Acceptability, Repayment/Recovery, Accountability and Technology. The major recommendations include expansion of purposes for loans, coverage of new clients like JLGs/ FPOs to enable them to diversify their business. The suggestions to improve the manpower quality through proper manpower planning and recruitment of officers/ specialised officers with the involvements of agencies like IBPS, Public Service Commissions, etc. find a prominent place in the recommendations. Keeping in view the importance of NABARD and state government, the report has recommended certain qualitative changes in the role played by them. The report advocates for a level- playing field by suggesting membership of different Credit Guarantee Schemes and Credit Information Companies. Technology adoption is considered crucial for their survival.

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CHAPTER 1

Introduction

1.1 Background of the study

a) The Long Term Cooperative Credit Structure (LTCCS), an integral part of the cooperative credit structure in the country, occupies an important place in the financial landscape of our rural economy and plays a crucial role in capital formation in agriculture, particularly through financing of small and medium farmers. Recognising this importance, Govt. of India, in 2005, constituted a Task Force, under the chairmanship of Prof. A. Vaidyanathan, to review the system of term lending for agriculture and rural development and to make recommendations for revival of the LTCCS in the country. The Task Force submitted its report to Govt. of India in 2006.

b) Though Govt. of India agreed to implement a financial package of ₹4,837crore recommended by the Task Force headed by Prof. A. Vaidyanathan, in the backdrop of the position that emerged after implementation of Agriculture Debt Waiver & Debt Relief Scheme (ADWDRS) 2008, another Task Force, headed by Shri G.C. Chaturvedi, was appointed by Govt. of India to review the Revival Package for LTCCS suggested by the earlier Task Force. The Task Force headed by Shri G.C. Chaturvedi submitted its report to Govt. of India in 2010 and recommended a revised Financial Package of ₹ 3,070 crore, which was subsequently reworked out to ₹ 7,704 crore, with 31 March 2012 as the cut off date. However, in April 2013, Govt. of India decided not to implement the revised LTCCS package, primarily due to uncertain stakeholder ownership and lack of adequate budgetary provision for the purpose.

c) It may not be out of context to mention here that though the Short Term Cooperative Credit Structure (STCCS), Regional Rural Banks (RRBs) and Public Sector Banks (PSBs), the major purveyors of credit for agriculture and rural development activities, were provided recapitalization/financial assistance in the past, LTCCS was deprived of financial assistance of any sorts till now, though they continued to coexist, albeit their poor financial health.

d) The establishment of a separate Ministry of Cooperation (MoC), at the level of Govt. of India has brought cooperatives to the centre stage as a tool of economic development, particularly for helping the disadvantaged sections of the society. This has provided an impetus to the efforts of SCARDBs and their Federation viz. National Cooperative Agriculture and Rural Development Banks' Federation (NCARDBF) for revival of the LTCCS. It was in this background that the NCARDBF held its National Conference in July 2022, which was attended by Hon'ble Union Minister for Cooperation, Shri Amit Shah. The Conference deliberated upon various issues faced by the LTCCS in the country and came out with some important recommendations for consideration of the MoC, Govt. of India and National Bank for Agriculture and Rural Development (NABARD).

e) The MoC, Govt. of India, duly examined the recommendations of the conference and it held follow-up meetings with representatives of the stakeholders of the LTCCS viz. NABARD, National Cooperative Development Corporation (NCDC), NCARDBF and the SCARDBs. A suggestion was mooted during the deliberations in these meetings to constitute a "Committee for Reforms Restructuring and Innovations in

ARDBs". The subsequent deliberations by the stakeholders culminated in the decision to conduct a detailed study for this purpose and Govt. of India advised NABARD to undertake the same. NABARD engaged the services of its consultancy wing viz., NABARD Consultancy Services (NABCONS). Accordingly, a Study Team was constituted by NABCONS and the services of select domain experts, having decades of experience in the field of cooperatives (particularly LTCCS), banking, agriculture and rural development were roped in for this purpose.

1.2 Objectives

The objectives of the Study are: ***"to reform, restructure and bring innovations in Agricultural and Rural Development Banks".***

1.3 Terms of Reference (ToR)

The Terms of Reference of the Study are as under:

- To study the working of ARDBs in different States, identify structural and functional issues and challenges being faced by them and suggest legal, policy and other reforms to attend the same, compare the good practices, vis-a-vis international experiences.
- To suggest measures for expansion of the business portfolios of State Cooperative Agricultural Rural Development Banks (SCARDBs) / Primary Cooperative Agricultural Rural Development Banks (PCARDBs), including capacity building of workers for better loan appraisal skills.
- To suggest innovative methods, procedures, practices, technology etc., with the adoption of which ARDBs (non-deposit taking entities at present) can become self-sustaining and vibrant institutions.
- Assess the IT requirements and suggest implementable action plan for computerization of ARDBs.
- Analyse the feasibility of developing ARDBs as dedicated institutions for financing Agri Value Chain infrastructure and post-harvest infrastructure, including working capital requirements, if required, in consortium arrangement with State Co-operative Banks (StCBs) /Others.

1.4 Composition of Study Team

The composition of the Study Team was as under:

Members:

- Shri Arvind Kumar Srivastava - Team Leader (Ex-General Manager, NABARD)
- Shri R.Srinivasan (Ex-Chief General Manager, NABARD)
- Shri Arun Pratap Das (Ex-Chief General Manager, NABARD)
- Shri Rakesh Srivastava (Ex-Chief General Manager, NABARD)
- Shri P.A.Premakumar (Ex-Deputy General Manager, NABARD)

Associate Members:

- Shri Bidyut Kumar Basu, Ex-Deputy General Manager, NABARD
- Shri Gautam Sen, Ex-General Manager, NABARD

1.5 Methodology

a) The Study Team observed that issues relating to rural credit cooperative structure, in general, has been the subject matter of examination by various committees constituted since the independence of our nation. These committees have also touched upon the issues relating to LTCCS. The Study Team also took note of the fact that in the past RBI, GoI and NABARD constituted various Expert Committees / Study Teams / Task Forces, specifically to study the problems and prospects and reforms needed in the LTCCS.

The important committees constituted exclusively for examining the issues related to LTCCS were:

- Committee on Cooperative Land Development Banks (Shri Madhav Das Committee, 1974)
- Committee for Integration of Cooperative Credit Institutions (Dr. Hazari Committee, 1975)
- Study Group on Deposit Mobilsation for ARDBs (Dr. M.C. Bhandari Committee, 1996)

- Task Force on Revival of Rural Cooperative Credit Institutions for LTCCS (Prof. A. Vaidyanathan Committee, 2005)
- Task Force to Review Revival Package for LTCCS (Shri G.C. Chaturvedi Committee, 2010)

The Study Team reviewed the recommendations/ suggestions of the above Committees/Study Groups /Task Forces with reference to the present context.

b) After initial discussions with MD/CEO, NABCONS and Head/Senior Officers of all concerned Head Office Departments of NABARD, as the starting point of the Study, the Team Members visited the office of NCARDBF, Mumbai on 03 March 2023 and held discussions with the Managing Director, NCARDBF and the members of the Federation (who joined the meeting online). The entire Study Team participated (including online presence) in the meeting which had Shri K.R. Rao (Vice Chairman of NCARDBF) and Shri Moinul Hassan (Special Officer of West Bengal SCARDB), among the participants. The Study Team visiting Gujarat interacted with Shri Dollarrai Kotecha, Chairman of the NCARDBF, who is also the Chairman of Gujarat SCARDB.

c) The most important approach adopted by the Study Team was to undertake a visit to all the existing registered SCARDBs in the country, irrespective of their present status. As such, the Study Team members visited all 16 SCARDBs in the country. As a conscious decision, separate interactions were had with them in their premises, sufficient time was earmarked for the same and efforts were made to ensure the presence of a cross section of their staff to get a wider perspective of the subject. In order to make the discussions more result oriented, a tentative list of issues was forwarded to SCARDBs and the State Govt (through NABARD RO), well in advance, to enable them to firm up their views based on facts and information. A copy each of the discussion pointers and the format of questionnaire is enclosed as Appendix I and II at the end of the Report. These meetings were quite elaborate and the interactions proved extremely useful. Most of the SCARDBs shared their suggestions/ requests in writing, besides raising those issues during the course of discussions.

d) During the course of field visits to the States/ UT, the Study Team held structured meetings with the stakeholders of the LTCCS at Regional Offices of NABARD. These meetings were attended by officials of State Govt. (RCS, Cooperation Department, Cooperative Audit), Reserve Bank of India Regional Office, NABARD Regional Office, SCARDB and Cooperative Training Institutions. In Gujarat, a Chartered Accountant associated with the audit of the SCARDB also attended and presented his views. As senior State Govt. officials could not attend the structured meeting in some states, the Study Team called on them separately and elicited their views and suggestions.

e) The Study Team held detailed discussions with Chief General Manager and other senior officials of concerned Departments of NABARD during the course of their visit to its Head Office, Mumbai. Separate structured meetings were also held with In-charge of NABARD Regional Offices and officials of the concerned Department/s during the course of field visits.

f) The Study Team also undertook visits to some of the field units (branches in Unitary Structure and the PCARDBs in the Federal Structure) to have a first-hand understanding of the issues. There were some interactions with a few borrowers also during these visits. In some States, the SCARDB and PCARDBs also invited their Board Members for discussions with the Study Team.

g) All members of the Study Team had in depth and detailed discussions on all issues related to the task in their regular meetings. Different views and perspectives were put forward, debated, discussed and thrashed out to reach conclusions. The detailed process of consultations as discussed above enriched the Study Team with better understanding of the perspective of different stakeholders relating to the issues affecting the LTCCS and expectations of the role to be played by them for improvement of the LTCCS. The policies followed and schemes implemented were also sourced from some of the SCARDBs to appreciate the operational aspects of their functioning.

h) The Study Team benefited from the response submitted by the SCARDBs and the State Govts. to the issues forwarded to them for discussions in the structured meetings during the course of field visits. NABARD and NCARDBF were the major sources of data and information provided, both published and otherwise, to the Study Team. NCARDBF also shared the Statistical Bulletin, 2021-22 (provisional) as a source of latest available data in respect of LTCCS. The Study Team also collected relevant and useful data from SCARDBs/PCARDBs during the course of their field visits. The data / information made available the Study Team has proved largely useful and served the purpose for an in depth analysis.

1.6 Structure of the Report

The Study Report begins with a discussion on evolution of the LTCCS, major findings of the past committees constituted relating to the cooperative credit structure, followed by the present structure and the membership of the LTCCS in Chapter 2. As agricultural credit has been the backbone of the LTCCS, Chapter 3 provides details of the entire gamut of agriculture, the different aspects of agriculture (including agriculture credit), the developments/ initiatives in the sector and in the field of cooperatives. This has been considered necessary with a view to provide knowledge and serve as an inspiration to the stagnant structure to enable them to upscale, modernize and diversify their business for their meaningful role in Amrit Kaal.

In Chapter 4, an effort is made to present some international experiences of cooperatives to understand the developments in other parts of the world and draw some lessons, if possible. Chapter 5 undertakes a review of the performance of the LTCCS with discussions on its loan business and investments. This is followed by details of sources of its funds and the relative share to appreciate the role of borrowings, particularly from NABARD, in their operations in Chapter 6. An attempt is also made to analyse income, costs and margins of the structure in this chapter to help guide the SCARDBs and PCARDBs in planning their business activities. Recovery of its loans is most crucial for the survival of LTCCS and so an analysis of position of recovery and related aspects is attempted in Chapter 7.

The Governance, Management and Human Resources, discussed in Chapter 8, have an important bearing on the functioning of the LTCCS, like any other institutions. The discussions in Chapter 8 also include the aspects of internal control to provide a comprehensive view of the matter. Chapter 9 highlights the noticeable changes in the manner of operations of LTCCS in Tamil Nadu and Puducherry. The characteristics of the status of PCARDBs in the Federal Structure are discussed in Chapter 10. A separate Chapter provides the legal framework governing the LTCCS in the country. The role played by two major stakeholders viz. State Govt. and NABARD is covered in the subsequent Chapters 12 and 13.

Chapter 14 examines the status and issues related to adoption of technology in the LTCCS, while the feasibility of financing of Agri Value Chain (AVC), the key for the development of rural economy, is discussed in Chapter 15. The recommendations of the Study Team on Reforms, Restructuring and Innovations are presented in Chapter 16. The penultimate Chapter provides details of items requiring support under the financial package for revival of the LTCCS. Summary and Conclusions of the Study are covered in the concluding Chapter 18, Epilogue, while an Executive Summary of the Report is provided in the beginning.

The details of consultation meetings held with CGMs of NABARD, Head office & Faculty Members of BIRD, Lucknow & Mangaluru, representatives of NCARDB Federation, are indicated in Annexures 1 to 4. Details of internal meetings of the Study Team are furnished in Annexure 5. The details of participants of the meeting in the States/ UT are provided in the note furnished in respect of SCARDBs/ Apex SCARDB for each State/UT as Annexure (7.1 to 7.16).

CHAPTER 2

Evolution, Structure and Membership of LTCCS- The Path Traversed So Far

The seeds of Long-Term Cooperative Credit Structure (LTCCS) was first sown in our country way back in the year 1883. They sprouted and grew over the years, weathering many obstacles in its growth path and undergoing many transformations in its structure and form, in provinces / states where it could spread its roots. The long journey that it has traversed since then has been arduous and it is at cross roads now, not sure, of the direction it has to proceed. It may not be an exaggeration if one concludes that the time is now ripe to pause, revisit and do a thorough diagnosis of the present status of its health and chart its future path.

Like a "big banyan tree", the LTCCS has been providing shelter, shielding the farmers from the clutches of usurious moneylenders, and helping in private capital formation in agriculture in our country. For gaining a better insight into the functioning of the LTCCS and for gauging the present status of the health of the institutions under its fold and to suggest suitable remedies for reforming, restructuring and rejuvenating them through innovations in approach to transform them into vibrant institutions in the prevailing competitive environment, it is imperative to trace its origin, history and evolution over the years and the same is attempted in this Chapter.

Many Expert Committees/Task Forces/Study Groups constituted by Government of India (GoI) / Reserve Bank of India (RBI)/National Bank for Agriculture and Rural Development (NABARD), etc.,at various points of time, in the pre-independence and post-independence era, have reviewed the performance of LTCCS and have come out with many important recommendations, some of which were accepted, while others did not find favour.

Besides mapping the mile stones that the LTCCS has covered and the obstacles it encountered during the course of its long journey of about 140 years, encompassing the pre-independence and post-independence era, this chapter also makes an attempt to list out the important recommendations of various Expert Committees/Task Forces/ Working Groups which may have a bearing on the functioning and future of the LTCCS in our country. The pattern, coverage, outreach and the present status of LTCCS are also discussed in this Chapter.

2.1 Developments in the pre-independence era

a) Land Improvement Loans Act, 1883

Towards the close of the 19th century, before the co-operative credit system first came into existence in our country, when instances of indebtedness among farmer cultivators were showing an upward trend, the then government set up its own machinery under the 'Land Improvement Loans Act, 1883', for meeting the long term credit needs of farmer cultivators from state funds. However, the farmer cultivators could not avail the facilities offered under this Act to any appreciable level, mainly due to their lack of awareness about the provisions of the said Act and the dilatory manner in which the applications for these loans were handled by the departments, which administered the scheme. Further, loans for redemption of prior debts, for which farmer cultivators mainly required long term loans, were excluded from the purview of the said Act, in most of the provinces, under the rules framed by them, thus making the scheme a non starter.

b) Beginning of the co-operative movement in our country, 1904

With the introduction of the cooperative movement in our country in 1904, it was expected that it would be in a position to meet both the Short Term (ST) and Long Term (LT) credit needs of farmer cultivators. However, it was soon realized that the grass root level institutions viz., Primary Agricultural Credit Societies (PACS), were not in a position to undertake LT financing, since they depended largely on the higher financing institutions, viz., Central Co-operative Banks (CCBs), which could provide only ST funds. PACS were also not in a position to extend loans to farmers to liquidate their past debts, or for redeeming their land and other assets from usurious moneylenders. Moreover, PACS were also not able to assess the value of land offered as security or examine the titles of the borrowers. Besides, they were also not in a position to meet their outside obligations whenever the borrowers were unable to repay their loans in time. Mass eviction of borrowers from their lands and forced sale of land by the moneylenders invited more problems and the PACS could do very little to provide any solace to them.

The pattern of the Short-Term Cooperative Credit Structure (STCCS) operating in most parts of the country is a federal one with a three-tier structure. At the base level, PACS function mostly based on a village or a cluster of villages as their area of operation. At the intermediary level, normally a CCB functions, one for each district. At the apex of the federal structure is the State Co-operative Bank (StCB). This structure itself has evolved over a period of almost 12 decades, beginning with the enactment of the Cooperative Societies Act, 1904.

c) Establishment of Land Mortgage Banks in the cooperative fold

Realizing the constraints faced by farmers in accessing credit and the limitations of the STCCS in addressing their LT credit needs, Cooperators and Administrators started to scout for alternative channels for credit delivery and concluded that separate dedicated institutions were needed for meeting the long-term credit needs of farmer cultivators.

The great economic depression, which lashed the Indian Subcontinent also very badly in the first quarter of 20th century, led to a crash in agricultural prices, resulting in a sharp increase in the real debt burden of the farmer cultivators. While some relief came by way of various debt relief measures, it was felt that a more permanent arrangement needs to be put in place, by creating institutions to help farmers by providing them LT loans for redemption of their debts so that their debt burden could be spread over a number of years and brought within their repaying capacity. This realisation led to the establishment of the Land Mortgage Banks (LMBs) in the cooperative fold in the early 1920's.

The first LMB in the cooperative fold was set up at Jhang, in Punjab Province (now in Pakistan), in the year 1920, followed by two more in Madras Province in 1925 and 1927. The LMBs which were established during that period, were institutions distinct from the existing credit institutions in the co-operative fold since they confined themselves to providing loans for redemption of past debts. This movement gradually picked up and began to take deep roots in other provinces as well. While LMBs were constituted and functioned under the Cooperative Societies Acts of respective states, their structure varied, with some states preferring a Federal Structure, some a Unitary Structure and a few, a mix of the features of both Federal and Unitary Structures.

d) Review of the role of Land Mortgage Banks

Recognising the need for a separate set of institutions to cater to the LT credit needs of farmers, Registrar of Cooperative Societies (RCS) of various Provinces held a conference in 1926, to deliberate on possible options. The Royal Commission on Agriculture (RCA) reviewed the role of LMBs in 1928, and the Indian Central Banking Enquiry Committee (ICBEC) took a review in 1931. A brief summary of the recommendations made by these three fora on the role of LMBs is presented below:

- LMBs should be organized under the Cooperative Societies Act. Their area of operation should not be too large as to become unwieldy nor too small as to be uneconomic.
- The principal objects for which loans may be advanced by the LMBs should be (a) redemption of land & houses of agriculturists; (b) improvement of land and in methods of cultivation; (c) liquidation of prior debt and (d) purchase of land in special cases.
- Loan amounts should not exceed half the value of properties. Each LMB have in its bye-laws a minimum & maximum ceiling up to which it may advance individual loans.
- LMBs should provide a suitable agency for distribution of loans under the Land Improvement Loans Act (LILA), 1883. The primary credit society should be consulted in the case of a loan application received from a member of the society.
- No loan which is not economically profitable to the borrower should be advanced. The amount and period of loan should be fixed with due regard to the repaying capacity of the borrower and also to the purpose for which the loan is advanced. Under the existing circumstances, the period of loans should not exceed 20 years.
- Debentures should be issued by a central financing body, which may be called a Provincial Land Mortgage Corporation (PLMC). The Government should guarantee interest on debentures and they should be added to the list of trustee securities.
- The Government should grant subsidies to LMBs in the initial stages of their working. All existing concessions in the form of stamp duty, registration fees, etc., should be continued in favour of LMBs and they should be given power of foreclosure and sale without recourse to civil courts, subject to certain safeguards.

e) Setting up of Central Land Mortgage Banks

In the initial stages of their development, Primary Land Mortgage Banks (PLMBs) in Madras Province started raising resources by floating debentures, but this created certain problems and resulted in the setting up of the 'Townsend Committee on Co-operation', by the Provincial Government of Madras, in 1927. One of the important recommendations of this Committee was that a Central Land Mortgage Bank (CLMB) should be set up by the Provincial Government for flotation of debentures, instead of individual PLMBs floating such debentures. The Madras Provincial Government accepted the recommendations of 'Townsend Committee on Co-operation' and Madras Co-operative Central Land Mortgage Bank (MCCLMB) was established in 1929, followed by setting up of a similar one in Mysore Province. The 1930's saw the creation of three more CLMBs viz. Bombay and Cochin in 1935 and Orissa in 1938.

2.2 Developments in the post-independence era

a) All India Rural Credit Survey Committee, 1951

The All India Rural Credit Survey Committee (AIRCSC) constituted by RBI in 1951, (chaired by Shri A.D.Gorewala), while reviewing the performance of LMBs and their role in the overall rural credit delivery system, in its report submitted to RBI in 1954, highlighted the highly uneven development of LMBs across the country. By end of June 1954, there were 9 CLMBs and 304 PLMBs in the country, with a total membership of 2.65 lakh, with Madras Province accounting for a lion's share and more than half of the states not having a single PLMB.

The AIRCSC also noted the difficulties faced by the LMBs in raising resources through debentures, even with government guarantee, and lack of coordination between the LTCCS and STCCS. The AIRCSC also observed "Land Mortgage Banking has made little progress in India. Whatever development there has been, is largely confined to Madras (including Andhra) Province". The Committee made several important recommendations in the organisational, resource mobilisation and functioning of the LTCCS, the important ones among them are indicated below:

- Each state should have a LMB. Establishment of PLMBs should be encouraged to increase their reach and accessibility to farmers, albeit, in a gradual manner.

- To ensure that there is an LT outlet in every district, central LMBs should set up district level branches or LT sections should be created in the Central Banks (now called DCCBs) or the branches of the Apex Bank (now called STCB), and the State Govts. should be active partners in both LTCCS and STCCS.
- To augment their resources, LMBs should issue special type of debentures called "rural debentures". To make the debentures more liquid and marketable, the tenor of debentures should be for varying periods, rather than the 20 year tenor that was common at the time, STCCS and LTCCS catered to different rural credit needs, but there needs to be better coordination between them, while maintaining the separate legal status.
- There is a need for a shift in the lending policies of LMBs. The structure should devise alternative mechanisms for meeting the other social and life cycle credit needs of members. The focus of lending should be on increasing production.
- The STCCS should provide medium term loans (for 15 months to 5 years), leaving provision of long-term loans (5 to 15 years) exclusively to the LTCCS.

The most important recommendation of AIRCSC was establishment of a separate institution, which could provide LMBs the resources for long term lending to farmers for the development of agriculture, since the scale and tenor of resources that LMBs could raise did not allow financing developmental projects of long gestation periods on a large scale. This recommendation led to the establishment of the Agricultural Refinance Corporation (ARC) in 1963 and enabled the LTCCS to expand rapidly and change from Land Mortgage Banks (LMBs) to Land Development' Banks (LDBs).

b) All India Rural Credit Review Committee, 1969

The All India Rural Credit Review Committee (AIRCRC), appointed by RBI in 1966 and chaired by Shri B. Venkatappiah, in its report submitted in 1969, recommended provision for loans from the RBI to State Govts. for contribution to the share capital of Primary Land Development Banks (PLDBs). This recommendation was accepted by the RBI and continued later by ARDC and NABARD. Another recommendation of AIRCRC was to use PACS as channels for providing long term credit as agents of LDBs.

c) Committee on Cooperative Land Development Banks, 1974

The functioning of LTCCS was also reviewed by 'Committee on Cooperative Land Development Banks' (CCLDB), constituted by RBI in 1974 (chaired by Shri K. Madhava Das). While endorsing diversification of lending operations of the LDBs to cover a broader range of productive activities in agriculture, the Committee also emphasised the need for greater coordination with the STCCS and the line departments of State Govts. This led to the renaming of the structure from LDBs to Agriculture and Rural Development Banks (ARDBs).

The Madhava Das Committee also suggested special arrangements for providing LT credit in smaller states and states with relatively less developed cooperative credit structure. In smaller states, it recommended that instead of creating a separate LT structure, the existing ST structure may be encouraged to provide long term credit. In states with poorly developed Cooperatives, especially Assam, Jammu & Kashmir (J&K), Tripura and West Bengal, the Committee recommended integration of ST and LT structures.

d) Committee on Integration of Coop. Credit Institutions, 1975

The Committee on Integration of Cooperative Credit Institutions (CICCI), set up by RBI, on the advice of Govt. of India, in 1975, chaired by Dr. R. K. Hazari, also examined the viability of Primary Cooperative Agriculture and Rural Development Banks (PCARDBs) and suggested that a PCARDB should have a minimum loan business of ₹ 35 lakh to be viable. The Committee did not agree with the recommendation of the AIRCRC that PACS, as agents of PCARDBs, should provide LT loans. The Committee felt that farming had become complex and modern technological methods has led to demand for investment credit for various purposes that the PACS would not be able to handle.

Dr. Hazari Committee attributed the high level of over dues in the LT structure, which had grown from 11% in 1969 to 45% in 1973, to defective loaning policies. It said the over dues were an outcome of wilful default, large scale misuse of loans, ineffective field supervision and lack of concerted efforts and will on the part of banks' Board of Directors and staff to recover loans. It also observed that over dues were concentrated in loans given to bigger cultivators with more than ten acres of land. Dr. Hazari Committee also noted the increasing role of Commercial Banks (CBs) in financing agriculture directly and indirectly through PACS. It emphasised the need for increasing the role of CBs and Regional Rural Banks (RRBs) in financing agriculture, especially because of their ability to provide both ST and LT credit.

The Committee sounded a note of caution on the viability of the LTCCS, and mentioned that although there is ample scope for lending by both Cooperative Banks and CBs, borrowers might prefer CBs because of the package of credit facilities offered by them. The Committee apprehended that wherever the share of CBs assumes much larger proportion than that of a PLDB in a taluk or a district, the viability of PLDB could be adversely affected even though the viability of SLDB as a whole may be assured. In view of the dual considerations of competition from CBs and to enable farmers to have easy access for all their ST & LT credit requirements, Dr. Hazari Committee strongly suggested the integration of the ST & LT structures. This, the committee felt, would enable greater access, rectify imbalances in growth, increase business volumes, ensure greater viability of the cooperative institutions, and help them to compete effectively with CBs.

e) Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development, 1979

The Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) constituted by RBI at the instance of GoI, in March 1979, chaired by Shri B. Sivaraman, besides approving the growing diversification in lending by the LT structure, also recommended lending for non-farm activities. The Committee did not, however, favour integration of LT and ST structures or making any significant changes in the extant structure and operations of ARDBs.

CRAFICARD also recommended establishment of NABARD and as a sequel to this, NABARD was set up in July 1982, by integrating the functions of Agriculture Credit Department (ACD) and the Rural Planning and Credit Cell (RPCC) of the RBI and its wholly owned subsidiary, the Agricultural Refinance and Development Corporation (ARDC).

f) Agriculture Credit and Review Committee, 1985

The Agriculture Credit and Review Committee (ACRC) set up by RBI, in 1985, under the chairmanship of A.M. Khusro, highlighted the uneven growth and diversity of LT structure across states. Other major observations/ recommendations of ACRC were:

- ACRC did not favour integration of ST and LT structures. Only 10 out of the 20 states had by then adopted a federal structure, while eight had unitary structures and two had hybrid / mixed structures with features of both federal and unitary structures. ACRC noted that the system should eventually move towards a federal structure.
- The ACRC noted that though the fresh loans issued grew satisfactorily during the decade 1975-76 to 1985-86, over dues also increased from 37.5% to 45% during the period. This trend coincided with the adoption of the multi-agency approach.

g) Study Group on Mobilisation of Deposits by ARDBs, 1996

The problems faced by the LTCCS in mobilising resources were examined by the Study Group set up by NABARD in 1996, to examine the scheme of "Mobilisation of Deposits by ARDBs", under the Chairmanship of Dr. M.C.Bhandari, Executive Director, NABARD. The important recommendations of the Study Group were:

- SCARDBs be allowed to mobilise deposits, of a wider range and tenor, as an additional source of funds for lending and to meet their interim finance needs.

- Permitting ARDBs to issue Tax Free Bonds & Debentures, exploring the possibility of financing by public & private sector banks and Development Financial Institutions (DFIs) and switching from floatation of debentures to a loaning system with the objective of obviating the need for providing Government Guarantee.

h) Policy for accepting deposit by SCARDB

Most of the recommendations of the Study Group were not implemented. However, State Co-operative Agricultural Rural Development Banks (SCARDBs) which met certain eligibility criteria, were granted permission to mobilise deposits from the public, for periods of not less than one year maturity. Accordingly, with the approval of RBI, instructions were issued by NABARD permitting SCARDBs / PCARDBs to mobilise deposits from public.

i) Task Force to study functioning of the coop. credit system, 1999

RBI set up a Task Force, headed by Shri Jagdish Capoor, in 1999, to study the functioning of the co-operative credit system and suggest measures for strengthening it. The Task Force recommended that ARDBs work as full-fledged banks under the BR Act, 1949.

Wherever this was not possible, it recommended that a merger of the ARDBs with the ST structure be considered. The Joint Committee on Revitalisation Support to Cooperative Credit Structure (Vikhe Patil, 2001) supported this suggestion. The recommendations of the committees were, however, not been acted upon.

j) Expert Committee on Rural Credit, 2000

The Expert Committee on Rural Credit (ECRC), chaired by Prof. V. S. Vyas, was constituted by NABARD, in Aug 2000, to review the important changes in the rural sectors and make suggestions to strengthen the Rural Financial Institutions (RFIs). In its report submitted in July 2001, ECRC made the following recommendations:

- Stronger LTCCS with a unitary set up may be encouraged to voluntarily merge with the respective short-term structures or convert themselves into full-fledged banks collecting deposits from the public and disbursing all types of credit.
- LTCCS, which are weak, but have the potential to become viable institutions, after appropriate rehabilitation, assistance, and restructuring, may be given a reasonable time of three to five years to acquire the needed strength and thereafter either get integrated with the short-term structure, or become a full-fledged bank.
- Weaker units in the LTCCS, not capable of attaining viability may be liquidated. Their loans may, however, be taken over by PACS on collection or payment basis, depending upon the possibility of their realisation in time or otherwise. The bigger loans of the LTCCS may be taken over by DCCBs / StCB, on collection or payment basis, as the case may be.
- STCCS must be permitted to disburse LT credit also, even in those cases where they presently issue only ST / MT loans. There is no reason for this structure to keep its operations confined to ST / MT loans. If some individual PACS cannot handle bigger LT loans, due to either limited resources or managerial capability, they can be provided on a consortium basis, with DCCBs taking a lead role.
- PACS with deposits and other resources to issue and manage LT loans on their own may be encouraged to do so. StCBs and DCCBs should, however, develop manuals for PACs to help them run this business efficiently and also provide training to PACS staff to take necessary safe-guards to manage the loan portfolio.

k) Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System, 2004

Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System, appointed by RBI, in 2004, under the Chairmanship of Prof. V. S. Vyas, in its report submitted in June 2004, made the following recommendations:

- Institutions under the LTCCS have been playing an important role in purveying investment credit, primarily with financial support from NABARD, which has a substantial financial exposure on these institutions. The financial health of the LTCCS is deteriorating. State Governments need to support NABARD's efforts at revitalising them through measures such as facilitating faster repayments of their loans and recapitalisation of weak institutions.

- Borrowers of SCARDBs have to approach other banks for their crop loan requirements. Pending integration of ST & LT structures, NABARD may explore the possibility of extending ST agricultural loans through SCARDBs in areas where PACS are non-functional.
- Restructuring of loans affords temporary relief to farmers. Long term remedies to deal with impairment of farmers' repaying capacity caused by recurrent external adversities, such as droughts and floods, are also needed. Towards this objective, the Committee recommended setting up of an 'Agri-Risk Fund', with equal contributions from Central and State Governments and participating banks. Such a fund would moderate the risk of lender banks as they could take recourse to the fund in the event of a genuine default, besides it would also assuage some of the farmer hardships.
- The dividing line between production and consumption needs of the poor is very thin. Lack of ST consumption loans results in the diversion of loans availed for productive investments. Small borrowers, therefore, need to be provided a fall back credit mechanism for meeting their exigent consumption needs. Suitable credit products for meeting temporary shortfalls in family cash flows may have to be evolved.

l) Task Force on Revival of Rural Cooperative Credit Institutions (Long Term), 2005

A Task Force on Revival of Rural Cooperative Credit Institutions (Long Term) was constituted by Ministry of Finance, GoI, on 31 Jan 2005, under the chairmanship of Prof. A. Vaidhyanathan, to suggest an implementable action plan for reviving the Cooperative Agricultural Rural Development Banks. The Task Force submitted its report to GoI on 23 June 2006. The major recommendations of the Task Force were:

- Allow PCARDBs to access all types of deposits from members, provide all types of loans to its members and allow them to borrow from any sources.
- Allow SCARDBs to mobilise all types of public deposits under suitable regulatory and supervisory arrangements.
- All state equity in the LTCCS may be retired.
- Convert branches of unitary SCARDBs into autonomous PCARDBs.
- Allow PCARDBs to affiliate themselves with an upper tier of their choice, which must play a major role in providing all support services as they may not be able to acquire, manage and afford such manpower.
- SCARDB should join hands with StCBs in the state and set up a support service unit, on mutually acceptable terms, to provide such services to lower tiers in both the structures.
- Capital to Risk weighted Assets Ratio (CRAR) of minimum 7% be stipulated, to be increased to 12% in five years for SCARDBs & PCRDBs.
- As no unit under the LTCCS is a bank under the BR Act, the use of the word 'bank', or its derivatives, may be prohibited.
- The Task Force also suggested a few legal reforms viz.,
- Amendments to the Cooperative Societies Acts, on the lines of its recommendation on STCCS, which will provide full autonomous status to PCARDBs, besides allowing flexibility in borrowings and investments.
- Since NABARD remains a major source of funds for STCCS and LTCCS, it is necessary to amend NABARD Act and allow NABARD to provide its resources directly to PCARDBs without Government Guarantee or indirectly through FIs, other than SCARDBs.

To take the above recommendations forward, the Task Force suggested a total financial package of ₹4,837 crore. Only PCARDBs/ branches of SCARDBs, whose gross interest margin was equal to or more than 50% of their operating expenses plus its recovery is equal to or more than 50% of the demand, were eligible for financial assistance under the said package. The ineligible PCARDBs / branches of SCARDBs are to be closed and their business to be taken over by SCARDBs. NABARD was identified as the principal implementing and pass through agency.

The Task Force headed by Prof. A Vaidyanathan, submitted its report to GoI in August 2006. Thereafter, GoI held three rounds of discussions with the State Govts., in specially convened meetings, and worked out and circulated a draft Revival Package for the LTCCS in the country. After the implementation of the Agricultural Debt Waiver and Debt Relief Scheme (ADWDRS) in 2008, GoI held another round of discussions with the Cooperation Secretaries / the Finance Secretaries of the State Govts., on 16 July 2008 on the Revival Package. Based on the consensus reached in the various meetings mentioned above, as well as taking into account the impact of implementation of the ADWDRS, 2008 on LTCCS, the Package for Revival of LTCCS proposed by the Task Force chaired by Prof. A Vaidyanathan was approved by Union Cabinet on 26 February 2009.

m) Task Force to Review Revival Package for LTCCS, 2010

In the context of the reforms in the cooperative sector (as a sequel to the introduction of the Revival Package for STCCS) and perceived new role of PACS as also with increased lending by Commercial Banks for agriculture, doubts were raised from certain quarters about the relevance of a separate Package for LTCCS. GoI, therefore, formed a six member Task Force under the chairmanship of Shri G.C. Chaturvedi, the then Additional Secretary, DFS, MoF, GoI to examine the related issues. The Committee suggested average yearly business transactions of at least 10% of the balance sheet size in the three years ended 31 March 2008 and minimum 50% recovery as on 30 June 2008 for recapitalisation. Some amount was also recommended for those with recovery of 30% and above but not qualifying the minimum 50% criteria. However, some drastic suggestions made by the Task Force included conversion of ARDBs in unitary structure to federal set up (a non-negotiable pre-condition) and winding up of ARDBs unable to improve recovery to desired level by stipulated time. A total Financial Package of ₹ 3,070 crore was recommended by the Task Force. A reassessment of the financial package was done by NABARD with different cut-off dates and a financial package of ₹ 7,704 crore with cutoff date as on 31 March 2012 was submitted to GoI. However, in April 2013, GoI decided not to implement the revised LTCCS package.

2.3 The path traversed so far

For historical reasons, in our country, two parallel wings of cooperative credit structures came into existence and developed, one for purveying ST & MT credit to the cultivators (STCCS), and the other for dispensing LT credit, at first for debt redemption, and later on for supporting investments in agriculture and rural development sectors (LTCCS). These two wings of the cooperative credit structure continued to coexist, in states where they had their presence, except in Andhra Pradesh and Chattisgarh where the LTCCS was merged with the STCCS. Consequent upon bifurcation of the state, in 2015, into Andhra Pradesh and Telangana, both these states are now having an integrated co-operative credit structure, which takes care of both ST / MT and LT credit needs of farmers.

2.3.1 Change in nomenclature of LTCCS

With the focus of lending by the LTCCS shifting from providing credit for redemption of debt to investments in agriculture sector and later on to cover investments in sectors allied to agriculture & further to include investments in other rural development and non-farm sectors, the nomenclature of these state level institutions also got changed from State Land Mortgage Banks (SLMBs) to State Land Development Banks (SLDBs), and then to State Cooperative Agricultural Development Banks (SCADBs) and later on to State Cooperative Agricultural and Rural Development Banks (SCARDBs), with corresponding changes in the names of taluka / tehsil level units affiliated to them.

2.3.2 Different patterns of LTCCS

The earliest form of LTCCS was characterised by a 'Federal Structure', with two distinct tiers viz., the upper tier called SCARDB, at the state level and the lower tier, called PCARDBs, at the district / taluka / tehsil level which are affiliated to the upper tier. Later on, many states introduced SCARDB, at the state level, with its branches operating at the district / taluka / tehsil levels which came to be known as the 'Unitary Structure'. In some states, the LTCCS is neither Federal nor Unitary in character, but a mix of both and hence are named as "Hybrid or Mixed Structure". LTCCS thus exists in three different forms viz., Federal, Unitary and Hybrid / Mixed.

2.4 Structure of LTCCS

2.4.1 Overview

a) The present diverse structure through which ARDBs are operating in various states have evolved over a period of time based on the local conditions and priorities assigned to LTCCS within the overall framework for development of Cooperative in the states. The LTCCS has been in operation primarily through two structural variants Viz., Federal and Unitary.

b) Federal structure follows the principle of organizing cooperative at base level and accordingly PCARDBs have been organized at district, block or taluk levels as standalone cooperative societies. All these societies federate at state level to form SCARDB as the apex society for provision of long term loan to farmers. Under this structure, farmers or ultimate borrowers are members of a PCARDB and secure loans from the PCARDB. The PCARDBs, as members of SCARDB, get their loans refinanced from the SCARDB. SCARDBs exercise control over PCARDBs through their supervisory units and in some states PCARDBs have even opened a few branches.

c) The Unitary structure on the other hand operates as a state level ARDB with a branch network all over the state to provide credit to farmers. In order to supervise the functioning of the branches, SCARDB also have established regional offices at appropriate locations.

d) There are states, which have both the structure existing in different regions.

2.4.2 Developments in the Structure

a) After independence, the All India Rural Survey Committee recommended constitution of Central Land Mortgage Banks in each State and the Primary Land Mortgage Banks at lower levels. Similar views were also expressed by the All India Rural Credit Review Committee suggesting formation of primaries at Taluka level and their affiliation with the Central Cooperative Banks.

b) However, the structure adopted by the States / Union Territories did not follow the suggested pattern. Even in the States which adopted the Federal Structure suggested by these Committees, the primaries were established even at block/ district level. The structure of the LTCCS as it shaped over a period of time and existed around half a century ago (30 June 1973) is provided in Table 2.1 below

Table 2.1: State/UT-wise Structure, Number of Branches and Primary Land Mortgage Bank (30 June 1973)

Sr. No	Name of the State	Structure	HO/ RO and Dist. Offices	Branches	No of PLDBs	No of PLDB branches
1	Andhra Pradesh	Federal	11	-	184	-
2	Assam	Federal	1	-	16	-
3	Bihar	Unitary	1	87	-	-
4	Gujarat	Unitary	19	182	-	-
5	Haryana	Federal	1	-	29	-
6	Himachal Pradesh	Mixed	1	12	1	2
7	Jammu Kashmir	Unitary	1	20	-	-
8	Karnataka	Federal	20	-	175	-
9	Kerala	Federal	4	-	22	-
10	Madhya Pradesh	Federal	8	-	43	174
11	Maharashtra	Unitary	1	27	-	-
12	Odisha	Federal	1	-	55	-
13	Punjab	Federal	1	-	41	-
14	Rajasthan	Federal	6	-	35	-
15	Tamil Nadu	Federal	12	-	223	-
16	Tripura	Unitary	1	-	-	-
17	Uttar Pradesh	Unitary	1	203	-	-
18	West Bengal	Mixed	1	2	21	-
19	Pondicherry	Unitary	1	-	-	-
		Total	**92**	**533**	**845**	**176**

Source: Committee on Cooperative Land Development Bank of RBI, 1974, Table 1, Page 34
Note: Excludes old PLDBs of Gujarat and Uttar Pradesh

c) The mapping of LTCCS presented above is done before the decline of the structure began in many states. As may be observed from the Table 2.1 above, the ARDB (they were known as LMB) structure was functional in 18 out of 21 States existing at that time. Puducherry (then Pondicherry) was the only UT to have a separate LTCCS though the then UTs of Delhi and Goa, Daman & Diu established a Land Development Section within State Cooperative Bank to take care of the term lending for agriculture in their respective area of operation.

d) It may be observed that out of 19 SCARDBs, 10 States had adopted the Federal Structure as recommended by various committees referred above. The structure adopted by West Bengal and Himachal Pradesh was Hybrid / Mixed in nature, as there was co-existence of the branches of the SCARDB and the PCARDB, though both operated in defined areas of the state. The remaining States/ UT had a pure Unitary Structure.

e) In the past half a century, the LTCCS has witnessed substantial changes. Manipur established a separate LTCCS in the state. However, as the state of Andhra Pradesh decided to integrate its structure in 1980s, the number of SCARDBs was again reduced to 19. The state of Chhattisgarh carved out of Madhya Pradesh also created a SCARDB, taking the number of such banks in the country to 20. The structure has also changed its form in Assam and Maharashtra: Assam became Unitary while Maharashtra turned Federal. The Bihar SCARDB got itself registered under Multi State Cooperative Societies Act and its area of operation extended to the bifurcated state of Jharkhand.

2.4.3 Present status of LTCCS

a) As on 31 March 2022, 16 SCARDBs were in existence in the country. The SCARDB with the headquarter in Bihar was registered under Multi State Cooperative Societies Act, 2002. However, the SCARDBs of Assam, Bihar, and Odisha states are practically defunct. Of these 16 SCARDBs, six were having a Federal Structure while five SCARDBs were having a Unitary Structure and two SCARDBs viz., Himachal Pradesh and West Bengal having a Hybrid / Mixed Structure.

b) The SCARDBs in Andhra Pradesh (Andhra Pradesh and Telangana upon bifurcation) earlier, and recently SCARDB in Chhattisgarh have been integrated with the STCCS and the integrated structure takes care of both ST/MT and LT credit needs of farmers.

c) The SCARDBs existing in Manipur, Madhya Pradesh and Maharashtra have been liquidated over a period of time. On bifurcation of the State of Uttar Pradesh, the liabilities and assets in respect of Uttarakhand were to be transferred to the State Cooperative Bank as it decided to have only one Cooperative Credit Structure in the state.

d) In the North Eastern states of Arunachal Pradesh, Meghalaya, Nagaland, Mizoram, as also in Sikkim, the long term credit requirements have been fulfilled by the STCCS only. The same was also true in respect of the States/UTs located in other parts of the country. The present status of ARDB as on 31 March 2022 was as indicated in Table 2.2 below:

Table 2.2: State / UT-wise Status of LTCCS as on March 2022

Sr No	Name of the State	Structure	Supervisory Units	Branches	No of PCARDBs	No of PCARDB branches
1	Andhra Pradesh		Integrated with STCCS			
2	Assam	Federal	Defunct			
3	Bihar & Jharkhand	Unitary	Defunct			
4	Chhattisgarh		Integrated with STCCS			
5	Gujarat	Unitary	17	176	-	-
6	Haryana	Federal	-	-	19	70
7	Himachal Pradesh	Mixed	3	51	1	30
8	Jammu Kashmir	Unitary	22	51	-	-
9	Karnataka	Federal	-	25	178	-
10	Kerala	Federal	-	14	76	175
11	Madhya Pradesh		Liquidated			
12	Maharashtra		Liquidated			
13	Manipur		Liquidated			
14	Odisha	Federal	Defunct			
15	Pondicherry	Unitary	-	1	-	-
16	Punjab	Federal	23	1	89	
17	Rajasthan	Federal	2	1	36	124
18	Tamil Nadu	Federal	19	25	180	2
19	Tripura	Unitary	-	5	-	-
20	Uttar Pradesh	Unitary	18	323	-	-
21	West Bengal	Mixed	2	11	24	100
		Total	**106**	**684**	**603**	**501**

(Source – NCARDBF)

A figure indicating the status of LTCCS is enclosed as annexure (6)

A Status Note on each of the 16 SCARDBs visited by the Study team is given in Annexure 7.1 to 7.16 and the role played by the STCCS in MT/ LT Loans in the States where the LTCCS has been integrated or liquidated is enclosed as Annexures 8.1 to 8.5. Uttarakhand opted for single Cooperative Credit Structure on bifurcation of the State of UP. A note on bifurcation of UP SCARDB is enclosed in this regard (Annexure 8.6).

e) At present, there are 13 ARDBs, which are considered functional and remaining 03 are non-functional for last several years. Further, the need for closer monitoring over branches and the PCARDB has led to increase in number of Controlling/Regional Offices of the SCARDBs. The need for expansion of activities has led to increase in number of branches of the SCARDB in most of the states. Gujarat was an exception where the number of branches has reduced. The SCARDBs, even in Federal Structure, have opened their branches in states like Tamil Nadu, Kerala, etc., and are undertaking ground level credit disbursements. The liquidation / integration of the structure has led to sharp reduction in the number of PCARDB in the country though their number has increased considerably in Kerala mainly because of bifurcation of existing PCARDBs on reorganization of administrative units in the state.

2.4.4 Views on the Structure of ARDB

Various committees have examined the issue regarding the nature of the LTCCS in the past and they have expressed some views on the efficacy of different models as under:

a) The All India Rural Credit Survey Committee (AIRCSC), 1954 was the first such committee, which examined in detail the role of LTCCS in agriculture credit. The committee recommended that LDBs may at the beginning operate through a network of branches under Central Land Mortgage Banks and once these branches develop adequate business, PLDBs may be organized as grassroots level cooperative institutions. Following the lead provided by the AIRCS, the two committees, which examined the issue in the following decade viz. The Committee on Taccavi Loans and Cooperative Credit (1962) and the All India Rural Credit Review Committee (1969) clearly gave their verdict in favour of the Federal Structure.

b) After undertaking study of different LTCCS in Andhra Pradesh (Federal) and Gujarat (Unitary), the RBI committee on Cooperative Land Development Banks 1974 (Dr. Hazari Committee) did not find any special merit in a particular structure and hence favoured the continuation of existing structures in the concerned states.

c) Prof. Vaidyanathan Committee, which reviewed both the STCCS and the LTCCS separately in the first decade of the 21st century, expressed itself clearly in favour of Federal Structure. The Committee opined that 'The basic ground level unit needs to be an autonomous PCARDB rather than a branch of SCARDB. Thus, the Unitary Structure should transform itself into a Federal Structure by converting the branches into PCARDBs.

2.4.5 Strength and Weakness of Different Structures

Based on the findings of various studies and feedback received from the stakeholders, strengths and weaknesses of both the Federal and Unitary Structure are presented below:

A. Federal Structure

Strength

- PCARDB represents a truly grass-root level cooperative organization.
- Higher level of member participation with local self-governance.
- Responsive to local needs and greater autonomy to provide flexible solutions to problems of farmers.
- Faster decision making.
- Due to local presence, loaning and recovery operation is more efficient.
- Lower manpower cost.

Weakness

- Over dependence on higher tier for resources.
- Imbalance as an endemic weakness.
- Development of vested interest and collusion with clients against the interest of society due to localized administration.
- Difficulty in adoption of modern systems and procedures due to poor quality of manpower.
- Absence of adequate control and supervision.

B. Unitary Structure

Strength

- Greater reliance on policy approach to decision making.
- Robust systems and procedures because of need for uniformity.

- Better quality manpower due to large scale recruitment.
- Wider exposure to staff due to transferability.
- Closer supervision due to centralized management.
- Transparency of financial strength and weakness of the overall structure due to one accounting unit.
- Better insulated from local politics.

Weakness

- The structure does not support decentralized, member driven and grass-root cooperative institutions.
- Control of powerful political forces over the structure because of state level organization.
- Relatively higher cost of manpower.
- Absence of sense of belonging.
- Lack of initiative by manpower.

The experience suggests that it is very difficult to cast the dye in favour of any particular structure. There are examples of successes and failures in both the types of structures. The SCARDBs liquidated or became defunct belonged to both the categories. It can be concluded that it is not the nature of structure, but functional efficiency, which has led to their present state of affairs across the country.

2.5 Membership

The membership is the backbone of any cooperative and such membership brings vibrancy to these institutions if they actively transact with the cooperative by availing various services offered by them. The advent of cooperatives in the country was primarily to serve the credit requirements of its members. No wonder, the credit cooperatives have been the main fulcrum of discussion in the cooperative fold. It is because of this focus on credit activities of cooperatives that the active nature and dynamism of cooperatives have come to be measured in terms of its borrowing member-ship. Many credit cooperatives have been accepting deposits as well. Generally there is no requirement of such person being enrolled as an ordinary member.

In the Long Term Cooperative Credit Structure, individual membership is with SCARDB in Unitary Structure and with PCARDB in Federal Structure. The trend of membership in the ARDBs during last 10 years is presented in Table 2.3 below:

Table 2.3: Year-wise Total Membership, Borrowing & Non- Borrowing and their share (%) during Last Decade 2012-13 to 2021 -22

Year	Total Members	Borrowing Members and its Share (%) in Total	Non-Borrowing Members and its Share (%) in Total
2012-13	1,03,91,712	65,01,152 (62.6)	38,90,560 (37.4)
2013-14	1,11,29,190	65,73,952 (59.1)	45,55,238 (41.0)
2014-15	1,07,25,944	63,10,664 (58.8)	44,15,280 (41.2)
2015-16	1,08,44,704	64,94,912 (59.9)	43,49,792 (40.1)
2016-17	1,08,19,199	61,37,846 (56.7)	46,81,353 (43.3)
2017-18	1,11,38,743	63,91,759 (57.4)	47,46,984 (42.6)
2018-19	1,06,00,884	60,80,297 (57.4)	45,20,587 (42.6)
2019-20	1,05,91,701	63,54,258 (60.0)	42,37,443 (40.0)
2020-21	1,06,16,267	62,60,875 (59.0)	43,55,392 (41.0)
2021-22	1,10,84,964	65,30,812 (58.9)	45,54,152 (41.1)

(Source – NCARDBF)

The membership data over last one decade indicates an average annual growth of 0.66%, but such growth in membership has been on account of growth in non-borrowing members while number of borrowing members have almost stagnated during the period. The trend is largely on account of decline in loaning operations due to mounting over-dues and lack of resources with ARDB for fresh lending.

A comparison of the proportion of borrowing membership to total membership in STCCS vs LTCCS revealed that the borrowing membership constituted 59% of total membership in LTCCS vis-a-vis 39 % in STCCS (PACS). However, in comparison to the reach and membership of PACS with around one lakh PACS and membership base of 13.71 crore, the extent of penetration of ARDBs is far more limited with the total membership of only 1.10 crore. The state wise analysis of membership reveals that Kerala had the maximum membership in the country as on March 2022. Uttar Pradesh, Karnataka, Rajasthan and Gujarat were other states with large membership base. The higher proportion of borrowing membership was noticed in Gujarat (99%), Jammu & Kashmir (89%), Rajasthan and Puducherry (76% each). (Source: NCARDBF)

2.6 Some Important Issues

a) Though SCARDBs were permitted to mobilise term deposits in 1971, it formed only a negligible portion of the resources required for meeting the credit needs of their members. SCARDBs therefore, continued to depend mainly on liberal refinance assistance from ARC / ARDC / NABARD, which also showed a declining trend over the years due to the poor financial health of SCARDB, besides issues relating to obtaining State Government guarantee etc.

b) The mandate for Commercial Banks, Regional Rural Banks etc., to lend a certain percentage of their loan portfolio to Agriculture/Priority Sectors and their technology driven loan processing & distribution strategies in the arena of rural credit, which hitherto was the domain of rural credit cooperatives, have made a dent in the loan portfolio and performance of LTCCS. The situation worsened with many Non- Banking Financial Companies (NBFCs) also entering the market for meeting the investment credit needs of farmers. This also contributed to ARDBs not coming forward for acting as Business Correspondent of the Commercial Banks/RRBs or entering into any tie up arrangement with them for the fear of losing even little business that the ARDBs could manage.

c) Mounting over-dues, due to poor recovery induced by loan waiver and other populist measures announced by Central / State Governments, inability to address the chronic issue of imbalances, impairment of governance, poor internal control and supervisory measures, etc., are some of the contributory factors that can be attributed for the present state of affairs of the LTCCS, which however does not auger well considering the objectives with which the LTCCS came into existence.

d) One of the major disadvantages that ARDBs suffer is the limited number of outlets and a single outlet covering a large area like block, taluk and even district, particularly in case of PCARDB. As a consequence, the delivery of services to the members, loan supervision and recovery gets adversely affected. On the other hand, due to poor financial health and limited business prospect, establishment of new outlets is not also cost effective. In order to surmount this problem, ARDBs may consider adopting Business Correspondent (BC) model of operation, backed by technology of online transaction for proper expansion of its business.

e) In Unitary Structure, the concept of branch viability may help the SCARDB to chalk out decentralized strategy for development of selected branches and ensure branch rationalization.

f) Expansion of membership base through awareness and outreach programme may be taken up in villages identified with low membership.

2.7 The way forward

The long journey traversed by the LTCCS has been quite arduous and strenuous. However, the structure has proved to be an important channel of rural credit delivery system. It has played a meaningful role in accelerating capital formation in agriculture through participation of large number of small and marginal farmers in the country. It is a fact that the health of the LTCCS units is not very good and some of them are facing even existential crisis. However, the LTCCS still provides hope. A slew of concrete steps and definite plan of action are needed for reforming which can be achieved through some restructuring and innovations.

CHAPTER 3

Agriculture- The backbone of resilience and the journey towards 2047

SCARDBs have proved to be an important institution purveying term credit in the rural areas of the country. Agriculture continues to be the mainstay of our rural areas. This chapter analyses its importance and present status as a core economic activity. The developments in the field of agriculture, particularly agricultural credit are discussed with a view to have better understanding of the needs of sector. The initiatives taken to improve agriculture to meet the aspirations are elaborated in second part of the Chapter.

Agriculture – Importance and Status

The importance and status of agriculture in our economy are discussed in the following paragraphs:

3.1 Indian Economy: Agriculture - The Core Economic Activity

a) The country has made remarkable progress in economic development and the Gross Domestic Product (GDP) has witnessed a steady increase over a period of time. India has emerged as the fastest growing major economy in the world and is expected to be one of the top three economic powers in the world over the next 10-15 years. Today, it has got an important voice in various fora for economic cooperation be it World Economic Forum, The Group of Twenty (G20) or the group of fast growing economies like BRICS (Brazil, Russia, India, China and South Africa). Over the past decade, the country's integration into the global economy has been accompanied by economic growth. Our improved economic status has also secured us an important voice in the world opinion.

b) It may be recalled that not long ago, the country was known in the world arena more for its massive poverty and low economic growth rate. However, the country has shown great progress and its achievements have been steady, stable and resilient. The country has recently surpassed the population of China to emerge as the country with highest population (maximum stomach to feed) in the world. As it is also the largest democracy in the world, its progress is dependent upon peaceful advancement in different walks of life. The availability of food grains to take care of such a large population and maintain a modest nutritional level is a prerequisite for our economic development.

c) In this backdrop, the progress made in agricultural field assumes greater importance. The production of food grains and various crops has remained more or less stable and in fact increasing notwithstanding various challenges being faced by us both on domestic front and external front. The food grain production has been rising over the years and today the country is the second largest producer of major cereal crops 'Wheat and Rice'. The agricultural production has withstood not only the vagaries of monsoon but also the ill effects of climate change. India has also been in the forefront of recognising importance of nutritional aspect of food and the coarse cereals have been recognised as

"Nutri Cereals-The Shree Anna". India is not only the largest producer of millets in the world, it has even secured declaration of the year 2023 as 'International Year of Millets 2023' by the United Nations.

d) The agriculture and allied activities sector has contributed significantly to the overall growth of the economy particularly by ensuring food security. As per Economic Survey 2023, the Indian agriculture sector has been growing at an average annual growth rate of 4.6 % during the last six years. The sector has grown by 3.3% and 3.0 % in the years 2020-21 and 2021-22 respectively. The country has seen rapid growth in export of agricultural products. The contribution of the sector has been particularly visible in the aftermath of Covid pandemic. Even during the period of suspension of all other economic activities, the agriculture sector continued to contribute positively and it is this support, which has helped the country to deal with the economic situation far better than other economies of the world. The LTCCS has supported capital formation in agriculture and the support provided by it in the growth of the sector through its financing cannot be ignored.

e) "Agriculture is the backbone of the Indian Economy"- said Mahatma Gandhi many decades ago. Even today, the situation continues to be the same, as agriculture remains the mainstay of rural livelihood. Agriculture and allied sector activities contributed 18.6% of the GVA (Gross Value Addition) at current prices during the year 2021-22 and account for employment to 54.6 % of the total work force. With 42.6% of total geographical area as the net sown area, the cropping intensity of 141.6% has helped in ensuring gross cultivated area of 197.3 million hectares (Annual Report, 2022-23, Ministry of Agriculture & Farmers Welfare, GoI). The Women in agriculture constitute a substantial portion of total cultivators & agriculture labour. Rapid growth in agriculture sector is essential not only for self-reliance but also for earning of valuable foreign exchange.

3.2 Area, Production and Yield of Crops

The Area, production and yield of crops in the country for last 3 years are depicted in the Table 3.1 below:

Table 3.1: Area, Production and Yield of Crops – Triennial ending Year 2021-22

Crops	Area (Lakh hectare)			Production (Million Tonnes)			Yield (kg/hectare)		
	2019-20	2020-21	2021-22*	2019-20	2020-21	2021-22*	2019-20	2020-21	**2021-22***
Food grains									
a. Rice	436.62	457.69	463.79	118.87	124.37	130.29	2722	2717	**2,809**
b. Wheat	313.57	311.25	304.69	107.86	109.59	106.84	3440	3521	**3,507**
c. Nutri / Coarse cereals	239.89	241.18	226.52	47.75	51.32	50.90	1991	2128	**2,247**
d. Pulses	279.87	287.83	310.30	23.03	25.46	27.69	823	885	**892**
Total	1269.95	1297.95	1305.3	297.50	310.74	315.72	2343	2394	**2,419**
Oilseeds	271.39	288.33	291.67	33.22	35.95	37.70	1224	1247	**1,292**
Sugarcane	46.03	48.51	51.48	370.50	405.40	431.81	80497	83566	**83,887**
Cotton@	134.77	132.86	119.10	36.07	35.25	31.20	455	451	**445**
Jute & Mesta#	**6.73**	**6.62**	**6.86**	**9.88**	**9.35**	**10.32**	**2641**	**2542**	**2,709**

Source: Annual Report 2022-23, Chapter 1, Page 4, Table 4, GOI, Ministry of Agriculture & Farmers' Welfare)
* 4th Advance estimates. @ Production in million bales (170 Kg each). # Production in million bales (180 Kg each)

3.3 Prime movers

a) As the United Nation's Committee on Economic, Social and Cultural Rights (1999) described the obligations of the countries to provide food security, it underlined the importance of agriculture. Acknowledging the importance of agriculture, the GoI launched a national mission on food security i.e. National Food Security Mission (2007), as a Central Sector Scheme (CSS), to increase food production and productivity through area expansion and productivity enhancement interventions in rice, wheat, pulses, oilseeds, etc.. Later on, the country has provided a 'legal right to food' for its citizens through the National Food Security Act (NFSA) 2013. In our country, about 80 crore people are considered eligible for support under the Act. The provision of 'right to food' for such a large population can be fulfilled only with the help of continued advancement in the field of agriculture.

b) Government of India has also launched a nation-wide electronic platform for agriculture marketing viz. e-National Agriculture Market (e-NAM) as an online marketplace for farmers to trade their products without geographical boundaries. It has also introduced the National Food Processing Mission (NFPM) to promote agri-based industries for efficient use of farm produce and reduce post-harvest losses.

3.4 Agriculture – Booming Exports

The export of agriculture products has witnessed massive surge in recent years. The country had an export earning of ₹ 3.10 lakh crore with a growth rate of approx. 18 % in 2020-21. The achievement was even more spectacular during 2021-22 as it touched a new milestone. The value of exports of agri and allied products was ₹ 3.75 lakh crore (more than 50 billion in terms of US dollar). India was among the top 10 (WTO Trade statistical Review, 2022) agri-exporters in the world. The achievement assumes greater significance in the light of great logistical challenges in the aftermath of Covid pandemic and Russia Ukraine war. An important aspect of our achievement is diversification of products in our export basket. The maximum export (in terms of value) of marine products constitute hardly 15% of our total exports and Rice (both basmati and non-basmati), sugar, spices and buffalo meat are the major agri export products. The year 2021-22 also witnessed a spurt in export of cotton and wheat. India has captured nearly 50% of the world's market for rice. The latest data available for agri exports suggest that the exports have maintained their course during 2022-23 also.

3.5 Capital formation in agriculture

a) The role of infrastructure and capital formation in agriculture is crucial for the development of the agriculture sector. This is being supported in the country both through public and private investment. The public sector investment is largely in agriculture infrastructure such as large irrigation projects, research & development, extension services, rural roads & bridges, electrification of villages, etc. Private capital formation in agriculture comprises of investments made by the farmers in farm machinery and equipment, minor irrigation structures, land development and other productive assets. Both public and private capital formation are necessary for energizing Indian agriculture.

b) It is pertinent to note that the Gross Capital Formation (GCF) vis a vis Gross Value Added/ Addition (GVA) in agriculture sector has hovered around 13-14 % (at current prices) during the last triennial ending year 2020-21 as shown in Table 3.2 given below.

Table 3.2: Share (%) of GCF to GVA - Agriculture and Allied sector – Triennial ending year 2020-21

Year	At constant (2011-12) price			At current price		
	Public	Private	Total	Public	Private	Total
2018-19	2.8	13.0	15.8	2.6	11.0	13.6
2019-20	2.4	12.8	15.2	2.2	10.6	12.8
2020-21	2.3	13.6	15.9	2.1	11.4	13.5

Source : Table 1.9, Page 39, Agricultural Statistics at a glance, 2021 – Private Sector share rounded off to next higher decimal.

It may be observed from the Table that the share of public sector has shown a declining trend during the last three years and private sector has more or less made up for this shortfall. However, the public sector has been contributing less than one fifth of the total GCF. The private sector contribution is generally supported by loans financed through banking system. There are concerns about decline in the GCF during the last decade. (Please see Annexure 9).

c) While big and rich farmers usually have better access to capital inputs and enjoy the benefits of economies of scale, the poor farmers belonging to the 'small and marginal farmers' segment, especially in the underdeveloped agricultural regions, face critical scarcity of capital. In view of this, investments made by them often become economically unviable because of their small size of operational holdings and low investment capacity. Under such circumstances, the availability of affordable 'capital' to such a large number of small and marginal farmers is one of the key issues. It must be mentioned that the LTCCS has primarily supported this section of farmers as part of its primary mandate.

d) Access to credit facilities is one of the key determinants of private capital formation in agriculture. Farmers' credit needs are often met by institutional and non-institutional sources. Non-institutional sources of credit comprise of loans taken by the farmers from money lenders, input dealers, traders, relatives, etc. A significant section of Indian farmers does not have access to the institutional credit and hence they mostly rely on non-institutional sources who charge very high rate of interest, ranging between 36-60% p.a.

e) Consequently, most of such farmers fall into debt trap and often find it difficult to come out of it. The uncertain market conditions have further worsened the issue for such farmers leading even to most extreme reaction of suicide. Lack of awareness among farmers regarding availability of various government schemes, cumbersome procedures, and negative attitude of bank officials often restrict the institutional credit thus adversely affecting the pace of private capital formation in agriculture.

3.6 Agriculture Credit

a) Institutional Sources and Others

According to NABARD All India Rural Financial Inclusion Survey (NAFIS) 2016-17, institutional sources were preferred by agricultural households to avail credit, as approximately 61% of such households availed credit from institutional sources. However, a significant portion, i.e. approximately 30% of agricultural households still availed credit from non-institutional sources only, which is a cause of concern. A large section of agricultural households in the country consists of tenant farmers/sharecroppers, who do not have any recorded rights over land in most parts of the country. They are also not in a position to offer any collateral for their borrowing, which is one of the important considerations in lending by financial institutions. Many other sections of the society in rural areas engaged in agriculture and allied activities have found it difficult to avail credit from financial agencies for similar reasons. These rural households find it easier to access credit from non-institutional sources even if the terms of credit are not very reasonable.

b) **Multi Agency Approach**

- In India, a vast network of financial institutions exists and the institutional sources include Rural Cooperative Credit Institutions (RCCIs), Commercial Banks (CBs), Regional Rural Banks (RRBs), Non-Banking Financial Institutions (NBFIs), Microfinance Institutions (MFIs), Small Finance Banks (SFBs) and other government agencies. Of these Institutions, CBs and RRBs are more important Rural Financial institutions (RFIs) that provide credit to the agriculture sector at the village level by leveraging on their geographical outreach.
- The RCCIs are grass root level institutions mandated to address the "last mile" problem associated with the delivery of credit to farmers. It can be broadly classified into viz., Short Term and Long Term Cooperative Credit institutions, each with distinct mandates.
- Short Term Cooperative Credit Structure (STCCS): The focus of STCCS, consisting of State Cooperative Banks (StCBs), District Central Cooperative Banks (DCCBs) and Primary Agricultural Cooperative Societies (PACS), is primarily for providing short term crop loans to farmers for crop production & to rural artisans to meet their working capital requirements.
- Long Term Cooperative Credit Structure (LTCCS): State Cooperative Agriculture and Rural Development Banks (SCARDBs) and the Primary Cooperative Agriculture and Rural Development Banks (PCARDBs) in states having federal structure, dispense medium and long term loans for a range of activities, including land development, farm mechanization, minor irrigation, rural go downs, rural industries, rural housing etc.

c) There has been a phenomenal growth in the flow of institutional credit for short term crop loans provided to farmers in the recent past. This shows that the emphasis on credit has been largely for the purposes of input purchase and for crop production expenses. There has been a decline in the share of credit for medium/long term investments. This trend is suggestive of either a reduced interest of farmers in the purchase of productive assets or increased reluctance on the part of financial institutions to provide long-term loans.

d) The policy of government for providing short-term credit to farmers through Kisan Credit Cards (KCCs) has proved effective in catering to the short-term credit needs of farmers. The preference of the farmers for KCC loans is due to low interest rates at 7% per annum and there is also a provision of incentive, if loan is repaid in time.

e) The shift in the composition of the agricultural credit in favour of short-term credit has implications for private sector fixed capital formation in agriculture.

3.7 Efforts to boost Agricultural Credit

a) Priority Sector Lending (PSL) is a policy intervention / initiative brought out by GoI/ RBI in 1972, based on the recommendations of the National Credit Council, through which credit extended by Scheduled CBs (SCB), RRBs & SFBs is directed to sectors of national priority viz., agriculture and other priority sectors. The objective of the PSL has been to ensure that vulnerable and weaker sections of the society get access to institutional credit and that there is adequate flow of credit to these employment intensive sectors.

b) The PSL guidelines have undergone umpteen number of revisions since its introduction. At present, all SCBs are required to meet a target of 40% of their loan outstanding for PSL. The RRBs and SFBs on the other hand are required to meet a higher target of 75% towards PSL. There is stipulated allocation of 18% for agriculture within the overall PSL targets and a sub-target of 10% for Small and Marginal Farmers. RBI has also brought Urban Cooperative Banks (UCBs) under the ambit of PSL and with effect from the year 2023-24, their overall target (75%) is at par with RRBs and SFBs.

c) An important revision in PSL guidelines resulted in dispensing with separate sub targets for lending to 'direct' and 'indirect agriculture'. The approach to agriculture under PSL is to focus on 'credit for agriculture' in order to give impetus to financing of agriculture infrastructure, supply and value chain in the sector.

d) Some recent changes in the PSL guidelines include widening of activities for inclusion under agriculture and treatment of lending by SCBs to NBFC/MFIs as also co-lending with NBFCs as priority sector loan. An important change is the introduction of Priority Sector Lending Certificates (PSLCs) - a Certificate in respect of priority sector loans eligible for trade and the amount of certificate being treated as "loan outstanding" for priority sector. The lending to agriculture sector now includes (1) Farm Credit (Agriculture & Allied Activities), (2) lending for Agriculture Infrastructure and (3) Agriculture Ancillary Activities.

3.8 Incentivization of Short-Term Crop Loans

The Union Government had introduced the Interest Subvention Scheme (ISS) for Short Term Crop loans in 2006-07. It has been continuing since then with minor modifications. Under ISS, interest on Short Term Crop loans up to ₹ 3.00 lakh is charged to farmers at a reduced rate of 7% per annum. The 1.5% per cent interest subvention is reimbursed to banks (through RBI / NABARD), based on the funds released by the GoI against their claims. Besides the interest subvention, a 3% incentive for prompt repayment was introduced in 2009-10, thus reducing the actual cost of crop loan to 4% for those borrowers who repay promptly. This incentive was meant to ensure availability of credit at affordable rate of interest to sustain production. However, it has resulted in skewed distribution of agricultural credit in favour of production credit as against investment credit and the share of short term crop loan is on a constant rise whereas the share of agriculture investment credit is on a decline. The declining trend in investment credit is a cause of concern as the flow of investment credit is important for the long-term sustainability of the agriculture sector. Since the LTCCS is generally not providing short term loans for agriculture and also not eligible for interest subvention, farmers prefer other agencies to meet their credit needs.

3.9 Institutional Credit – Banking System: Agency wise Share in Ground Level Credit to Agriculture

a) The recent past has witnessed a healthy growth in the flow of Ground Level Credit (GLC) for agriculture as all the stakeholders have enhanced their efforts for disbursement of agricultural credit. The GoI has been taking measures to accelerate the flow and fixing ambitious targets, year after year for disbursement of agriculture credit. This has resulted in many banks even recruiting specialist officers and establishing separate cells in their controlling offices to monitor the progress. The efforts have paid dividends and there has been manifold increase in GLC flow for agriculture in last many years. The agency wise share in GLC for agriculture for triennial ending year 2021-22 is depicted in Table 3.3 below:

Table 3.3: Agency wise Share in Ground Level Credit Flow for Agriculture – Triennial ending year 2021-22
(₹ in Crore)

Year	Agency-wise			
	Coop. Banks	RRBs	SCBs	Total
2019-20	157367 (11.30)	165326 (11.87)	1070036 (76.83)	1392729 (100.00)
2020-21	190682 (12.10)	190012 (12.06)	1194704 (75.84)	1575398 (100.00)
2021-22	243220 (13.05)	204180 (10.96)	1415964 (75.99)	1863364 (100.00)

Note : Figures in bracket indicate the share of agency in the total ground level credit flow

During 2021-22, the institutional credit flow to the agriculture sector in India was to the tune of ₹18.64 lakh crore against the target of ₹16.50 lakh crore. The SCBs had a share of more than 75% in total agriculture credit during the triennial indicated above, while cooperative banks had a share hovering between 11-13% during this period. The agriculture credit flow target for 2022-23 has been fixed at ₹18. 50 lakh crore. The data on sectoral deployment of bank credit released for March 2023 (RBI) indicates that there has been an increase of 15.4% in credit to agriculture and allied activities on year on year basis.

b) Domination of Short Term Credit in Agriculture

i. There is an uneven distribution in the credit flow to agriculture with preponderance of the short term credit. This short term loan within the loan portfolio of agriculture has gained further impetus after introduction of the special banking product of "Kisan Credit Card (KCC)". The focus provided by the GoI on ensuring both supply and demand side issues, has led to massive increase in disbursements for short term loans. There have been several drives by banks to saturate farmers with the provision of KCC. The awareness provided to farmers on the benefits of KCC Scheme and incentive provided to them has helped generate demand at ground level. The short term loans , which was only ₹ 4.74 lakh crore a decade ago, has exceeded ₹ 11.00 lakh crore in 2021-22.

ii. Compared to this, the growth in Medium Term/Long Term credit has been quite subdued as it is possible that some share of short term credit might have been used by the farmers for low cost productive assets. The decline of the long term structure of cooperatives, dealing primarily with such loans has also made some impact in this regard. The non-availability of specialized personnel in banks, absence of incentive for such loans and more particularly the absence of any insistence by Govt. and regulatory authorities might have also contributed to this situation. Table 3.4 given below provides details of agency wise disbursement under Short Term and MT/LT loans for triennial ending year 2021-22.

It may be observed that the share of Short Term loans and MT/ LT loans were in the proportion of 59:41 during the year 2021-22. However, this increased share of MT/LT loans is the result of some dedicated efforts in this direction in recent years as the share of MT/LT loans was hardly 22% not more than a decade ago (year 2012-13). The concerted efforts of banks and refinance support from NABARD under Long Term Rural Credit Fund (LTRCF) to RRBs and Rural Cooperative Banks, the investment credit (MT/LT) in agriculture has shown substantial increase in last four years (year 2018-19 onwards). The details of agency wise GLC for agriculture in the last 10 years and the details of ST/MT/LT loans under agriculture in the last 10 years are provided in Annexures 10 & 11.

The domination of SCBs in agriculture credit was observed both in ST and MT/LT loans. This was more prominent in case of MT/LT loans as the share of SCBs exceeded 93%. The share of Cooperative Banks in MT/LT credit has been lowest at around 2%. In case of Short Term Credit for agriculture, Cooperative Banks have a comparatively higher share of around 21% even though SCB provides major part of total short term credit for agriculture.

Table 3.4: Agency wise Short Term and MT/LT loans for Agriculture - Triennial ending year 2021-22 (₹ in Crore)

Year	Short-Term (ST) Credit				Medium Term/Long Term (MT/LT) Credit			
	Coop. Banks	RRBs	SCBs	Total	Coop. Banks	RRBs	SCBs	Total
2019-20	148287 (18.0)	138069 (16.7)	538795 (65.3)	825151 (100.0)	9080 (1.6)	27257 (4.8)	531242 (93.6)	567579 (100.0)
2020-21	179267 (20.1)	156369 (17.5)	558121 (62.4)	893757 (100.0)	11415 (1.7)	33643 (4.9)	636583 (93.4)	681641 (100.0)
2021-22	229093 (20.8)	166782 (15.2)	703804 (64.0)	1099679 (100.0)	14127 (1.8)	37398 (4.9)	712160 (93.3)	763685 (100.0)

3.10 NABARD's Long Term Rural Credit Fund

The recognition of the need to boost capital formation in agriculture and rural economy led GoI to create a special fund viz. Long-Term Rural Credit Fund (LTRCF) with NABARD in the year 2014-15. The Fund is contributed out of shortfall in achievement of Priority Sector Lending (PSL) targets and is used for providing refinance support to Regional Rural Banks and Cooperative Banks (both StCB and SCARDB) for their term loan to such activities. The LTRCF plays a vital role as it addresses the needs of small and marginal farmers who are dominant clients of these institutions. During last 5 years, an amount of about ₹15,000 crore provided each year to the eligible institutions.

3.11 Reluctance to lend to Agriculture Sector

The PSL obligation for agriculture is existing for more than half a century for the Commercial Banks. There is also a mandate for specified share (18%) for loans to agriculture and allied activities. Notwithstanding these stipulations, there appears to be a general reluctance for lending to the agriculture and allied activities. The data relating to sectoral deployment of bank credit reveals that the outstanding to the sector has hovered around 13% for the last three years (12.27 % for 2019-20, 13.01% for year 2020-21 and 12.79% for the year 2021-22. (Source; Table IV, 16 - Report on Trend and progress of banking in India, 2021-22). This reluctance to lend is the result of various factors viz. the sector being centre of political discourse affecting recovery, economically vulnerable clients and so on. The preponderance of small and marginal farmers (vulnerable and low-ticket requirement) and the agriculture output being dependent on vagaries of nature, drives the banks away from financing to the sector to the extent of its requirement. However, the LTCCS has continued to provide major share of its loans for agricultural purposes.

3.12 Some Approaches for lending to Agriculture

In order to improve the lending to the sector, banks have resorted to group lending instead of extending small ticket loans to individual farmers. This approach has been in vogue by now for quite some time and has been considered an easier way to expand credit outreach in rural areas. The Self-Help Group (SHG) mode of lending by now has become the most accepted form of lending to such clients. The SHG-Bank Linkage Programme model accepts informal groups as clients of banks for both deposit and credit linkage and provides for purpose neutral collateral free lending. In order to enhance credit flow to share croppers/tenant farmers, a group approach of financing 'Joint Liability Group' (of these farmers) is also in operation. Of late, with a view to address credit and other requirements of farmers, particularly small and marginal farmers, the group approach of Farmers Producers Organisation (FPO) is being implemented. This has the potential to overcome the numerous challenges being faced by the small and marginal farmers and with around 4000 FPOs being promoted/ supported under Central Sector Plan Scheme. The lending of LTCCS through these approaches has been very limited because of the insistence on land as security.

3.13 Security for loan

a) Historically, the lenders, be it institutions or non-institutional sources like money lenders, traders, etc., have always insisted upon some security for loans. Any financial promise which is required to be kept on a future date has the inherent danger of getting dishonoured. Hence, in order to protect their interest, the lenders have always insisted upon some security for loans so that they could take recourse to the same in case the borrower is not in a position to honour his/her commitment on the due date.

b) It has not been very difficult to find security in case of loan for agriculture activities as the land being used for agriculture has been treated as the most obvious choice for the same. The land being the source of livelihood, the farmers can ill afford to part with that security. This provides the much-needed comfort to the lender to advance loans against security of land. The LTCCS, which were earlier known as Land Mortgage Banks, continue to provide their loans largely against the security of land.

c) The loans for agriculture is required for different purposes varying from seasonal inputs for crop production to development of agricultural land, use of farm machinery and so on. The production cycle of many agricultural activities is reasonably short since the expenses incurred by the farmer provides return quickly. The value of produce is also far more than the loan and so it is easier for the borrower to repay. Even if there is a natural calamity in a particular year, normal situation in subsequent years helps the farmers to recoup his position quickly. Further, the repayment is also generally in lump sum. Therefore, the security for a short-term loan is viewed differently and there are not many occasions for the lender to fall back upon the security to realise the bank loan. As the process of creation of legal interest of the lender in the land involves cumbersome process and the amount of loan Vis a Vis the value of land is also not substantial, the lenders have taken recourse to other options. An easy option, facilitated by state laws, is the creation of charge on standing crops instead of the land. The lenders have been primarily relying on this security for short-term crop loans. In view of the nature of credit, facility sanctioned (revolving cash credit for 3 to 5 years) for this purpose and the low cost of borrowing because of incentive, etc., the incidence of default in the bank's books is not very high in respect of short-term crop loans.

d) However, the term loans are repaid over a long period and that too in instalment. In case of loan availed for land related activities (land development, minor irrigation and mechanisation), it is difficult to attribute any definite contribution to these expenditure in the value of produce. As the repayment period is long, the risk for lender subsists over a long period. As such, the banks are more cautious while obtaining security for such lending.The banks insist on collateral security of mortgage of land and even additional security like bank's fixed deposits and so on. However, the enforcement of security of agricultural land has proved to be a crucial irritant for the banking system. The resultant position is that the banks are not very keen to increase their long-term agricultural loans.

3.14 Role of ARDBs in Agriculture Credit

RCCIs viz., STCCS and LTCCS were the important purveyors of credit to Agriculture Sector. The LTCCS was the sole formal agency catering to the investment credit needs of farmers for agricultural purposes while the STCCS took care of the production credit needs of farmers. However, the PSL norms, entry of Micro Finance Institutions as also private sector banks and SFBs have overshadowed the role of Cooperative Banks in agricultural credit. The STCCS has somehow been able to withstand the onslaught of these developments, particularly because of their deposit taking ability.

The SCARDBs have not received the requisite support from stakeholders to compete in this changing environment. This has resulted in decline of the structure over a period of time and the same getting out of existence in some states and on the verge of collapse in a few others. The farming community has always looked upon the SCARDBs as the local credit institutions and the farmers felt confident to approach them for their MT and LT agriculture loan requirements. SCARDBs have been extending loans to farmers at lower interest rates as compared to the NBFCs & MFIs who have also entered the field of lending in rural areas. Moreover, in case of default in repayment of agriculture loan instalments, NBFCs & MFIs have been notorious in their devious ways of recovering their dues from the farmers whose agriculture income could have been affected due to drought or flood or pest attack, etc. The ARDBs have a better potential to expand their outreach in rural areas and has a long experience in providing term credit for agriculture. In view of the need to provide greater push to term loans for agriculture and allied activities and particularly for small and marginal farmers, the SCARDBs can play an important role in dispensation of agriculture credit in their area of operation.

3.15 Amrit Kaal and likely trends in agriculture

Indian agriculture which has shown resilience during the pandemic period and recorded growth not only in production but also in its contribution to country's GDP, is likely to continue to occupy pride of place in Indian economy in future also.

a) Need for Increase in Productivity

Indian agriculture has ensured enough production to feed our burgeoning population, however, the challenge becomes formidable in the coming 25 years as despite fall in total fertility rate (TFR), the population is expected to reach 167 crores by 2047 and it is estimated that around 400 MT food grains would be required to meet the demand. The sector would face the challenge of producing more with less land resources due to increasing urbanisation. The production challenge could be met only by improving the productivity of the crops and livestock sector. The present productivity of major crops for the last three years is given in the figure 1 below:

At present, China's per hectare productivity of rice is around 7000 kg. Similarly, productivity of wheat in UK and New Zealand is around 9,000 kgs. In view of existing level of our productivity at only 2809 kg per hectare for rice and 3,507 kg for wheat, there is enough potential to increase our productivity by adopting high yielding varieties of seed, mechanisation of farming operations and precision farming wherever possible. The need for improvement in productivity would create huge potential for financing of capital-intensive activities for institutions like the LTCCS.

b) Agriculture Mechanisation-Key to productivity

Agricultural Mechanization is one of the key drivers for improving productivity through efficient management of the inputs like seeds, fertilizers, water, labour etc. It helps in conduct of timely agriculture operations and reduces the drudgery associated with various farm operations. The LTCCS has a very long experience in financing of agricultural machinery. They can play an important role in financing of such activity to individuals and are better suited to provide customer-hiring services in their area of operation through PCARDBs.

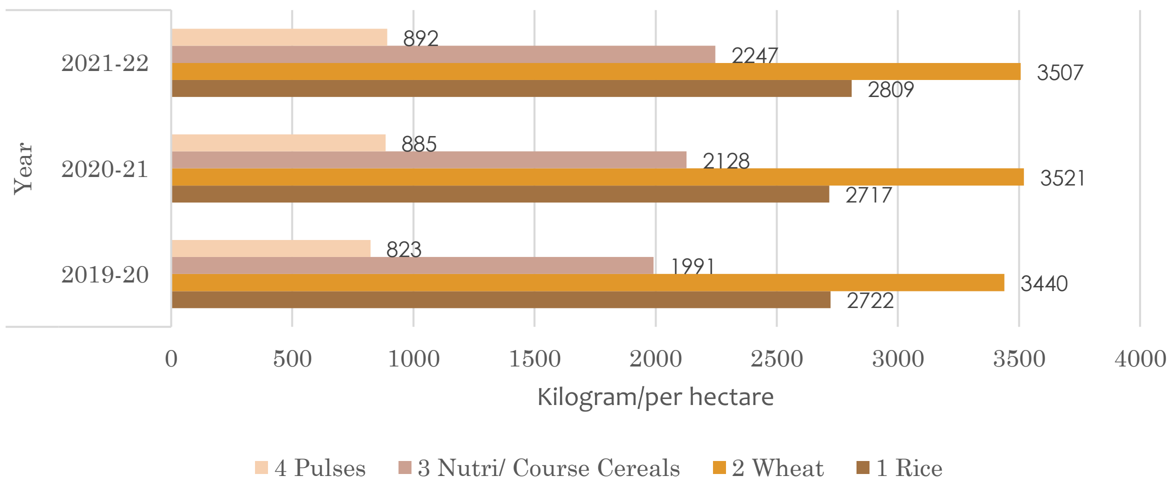

Figure 1: Productivity of Major Crops (kilogram/ per hectare)

c) Precision Agriculture

Precision agriculture refers to the precise application of agricultural inputs with respect to soil, weather and crop in order to optimise productivity, quality, and profitability in agriculture. GoI has established 22 Precision Farming Development Centres (PFDC) in the country to disseminate the farming technologies such as Micro Irrigation and plasticulture for helping the farmers in improving production and productivity.The government has been promoting the micro irrigation systems through different schemes like Per Drop More Crop, Mission on Integrated Development of Horticulture and creation of Micro Irrigation Fund, which supports the state governments for providing higher support to farmers. The SCARDBs have been traditionally financing the irrigation structures and they can be roped in to finance micro irrigation systems.

d) Kisan Drones

Keeping in view the importance of drones in agriculture applications, the GoI has launched a scheme called "Kisan drones". The standard operating procedure for operation of drones has been finalised by the GoI. Subsidy is provided for purchase of drones to cooperative societies, FPOs and rural entrepreneurs establishing Custom Hiring Centres (CHCs) for providing agricultural services through drones. Similarly, individual farmers are eligible for subsidy for purchase of drones. The drones can be used for spraying on the farms and help assess the moisture content of the crops by individual farmers/ their groups and the prices ranged between ₹3 lakh to ₹11 lakh only. This provides a greater opportunity to the LTCCS for improving their business through financing for this purpose.

e) Allied Sector – The Rising Star

The allied sectors of Indian agriculture - livestock, forestry, fisheries & aquaculture have been recording faster growth rate than the production of food grains and other crops. The contribution and livestock and fisheries sector to agriculture GVA has been increasing every year and touched 30.1 % and 6.7 % respectively during 2020-21. The fisheries sector has been identified as "sun rise sector" of Indian economy. The growth of these sectors got a further fillip after formation of a separate ministry of "Animal Husbandry, Dairying and Fisheries" as undivided attention was given to these sectors.Since the LTCCS has been engaged in financing of these activities in a traditional manner, their focus on these sectors may result in deepening their role.

f) Collectivisation

As 86% of the farmers are small and marginal farmers, promotion of FPOs is an institutional mechanism for bringing farmers together with a view to facilitate input supply, technical advice and access to market. Keeping in view the recommendations of the Committee on Doubling Farmers Income GoI launched a Central Sector Scheme for formation of 10000 FPOs during the year 2019-20 with a budget outlay of ₹6865 crores until 2027-28. The FPOs would focus on a particular product of the district (one district one product) and provide collective bargaining strength for increasing the income of farmers. 4016 FPOs have been formed and registered until December 2022 under new FPO scheme. The LTCCS may explore the potential for financing of many such FPOs.

g) Feminisation of Agriculture

Women farmers play an important role in the agriculture sector and development of rural economy. Agriculture sector employs 80% of all economically active women; they comprise 33% of the agricultural labour force and 48% of self-employed farmers. Women play a significant and crucial role in agricultural development including, main crop production, livestock production, horticulture, post harvesting operations, agro/social forestry, fishing etc. The *"mainstreaming the human and gender dimensions in all farm policies and programmes"* was included as one of the major policy goals of GoI. There is a case for LTCCS to revisit their policies to develop credit products for greater coverage of women farmers.

h) Initiatives in Cooperative Sector

The GoI with the establishment of Ministry of Cooperation has embarked upon the path of "Sahkar se Samridhi" which translates into "Prosperity through Cooperation". The Ministry has taken path breaking initiatives for infusing dynamism to cooperatives at the ground level through (i) Computerisation of 63,000 PACS with installation of Enterprise Resource Planning (ERP) based common national software (ii) Finalisation of model bye laws for PACS enabling them to take up larger number of activities than permitted at present (iii) Formation of 2 lakhs multipurpose PACS, dairy and fisheries societies in next five years (iv) MoU with Ministry of Electronics and Information Technology, CSC e-Governance Services India Ltd. (Common Service Centre (CSC)), Special Purpose Vehicle (SPV) and NABARD to enable PACS to work as CSC. The Ministry has also initiated the work of preparing a national level database of cooperatives to enable data driven decision-making, finalising national cooperative policy to serve as guidance document for all cooperatives. There is a case for LTCCS to draw their plan for future activities in tune with the developments of the cooperative sector to synchronize with national aspirations.

i) Data driven Agriculture

The GoI has recognised the need for data driven interventions in the agriculture sector and in order to develop a roadmap for the same, it has established India Digital Ecosystem for Agriculture (IDEA). It has been decided to create an "Agri stack" with three-core database interacting with each other farmer's registry, crop registry, and geo referenced village maps. The corporates are engaged in promotion of digital agriculture, basic and advanced advisory services, consolidating agri-value chain, knowledge exchange between farmers, government and private players, to provide it a practical shape. The study team visualises that development of digital solutions like site specific and crop specific advisories for individual farmers, monitoring of soil health, and weather advisory would help in tackling the challenges of climate change, and productivity. The use of modern technology like remote sensing, drones, Artificial Intelligence (AI) and Machine Learning (ML) would lead to expansion of precision farming. The LTCCS must keep itself abreast with these developments and should be ready to reorient their role in tune with these developments.

3.16 Conclusion

Agriculture continues to occupy an important place in our economy and with the need of feeding billions, it would retain its place of importance in future as well. Various initiatives being taken in the field of agriculture are likely to improve its position further. The LTCCS is expected to play an important role in the future development of agriculture sector in the country with reforms and innovations in its functioning.

CHAPTER 4

International Experience- A Little Guide

4.1 Introduction

a) The Cooperative Movement world over has been the early foundation of social enterprise where people of small means can come together to derive the strength of the community in pursuing the goals of economic enterprise. Cooperatives have manifested in different forms based on the economic activities it has adopted as central to its operation. Accordingly, different types of cooperatives have evolved world over, the major categories of which are Producers Cooperatives, Marketing Cooperatives, Credit Cooperatives, Workers Cooperatives, Building Cooperatives and others. The Cooperatives have come into existence through the principles of Voluntary Membership, Democratic Member Control, Member Economic Participation, Autonomy and Independence, Education, Training, and Information, Cooperation among Cooperatives and Concern for Community which are known as Seven Principles of Cooperatives.

b) Over the years, many variations of cooperative structures have evolved keeping in view the local conditions. However, a remarkable growth has been observed in the credit cooperatives all over the world. It is also a fact that some of the earliest experiments in the cooperatives were initiated in the domain of thrift and credit.

This chapter provides the details of evolution of credit cooperatives all around the world arena with a view to identify lessons, and practices if any, for adoption by the LTCCS.

4.2 Evolution of Credit Cooperative– International Experience

The origin of credit cooperative can be traced to two remarkable experiments in Germany. Hermann Schulze-Delitzsch established the first urban credit cooperative in 1850 followed by, Friedrich Wilhelm Raiffeisen, a Mayor in Western Rhineland, formed the first rural credit cooperative in 1864. Such initiatives of establishing credit cooperatives found echoes in other European countries, including United Kingdom. On the other side of the Atlantic, credit cooperatives developed in two other variations namely Caisse Populaires (Credit unions a financial cooperative providing facilities similar to banks). Alphonse Desjardins (a Canadian journalist) pioneered in establishing Caisse Populaires in Canada to provide loans to people of small means on easy terms. The idea inspired similar efforts in the United States of America (USA), which culminated in Massachusetts Credit Union Enabling Act in 1909, the first credit union legislation in the USA. In the year 1934, the Federal Credit Union Act was passed to mainstream this movement of credit cooperative at a national level in United States. This act laid the foundation of all credit unions that came into existence in days that followed.

4.3 Credit Cooperatives-International - An Overview

World Council of Cooperative Union in its Statistical Report of 2021, has provided details of 87,914 credit cooperatives operating in 118 countries and serving a population of 39.38 crore (excluding some major cooperative banks of Europe). As it is amply clear from the history of Cooperative Movement, Europe has been the cradle of cooperatives. European Association of

Cooperative Banks (EACB) in their Key Statistics of Credit Cooperatives in Europe has presented an impressive account of the growth of credit cooperatives in Europe. As per the latest information available for the year 2021, there were 2647 cooperative banks with a branch network of 39572 and a client base of 22.68 crores in 18 countries of Europe. Some of the large cooperative banks of the world like Credit Agricole, Credit Mutuel and Banque Populaire Caisse d'Epargne (BPCE) in France, Cooperative Financial Network of Germany and Rabo Bank in Netherland have established themselves with major market share in the banking business.

4.4 Major Types of Credit Cooperatives

The important types of credit cooperatives in the international arena are as under:-

Credit Union

a) In United States, Credit Unions are the major form of cooperative credit and have been in operation for more than a century. Credit Unions are non-profit-making cooperative institutions organised around a group of members having close affinity and homogeneity. The Credit Union is sometimes organised around a professional group like teachers or doctors and sometimes it is formed with an institution as its base. The credit Union by virtue of their operative principles have certain innate advantage to minimise cost like no obligation to pay dividend, salaries to board members and income tax.

b) The Credit Unions have structurally evolved with individual credit unions operating at the base level with state level aggregation as Credit Union league. At the national level, Credit Union leagues form Credit Union National Association. The Credit Unions also form Credit Union Service Organisations, which provide host of services to Credit Unions. Apart from US, Credit Unions, also known as Caisse Populaire, have large presence in Canada and almost half of the population are member of such Credit Unions.

Credit Societies

Very similar to Credit Unions, Credit Societies are localised entities with homogeneous membership formed on the principles of thrift and credit. Such societies collect deposit from members and recycle the same as credit to members with option to raise resources from financial institutions in case of need. Primary Agriculture Credit Society (PACS) in India and Savings and Credit Cooperatives (SACCO) in Africa are two prominent examples of credit societies.

Cooperative Bank

Cooperative Banks are banks with a different ownership and governance structure. These banks which came into existence in 19^{th} century in Europe were replicated all over the world with a view to provide banking services to people who used to remain excluded from the conventional banking institutions. Cooperative Banks differ from a Cooperative Society as Cooperative Bank can collect deposits from non-members and provide services like Credit, Savings, and other financial and non-financial services to members and non-members.

4.5 Evolution in Architecture of International Credit Cooperatives

a) Cooperative Credit institutions originated in an economic environment, which was decentralised, regional, and even village centric with very low level of integration with the economy of country let alone at a global level. Accordingly, these credit institutions were more localised with limited client base and serving only the bare minimum financial requirement of its members. With the changing economic environment, autonomous decentralised economy of village or region got integrated with larger national and global economy. The rapid growth in movement of goods and services along with geographic migration of people created a demand for more complex and differentiated financial services from banks and financial entities.

The direct outcome of this development was visible in transformation in the structure and function of Cooperative Credit Institutions.

b) Some of the major factors which have triggered such transformation in cooperatives is discussed below:-

i. As economic activities of members expanded, the grassroots level cooperatives could not meet the increasing credit needs of members from the resource generated from member deposits.

ii. As a corollary to the above development, cooperatives started mobilising deposits from non-members, in the process became licensed bank, and came under banking regulation.

iii. Apart from deposit, credit cooperatives also resorted to borrowings to fund their loaning operations and in some countries they were brought under credit rating disciplines for gaining access to organised financial market.

iv. One of the unique strengths of grassroots level credit cooperatives was their outreach through neighbourhood banking. However, due to adoption of technology by banks, the delivery of the banking products through brick and mortar outlets has lost its relevance. Commercial Banks, in spite their remote location, are in a position to provide all the services through Cards, Mobile and internet without any need to visit branches.

v. Though Cooperative Banks survived the international financial crisis of the year 2008 with comparative ease, they face the challenge of capital requirements, of relatively small size of their operations and tightening of profit margins.

vi. The European Union has been promoting larger banks and there has been a move towards consolidation of the smaller ones. This was because of its understanding of excess capacity in the banking field.

vii. With the increase in size of the Cooperative Banks, there has been qualitative changes in the governance structure with induction of more professional directors on the board and steady decline in member participation in the management of the bank.

viii. One of the biggest challenges faced by Cooperative Banks is their inability to bear the burden of compliance to enhanced regulatory norms prescribed by regulators and apparently, regulator does not make any distinction between small and large banks as far as regulatory prescriptions are concerned.

4.6 Cooperative Banks in Europe

a) The LTCCS in India operates as a cooperative society not subjected to banking regulation, as they are not banks. In contrast, the major financial cooperatives in Europe are licensed as banking institutions and subjected to laws as applicable to banks in the country. Notwithstanding this major distinction, the details of Cooperative Banks in Europe are discussed with a view to appreciate the potential for development of cooperatives and generate similar aspirations in the LTCCS in the country.

b) Cooperative Banks have evolved as major players in the banking sector in Europe. It has considerable market power in Germany, France and the Netherlands. It occupies relatively less important status in countries like Italy and Spain. The key values adopted by them are transparency, governance, resilience, proximity, social commitment and solidarity (EACB, 2004). Since these banks channel a significant proportion of their earnings into their reserves, it makes them more resilient. The twin factors of people and regional existence have also contributed to their resistance to the economic and financial crises. It is only because of their capacity to change, adapt and recover quickly from the adverse effects of crises, the financial crisis of the year 2008 did not affect them much as evident from the Table 4.1 given below:

Table 4.1 : Growth of Cooperative Banks in Europe – Crisis Period (Year 2008 -2012)

Particulars	Growth Rate (%)
Members	4.5
Customers	5.0
Deposits	28.0
Loans	25.0
Assets	13.0

Source: EACB

c) The important cooperative banking institutions in Europe were as under: -

Credit Agricole , France

- Credit Agricole is one of the major form of cooperative or mutual banks in France. The main pillar of the Credit Agricole cooperative model is large number (more than 2000) of local banks who have contributed to its share capital. The employees are also an important shareholder. The local banks have been grouped into regional banks, which are autonomous and were responsible for their own management and development.
- In addition to these local and regional entities, there is the Credit Agricole National Federation. It represents the regional cooperative banks before various authorities, banking and farming professional bodies and other stakeholders. It also performs various senior management functions for the Regional Cooperative Banks.

DZ BANK (Germany)

- The financial reform in late 1960s led to increased consolidation in the banking sector including cooperatives in Germany. This resulted in creation of the Bundesverband der Deutschen Volksbanken and Raiffeisenbanken (BVR) in the year 1972 as a national umbrella organisation for the German Cooperative Financial Group. BVR is the nationwide representative body of the cooperative financial group. The consolidation exercise also led to merger of local cooperatives and reorganization of the regional ones. The DGK Bank, since renamed as DG Bank, took over the regional financial cooperative institutions in the country. With the merger of GZ Bank (created out of merger of some regional entities) with the DG Bank, the new entity is known as DZ Bank.
- The Cooperative Banks in Germany form one of the densest banking service networks in Europe with more than 700 institutions and well over 7,500 branches. The German cooperative banking sector has a two-level structure. The central institution acts as a central bank for the banks and parent portfolio company of DZ Bank Group. The central institution seeks to act as a partner for the local cooperative banks.
- Volksbanken Raiffeisenbanken Cooperative Financial Network is one of the largest private financial services organisations in Germany. DZ BANK, holds a majority interest in the Volksbanken Raiffeisenbanken Cooperative Financial Network and acts as its central institution. It provides support to the individual cooperative banks with the aim of strengthening their competitiveness under the tagline 'DZ BANK. Die Initiativbank.
- DZ BANK is a participant in the BVR protection scheme which is monitored by the German Federal Financial Supervisory Authority (BaFin). The Scheme ensures full bank protection for all members. As part of the BVR the function of the Bank rests on important pillars of product & service provider for the Cooperative Banks as also liquidity transfer.

Credit Mutuel, France

It is among the major banks in France which traces its origin to the German Cooperative Movement. The local cooperative banks which retained their identity adopted this nomenclature. The Confederation Ndu Credit Mutuel (CNCM) is the central organisation for such entities in the country. About 2000 such Credit Mutuels exist in the country.

BPCE, France

It operates in retail banking and insurance field in the country through two major network viz. Banque Populaire and Caisse dEepergne.

Rabobank Nederland

- Netherland has a large agriculture sector and the cooperatives play an important role in the Dutch economy. Rabobank began as a movement of cooperative banks founded by Dutch farmers. Over a period of time, the cooperatives in Netherland formed two central level cooperative institutions viz. Coöperatieve Centrale Raiffeisen-Bank and Coöperatieve Centrale Boerenleenbank in the year 1898. With the merger of these two institutions in 1972, the merged entity adopted the name "Rabobank Nederland". The bank has become the principal banker of many large organizations in the country. Rabobank Group is the only institution providing financial services on the basis of cooperative principles in that country.
- Rabobank Nederland and the local banks operate with one banking license. There is a system of reciprocal guarantees for provision of intra-group credit support. It has worked as a cooperative since its foundation but has embraced innovation, growth and sustainability. It has helped in strengthening communities and make the local living environment greener across Netherlands. Rabobank is an active member of roundtables for sustainability in agribusiness value chains. It also supports data driven food- and agri-tech start-ups through the Rabo F&A Innovation Fund.

4.7 Membership, Assets and Market Share of Cooperative Banks – Europe

a) The membership, assets and market share of these institutions as on December 2021 are as indicated in the Table 4.2 below:

b) Cooperative Banks have made their presence felt in providing banking services and they have strong presence in almost entire Europe and in countries like Japan, India and Kenya, etc.

c) In view of the fact that Cooperative Banks provide a variety of banking services, they are regulated entities. The Cooperative Banks in Europe, which are systematically important, are regulated by BAFIN, the European Regulatory Authority and regulators of respective countries regulate other Cooperative Banks.

d) Cooperative Banks, by virtue of their innate characteristics, are more localised with limited clientele and offer limited products in comparison to Commercial Banks. However, with the expansion of business and growing complexity of the banking products, their essential character as a small bank with limited area of operation and a narrow product range has not remained valid anymore. In order to survive in the new business and regulatory environment, large number of Cooperative Banks has adopted various models of aggregation and integration.

Table 4.2: Cooperative Banks in Europe – Asset, Membership and Market Share -December 2021

Sl. No	Name of the Bank and Country	Membership (lakh)	Asset (Rs in lakh Crore)*	Market Share in deposit (%)	Market Share in Credit (%)
1	Crédit Agricole, Franch	112.00	205.12	26.00	23.1
2	Co-operative Financial Network, Germany	181.78	138.28	22.7	23.1
3	BPCE, France	90.00	133.83	22.1	22.00
4	Crédit Mutuel, France	83.00	95.38	16.5	17.3
5	Rabobank, Netherland	21.00	56.46	35.00	NA

*Assets in Euro has been converted into ₹ with conversion rate of 1 Euro equivalent to ₹ 88.28
(Source EACB Key Statistics 2021)

4.8 Credit for Housing - Building Societies

Another form the Credit Cooperatives, which evolved in UK is known as Building Societies. These societies initiated their operation to provide housing finance to members within the cooperative fold. Later on, these cooperatives broad-based their activities and became general savings and credit cooperatives, and subsequently, on the face of decline, demutualised and became Commercial Banks.

4.9 Best Practices in International Cooperatives

The changes in the fundamental ground rule in the operating environment of the credit cooperatives led to reorganisation of cooperatives, which was largely based on the principle of aggregation, consolidation, networking and in some cases demutualisation. Keeping in view the changing product range, customer profile and size of the bank and more importantly the regulatory requirements, Cooperative Credit Institutions evolved various models of networking to gain economy of scale, managing increasingly the complex banking products, providing support for compliance to regulation , adoption of technology , managing investment etc. Some of the best practices in such organisations observed all over the world are discussed in following paragraphs.

A. Model for Common Advantage

The individual Cooperative Banks come together to create another entity to provide certain services which would not prove cost effective if provision for such services is done by banks/Financial cooperatives on a standalone basis. These services may largely include IT services, product development, preparation of financial statements and capacity building of its member banks. Corporate Credit Union (CCU) and Credit Union Service Organisation (CUSO) have been created by credit unions in United States as corporate entities capable of delivering certain permitted services to its promoting Credit Unions.

B. Federation Model

This model has brought more integration among the networking banks through creation of federation or network of banks for provision of a host of services as in the model for common advantage. However this model also took care of risk management in the affiliated cooperatives and as such, it required greater commitment from federating bank towards the central entity. The best example is Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR) which works as an umbrella organisation of Cooperative Banks in Germany. In India, some similarity could be observed in the Short Term Cooperative Credit Structure (STCCS) with PACS affiliated to DCCB and DCCB/PACS affiliated to State Cooperative Bank with complex financial and organisational relationship.

C. Integrated Model

Where individual Cooperative Banks create a central body and delegate some its autonomy to the central unit to gain higher level of acceptability and confirm to the regulatory dictate of "Too big to fail" a higher level of integrated model of networked bank come into existence. The major features of such a model are as presented below:

- The individual networked bank and the central organisation are financially assessed as a whole.
- The individual banks are subject to instructions issued by the Central body.
- In some cases, there is a parent subsidiary relationship between central bank and individual banks.
- There is a commitment of joint and several liabilities by both central body and individual banks.

These models of networked Financial Cooperatives have given the individual units at a lower cost the advantage otherwise available to large Commercial Banks. In India Cooperative Credit Structure in both Short Term and Long-Term segment have created similar structure, but their functional relationship has remained static in spite of rapid changes in the financial environment.

4.10 Institutional Protection System (IPS) in German Cooperative Bank

a) In order to protect the interests of the depositors and share- holders, the Cooperative Banks in Germany established Institutional Protection System, which provided an umbrella of protection to banks against any financial crises or insolvency of the Cooperative Banks within the protection system. The IPS is implemented through Association of German Cooperative Banks (BVR). As per the latest information, IPS is operating in Austria, Germany, Italy, Poland, and Spain. In the year 2014, IPS has also been recognised as Deposit Guarantee Scheme (DGS) if it fulfils certain conditions and accordingly two IPS in Germany and One IPS in Austria have been recognised as DGS.

b) The IPS has two major components viz Guarantee Fund and Guarantee Pool.

   - Guarantee Fund is created through contributions from member banks at a rate ranging between 0.05% to 0.20% of the assets with risk. The rate of contribution is decided on the basis of the rating of the bank.
   - Guarantee Pool is non-fund-based resource created through guarantee contracts of member banks. In case Guarantee Fund is exhausted, the Guarantee Pool is utilised.
   - The banks are rated in three categories viz. A, B and C. Banks rated as A are required to pay regular membership fee and B & C rated banks have to pay higher contribution. Association of German Cooperative Bank manages the IPS. The fund is released to banks based on audit conducted by Auditing Association. BVR also keeps a watch over the banks based on the audit report submitted by Auditing Association. BVR also does surveillance of the banks about the financial heath and detect early warning signals through a comprehensive information system.
   - The IPS provides following types of assistance to member banks.
     - Guarantee for deposits and loans from higher tiers.
     - Financial assistance against loan losses Loans with or without interest.

The conditionality's associated with such assistance are largely in the nature of greater control and supervision over the recipient bank.

4.11 Best Practices for adoption by ARDB

As present, the LTCCS is organised as credit societies with major responsibility of lending in rural areas and limited scope of deposit mobilisation. It is very difficult to find a parallel to the LTCCS in the world arena as the cooperatives elsewhere have graduated to work as a bank. As such, their experiences are not relevant to the LTCCS and serve as a little guide. Still some of the learnings, which can be of some relevance to the LTCCS, are as discussed below.

- The accounting system presently followed by LTCCS should be upgraded for enhanced disclosure and provide a true picture of the financial position of the bank.
- In the Federal Structure, the state level apex society should have proper supervision over the functioning of the Primary Societies through regular inspection and offsite surveillance through a comprehensive reporting system.
- A comprehensive rating mechanism should be introduced for the cooperative structure and borrowing, deposit taking and lending operation should be guided by the rating of the structure.
- An Institutional Protection Scheme (IPS) for ARDBs at National Level may be established with adequate authority to provide protection to ARDBs against financial weakness.
- Deposit Insurance scheme for ARDB should be embedded in the IPS.

The Credit Cooperatives all over the world have managed to stay relevant even in the face of rapid changes in the financial market. It has been remarkable to observe that credit cooperatives have managed to remain insulated from the great banking and financial sector crises in the early twenty first century. By remaining small and localised , the cooperatives have not suffered the volatility of unified financial market, but their nature and scope may progressively edge them out of the market in the long run, if they do not adapt to changes. Hence, strategy needs to focus on inherent strength of cooperative with necessity to build discipline to deal with a complex financial market.

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CHAPTER 5

The Business Performance- Barometer

5.1 Background

a) SCARDBs were established to meet medium and long-term agricultural credit needs of the farmers, as Short-Term Cooperative Credit Structure (STCCS) was unable to meet such demands. In the beginning, the performance of Long-Term Cooperative Credit Structure (LTCCS) was affected by lack of resources. A separate institution namely Agriculture Refinance Corporation (later on renamed as Agriculture Refinance and Development Corporation (ARDC) was established in 1963 to provide them with the financial resources for meeting the medium- and long-term credit requirement of the farmers. The credit requirements of the farmers increased manifold with the launch of Green Revolution. They required credit not only for purchase of agriculture inputs but also for making investments like installation of pump set, digging of bore well, dug well, land levelling and purchase of farm machinery and equipment. The increased prosperity also generated demands for dairy, poultry and other allied activities. With resource support from ARDC and later on NABARD, the loans from LTCCS outstanding against the ultimate borrowers increased three- fold from ₹ 520 crore in the year 1975 to ₹ 1456 crore in the year 1985. (Table 2.1, page 10, Report of the Task Force on Revival of Rural Credit Institutions (Long Term) Vaidyanathan Committee Report for LTCCS, 2005).

b) However, the existence of RRBs for more than four decades and the entry of many private sector commercial banks as also Small Finance Banks later on, have changed the rural credit scenario. The prescription under priority sector lending norms for these agencies to allocate a good share of their resources for meeting the demand of farmers has further crowded the environment. With the advent of new institutions and greater focus of Commercial Banks on agriculture and rural credit, SCARDBs started facing stiff competition for lending to agriculture investment purposes. The banks with access to public deposits and better technology have started eroding the market share of cooperatives, especially LTCCS.

c) The problem aggravated with the launch of Agricultural, Rural Debt Relief (ARDR) Scheme, 1990 as it vitiated the recovery climate, and the borrowers started expecting relief in payment of their dues. As the ill effects of ARDR on these institutions were declining, another round of loan waiver through a national level waiver scheme called “Agricultural Debt Waiver and Debt Relief (ADWDR) Scheme”, 2008 further dampened the recovery environment in the country. Further, in the intervening period, RRBs and Commercial Banks were extended recapitalisation and other policy support for improving their performance. Even STCCS was given financial support based on the recommendations of Task Force on Revival of Rural Cooperative Credit Institutions (STCCS). However, LTCCS could not get any support as the recommendations of the Task Force were not implemented. All these developments affected the loaning operations of the LTCCS.

d) The response to these developments by the LTCCS was on many fronts. The SCARDBs responded by inclusion of new activities for financing like rural non- farm sector and rural housing. Many of the SCARDBs diversified their loaning operations to the extent possible. They also started undertaking some non- credit business to improve their bottom line.

e) As ARDBs needed more resources, they were allowed to mobilise long term deposits on the basis of the recommendation of the Study Group on Mobilisation of Deposits by Agriculture and Rural Development Banks (ARDBs), 1996 headed by Dr. M.C. Bhandari, Executive Director, NABARD. However, Special Development Debentures floated by SCARDBs and subscribed by NABARD, GoI and the State Governments remained the most important source of their funds. They also received funds through the Ordinary Debentures, with financial contribution from Life Insurance Corporation, other cooperative institutions and banks. The deposits and borrowing functions of the LTCCs have been discussed in a separate Chapter on Resource Mobilisation.

f) The funds management also led to investment of their resources in fixed deposits with banks and govt. securities. As a result investment also became an important business of the structure.

5.2 Credit Business

a) The loaning operations are the core of business activities of the LTCCS. The institution came into existence for financing of long term loans for agriculture against the security of mortgage of land. The loaning activities expanded to cover various long-term purposes under allied agricultural activities, rural non-farm sector and rural housing. Over a period, the SCARDBs have also financed various short term loans for both farm sector and non- farm sector. Some SCARDBs have also sanctioned loans for consumption purposes; and even purpose neutral activities against security of gold ornaments.

b) The loaning operations are carried out as per the provisions of the Cooperative Societies Acts, or special Act & Rules governing the SCARDBs and byelaws of the SCARDB/ PCARDBs. Being a cooperative society, the loans are made available to specified "members". The contribution of minimum share capital is mandatory for membership. A system of share linkage is also prevalent in the cooperative system wherein the borrowers must have prescribed proportion of shareholding in relation to the loan amount, generally termed as "share linkage'. This share capital contribution is treated as margin for the loan by many SCARDBs. The activities eligible for finance and the process of sanction are as laid down by the Acts/Rules.

c) The process to be followed for sanction of loans are well laid down. A diagram representing a typical process of sanction of loan is enclosed as Annexure 12. In view of land being offered as the security of loan, the process includes the related aspects of valuation of land and ensuring no encumbrance. There is wide variation in the delegation of authority for sanction of loans in different states. The loan sanctioning powers are vested with bank officials in some States like Punjab and Haryana while in Uttar Pradesh and Gujarat "Loan Sanctioning Committee" comprising of the elected representative, Branch Manager and one or two nominated members for this purpose. In case of Karnataka, the loan proposals of PCARDBs are sanctioned by Branch Managers and other officials upto certain limit but the president of the Board and Executive Committee has also got loan sanctioning powers beyond certain amount of loan. In many cases, the powers delegated to PCARDBs were subject to certain conditions relating to recovery and NPA level. It is interesting to note that in some states like Himachal Pradesh, a public notice has to be given for seven days before sanction of the loans. There are different practices for creation of charge on mortgaged land in favour of the PCARDB/SCARDB ranging from mortgage at branch/ PCARDB to simple declaration (Gehan System in Kerala).

During the field interactions, the functionaries of ARDBs pointed out the limitations placed on these institutions for lending with respect to purposes and, operational issues in affecting the growth of their loan portfolio. These limitation and issues are discussed in following paragraphs.

5.2.1 Eligible Lending Activities

a) The SCARDBs were established with the primary objective of development of land and so initially, they catered to the credit needs of farmers relating to agriculture. The eligible areas for lending included financing for activities relating to land improvement and productive purposes. In order to ensure diversity in the focus between the different forms of cooperative credit structure viz. STCCS and the LTCCS, the SCARDBs were not permitted to lend for shortterm purposes. The LTCCS only provided for medium term and long term loans for agriculture as per the provisions of their Act and bye-laws. The issue of diversification in their lending activities has been engaging the attention for long and the Committee on Cooperative Land Development Banks about half a century ago recommended diversification of lending operations of the LTCCS to cover a broader range of productive activities in agriculture. Since, there existed wide potential for financing in the non-farm sector in rural areas, the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) under the chairmanship of Shri B. Sivaraman recommended lending to the non -farm sector. In order to realign its focus on lending in multifarious activities, the nomenclature for the structure has also undergone change from Land Mortgage Bank to Land Development Bank and further to Agriculture Development Bank and then to the present nomenclature of Agriculture and Rural Development banks (ARDBs).

b) The changes have been incorporated in the States in varying measure with amendment in the Act/ bye -laws to include a number of purposes for lending over a period of time. However, many of them have not kept pace with changing requirements particularly because the change normally requires involvement of the State authorities either in the form of legislative amendment or approval of changes in the bye-laws. This is not to conclude that the improvements effected have been acted upon and the SCARDBs have financed for the new activities made eligible for lending. On the contrary, there are instances that some of the SCARDBs (Tamil Nadu and Puducherry) have changed their nature of financing completely mainly because of non- availability of refinance support from NABARD for want of government guarantee.

5.2.2 Business Diversification – Status and Issues:

a) The SCARDBs have expanded the list of activities for which they can provide loans in order to cater to demands of their members and grow their lending portfolio. The new purposes for which they provide loan are rural housing, consumer loan, education loan, loan for passenger vehicle, personal loan, mortgage loan, medical loan, loan for transport vehicle, gold loan and loans to JLGs. Generally, all SCARDBs have framed schemes for lending to purposes like non-farm sector, rural housing, consumer loans, personal loans, and educational loans. One major requirement for lending is mortgage of agriculture land/ immovable property, which makes it difficult to enhance the portfolios. It is pertinent to note that many rural artisans and others engaged in Khadi, Village and Cottage industries do not have land to offer for mortgage, hence this portfolio has not grown much. The total loan outstanding for the SCARDBs as on 31.03.22 was around ₹21000 crore of which around ₹ 8000 crore was reported under Non- Farm Sector. However, a closer look revealed that the long term loan for such purposes was hardly ₹1600 crore with the balance being for rural housing or other short term purposes. The NFS loan were not evenly distributed (Statistical Bulletin 2021-22 of NCARDBF). The lending to the sector is also restricted in absence of ability to provide working capital finance.

b) Another issue, which has affected the credit flow to the sector, is non-availability of various types of credit guarantee for SCARDBs. The issue has been examined separately in this Report.

c) The credit flow to rural housing sector was also affected as SCARDB could not extend loan beyond 15 years. (For example: Byelaws-Para 29(iv) of HPSCARDB).

d) Most of SCARDBs have not been able to finance JLGs and FPOs in absence of provisions in the Act / bye laws (Rajasthan, Himachal Pradesh, Gujarat, etc). Though there is provision for financing JLGs/FPOs, etc. in the state of UP, the LTCCS (UPSGVB) has not financed them as they continue to insist on security of land. A few PCARDBs in Kerala have financed JLGs.

e) Though SCARDBs have expanded the list of activities, but financing under these purposes is limited as refinance from NABARD for consumer loan, personal loan, mortgage loan, gold loans is not available and these are to be financed out of their own resources. One of the SCARDBs namely UPSCARDB has mobilised concessional resources from National Backward Caste Development and Finance Corporation (NBCDFC) and the National Scheduled Caste Development and Finance Corporation (NSCDFC) against government guarantee to provide loans to its members on concessional rate. This type of tie- up can also be explored by other SCARDBs.

5.2.3 Restrictions on lending for Short Term Purposes

a) Generally, SCARDBs are not allowed to lend for short-term purposes in terms of provisions of the Act and byelaws. It has been a major demand of SCARDBs that they should be allowed to lend for short term purposes especially crop loan and the benefit of interest subvention should also be extended to them. This argument arises from two considerations; one from level playing field with STCCS and another from preserving their business. It was brought to the notice of the Study Team that the existing borrowers of LTCCS when they visit STCCS/other banks for obtaining No Objection Certificate or KCC loans, they are often offered MT/ LT loans and that too on at better terms. This leads to reduction both in the number of clients and the business of the LTCCS. In this regard, the Study Team has observed that bye laws of the Primary Agriculture and Rural Development Banks (PARDBs) in Punjab have been amended enabling them to provide ST-KCC loans. However, none of the PADBs in Punjab have extended KCC loans.

b) The issue, which assumes more importance than even the amendment in Acts and Bye Laws, is availability of short-term resources with the system. In this connection, it is pertinent to mention that though NABARD extends a line of credit for ST lending the same is not available at a concessional rate of interest. Some SCARDBs were allowed by state governments to mobilise deposits based on the guidelines issued by NABARD. However, after introduction of Banning of Unregulated Deposit Schemes Act 2019, NABARD advised banks to seek permission from state governments afresh. Hence, it would be important that these institutions are granted permission to mobilise deposits from their members/ public by the competent authority of the state governments under Banning of Unregulated Deposit Schemes Act 2019 with necessary safeguards. Such scope to mobilise deposit will provide much needed additional resources to LTCCS for providing Loans to its members. The details relating to Deposit have been discussed separately.

5.3 Loaning Operations

a) **Loan Outstanding:** The SCARDB had loan outstanding to the tune of ₹ 21,000 crore as on 31.03.2022. In tune with its objective, the long-term loans under farm sector had major concentration. The details of loan outstanding for the triennium ending March 2022 and the growth rate in different sectors were as under:

Table 5.1: Sector wise Loan Outstanding for the Triennium Ending March 2022 and Growth for the Years Ending March 2021 and March 2022 – SCARDB level (₹ Crore)

Sl. No	Particulars	March 2020	March 2021	Growth (%) March21 vis a vis March 20	March 2022	Growth (%) March 22 vis a vis March 21	Share (%) to Total Outstanding as of March 2022
1	Farm Sector Long Term (LT)	11745.49	11940.83	1.66	12262.69	2.70	58.37
2	Farm Sector Short Term (ST)	54.0708	161.7317	199.11	269.3736	66.56	1.28
3	Rural Housing (NHB / NABARD etc.)	5061.835	5048.578	-0.26	5136.293	1.74	24.45
4	Non-Farm Sector (L. T.)	1775.773	1668.775	-6.03	1687.654	1.13	8.03
5	Other Non-Agl. purposes -LT	496.033	615.8235	24.15	498.6868	-19.02	2.37
6	Other Non-Agl. purposes - ST	1450.188	1337.869	-7.75	1155.624	-13.62	5.50
7	Total	20583.39	20773.61	0.92	21010.32	1.14	100.00
The loans outstanding at SCARDB level during 2017 to 2022 is given in Annexure 13							

The above table shows that the loan outstanding under farm sector long term loans and rural housing together accounted for more than four fifths of the loans outstanding of SCARDBs in the country. However, the loans had marginally grown as it had recorded a growth of only 1% during both the years. The outstanding under farm sector short term loan had, however, shown healthy increase during both the years.

b) Loan Disbursement

The loan disbursement of the SCARDBs projected a picture, which was not identical to their loan outstanding. The average disbursement of the SCARDBs was around ₹ 5000 crore during the triennium-ending year 2021-22. The Sector-wise disbursements of the SCARDBs were as under:-

Table 5.2: Sector wise Loan Disbursement for the Triennium Ending year 2021- 2022 and Growth for the FY 2020-2021 and Financial Years 2021- 2022 – SCARDB level (₹ Crore)

Sl. No	Particulars	FY 2019-20	FY 2020-21	Growth (%) FY 2020-21 over FY 2019-20	FY 2021-2022	Growth (%) FY 2021-22 over FY 2020-21	Share (%) to Total Disbursement as of FY 2021-22
1	Farm Sector Long Term (LT)	1488.50	2041.62	37.16	1978.54	-3.09	38.90
2	Farm Sector Short Term (ST)	59.26	200.54	238.43	459.99	129.37	9.04
3	Rural Housing (NHB / NABARD etc.)	970.54	950.46	-2.07	1094.73	15.18	21.52
4	Non-Farm Sector (L. T.)	358.94	336.06	-6.37	410.75	22.22	8.08
5	Other Non – Agl. purposes -LT	10.76	17.42	61.90	78.31	349.51	1.54
6	Other Non – Agl. purposes - ST	1327.61	1439.59	8.43	1064.23	-26.07	20.92
7	Total	4215.61	4985.69	18.27	5086.54	2.02	100.00
The sector wise loans disbursement at SCARDB level during 2017 to 2022 is given in Annexure 14							

The disbursement by SCARDBs during the triennium ending FY 2021-22 increased from ₹ 4215 crore to ₹5086 crore. The growth rate in disbursements during the year 2021 touched 18% but it declined to 2% during the year 2022.

The disbursements under Farm sector – short term has shown very high growth in both the years, while fluctuating trend was observed in all other sectors. It will not be out of place to mention that only Kerala SCARDB had disbursed loans for short term crop loan to the tune of ₹ 200 crore and ₹ 400 crore during the years 2020-21 and 2021-22 respectively. These loans are against the security of gold ornaments. It is also noteworthy that disbursements under long term (both agriculture, NFS, Rural Housing and non- agriculture) and short term have almost retained the same proportion. The long term and shortterm disbursements constituted two third and one third respectively of the total disbursement during the last triennium. The disbursements under short term indicate that there has been demand for loan for shortterm purposes also from the structure.

c) State -wide Variation

There was wide variation in the loan disbursements among SCARDBs in the country. The disbursements were quite low in many states and there was uneven growth as well. The details of state wise disbursements for the Triennium ending FY 2021-22 was as under:

As can be seen from the above table, the share of Kerala SCARDB in the total disbursements was more than half of the total disbursements during the entire triennium. Tamil Nadu was another State with good share of disbursement exceeding one fifths of the total disbursement during the FY 2019-20 and 2020-21. However, its share declined to 15% in the FY 2021-22. Tripura has not disbursed any loan during the triennium.

The disbursement by each of the SCARDBs in Haryana, Punjab, Puducherry and Jammu & Kashmir has been less than ₹ 100 crore during the triennium. It was distressing to note that the disbursements by Jammu & Kashmir SCARDB have shown continuous decline and touched a low of ₹ 4.77 crore in the FY 2021- 2022. A closer analysis has revealed that the disbursements by the SCARDBs in Punjab, Haryana and Jammu & Kashmir were less than their management costs.

Table 5.3: State wise Loan Disbursement for the Triennium Ending year 2021- 2022 and Growth for the FY 2020-2021 and FY 2021- 2022 – SCARDB level (₹ Crore)

Sl. No.	Name of State/UT	FY 2019-20	FY 2020-21	Growth (%) FY 2020-21 over FY 2019-20	FY 2021- 2022	Growth (%) FY 2021-22 over FY 2020-21
1.	Gujarat	136.52	117.77	-13.74	151.29	28.47
2.	Haryana	72.47	34.96	-51.76	40.44	15.68
3.	Himachal Pradesh	58.09	62.76	8.03	100.62	60.33
4.	Jammu & Kashmir	9.04	7.94	-12.17	4.77	-39.92
5.	Karnataka	275.07	427.16	55.29	456.34	6.83
6.	Kerala	2217.63	2673.94	20.58	2759.03	3.18
7.	Pondicherry	28.02	25.34	-9.56	37.19	46.76
8.	Punjab	12.54	50.78	304.94	92.57	82.30
9.	Rajasthan	79.39	152.73	92.38	152.73	0.00
10.	Tamil Nadu	983.44	1114.14	13.29	768.03	-31.07
11.	Tripura	0.00	0.00	0.00	0.00	0.00
12.	Uttar Pradesh	51.13	23.28	-54.47	247.49	963.10
13.	West Bengal	292.23	294.89	0.91	276.04	-6.39
	TOTAL	4215.57	4985.68	18.27	5086.54	2.02

5.4 Investment

5.4.1 Background

Banks were formed to mobilise deposits and extend loans to the public and investment was not their major function. RBI, as a prudent measure introduced the concept of Cash Reserve Ratio (CRR) to meet their day-to-day liquidity requirements arising out of demand of depositors. It also prescribed Statutory Liquidity Ratio (SLR) where in certain portion of deposits are to be invested outside the business of the banks to meet the liquidity requirements as and when they arise in future. The instruments for such investments have been designed for safeguarding the interest of depositors. The reserve requirements have been prescribed for all types of banks and at present the Banks are required to maintain 4.5 % CRR and 18% SLR. The Scheduled banks are required to maintain CRR with the RBI to ensure safety.

5.4.2 Need for Investment -SCARDBs

a) These regulations regarding CRR and SLR are not applicable to SCARDBs as they are not banks under Banking Regulation Act, 1949.However, they are credit institutions and the need for investment arises out of considerations as under:

i. SCARDBs raise major portion of their resources through borrowings and that too from NABARD. The due date/s for repayment fixed by NABARD (January and July) in respect of its lending varies from the due date/s fixed viz. monthly, quarterly, half yearly and so on by the SCARDBs/ PCARDBs from their borrower. As such, the recoveries made from the borrowers on the due date/s are required to be invested to enable SCARDBs to repay their borrowings in time.

ii. Similarly, SCARDBs/PCARDBs also receive 'advance recoveries or 'foreclosure' of accounts. The amount is parked in short term investments to meet the repayment obligations on future dates.

iii. SCARDBs have been permitted to mobilise term deposits. The deposit mobilisation scheme of SCARDB, approved by NABARD in the year 1997, required them to keep at least 15% of the total term deposits accepted and outstanding on any day in liquid form. The term deposits with the State Cooperative Bank, Scheduled Banks/ NABARD and investment in govt. securities were considered eligible for this purpose. Incidentally, the Banning of Unregulated Deposit Schemes Act,2019 now governs the deposit schemes of SCARDBs.

iv. As per the provisions of Cooperative Societies Act and other legislative enactments, the SCARDBs are also required to maintain different funds like Reserve Fund Deposits (of PCARDBs), Agricultural Credit Stabilisation Fund, Employees Provident Fund and Gratuity Fund. The corpus of these funds are required to be invested outside bank's business requiring them to find suitable avenues for investment of such funds.

v. Of late, there has been emphasis by some of the SCARDBs on their investments function as a means to improve their income.

vi. Earlier, the system of Ordinary Debenture and grace period in repayment (time lag between repayment from borrower and repayment to NABARD) permitted by NABARD also necessitated investment in 'sinking fund'. Both the practices have since been discontinued.

5.4.3 Policy Framework for Investment

a) Recognising the importance of investment functions by SCARDBs, NABARD in the year 2011 has suggested adoption of certain systems and procedures to be followed by these institutions. These guidelines require as under:

- Formulation of Investment policy by the Board
- Constitution of investment committee
- Fixation of prudential exposure limits for different kind of investment
- System of internal control- Proper accounting and audit
- Reporting system-Submission of Half yearly report
- Review by Board

b) The existing guidelines, inter-alia, require them to invest in govt. securities only through primary dealers and the SCARDBs are not permitted to engage brokers for this purpose. The trading in non -SLR bonds and unlisted securities are also not permitted. SCARDBs are also not permitted to invest in Mutual Funds as also in Call Money Market.

c) In view of the risks involved in the investments function, the SCARDBs are expected to initiate actions as suggested by NABARD to manage their risks.

d) NABARD undertakes rating of SCARDBs during the inspection of banks based on CAMELSC approach. This approach accords substantial weightage to earnings and liquidity performance of the banks. The rating framework earmarks 5 marks for performance of the SCARDBs in respect of its investment function.

e) During the course of interaction of the Study team with the NCARDBF and the individual SCARDBs, there have been demands for relaxation in some of the norms (participation in call money market and investment in mutual funds) to enable SCARDBs to explore more avenues for maximizing their returns.

5.4.4 Adherence to Guidelines

a) During the course of field visits, it was observed that some of the SCARDBs viz. Gujarat, Punjab, Himachal Pradesh, Rajasthan, Uttar Pradesh, Karnataka and Kerala have framed investment policies and also had an Investment Committee. Some SCARDBs like Gujarat and Karnataka were regular in review of the investment policy. The investment committee (Kerala, Karnataka) also met regularly and explored the possibility of securing a higher rate of interest for their deposits. However, in some cases, the formulation of policy was a mere routine affair. In fact, a few SCARDBs viz. Haryana and West Bengal had not even framed any such investment policy. Both these States had investments and in case of West Bengal, such investments were also in avenues other than fixed deposits.

b) Some of the SCARDBs viz. Karnataka, Punjab and Himachal Pradesh have fixed exposure limits in respect of investments to be made in a single institution.

c) In a nutshell, the systems and procedures adopted in respect of investment function were found to be considerably weak and require improvement. Another aspect which was brought out during discussions, was that the investment function was generally looked after by the functionaries who were not professionally qualified to handle investments. The financial viability and sound financial management of the LTCCS have always been a cause of concern. It was based on this realization that NABARD had suggested appointment of a qualified Financial Analyst way back in the year 1995 in the SCARDBs. NABARD had offered even financial assistance for the purpose.

5.4.5 Investment Portfolio

a) The investment portfolio constituted about 10 % of the core outstanding business (Loans and investment) assets of the SCARDBs in the country as on March 2022. The position of SCARDB wise investment for the triennial ending year 2022 and the growth rate was as indicated in Table 5.4 below:

Table 5.4: SCARDB -wise Investment for the Triennial Ending Year 2022 and the Growth Rates (₹ In Crore)

Sl. No.	Name of SCARDB	March 2020	March 2021	Growth rate %	March 2022	Growth rate %
1	Kerala	1042.95	430.79	-58.7	562.68	30.62
2	Gujarat	525.49	581.97	10.75	545.27	-6.31
3	Karnataka	137.96	339.46	146.06	286.52	-15.6
4	Punjab	162.58	272.13	67.38	285.92	5.07
5	Uttar Pradesh	222.34	270.05	21.46	247.67	-8.29
6	Tamil Nadu	167.57	134.07	-19.99	237.17	76.9
7	West Bengal	78.04	101.55	30.13	145.37	43.15
8	Rajasthan	29.13	93.29	220.25	60.29	-35.37
9	Himachal Pradesh	45.05	73.23	62.55	78.26	6.87
10	Jammu & Kashmir	63.88	56.23	-11.98	37	-34.2
11	Haryana	18.4	18.66	1.41	18.91	1.34
12	Pondicherry	3.6	4.1	13.89	3.75	-8.54
13	Tripura	1.71	1.71	0	2	16.96
	Total	2556.52	2370.91	-7.26	2510.82	5.9

Source: NCARDBF Statistical Bulletins and NABARD RO

b) It may be observed from the Table above that the size of investments portfolio was ₹ 2511 crore as on March 2022 with six SCARDBs viz. Gujarat, Kerala, Karnataka, Punjab, Uttar Pradesh and Tamil Nadu accounting for more than three fourths of the total investments of SCARDBs in the country. Gujarat and Kerala had a lion's share accounting for 44% of the total investments. The total investments of SCARDBs, which was ₹ 2556.52 crore as on March 2020 has not yet reached that level after the decline as on March 2021. The decline in total investment as on March 2021 was largely attributed to the massive depletion (59%) of investment in case of Kerala SCARDB. There was increase in investments in respect of many SCARDBs as on that date.

c) The investments of SCARDB as a whole increased by only 6% as on March 2022, contributed largely by Kerala, Tamil Nadu and west Bengal.

5.4.6 Investment Pattern

a) Bank deposits

SCARDBs have been allowed to make investments in bank deposits, government securities and the shares of cooperative institutions. However, the fixed deposit with banks, particularly commercial banks was the most preferred choice. The reason for this preference was the prescription for investment of many of the statutory funds outside their business with safety of the fund being the primary concern. There was a level of comfort in placing such deposits with commercial banks compared to the cooperative banks. It was a preferred option also because of availability of term deposits for varying maturity periods, the facility of auto renewal and ease of overdraft against deposits. The frequent change in the rate of interest effected by commercial banks on deposits provided them an opportunity at times to improve their interest earnings as well. The total investments of the bank, bank deposits and its share as on 31.03.2022 was as indicated in Table 5.5

Table 5.5: SCARDB -wise Investment, Bank Deposits and its Share- March 2022 (₹ In Crore)

Sl. No.	Name of SCARDB	Total Investment	Bank Deposits (Out of Total Investment)	Share of Bank deposit to total investment (%)
1	Kerala	562.68	556.35	98.88
2	Gujarat	545.27	482.89	88.56
3	Karnataka	286.53	285.31	99.57
4	Uttar Pradesh	247.67	247.08	99.76
5	Tamil Nadu	237.17	226.60	95.54
6	West Bengal	145.37	142.64	98.12
7	Punjab	285.92	285.64	99.90
8	Rajasthan	60.29	60.00	99.52
9	Himachal Pradesh	78.26	78.18	99.90
10	Jammu & Kashmir	37.00	36.99	99.97
11	Haryana	18.91	18.78	99.31
12	Pondicherry	3.75	2.68	71.47
13	Tripura	2.00	2.00	100.00
	Total	2510.82	2425.14	96.59

Source: NCARDBF Statistical Bulletins and NABARD RO

It may be seen that the bank deposits constituted 97% of their total investment. Most of the SCARDBs (9 out of 13) had placed almost their entire investments (around 99%) in this instrument.

b) Investment in shares of Cooperative Societies

SCARDBs being a cooperative society are permitted to invest in shares of cooperative institutions. Being a member of the State cooperative Bank, the membership of SCARDB requires contribution to the share of StCB and the SCARDBs had invested for this purpose. Besides, IFFCO and KRIBHCO, the two giants in the cooperative sector paying regular dividends, have mobilised share contribution from all the SCARDBs. Still, the total investments of SCARDBs in shares of cooperatives were below ₹ 10 crores. However, this investment varied widely and was made in many societies, which had not paid any dividend over the years, or the cooperative societies had become defunct. Some of these cooperative societies were Pariyaram Medical College (Kerala), National Film and Fine Arts Cooperative Ltd. (West Bengal), National Film Cooperative Society (Haryana), Cooperative Housing Apex Society (Haryana) and so on. A substantial amount of investments in shares of cooperative societies (other than those in IFFCO, KRIBHCO and State Cooperative Bank) has become unrealizable.

c) Investment in Govt. Securities

The investment of SCARDBs in govt. securities at ₹62.22 crore was undertaken almost entirely by the Gujarat SCARDB which had invested ₹62.20 crore in such securities. Tamil Nadu SCARDB was the only other SCARDB to have invested in such instruments.

d) Others

The other investments of the SCARDBs primarily included investments made in the ordinary debentures of other SCARDBs and remaining outstanding (Punjab, Himachal Pradesh). All such investments were unrealizable.

5.5 Non-Credit Business

a) During our visit, the Study Team has observed that some SCARDBs have taken initiatives to generate income through non -credit business in Gujarat, Tamil Nadu, Karnataka and Puducherry SCARDBs. Karnataka and Puducherry have provided safety locker facility in their branches.

b) UPSCARDB has leveraged its training infrastructure and enrolled as State Training Partner for Skill Development Mission of the state.

CHAPTER 6

Resource Mobilisation – Limited Options

6.1 Introduction

The Long Term Cooperative Credit Structure (LTCCS) has been operating as a credit cooperative with exclusive focus on providing term credit for agriculture. As the entity is functioning as a non-banking financial cooperative, the resource base of ARDBs has been limited and they fund their operations largely from borrowings. The own funds and the deposits mobilised from their members, also form part of their resources. The limited resources had inevitably led to low business levels, notwithstanding the continuously increasing demand for credit. In this context, the need for strengthening the resource base, for increasing their levels of business hardly requires any emphasis. Apart from the quantitative aspects of the resource being mobilised by ARDBs, the cost and tenorof resources have influenced the operational efficiency of these banks.

6.2 Sources of Funds

a) The resource base of ARDBs comprise of three major sources viz. own funds, borrowings and deposits. The position of these sources as on March 2022 was as under:

Table 6.1: SCARDB wise sources in Resource Mobilisation – March 2022 (₹ in Crore)

Sl. No	Name of SCARDB	Own Funds	Borrowings	Deposits	Total
1	Gujarat	672.71	118.18	238.10	1028.99
2	Haryana	520.06	1181.08	3.46	1704.60
3	Himachal Pradesh	44.57	245.79	241.99	532.35
4	Jammu & Kashmir	31.94	6.16	164.65	202.75
5	Karnataka	188.53	1250.44	484.31	1923.28
6	Kerala	728.21	6151.13	303.68	7183.02
7	Puducherry	9.71	3.50	77.55	90.76
8	Punjab	445.53	1479.62	248.95	2174.10
9	Rajasthan	277.87	975.09	2.38	1255.34
10	Tamil Nadu	1065.28	70.21	299.57	1435.06
11	Tripura	9.79	1.01	0.00	10.80
12	Uttar Pradesh	796.34	854.49	30.52	1681.35
13	West Bengal	75.99	1025.55	252.69	1354.23
	Total	4866.53	13362.25	2347.85	20576.63

Source : NCARDBF Statistical Bulletin, 2021-22 (Provisional)

It may be observed from the Table 6.1 above that Kerala SCARDB alone had more than one third of the resources of the SCARDBs in the country. Punjab and Karnataka also had large share in the resources (9-10% each). However, the SCARDBs in Tripura, Jammu & Kashmir and Puducherry had very meagre resources. The borrowings were the biggest source of resources of the SCARDBs and constituted 65% of the total resources. The own funds (consisting of paid up capital and reserves) and deposits contributed the balance 24% and 11 % respectively of the resources. The deposits of the SCARDBs is largely concentrated in select states viz. Karnataka, Kerala, Tamil Nadu, Punjab, Himachal Pradesh, Gujarat and West Bengal.

6.3 Analysis of share of sources in Triennial ending 2021-22

In order to have a deeper understanding of the different sources of funds, it is necessary to analyse the share of these resources. In the following paragraphs, an attempt has been made to arrive at the relative share of these sources during triennial ending the year 2021-22. The relative share of the various sources in respect of individual SCARDBs was as indicated in Table 6.2:

The analysis of the share of different sources revealed as under:-

a) Own Funds

In majority of the SCARDBs (8 out of 13), the contribution of own fund in the total resource is less than 20%. The share of own funds was quite high in case of Tripura, Tamil Nadu and Gujarat SCARDBs and the main reason for such a situation was their ineligibility to borrow from NABARD due to various reasons. Further, the State govt. contribution to the share capital was quite high in respect of both the SCARDBs. Tripura had a share capital assistance of State govt. to the tune of ₹ 8.65 crore against the total loan outstanding of ₹ 9.71 crore as on March 2022. Tamil Nadu had outstanding share capital of the State Govt. of ₹ 15.79 Crore, second only to Jammu & Kashmir in the country on that date. Gujarat SCARDB had strengthened its own funds based on their past financial performance and the share of own funds exceeded half of their resources.

Table 6.2: SCARDB wise Average Share (%) of Sources in Resource Mobilisation during Triennial ending Year 2021-22

Sl. No	Name of SCARDB	Share (%) in Total Resources			Total (%)
		Own Fund	Borrowings	Deposits	
1	Gujarat	50.29	17.85	31.86	100.00
2	Haryana	26.77	72.97	0.27	100.00
3	Himachal Pradesh	10.84	60.61	28.55	100.00
4	Jammu & Kashmir	16.00	3.06	80.94	100.00
5	Karnataka	6.92	64.22	28.86	100.00
6	Kerala	8.25	86.04	5.71	100.00
7	Pondicherry	17.10	5.58	77.32	100.00
8	Punjab	14.11	69.42	16.47	100.00
9	Rajasthan	18.45	81.53	0.02	100.00
10	Tamil Nadu	70.75	5.73	23.52	100.00
11	Tripura	93.65	6.35	0.00	100.00
12	Uttar Pradesh	36.78	60.41	2.81	100.00
13	West Bengal	4.29	76.96	18.75	100.00

Note : Average arrived at on the basis of figures for 3 years viz. 2019-20, 2020-21 and 2021-22) Source of Data : NCARDBF

b) Borrowings

The borrowings from NABARD has always been the biggest source of resources for the SCARDBs in the country. However, as NABARD, refinance is subject to certain terms and conditions, all the SCARDBs were not eligible for refinance. Some of the SCARDBs viz., Tamil Nadu, Jammu & Kashmir and Puducherry had no outstanding borrowing from NABARD. However, in case of 08 SCARDB out of 13 borrowings was more than 60% of their overall resources. Only in case of Gujarat, the dependence on borrowings has been reduced due to generation of own resources.

c) Deposits

In spite of limited scope for deposit mobilisation, some SCARDBs had mobilised considerable amount of deposits as indicated in Table 6.2. However, the share of deposits in the total resources was very high in case of SCARDBs like Jammu & Kashmir and Puducherry, largely because of their ineligibility to borrow from NABARD. The share of deposits in respect of Gujarat, Himachal Pradesh, Karnataka and Tamil Nadu was also substantial. Though Kerala had mobilised the second highest deposit in the country, its share in total resources was less than 6%. The share of deposit in total resources also exceeded 15% in case of Punjab and West Bengal.

It is evident from the analysis of the sources of funds that true to the traditional nature of the ARDBs, the borrowing continues to be the predominant source. A detailed analysis of the individual components of resource in the following paragraphs will throw more light on the resource mobilisation pattern of ARDB and its impact on the overall operational efficiency.

6.4 Details of Various Sources

Share Capital

a) The mobilisation of share capital in both federal and unitary structure is guided by the Cooperative Societies Act and provisions of bye laws. The share capital was contributed by the following in both SCARDBs and the PCARDBs:

- State Government
- Individuals
- Others (Affiliated Coop. Societies, Institutions)
- PCARDBs (In case of SCARDBs in federal character)

Since some of the SCARDBs in Federal structure were disbursing loans directly to the individuals directly (through their branches), they had received some share capital from individuals. Likewise, the PCARDBs being organised at Taluka/ District level, a few primary cooperatives had contributed to the share capital of PCARDBs.

b) The bye-laws of a cooperative society require some minimum amount of share to be subscribed by each person to become a member of the society. Accordingly, all the members in the LTCCS had paid share capital to be a member. The amount paid in this regard is retained by the society till cessation of the membership. Further, the borrowing members are required to subscribe to specified amount of share capital as a percentage of the loan amount (known as share linkage). Like any other credit cooperatives, the amount contributed by the borrowing members is the mainstay of the entire share capital of the LTCCS, irrespective of nature of the structure. The share capital contributed as part of loan transaction was not perpetual. Hence, after repayment of the loan, the members were permitted to redeem the share capital as per the provisions of the bye laws.

c) The State partnership in cooperatives has been a major policy for development of agriculture and rural areas. In order to promote the cooperatives, State Government has contributed to the share capital of the ARDBs. There are enabling provisions in the Act for such contribution but there is no obligation as such for the State Govt. to hold any minimum share. The provisions in some states restrict the maximum proportion of share to be held by the State govt. Some of the States also insisted upon repayment of share capital contributed by them as per the terms of the sanction. There are instances where the State Govt. insist on their grant assistance to be treated as share capital contributed by them. Vaidyanathan

Committee had recommended limited participation in the share capital as well as management of the cooperative credit institutions.

d) In a federal structure, as members of the SCARDB, the PCARDBs subscribed minimum share capital required to obtain membership and also the share capital amount required as share linkage for their borrowings from SCARDB.

e) In order to maintain relationship and undertake financial transactions, other cooperative societies/ institutions also contributed to the share capital of the LTCCS.

f) In States like Haryana, Punjab, Kerala, Karnataka, Rajasthan and West Bengal which are under federal structure, the share linkage for contribution of share capital by PCARDB in SCARDB varied from 1% in case of Haryana to 3.3% in West Bengal. The stipulation was 2% in Rajasthan and 3% in case of Kerala, Punjab and Karnataka. The share linkage for ultimate borrower, irrespective of the nature of structure, was generally 5% of the loan amount. The maximum ceiling of amount was also stipulated in States like Kerala for Non-Farm Sector and Housing loan.

Composition of Share capital

The composition of share capital held by State Govt. and others in the SCARDBs in both structures i.e. Unitary and Federal (includes West Bengal and Himachal Pradesh) and the PCARDBs are discussed in following paragraphs: -

SCARDBs - Unitary Structure

a) The share capital mobilised by the SCARDBs in Unitary Structure was largely because of their own efforts as their lending was directly to the borrowers. The direct lending also ensured that they retained the entire amount of capital contributed by the ultimate borrowers with themselves. The composition of share capital in respect of such SCARDBs was as presented in Table 6.3.

b) It may be observed from the Table above that the two biggest banks in this structure had absolutely no contribution from the State Govt. in their share capital. The remaining 03 SCARDBs, which had very limited operations, had their majority share contribution from the State Govt. The state govt. contribution in the entire unitary structure was only to the extent of 9%.

Table 6.3: Average Share Capital Contribution for the Triennial ending Year 2021-22 - Unitary Structure (₹ in Crore)

Sl. No.	Name of SCARDB	Average Share Capital Contribution for the Triennial			
		State Government	Individuals, etc.	Total	Share (%) of State Govt Contribution to Total
1	Gujarat	0.00	43.44	43.44	0.00
2	Uttar Pradesh	0.00	279.12	279.12	0.00
3	Tripura	2.90	0.35	3.25	89.23
4	Jammu & Kashmir	26.40	3.47	29.87	88.38
5	Pondicherry	3.60	1.58	5.18	69.50
	Total	32.90	327.96	360.86	9.12

Note: Average worked out based on figures for 2019-20, 2020-21 and 2021-22. Source of Data -NCARDBF

SCARDBs – Federal Structure

a) The PCARDBs, which acted as an intermediary to finance the ultimate borrowers, were the major contributor to the share capital of SCARDBs in federal/ mixed structure. However, this was not entirely applicable in the case of Himachal Pradesh SCARDB, which had only one PCARDB affiliated to it. The PCARDBs collected the share from the ultimate borrowers. Since the resources of PCARDBs were almost entirely borrowed from the SCARDBs, they contributed to the share capital of SCARDB, in the specified proportion (at the time of borrowing), out of the amount of share capital received from the ultimate beneficiaries. A small amount was also collected from individual borrowers who were provided finance directly through the branches of SCARDB. The composition of share capital in respect of such SCARDBs was as presented in Table 6.4.

b) State Government contribution in the share capital of SCARDBs in this structure was comparatively lower than the unitary structure. The share of State Govt. contribution was high in respect of Tamil Nadu and Haryana, exceeding 30% of the total amount. There was appreciable contribution in respect of the SCARDBs in mixed structure viz. Himachal Pradesh (11%) and West Bengal (9%). The contribution in remaining SCARDBs was low.

Table 6.4: Average Share Capital Contribution for the Triennial ending Year 2021-22 - Federal Structure (₹. in Crore)

Sl. No.	Name of SCARDB	Average Share Capital Contribution for the Triennial			
		State Government	PCARDB, Individuals & Others	Total	Share (%) of State Govt Contribution to Total
1	Haryana	13.20	30.46	43.66	30.23
2	Himachal Pradesh	3.00	23.17	26.17	11.46
3	Karnataka	1.20	85.33	86.53	1.39
4	Kerala	0.10	216.74	216.84	0.05
5	Punjab	0.50	78.37	78.87	0.63
6	Rajasthan	1.90	38.22	40.12	4.74
7	Tamil Nadu	15.80	33.64	49.44	31.96
8	West Bengal	3.90	38.67	42.57	9.16
	Total	39.60	544.60	584.20	6.78

Note: Average worked out based on figures for 2019-20, 2020-21 and 2021-22.
Source of Data -NCARDBF

PCARDB

a) The PCARDBs being the ground level institution had paid up capital more than the SCARDBs, as most of the lending of the SCARDBs in federal structure was through the PCARDBs. Both the state govt. and the individuals had contributed to the share capital of the PCARDBs in substantial measure. The details of contribution were as indicated in Table 6.5.

b) The amount of contribution of the State Govt. in respect of PCARDBs in Haryana and Rajasthan was quite substantial. However, the share of State Govt. contribution in the paid-up capital of PCARDBs in Kerala and Punjab was "nil'. Himachal Pradesh and Karnataka had also less than 5% share of State Govt. in the paid-up capital. Tamil Nadu and West Bengal had State govt. contribution exceeding 10%.

It may be observed that the state govts. of Haryana and Tamil Nadu had provided substantial capital support to LTCCS as evident from their amount of contribution both to the SCARDBs and the PCARDBs in these two states.

Table 6.5: Share Capital Contribution by State Govt. and Individuals & Others - March 2022 (₹. in Crore)

Sl. No.	Name of the State	Share Capital Contribution as on March 2022			
		State Government	Individuals & Others	Total	Share (%) of State Govt. Contribution to Total
1	Haryana	26.10	59.99	86.09	30.31
2	Himachal Pradesh	0.32	9.91	10.23	3.16
3	Karnataka	3.34	211.51	214.85	1.55
4	Kerala	0.00	363.25	363.25	0.00
5	Punjab	0.00	139.09	139.09	0.00
6	Rajasthan	20.18	75.36	95.54	23.12
7	Tamil Nadu	11.87	69.10	80.97	14.66
8	West Bengal	11.15	91.66	102.71	10.84
	Total	72.96	1019.87	1092.83	6.68

Issues

- The capital for cooperative credit institutions has assumed importance not only for resource generation but to act as a buffer for absorbing economic shock and remain stable as a financial institution.
- Consequent upon advisory issued by NABARD to adopt and apply IRAC norms in ARDB, the minimum capital requirement in the form of CRAR has been made applicable.
- As may be seen from the data presented in earlier paragraphs, the major part of the capital has been contributed by members as membership fees and contribution to capital through share linkage while availing loan. This insistence on share capital contribution in a particular proportion to the loan has proved disadvantageous for ARDBs to market their credit products. There is absence of any such financial stipulation for sanction of loan by the financial agencies outside cooperative fold viz. Commercial Banks, RRBs and NBFCs.
- In view of lack of profitability, the share capital contributed by members generally remained as dead investments without payment of any dividend. So, the members prefer to generally withdraw their share once the loan is repaid. Such redemption of shares creates volatility in the share capital base of ARDBs.

Borrowings

a) The Long Term Cooperative Credit Structure (LTCCS) has been primarily dependant on refinance support and since 1948 various institutions have subscribed its debentures. In 1948, for the first time RBI subscribed to the debenture floated by erstwhile Land Mortgage Banks (LMB). In 1953, Government of India also agreed to subscribe 20% of the total debenture floated by LMB and in the year 1967 State Government also joined hands to subscribe to debenture of LMB. In the year 1963, a specialised corporation called Agricultural Refinance Corporation (ARC) was set up by RBI to provide financial assistance to LTCCS. Apart from purely refinance support, ARC was also involved in promotional and developmental role. In the year 1975, ARC was renamed as Agricultural Refinance and Development Corporation (ARDC). Moreover, to bring greater relevance to the development of agriculture, Land Mortgage Bank was renamed as Land Development Bank (LDB). Several policy decisions were taken by ARDC to increase refinance to Land Development Banks, which also included project, based lending in agriculture. After formation of NABARD, the refinance function to LTCCS was taken over by NABARD.

b) Floatation of special development debenture has been the usual mode of borrowing for the SCARDB as per the provisions governing their functioning. Accordingly, NABARD had been providing refinance to the SCARDB in the LTCCS, by way of subscription to the debentures floated by them . The borrowing for schematic lending made by SCARDBs was secured through Special Development Debentures (SDD). NABARD has been the biggest contributor to these SDDs (90% or 95%) with the balance amount being subscribed by the Government of India and the concerned State Government in equal proportions. Ever Since in the introduction of loaning system (instead of subscription to debenture) in the year 2011 for providing refinance by NABARD for SCARDBs, contribution by Govt. of India and State Government has been discontinued.

c) NABARD refinance to LTCCS is subject to compliance with various eligibility norms in respect of financial performance of the SCARDBs and the type of loan financed by the SCARDBs. As such all the SCARDBs were not in a position to avail NABARD refinance and that too in respect of their entire loaning portfolio.

d) SCARDBs have been borrowing from commercial banks, State Cooperative Banks, National Cooperative Development Corporation, National/State level finance Corporations, etc. Such borrowings have been for the purpose of their normal lending as also to manage their liquidity. SCARDBs have also borrowed from the State Govt. in some cases.

e) The details of SCARDB-wise borrowing for last 3 years is indicated in Annexure 15. An analysis of the data indicates that the SCARDB in Kerala, Punjab and Rajasthan have borrowed substantially from State Cooperative Bank and other commercial banks along with borrowing from NABARD. This is largely due to restricted eligibility of their borrowing from NABARD in respect of their lending and also to meet their liquidity requirement. The state wise borrowing portfolio analysis reveals that most of the SCARDB have resorted to borrowing from State Government, State Cooperative Bank and Other Commercial Banks for liquidity management. Only Himachal SCARDB had loan outstanding from NCDC.

f) The PCARDBs generally borrow from the SCARDB. At times, they also resort to short term borrowings from the Commercial Banks against term deposits kept with them. The details of borrowings of the SCARDB during last three years is given in the Table 6.6 below:

It may be observed from the Table 6.6 that there was increasing trend in the share of borrowings from NABARD and it formed 45% of the total borrowing of the SCARDBs during 2021-22

Table 6.6: Borrowings of SCARDB in last Triennial Ending 2021-22 (₹. in Crore)

Sl. No.	Year	NABARD	Others	Total	Share (%) of NABARD to Total
1	2019-20	2034.76	5728.64	7763.40	26.20
2	2020-21	2975.55	5585.61	8561.16	34.75
3	2021-22	2741.10	3293.32	6034.42	45.42

Source : NCARDBF

NABARD Refinance

NABARD has introduced a risk assessment model for sanction of refinance to the SCARDBs. The eligibility is subject to risk assessment done for individual SCARDBs and categorized into various Risk categories as per its risk assessment module. Depending upon the category, the top categories are provided refinance to the extent of their lending subject to overall allocation for the State and /or bank. The refinance is restricted to in those SCARDBs who are placed in lower categories, while those SCARDBs in lowest categories are not considered for refinance support. The refinance is available for almost all types of productive activities in Farm and Non Farm sector. An important aspect of NABARD refinance is its availability against security of guarantee of the State Govt. In case State Govt guarantee is not available, alternatively the refinance is also allowed against security of the pledge of approved securities or Fixed Deposit in Scheduled Banks. The repayment period for NABARD refinance ranges from 18 months to 15 years depending on the type of activities financed by the bank. The due date for repayment of principal and interest is half yearly. The rate of interest charged by NABARD depends on the tenure of the loan and is quite high. The SCARDBs are also provided refinance out of the special fund viz. Long Term Rural Credit Fund (LTRCF) at a concessional rate with maximum repayment period of 5 years. NABARD also has a policy for providing refinance for crop loan disbursement of the SCARDBs. A separate line of credit to SCARDB from NABARD is also available for financing PCARDB to establish Multi Service Centre.In order to provide some grace period in repayment of refinance to NABARD, SCARDBs were allowed additional two years vis-a-vis repayment period fixed by SCARDBs to their borrowers. This has since been discontinued.

Issues

a) As ARDBs are credit cooperative societies, their options are limited to raise fund from the public at an interest rate which is competitive. In order to address the problem, banking license to them has been one of the options considered by various committees.

b) Traditionally, NABARD has been the principal lender to ARDBs and over the years due to greater integration within the financial market , the scope for concessional refinance is getting limited. The cost of NABARD's refinance is increasingly becoming market driven and the cost of borrowing for ARDB is not leaving adequate margin for covering its various cost , especially risk cost in the context of uncertain recovery climate in agriculture sector.

c) In order to address this problem, a suitable external rating system may be established for credit cooperatives so that these entities will have wider option to borrow from different players in the market. The credit cooperatives will also be compelled to confirm to benchmarks of financial performance normally acceptable in the larger financial markets. A mention may be made in this regard that Kerala SCARDB has obtained credit rating from CRISIL for availing credit facility from commercial bank.

Deposits

a) RBI mooted the idea of deposit mobilisation by ARDBs in the year 1971 after the efforts of the LTCCS to mobilise resources through Rural Debentures did not receive the desired response. The RBI scheme provided for acceptance of deposits from non- borrowing members and public with a tenure of 1 to 2 years and the rate of interest as applicable for State Cooperative Banks. However, this did not make much headway because of mismatch in the tenure of loan vis a vis restriction on tenure of deposit and absence of adequate financial margin because of regulated interest rate regime (Bhandari Committee,1996).

b) The onset of liberalisation in financial sector , deregulation in interest rates coupled with diversification of loan portfolio of ARDBs resulted in the need for greater mobilisation of resources and deposit mobilisation was found to be a better option for ARDB to mobilise resources in flexible terms. It was in this background that The Study Group on Mobilisations of Deposits by ARDB headed by Dr M C Bhandari, Executive Director, NABARD examined the issue. The recommendations of the committee culminated in issue of fresh guidelines for deposit mobilisation by ARDB in the year 1997 by NABARD, in consultation with RBI (NABARD Circular Ref No IDD.LDB./086/B.4(A)/97-98 dated 26 August 1997). These guidelines generally continued to govern the deposit mobilisation of the structure till recently. The salient features of these guideline were as furnished below:-

- The minimum tenure of deposit was one year with total deposit accepted or outstanding not exceeding net owned fund of the SCARDB.
- The term deposits included instrument of similar nature and there was freedom in respect of rate of interest paid on those deposits.
- The deposits had the facility of loan against the same and facility for giving nomination.
- The ARDBs were required to maintain 15 % of the total deposit in specified manner for liquidity.
- PCARDB was allowed to mobilise deposit as agent of SCARDB for first two years before they mobilise deposit on their own.

These guidelines provided greater operational freedom and some comfort to the depositors.

Progress in Deposit Mobilsation

a) The SCARDBs in unitary structure mobilised deposits through their branches. Further, in some of the SCARDBs in federal structure viz. Kerala and Punjab, the PCARDBs collected deposits as agent of the SCARDB. The deposits mobilised from members and public constituted a sizeable portion of their resources. However, the deposit portfolio of the ARDBs has experienced more or less uneven growth over the time as indicated in Table 6.7:

b) It may be observed that there was uneven trend in deposit mobilisation during the quinquennial ending year 2021-22. The deposit outstanding at the end of each year has not shown any considerable increase.

c) The PCARDBs in Karnataka, West Bengal, Himachal Pradesh and Tamil Nadu mobilised deposit independently based on guidelines issued by Registrar, Co-operative Societies of the concerned state. These guidelines generally incorporated conditions relating to the profitability of the PCARDBs, maintenance of Reserve Fund/ Fluid Reserve with the SCARDB and so on. The SCARDBs/ PCARDBs claimed to be following the guidelines as applicable to them, though our field level interaction raised doubts about the same.

Table 6.7: Deposit Mobilised by the SCARDBs during the Quinquennial ending year 2021-22 (₹ in Crore)

Year	2017-18	2018-19	2019-20	2020-21	2021-22
Deposit Mobilised during the Year	1546.16	1205.27	1221.38	1305.97	1632.28
Deposit outstanding at the end of the year	2157.37	2177.06	2389.39	2236.01	2347.85

Source : NCARDBF Statistical Bulletins

d) The Banning of Unregulated Deposits Scheme Act, 2019 provides for regulation of deposit schemes of cooperative societies by the State Govt. It casts responsibility upon the State Govt. to nominate "Competent Authority" who would approve the Schemes to be implemented by such societies. There was no perceptible action at the ground level to ensure implementation of the Act in the states. The SCARDBs in Himachal Pradesh, however reported to have its deposit scheme approved by the State Govt.

e) As regards customer protection through deposit guarantee, only in Kerala, the deposits of ARDB are covered under a Deposit Guarantee Scheme promoted by the State Government. It was reported that a similar scheme was in existence in Tamil Nadu for Cooperative societies, but the PCARDBs had not ensured coverage of their deposits.

Issues

a) ARDBs are in the business of lending and require periodic liquidity support for lending, servicing their debts and defray their administrative expenses. The borrowings cannot be the major source of funds for sustenance and development of a financial institution. The repayment of their loans from the ground level also can not exactly match with their fund requirement. Deposit is the only logical choice.

b) The State Governments have not initiated necessary action under the BUDS Act, 2019.

c) ARDBs have also not fully internalised the mechanism of proper pricing of deposits to make deposit an efficient source for mobilising resources.

d) Though ARDBs have issued guidelines to branches to comply with KYC and AML norms, the level of compliance is far from satisfactory.

e) The Deposit Schemes lack the necessary prudential measures to protect the interest of the depositors.

6.5 Income, Cost and Margin

The main business of the SCARDB was loaning operations and hence income from loaning operations was a major source of income for them. The borrowings constituted the major portion of resources for the SCARDBs in the country and that too largely from NABARD. The rate of interest charged by NABARD from the SCARDBs was quite high vis a vis other agencies and varied quite frequently. The PCARDBs (in federal structure) borrowed from the SCARDBs, which charged interest from them with a margin of maximum 1% over the interest charged by NABARD. The PCARDBs practically had no option to borrow from any agency other than SCARDB. The structure mobilised small amount of deposits, that too only in some states. The cost for such deposits was reasonably high as the deposits were in the form of term deposits. The PCARDBs generally mobilised deposits on commission basis and hence could only make use of the small commission that they received in this regard.

The majority of the total resources were primarily deployed in loans and advances. The investments were primarily in deposits with banks.

Income and Expenditure - Analysis

The major source of income of LTCCS is from their loaning operation, though income from investments also constituted important part of their total income in case of some of the SCARDBs. The details in this regard are as under:

Table 6.8: SCARDB wise Total Income, Total Expenditure and Cost of Management (CoM) Year 2021-22 (₹ in Crore)

Sl. No.	Name of SCARDB	Income	Expenditure	of which CoM
1	Gujarat	95.87	40.14	30.18
2	Haryana	37.75	49.60	20.02
3	Himachal Pradesh	47.52	40.44	16.75
4	Jammu & Kashmir	7.32	28.26	12.49
5	Karnataka	177.52	139.78	24.52
6	Kerala	995.63	590.89	95.17
7	Pondicherry	7.57	6.01	2.74
8	Punjab	293.19	236.74	92.67
9	Rajasthan *	151.27	87.72	10.06
10	Tamil Nadu	112.52	47.24	16.02
11	Tripura *	2.52	2.05	1.87
12	Uttar Pradesh	419.63	414.70	199.24
13	West Bengal	107.07	90.04	8.96
14	Total	2455.38	1773.61	530.67
Source : NCARDBF – Figures in case of Rajasthan and Tripura relate to previous year				

- A major portion of the income was from loans and advances. The financial cost was largely accounted for by interest on borrowing availed for their operations. It may be observed that the cost of management formed an important part of total expenditure of the SCARDBs. In addition, they were also required to provide for shortfall in provision towards NPA in respect of their assets, which in many cases was not calculated properly by the SCARDBs. As such, the actual cost may be far in excess of the amount indicated above.
- Many of the SCARDBs did not analyse income or expenditure as also yield and cost in respect of various items of assets and liabilities, in greater detail. It may also be noted that the SCARDBs followed different accounting practices. However, some details in respect of selected SCARDBs were made available by NABARD. The following paragraphs analyse such details in respect of those SCARDBs.

Major Components of Income and Expenditure

a) Income: The SCARDBs earned their income mainly from loans &advances and investment. The details are as under:

Table 6.9: Income – Loans & Advances and Investment - Years 2020-21 and 2021-22 (₹ in Crore)

Sl. No.	Name of SCARDB	Advances 2020-21	Advances 2021-22	Investments 2020-21	Investments 2021-22
1	Haryana	76.06	36.67	1.12	0.82
2	Karnataka	178.76	160.08	16.97	16.59
3	Kerala	719.69	719.45	59.82	32.62
4	Punjab	206.87	166.79	6.22	6.04
5	Rajasthan	148.54	148.02	2.29	5.76
6	Gujarat	46.69	60.14	33.13	33.62
7	UP	373.51	227.42	20.63	13.26
8	Himachal Pradesh	46.71	42.71	2.91	3.77
9	West Bengal	103.94	97.61	3.35	7.75
10	Total	1900.77	1431.47	146.44	106.97
Source – NABARD					

Table 6.10: Expenditure – Borrowings and Deposit - Years 2020-21 and 2021-22 (₹ in Crore)

Sl. No.	Name of SCARDB	Borrowings 2020-21	Borrowings 2021-22	Deposit 2020-21	Deposit 2021-22
1	Haryana	45.01	28.98	0.46	0.26
2	Karnataka	75.94	62.88	44.02	50.57
3	Kerala	434.53	421.54	35.33	30.46
4	Punjab	142.89	127.62	26.00	26.65
5	Rajasthan	72.87	65.04	3.31	3.38
6	Gujarat	6.18	6.01	4.47	2.65
7	UP	46.70	NA	3.82	NA
8	Himachal Pradesh	23.73	15.20	NA	6.69
9	West Bengal	68.55	67.15	14.75	13.93
	Total	916.40	830.40	132.16	137.21

Source – NABARD

An analysis of the contribution to overall income of the bank from loaning operations and investment reveals that income from investment was less than 10% of the income from loaning business in all states, except in Gujarat where it was more than 50%. The overall business profile of the bank is largely oriented towards loaning operations and the investments was largely to deploy temporary surplus to meet their repayment obligations well in time.

b) Expenditure: SCARDBs incurred expenses mainly on payment of interest, management cost and provisions towards NPA and other items. The payment of interest was a major component of the expenditure. The details of interest paid on borrowing and deposits of SCARDBs were as mentioned in table 6.10:

It may be observed from the Table that the expenditure on borrowing constituted more than 85% of the total expenditure during 2021-22. The same in respect of Kerala alone was more than 50% of the total expenditure of the SCARDBs in the country. The amount of interest paid on deposit ranged from ₹ 0.26 crore (Haryana) to ₹ 50.57 Crore (Karnataka). Himachal Pradesh SCARDB had not accounted for expenses on deposits earlier and did the same only for the year 2021-22.

Share of Income and Expenditure Vis-a-Vis Average working Fund

The interest on loans and advances was the main source of the income of SCARDB. The details of its share in the average working fund was as under

Table 6.11: Share (%) of Interest Income to Average Working Fund of Select SCARDBs for the year 2020-21 and 2021-22

Sl. No.	Name of SCARDB	Share (%) of Interest Income to Average Working Fund 2020-21	2021-22
1	Haryana	3.31	1.76
2	Karnataka	8.97	7.24
3	Kerala	9.14	7.45
4	Punjab	7.51	6.20
5	Rajasthan	8.28	8.14
6	Gujarat	7.08	8.52
7	UP	13.69	9.22
8	Himachal Pradesh	9.34	7.91
9	West Bengal	7.77	7.19

Source – NABARD

It may be observed from the Table that the share of interest income to average working fund was the lowest in case of Haryana and the highest in case of UP during both the years and it ranged between 1.76% (Haryana) to 9.22 % (Uttar Pradesh) in case of the select SCARDBs during the year 2021-22. As already discussed elsewhere in the Report, the low amount of recovery both at the PCARDB and the SCARDB level may be the reason for such a position in case of Haryana. Uttar Pradesh, a SCARDB in the unitary structure, had loan outstanding of approx. ₹ 2600 crore on March 22, second only to Kerala in the country.

The borrowings constituted the major source of the resources in respect of the SCARDBs, though some of them mobilised some deposit also. Their expenditure was largely incurred on servicing of interest to the lender, primarily NABARD. The share of their interest expenses to average working fund was as under:

It may be observed from the Table that the share of expenditure on interest was the lowest in case of Gujarat. This was because of the fact that the owned (no cost) funds of the SCARDB constituted half of its resources. The higher share of such expenses in the States like West Bengal, Punjab and Kerala was attributed to borrowing constituting major portion of their resources.

Table 6.12: Share (%) of Interest Expenses to Average Working Fund of Select SCARDBs for the year 2020-21 and 2021-22

Sl. No.	Name of SCARDB	% of interest expenses to Average Working Fund	
		2020-21	2021-22
1	Haryana	1.95	1.37
2	Karnataka	5.5	4.65
3	Kerala	5.51	5.06
4	Punjab	5.94	5.16
5	Rajasthan	4.17	3.61
6	Gujarat	0.94	0.79
7	UP	1.76	1.48
8	Himachal Pradesh	4.46	4.29
9	West Bengal	6.04	5.53

Source: NABARD

Net Interest Margin

Net Interest Margin or Financial margin, the net difference between yield on assets and cost of fund, is an important indicator for profitability of financial institutions including ARDBs. The higher margin helps the institution to earn higher profits on low volume of business, which was the case in respect of most of the SCARDBs. The position was as under:

Table 6.13: Net Interest Margin (%) of Select SCARDBs for the year 2020-21 and 2021-22

Sl. No.	Name of SCARDB	Net Interest Margin (%)	
		2020-21	2021-22
1	Haryana	1.36	0.39
2	Karnataka	3.47	2.59
3	Kerala	3.63	2.39
4	Punjab	1.57	1.04
5	Rajasthan	4.10	4.52
6	Gujarat	6.13	7.73
7	UP	11.93	7.74
8	Himachal Pradesh	4.33	4.12
9	West Bengal	1.73	1.66

Source – NABARD

It may be observed from the Table that there was wide variation among the SCARDBs in respect of their Net Interest Margin. Haryana, Punjab and West Bengal were at the lowest range. The other extreme position was held by U.P. and Gujarat, the SCARDBs in unitary structure, lending directly to the ultimate borrowers. The variation in the position can also be attributed to difference in rate of interest charged by them to their borrowers.

Cost of Management

The institutions have to expend a major portion of their income on managing their affairs, which constitute a substantial part of their expenditure. The cost of management includes wide range of expenditures like salary and allowances of staff members, cost of delivery of its products & services, recovery of loans and expenses of Board of Directors. The ratio of cost of management indicates a relationship between the volume of business and cost associated with executing the business. The higher cost of management leads to reduced profitability of the institution notwithstanding a higher Net Interest Margin. The details of cost of management of the SCARDBs was as under:-

Table 6.14: Cost of Management as a Share (%) to Working Fund of Select SCARDBs for the year 2020-21 and 2021-22

Sl. No.	Name of SCARDB	Cost of Management (%)	
		2020-21	2021-22
1	Haryana	0.47	0.81
2	Karnataka	1.58	1.36
3	Kerala	0.86	1.19
4	Punjab	0.90	3.32
5	Rajasthan	0.58	0.62
6	Gujarat	2.64	2.86
7	UP	6.07	7.57
8	Himachal Pradesh	3.3	3.03
9	West Bengal	0.63	0.63

Source – NABARD

It may be observed that the cost of management was abnormally high in case of U.P. This was due to the fact that the SCARDB employed about 60% of the total workforce of the SCARDBs in the country. On the other extreme, Rajasthan SCARDB had a strength of around 50 staff members to manage its loan outstanding of more than ₹ 1500 Crores. The variations in salary structure among the SCARDBs also had a bearing on their cost of management.

Net Margin

Net Margin or Return on Asset is a percentage of net profit (after tax) to average working fund. It serves as a better indicator of the profitability of the institution. The position of net margin is at Table 6.15.

It may be observed that the net margin was very low in case of all the SCARDBs except Gujarat and Karnataka. It was negative in case of Haryana indicating the concerns about its sustainability in its present operations. The position was also quite adverse in case of Punjab with net margin of only 0.10%. The low level of net margin in case of UP(0.18%) and Kerala (0.42%), the banks with the highest business among the SCARDBs is indicative of the vulnerable position of the LTCCS in the country.

Table 6.15: Net Margin (%) of Select SCARDBs for the year 2020-21 and 2021-22

Sl. No.	Name of SCARDB	Net Margin (%) 2020-21	2021-22
1	Haryana	1.01	-2.29
2	Karnataka	1.11	1.20
3	Kerala	0.33	0.42
4	Punjab	0.09	0.10
5	Rajasthan	0.92	0.35
6	Gujarat	2.12	2.26
7	UP	3.48	0.18
8	Himachal Pradesh	0.2	0.33
9	West Bengal	0.77	0.42

Source: NABARD

Issues

a) The amount of income and expenditure was quite high in relation to the volume of business of the SCARDB. However, it did not result into high level of profitability for the structure.
b) There was very little diversification in sources of income with the income arising largely from loans and advances. There was also concentration of expenditure on account of interest payable on borrowings.
c) The cost of management was quite high which reduced the net margin to a very low level of profitability for the SCARDBs.


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CHAPTER 7

Abysmal Recovery- Structure Chokehold

7.1 Credit and Recovery – Importance and Perception

a) Credit is an important instrument for human welfare and so the disbursement of loan by institutions is a public good. Keeping this in view, the private entities were brought under govt. control in our country to ensure that credit is directed for general masses. A bank loan puts at stake not only the interest of the individual borrower and the concerned bank, but it is entwined with the general welfare of the people at large. The money involved in credit is either a public deposit or borrowing from institutions (created out of public money or supported by public deposits). Hence, timely recovery of loans is extremely important from many perspectives borrower, bank, government and the society.

b) Delayed repayment increases liability of the borrower with the amount of interest and penalties. The entire collateral is also locked with a particular bank, generally with a fragment of the requirement. This also deprives the bank of an opportunity to earn income from alternative avenues. Large-scale defaults may even spur liquidity crisis and ultimately failure of the bank. Such a situation leads to government utilising taxpayers' money to bail out even the private banking institutions to secure financial and economic stability. From the perspective of the society, the productive assets, which could have helped generate employment and income, are held up.

c) The Indian economy is led by banking institutions in the financial sector. A developing economy like ours aiming at rapid economic development requires accelerated flow of credit, particularly to the productive sectors. It is also recognised that there are external factors like natural calamities, general economic conditions, etc. which may impact the outcome of the economic activity undertaken by the borrower with credit support. As such, our system provides for extension / rescheduling of the repayment of a loan through conversion, restructuring and so on. There are mechanisms to support viable businesses through variety of concessions like additional moratorium, waiver of penalties/ charges, reduction of interest, etc. All this is to ensure that the money lent is ultimately brought back to the system for future use.

d) Over the years, the loan agreements have lost their sanctity with borrowers executing the same more in the letter than in its spirit. There is a strange development in our country that the borrowers regard claim of the bankers (particularly public sector and cooperatives) inferior even to their equity. There are even expectations that banks should bear part of their losses though the bank has no control over managing the affairs of the borrower's economic activity. It is in this background that the lending institutions have generally been insisting on collateral security and that too with value far exceeding the amount of loan.

7.2 Recovery and the LTCCS

a) The ARDB structure is largely dealing with credit and hence the recovery performance assumes even greater importance. This aspect becomes more important as most of its funds are borrowed funds and require repayments as per the stipulated schedule. The borrowing is bulk in nature and the number of agencies from it is sourced, is also very few. This makes the recovery even more crucial for the structure as failure to pay the lending institution would result in choking their operations. On the other hand, the deposits raised by them, though retail in nature, are term deposits. Such deposits attract higher rate of interest. So, the cost of deposits with the structure is quite high compared to other institutions involved in credit business. Even this high-cost deposit is very small. As such, the recovery performance of the ARDB structure is crucial for their existence.

b) The repayment of any loan is also dependent on the experience and understanding of the borrower while availing loan. The long, time consuming and expensive process at the time of availment of loan develops a feeling of returning the "favour" to the bank at the time of repayment. Further, there is absence of understanding on the part of the borrowers about the due date of repayment and the adverse effects of delayed repayment.

c) An important aspect of the operations of ARDB structure worth reiterating is that it does not provide any opportunity for contact by the borrowers once the loan has been disbursed. Further, the loans being in the nature of term loans, there is a need for substantial amount of "surplus cash" to meet the repayment of loan instalments. The ARDB officials generally visit only for the purpose of recovery and that too once it becomes overdue. This "occasional" relationship is also not conducive to timely repayment of loans. Thus, the recovery of the structure is quite low and the timely repayment of dues is still lower. There has been absence of appropriate and well documented policy to ensure repayment of bank dues.

d) The lethargy and the will to secure timely repayment of loan has largely emanated from the collateralised nature of lending of the ARDBs. The loans issued by ARDBs are against the security of agricultural land (gold ornaments in some cases). The importance and sentiments attached to the agricultural land in our country does not require much elucidation. There is a feeling among the bankers that since the value of agricultural land provided as security would only increase with the passage of time, it would ultimately ensure recovery of dues from the borrower. The ARDB officials generally remain within a false sense of comfort with the calculation of various charges as also amount of interest in their books in respect of long overdue accounts and treatment of the same as receivable.

7.3 Enforcement of Security: Banking System

a) The recovery through enforcement of collateral security is not automatic. The law enacted by the parliament lays down the process and mechanism for recovery of loans by banks and financial institutions. The Insolvency and Bankruptcy Code (IBC) mechanism is in vogue for large companies. As regards recovery through coercive means in respect of other borrowers, Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 and The Recovery of Debts and Bankruptcy (RDB) Act, 1993, have yielded recovery rates comparable to the IBC mechanism. An amount of ₹ 27349 crore (22.7% of the amount involved) was recovered with the help of SARFAESI mechanism during the year 2021-22 in respect of scheduled commercial banks in the country. The process under SARFAESI provides for possession and sale of security within a definite time frame by the banks without involvement of the courts. The RDB Act provides for mechanism of Debt Recovery Tribunals (DRTs) for recovery of loans up to specified limit. The DRT mechanism has helped recover the maximum share (25.7%) of the amount involved. (Source: RBI – Report on Trend and Progress of Banking, year 2021-22- Table IV.11).

b) At present, there is limited application of these Acts for cooperative credit institutions. The RDB Act is applicable only to Multi State Cooperative Banks (Section 2 (d) (vi)). The Constitutional Bench of the Hon'ble Supreme Court has ruled that the SARFAESI Act is applicable to all the Cooperative Banks. However, these mechanisms are not applicable to the cooperative societies as they are outside the purview of both the RDB Act, 1993 and the SARFAESI Act, 2002. This is because of the fact that the cooperative societies are governed by the State Acts and hence the ARDB structure is beyond the coverage under these Acts.

c) A practice followed by the banks in respect of various personal loans (Vehicle, Consumer, etc.) is to obtain post-dated cheque/s from the borrower equivalent to instalment due on future date/s. The banking system is treating the same as security in view of legal recourse available under Section 138 of Negotiable Instruments Act, 1881. There is provision of summary trial - for disposal of cases. Some SCARDBs are obtaining post-dated cheques of the bank accounts maintained by the borrower as security.

7.4 Legal provisions: Cooperatives: SCARDB

a) SCARDBs/ PCARDBs are one of the various forms of cooperative societies in the country. Hence, the legal recourse to recovery available to the cooperative societies in a particular state, is also available to the existing ARDB structure. The relative provisions exist in the Cooperative Societies Act enacted by the State Legislature. The State Acts have special provisions having a bearing on recovery of loans of cooperative societies. These provisions relate to settlement of disputes between individual members and the cooperatives only by the Registrar, Cooperative Societies and the same being outside the jurisdiction of the civil courts. There are special procedure of arbitration and the laws even specifically prohibiting application of the Central Act viz. Arbitration and Conciliation Act, 1996 (Chapter IX, Section 90 (6) of Tamil Nadu Cooperative Societies Act,1983). The Registrar, Cooperative Societies have been empowered to issue Certificate for recovery of sum due from members of a registered society and recovery of the same as an arrears of land revenue (Section 150 of TN Act, Section 100 of Karnataka Act and so on). The limitation period for execution of decree issued under the Cooperative Societies Act are covered by the State Act rather than the Limitation Act enacted by the parliament. There is priority of charge in respect of mortgage to all the cooperative societies' subject only to arrears of land revenue (Section 53 of Haryana cooperative Societies Act, 1984).

b) In many states, the State has enacted a dedicated chapter containing provisions with respect to ARDBs including recovery aspects. The ARDBs have priority over all other claims against the property secured by the mortgage executed in respect of such property by law (Section 92 (2) of the Puducherry Cooperative Societies Act, 1972). The claim of the State govt. arising from loans granted under State Agriculture Loans Act is considered inferior to the ARDBs (Section 76 of Rajasthan Act and Section 83 of Karnataka Act). Similar rights exist for the ARDBs in the States like Gujarat and West Bengal, as well.

c) Some of the states viz. Punjab, Tamil Nadu, Kerala, Uttar Pradesh and Himachal Pradesh have enacted even separate laws for the ARDBs. The laws provide for priority of mortgage to the ARDBs over previous charge created not only by the act of parties but even by operation of law by any agencies (Punjab Cooperative Agriculture Development Bank Act, 1957 (Section 11C). The Kerala SCARDB Act, 1984 provides priority of Gehan (a special charge on movable or immovable property through declaration) and even hypothecation to the ARDBs (Section 12).

d) Though the actual provisions relating to recovery vary across the states, the substance of the same generally provides wide powers to enforce the security. Historically, the ARDBs provide loan primarily against mortgage of land (instances of security of gold ornaments is restricted largely to Tamil Nadu) and the laws provide various special concessions to ARDBs in respect of the mortgage. The mortgage executed in favour of ARDBs generally do not require registration as provided in Registration Act subject only to some basic formalities (Section 78 of Rajasthan Act and Section 85A of Karnataka Act). The structure has also been generally provided the right to apply to the Registrar, Cooperative Societies for "distraint" (seizure of goods or other property to recover debts) and sale of property.

e) The ARDBs have the power to sell the property without the intervention of the Court. The Acts require the ARDBs to approach the designated State govt. officials to initiate the process of sale. In some states, even the officials of ARDBs (Gujarat, Section 134) can exercise the powers of auction. In case, there is no purchaser of the auctioned land, the ARDBs have been empowered to purchase the mortgaged land even beyond the extent of land ceiling in the State (Gujarat Cooperative Societies Act, 1961 (Section 135), Himachal Pradesh Cooperative Agriculture and Rural Development Bank Act, 1979, (Section 32) Punjab Act (Section 21). Some State Govt. have been providing grant to the ARDBs to effect the purchase.

7.5 Position of Non- Performing Assets and Recovery

a) The SCARDBs and the PCARDBs are not banking institutions. However, in order to ensure that their financial statements reflect true picture, the instructions relating to Income Recognition and Asset Classification were made applicable for the structure in the year 1997. These instructions as modified in the year 2005 are presently applicable to these institutions. The compliance of these instructions is observed during the course of NABARD's voluntary inspection of the SCARDB and by the auditors of the ARDBs. The position, as reflected after application of these norms, has since been considered as standards reflecting the true health of the bank.

b) Notwithstanding the unique and special provisions in the State Acts to enforce security (particularly land) available to the structure, the recovery performance has not been good. The structure has huge Non-performing Assets in most of the States. A closer examination and comparison would require that the figures be compared with banks in the similar structure separately.

c) The NPA position of the SCARDB in the unitary structure reflects comparatively truer picture of their status compared to the federal structure. In federal structure, the real position can be better understood only if the position in respect of PCARDBs are also examined together with that of the SCARDB. In view of this, the data in respect of different structures has been examined separately.

d) As already indicated, 5 states have unitary structure in the country. The data in respect of Himachal Pradesh and West Bengal, having mixed structure, has been presented both in unitary structure (for branches) and the federal structure (in respect of PCARDBs) to assess the true picture. The related data has been presented for both SCARDBs and the PCARDBs in respect of the federal structure.

e) The figures for analysis have been sourced from latest data available in Statistical Statements of NCARDBF unless otherwise indicated. The analysis also has taken into account granular details collected during the course of visit and other statements.

Unitary Structure

a) The NPA position in respect of banks in the unitary structure was generally not satisfactory and they had very high share of NPA in their loans. The position in respect of individual SCARDBs was as under:

Table 7.1: State- wise Position of Loan Outstanding, NPA and its Share - SCARDB Level (Unitary Structure) – March 2021 and March 2022 (₹ in Crore)

Sl. No.	Name of the State	Loans outstanding	NPA	Share of NPA in total loans (%)	Total loans outstanding	Total NPA	Share of NPA in total loans (%)
			March 21			March 22	
1	Gujarat	536.45	329.17	61.36	550.43	322.22	58.54
2	Uttar Pradesh	2231.61	2152.51	96.46	2277.47	1826.20	80.19
3	Tripura	11.30	11.10	98.23	9.71	9.65	99.38
4	Pondicherry	37.02	4.90	13.24	44.39	3.58	8.07
5	Jammu & Kashmir	57.13	23.71	41.50	51.92	25.67	49.44
6	Himachal Pradesh	341.88	153.84	45.00	387.70	165.04	42.57
7	West Bengal	1294.80	304.41	23.51	1336.05	327.47	24.51
	Total	4510.19	2979.64	66.06	4657.67	2679.83	57.54

b) The loan outstanding in respect of 3 out of 5 banks in the unitary structure viz. Jammu & Kashmir, Puducherry and Tripura was only ₹ 52 crore, ₹ 44 crore and ₹ 10 crore respectively as on March 2022. The aggregate loan outstanding of these 3 SCARDBs was less than even 1 % of the total structure as on that date. Notwithstanding this, Tripura had almost all its loans under NPA category. Further, it may be observed that NPA of the SCARDBs in the unitary structure, except Puducherry, was quite high. The NPA of remaining 4 Banks in this structure was 50 % or more, with the NPA of Uttar Pradesh SCARDB at 80.19 %. Incidentally, the loan outstanding of the UP SCARDB was second only to Kerala, among all the SCARDBs in the country. However, the bigger banks like Uttar Pradesh and Gujarat were making efforts to reduce their NPA and some improvement was also visible in their performance.

c) A closer examination of the NPA in the unitary structure points to still further serious concern. It was observed that the loans stuck in core NPAs (overdue for more than 4 years and loss assets) was far more worrying. The core NPA in respect of Gujarat and Uttar Pradesh (the two SCARDBs together having more than 60% of loan outstanding in unitary structure) was 71 % and 82 % respectively. In fact, in case of Gujarat, another 6% of NPAs was in respect of certain unsecured loans which were overdue for more than 3 years.

All this points out to the magnitude of challenge in respect of NPA loans of these banks.

Federal Structure

a) SCARDB Level

i. The NPA position at SCARDB level in the federal structure presents a better look on the face of it. However, this has to be viewed in the context of financing to the intermediary institutions and resultant complexities involved in this regard. The position of SCARDBs in this structure was as under:

Table 7.2: State- wise Position of Loan Outstanding, NPA and its Share –SCARDB Level (Federal Structure) (₹ in Crore)

Sl. No.	Name of the State	Total loans outstanding	NPA	Share of NPA in total loans (%)	Total loans outstanding	Total NPA	Share of NPA in total loans (%)
		March 21			March 22		
1	Haryana	1813.42	1379.31	76.06	1739.39	1349.43	77.58
2	Karnataka	1800.48	488.00	27.10	1974.44	652.47	33.05
3	Kerala ^	7658.82	469.36	6.13	8034.80	888.82	11.06
4	Punjab	2136.36	689.47	32.27	2058.68	933.53	45.35
5	Rajasthan	1504.68	796.28	52.92	1555.74	833.27	53.56
6	Tamil Nadu	1066.99	127.21	11.92	841.46	185.21	22.01
7	West Bengal	1294.93	336.02	25.94	1336.05	327.50	24.51
8	Himachal Pradesh	149.02	60.24	40.42	171.64	65.81	38.34
	Total	17424.70	4345.89	24.94	17712.20	5236.04	29.56

^ Kerala – As there was wide, variation in data relating to Year 2021, data from NABARD has been taken into account.

The NPA of Haryana SCARDB was the maximum (78%) in the federal structure. The poor performance of the DPCARDBs in the structure was reflected in the financial position of the SCARDB.

The SCARDB had sticky loans (overdue above 4 years and loss assets) of approx. 70%. Rajasthan SCARDBs had NPA of 54 % and out of which the maximum portion (73%) of its NPA was chronic overdue. The position of total NPA (45%) in respect of Punjab SCARDB was also not very good though the sticky loans were not very high (14.2%).

Kerala SCARDB had the lowest share of NPA in its outstanding loan and the same was also in the Sub Standard category only. The Tamil Nadu SCARDB, which had the lowest loan outstanding in the federal structure, had also the lowest amount of NPA (22%) in the federal structure (Himachal Pradesh has only one PCARDB and it is in mixed structure) . However, the sticky loans in respect of SCARDB was quite high at 58%. Karnataka SCARDB had one third of its loan outstanding under NPA and larges share of the NPA was not very chronic.

b) PCARDB level

There is an opportunity for higher tier (SCARDB) to camouflage its asset quality as the real operations are undertaken at lower level of primaries. The affiliated PCARDBs deal with the ultimate borrowers and so the real stress is felt at their level. The SCARDBs deal with institutions of primary societies, an ongoing concern and has the better manoeuvrability to protect their interest. In view of ongoing relationship with the PCARDBs, it is possible for the SCARDB to recover its earlier dues at least at the time of fresh disbursement. The true picture of recovery in federal structure of LTCCS can be better understood through analysis of the Demand, Collection and Balance of the PCARDBS. The position in respect of PCARDBs (States having federal structure) was as under:

Table 7.3: Demand, Collection and Recovery at PCARDB level – Federal Structure (₹ in Crore)

Sl. No.	Name of the State	Demand	Collection	Recovery (%)	Demand	Collection	Recovery (%)
			June 21			June 22	
1	Haryana	2012.55	211.32	10.50	2305.36	235.57	10.22
2	Karnataka	1147.69	798.69	69.59	816.55	475.64	58.25
3	Kerala	3351.80	1883.16	56.18	3766.15	2165.84	57.51
4	Punjab	2551.19	471.41	18.48	2640.74	358.05	13.56
5	Rajasthan	1090.75	324.44	29.74	1062.18	345.98	32.57
6	Tamil Nadu	1287.74	1200.83	93.25	1437.04	1304.20	90.76
7	West Bengal	984.05	364.23	23.51	1007.46	381.45	37.86
8	Himachal Pradesh*	62.42	34.51	55.29	62.66	32.64	52.09
	Total	12488.20	5288.599	42.35	13098.10	5299.37	40.46

Source : NCARDBF Table
* Himachal Pradesh – Figures In respect of PCARDB only (Source: NABARD)

A detailed analysis of recovery based on data in above table and other information in this regard was as under:

a) The recovery was abysmally low in the State of Haryana and Punjab. 19 District level PCARDBs (DPCARDB) in Haryana were operating through more than 70 branches. The recovery of these branches was extremely poor with 59 branches of the DPCARDBs had recovery of less than 15% and the recovery in respect of another 10 branches of DPCARDBs was less than 25%. The situation was almost similar in case of Punjab with 35 PCARDBs having recovery of less than 15%. The recovery was less than 35% in respect of 41 PCARDBs, thus taking the number of PCARDBs having less than 35% recovery to 76, out of 89 . The PCARDBs having recovery percentage exceeding 50% aggregated only six in the state.

b) Another state, where the recovery of PCARDBs was quite low, was the state of Rajasthan. The state had only 36 PCARDBs with more than half (19) of them having very low recovery (less than 15%). However, 09 PCARDBs in the state had recovery exceeding 70%. A deeper analysis revealed that the situation was even worse as more than 67% of the overdue was for period exceeding 6 years.

c) The PCARDBs in the southern states of Tamil Nadu, Kerala and Karnataka showed better recovery performance. The recovery performance of PCARDBs in Tamil Nadu was the most impressive in the country. The recovery was reported at a whopping 91% with 151, out of 180 PCARDBs reporting recovery of more than 80%. Another 22 PCARDBs also reported recovery in excess of 60%. The loaning pattern of Tamil Nadu, however, needs special attention to understand its recovery performance. It may be noted that the bank has been disbursing only short term loans. This enables frequent contact with the borrowers compared to the term loan borrowers. The short term nature of loan also explains to a great extent about comparatively higher size (amount) of their demand compared to their operations. The loans are sanctioned against the security of gold ornaments for last many years at interest levied at par with the competitors for similar lending. The borrowers are assured of a fresh loan on repayment. Since the value of pledged gold has shown an increasing trend in recent past, the repayment of the jewel loan has been steady.

d) The recovery of the PCARDBs in the Kerala was around 58%. Besides, concerted efforts for recovery by the bank officials, the relief provided by the permanent structure of

Farmers Debt Relief Commission in Kerala has also helped in improving the recovery performance of the PCARDB. The loan outstanding with PCARDBs in Kerala constitute approx. 40% of the total loan outstanding with all the PCARDBs in the country. Viewed in this background, the total overdue at PCARDB level was a whopping ₹ 1600 crore with more than 30 % in overdue exceeding 3 years. There was wide disparity in the position of overdue at PCARDB level and the aggregate recovery of PCARDB compared to the SCARDB level in Kerala.

e) Karnataka was another State showing better recovery performance at the PCARDB level. Out of a total 178,128 PCARDBs reported recovery exceeding 50% in the year 2021-22. However, the overdue were concentrated in period exceeding 3 years. The lower interest burden on the farmers of only 3% in case of agricultural loans (with balance being compensated by the State Govt.) has been attributed to improved recovery performance of PCARDBs in the State.

f) Himachal Pradesh, which had the mixed structure, had only one PCARDB. It had a total demand of only ₹ 62 crore and the recovery was 52 % in year 2021-22.

7.6 Imbalance

a) In federal structure, the nature of relationship between SCARDB and the PCARDBs creates a situation of imbalance in the books of accounts at the SCARDB and the PCARDB level. This emanates because of the fact that on recovery of loans from the ultimate borrower, the loans move out of the books of accounts of the PCARDB. However, the same is either not reflected in the books at SCARDB level and even if accounted, it may not be in the same way and/or to same extent for variety of reasons. Some important reasons in this regard are use of amount of recovery for administrative purposes at PCARDB level, adjustment of the repayment by the PCARDB and the SCARDB to the heads of account different from each other, etc. . The resultant situation is the absence of existence of any corresponding loan or lesser outstanding at the PCARDB level. This creates a situation of imbalance. As such, though the SCARDB treat the amount as outstanding and so recoverable, the recovery of such amount is extremely doubtful. Such a situation can also emerge in case of the PCARDB not disbursing the loan availed from the SCARDB and using it for different purposes other than the disbursement to the borrowers.

b) As per the existing norms, the interest applied to the ultimate borrower in respect of NPA accounts do not form part of the balance sheet .However, as this amount is considered recoverable from the borrower, the PCARDBs treat this amount as outstanding interest receivable. The general practice followed by SCARDBs is to accord priority to credit the Interest Due/Receivable Account from the PCARDBs, at the time of making entries in their books of accounts. As such, the amount due from the PCARDBs for SCARDB in respect of interest receivable is quite low vis a vis the amount considered so from borrower at the PCARB level. In fact, the PCARDBs are hardly ever able to recover this entire amount from the borrowers. The SCARDBs have announced One Time Settlement Scheme on various occasions over a period of time which has helped them in recovery of NPA due from the borrower. The Scheme invariably provides for remission of such interest to lure the borrowers to repay their dues. As such, interest receivable at PCARDB level does not reflect the true picture of the imbalance in respect of interest. Hence, the component of imbalance in interest does not form part of present analysis. In the absence of detailed PCARDB wise loan outstanding against ultimate borrowers of all the SCARDBs in the federal structure, a comparative position of the loan outstanding at SCARDB level and the PCARDB level may throw some light in this regard. The position of imbalance was as under:

Table 7.4: Position of Imbalance in respect of Loan Outstanding - SCARDB in Federal structure- March 22

(₹ in Crore)

Sl. No.	Name of the State	Outstanding against PCARDBs	Outstanding against ultimate borrowers (PCARDB level)	Amount of imbalance
1	Haryana	1731.48	1094.15	637.33
2	Karnataka	1974.44	1435.30	539.14
3	Kerala	8030.82	7914.68	116.14
4	Punjab	2058.68	1944.62	114.06
5	Rajasthan	1549.29	1009.50	539.79
	Total	15344.71	13398.25	1946.46

There was no imbalance in case of Himachal Pradesh, which has only one PCARDB affiliated to SCARDB

c) Before undertaking any analysis on the basis of available figures, it must be emphasised that the net position of imbalance in respect of all the PCARDBs does not reflect the true picture as aggregate position of PCARDBs having positive and negative balances with SCARDB does not reveal actual imbalance . In reality, the actual position would be definitely worse. A case in point is the case of Tamil Nadu and West Bengal , where the net position does not reveal any imbalance. The data obtained by the Study Team from Tamil Nadu SCARDB revealed an imbalance amount of ₹ 75.86 crore. Similarly, the detailed analysis of position in respect of PCARDBs in West Bengal indicated an imbalance of ₹ 143.04 crore, though the net position did not show any such imbalance. Such details, however, could not be made available to the Study Team by other SCARDBs and it is understood that similar situation existed in respect of all remaining SCARDBs in this structure.

d) It may be observed that the position of imbalance varied from more than ₹ 114 Crore (Punjab and Kerala) to ₹ 637 crore in case of Haryana. It was also more than ₹ 500 crores in respect of other two SCARDBs listed above viz. Karnataka and Rajasthan. However, the imbalance does not necessarily exist in respect of all the PCARDBs in a particular state. For example, it was reported to the Study Team in Karnataka and Punjab that imbalance was only in respect of 122 and 37 PCARDBs, out of 180 and 89 PCARDBs respectively.

7.7 Effectiveness of legal process

a) Liability under section 138 of NI Act, 1881- The recovery through this measure requires adherence to specific procedure and time bound action. It was observed that the SCARDB/PCARDBs following this system were not taking enough care like presentation of cheque to the bank within prescribed time, issue of timely notice in case of dishonour of cheque and so on. For example, in case of Gujarat SCARDB, even where the loan accounts were overdue, Post Dated Cheques were not sent for realization which would have laid the basis for legal proceedings. Some recovery was made with the help of these measures in Haryana . The District level PCARDB in the State had recovered an amount of ₹ 25.82 crore during the year 2021-22 alone from 969 borrowers.

b) Recovery certificate and Arbitration cases – The SCARDB/ PCARDBs across the country were not very keen on timely action through legal process as per the provisions in the State Cooperative Societies Act. However, there were chronic overdue and fit case for initiating legal action; the same was not filed regularly. There was absence of proper system of monitoring and supervision to ensure timely action. The delay in final decision and large pendency of Certificate and Award Cases in execution led to further disinclination to pursue the legal action on the part of bank officials. Notwithstanding these deficiencies, this measure contributed the most among the legal measures for the recovery in the structure.

Table 7.5: Award / Recovery Certificate Executed – Selected States- During Year 2021-22

Sl. No.	Name of the State	Award/ Recovery Certificate Executed	
		No.	Amt. (₹ in Crore)
1	Gujarat	1706	13.98
2	Himachal Pradesh	24	1.95
3	Karnataka	250	2.58
4	Kerala	358	5.19
5	Haryana	6685	156.89
6	Punjab	18058	253.00
7	Rajasthan	10530	139.73
8	Uttar Pradesh	7503	86.35
9	West Bengal	5571	27.18

Source : NABARD

It may be observed that substantial amount was recovered through Recovery Certificate and Award cases in some of the States viz. Punjab, Haryana, Rajasthan and Uttar Pradesh through these measures. The recovery through legal measures was quite insignificant in southern states.

c) Auction of Mortgaged Land

- Though there were provisions in the State Act/s for auction of mortgaged land in case of default by the borrower, such action was generally not resorted to by the banks. There was absence of adequate number of govt. officials in the field to initiate action in this regard. For example, in Gujarat, there was provision for appointment of Special Recovery Officer (SRO) by the State govt. to undertake auction of mortgaged property but here was acute shortage of the SRO in the State and only one SRO against sanctioned strength of 8 posts was placed for the entire bank. However, the field level experience suggested that even the posting of such an officer does not really help in auction.
- The fact of the matter was that the provision relating to auction of mortgaged land remained largely in statute book with no practical implementation at ground level. The socio political climate in the country has developed in such a way, particularly in recent past, that any coercive action against the farmers for loan recovery is almost considered a sin. There is no wonder that the provision relating to auction of land has not been acted in any state except Himachal Pradesh.
- Himachal Pradesh was the only state where the exercise relating to auction has been carried out, though individuals have not come forward in large numbers to purchase the mortgaged land in auction. The law (Section 32 of Himachal Pradesh Cooperative Agriculture and Rural Development Banks Act, 1979) provides for purchase of the property at sale by the ARDB and both the HP SCARDB and the Kangra PCARDB have exercised the option. It was, however, observed that the timely transfer of possession of the mortgaged land in the name of the bank was not ensured by the authorities (Sub Divisional Officer). The absence of requisite cooperation from the authorities had dampened the efforts in this regard.

7.8 Govt. Action affecting Recovery

The increasing burden of loan to the farmers because of their inability to pay back due to natural calamities and lower realisation prices of agricultural produce, have led to the Governments announcing various forms of relief in respect of credit provided to the farmers from time to time . These measures ranged from a blanket ban on use of coercive measures for recovery (Tamil Nadu) to loan waivers scheme announce both by Govt. of India and the State Govts. Various support measure announced by State Govts. for the borrowers of ARDBs like interest rebate on timely payment, etc. have been discussed separately.

Agricultural Debt Waiver and Debt Relief Scheme, 2008

A Govt. of India Scheme was last announced in the year 2008. The Scheme announced by Govt. of India had wider outreach in terms of geographical area, the institutions covered and provided for both loan waiver and the debt relief (concession), depending upon the category of farmers. Some important features of the Scheme, having bearing on long term cooperative credit structure were as under:-

a) The Scheme covered only Direct Agriculture loans and loans for allied agriculture activities.
b) Loan disbursed prior to 31 March 1997 was outside the purview of the Scheme.
c) In the case of an investment loan, only the overdue instalment and not the loan was eligible for waiver.
d) The debt waiver was limited only to "Small farmers" and "Marginal Farmers".
e) Other Farmers were provided Debt Relief and that too only to the extent of 25% subject to repayment of 75% of the amount.
f) Loans availed exceeding ₹ 50000/- for investment credit for allied activities was treated as loans to "Other Farmers" and hence not eligible for waiver.

As such, it may be observed that the loans for non-farm sectors and very old loans, even if overdue were outside the purview of the scheme. The Scheme covered only overdue instalment, thereby vitiating the atmosphere for recovery of remaining instalments & interest thereon for the ARDBs. The SCARDBs in the country had submitted claims for ₹ 3920.77 crore and these claims were admitted to the extent of ₹ 3703.63 crore by Govt. of India. (AR Federation 2009-10).

Loan waivers - State Govt.

a) Since Cooperative Societies/Cooperative Banks are owned and/ or controlled by the State Govt., the loan waivers announced by State Govt. are generally limited to these institutions. These Schemes normally require the institutions to forego a lot of receivable from the borrowers relating to various forms of interest and charges. The cooperative institutions are required either to waive the loans outrightly from their books or based on such contribution from the borrower as specified in the Scheme. The waiver schemes require the institutions to make a claim to the State Govt. following the procedure specified in the Scheme. The entire procedure is time consuming and hence it remains in public attention for quite long – before the announcement, during the implementation and even thereafter.
b) As per RBI Annual Report on State Finances- A Study of Budgets published in the year 2019, since 2014-15, 10 states had announced loan waiver schemes. The amount involved in these schemes were significantly higher than the previous two nation-wide debt waiver programmes- ₹10,000 crore in 1990 and ₹52,500 crore in 2007-08. The total amount involved aggregated ₹ 2.3 lakh crore. Since the State Govts. did not have enough resources to compensate the institutions in one go and this remained pending with the State Govts. for long. Though the institutions are able to recover some of their chronic dues, the entire process vitiates the recovery climate with far reaching effect. There is a problem of moral hazard and a negative impact on the credit discipline of borrowers.
c) It may also be borne in mind that the waiver schemes announced by the States also had strings attached to it. For example, the Uttar Pradesh Debt Waiver Scheme, 2012, applicable for ARDB structure, made only those borrowers eligible who had repaid at least 10 % of their dues before March 2012. However, such features are not highlighted in public discourse leading to a lot of acrimony between the institutions and the borrower. This vitiates the recovery climate even further.
d) The ARDB structure also suffers from the fact that a number of waiver schemes announced

by the State Govts. cover only the crop loans. The structure primarily caters to long term needs of the farmers and short term loans provided by the structure to farmers is either non-existent or very limited and that too in a few states. While the announcement vitiates the recovery climate for all the cooperatives in the State, it is double whammy for the ARDB structure as they do not receive any relief. A case in this regard is the loan waiver Scheme announced in the State of Uttar Pradesh in the year 2017-18.

e) A mention must be made of the General Jewel Loan Waiver Scheme , 2021 implemented by Tamil Nadu which waived the loans provided against the security of gold. The loans disbursed till March 2021 against the security of up to 5 sovereign (40 grams) were considered for waiver. The scheme was purpose neutral. Since, Tamil Nadu SCARDB has been providing only jewel loan for more than a decade, the borrowers of ARDB structure benefitted in good measure from the Scheme.

f) There is a general perception that there is a lot of receivable from the State govts. in respect of waiver scheme announced by them. However, a case in point is the release of funds by the State Govt. in Rajasthan. The details in following table (Table 7.6) bring forth the position in respect of Rajasthan SCARDB:

Table 7.6: Waiver Schemes: State Govt. Claim, Paid and Receivable (Amount ₹ in Crore)

Sl. No.	Name of the Scheme	Claim	Paid	Receivable
1	Rajasthan Crop Loan Waiver Scheme, 2018	9.29	9.29	NIL
2	Rajasthan Tribal Sub Plan Area Agriculture Loan Waiver and Land Redemption Scheme,2018	71.24	71.24	NIL
3	Rajasthan Agriculturist Loan Waiver Scheme (Crop Loan),2019	30.55	26.72	3.83
4	Rajasthan Agriculturist Loan Waiver Scheme (Medium and Long Term Loan),2019	297.11	297.11	NIL
	Total	408.19	404.36	3.83

It may be observed from the Table that the state govt. has released more than ₹ 400 Crore (99%) in respect of waiver schemes announced in last 5 years for both medium & long term loan as also crop loan to SCARDB.

7.9 Legislative Action for Agriculture Indebtedness

a) The "Relief of Agricultural Indebtedness" is a matter of State subject in the Constitution of India (Entry 34 – State List). This has led to the Govt. of Kerala enact a law viz. The Kerala Farmers' Debt Relief Commission Act, 2006. The Act provides for constitution of a permanent Commission. The Commission is empowered to pass awards after adjudication to fix a fair rate of interest and an appropriate level of debt for the farmers in distress. The loans availed for agriculture and allied activities are covered under the Act. There is a feeling that the ARDB officials that amount settled by the Commission is quite low compared to the liability of the borrower. The amount settled by the Commission has to be shared between the borrower and the State govt. in the proportion decided by the Commission. The State govt. has issued an Order requiring the PCARDBs to waive the loans once the borrower's share has been received by them. The PCARDBs in Kerala had received a total amount of ₹1596.21 lakh from the State govt. till March 2022. However, an amount of ₹1967.67 lakh was pending with the State Govt. and the delay in receipt of Govt. share was even up to 5 years.

b) The State has also constituted another Commission viz. Kerala Fishermen Debt Relief Commission to provide relief to those engaged in the fisheries related activities. The ARDBs have similar experience in the working of the Commission and receipt of Govt. share in respect of settled dues.

7.10 One Time Settlement Scheme

a) All the ARDBs have implemented a number of One Time Settlement Schemes during the last decade. The Scheme has helped them to recover some chronic overdue but the experience has been quite mixed in terms of actual recovery. The field level interaction reveals that the actual performance under the Scheme depended largely on the efforts made by bank officials in this regard. The example of two States viz. Gujarat and Uttar Pradesh, both having unitary structure, would prove this point.

b) Gujarat SCARDB had implemented the Scheme in the year 2019-20 and 2021-22 and the performance of the Scheme was quite good as indicated below:

Table 7.7: Recovery under OTS from Borrower – Gujarat (Source: SCARDB) (Amount in ₹ Crore)

Year	Eligible Amount	Recovery from borrower	% of Eligible amount
2019-20	4143.35	2863.34	69.10
2021-22	3617.44	2257.89	62.42

c) On the other end, the Schemes implemented in Uttar Pradesh in the years 2013 and 2021 could secure collection of less than 10 % of the total amount eligible under the Scheme. During the year 2018, the scheme fetched significantly higher recovery, more than 20 % of the eligible amount. The details are as under:

Table 7.8: Recovery under OTS from Borrower – Uttar Pradesh (Source: SCARDB) (Amount (₹ in Crore)

Year	Eligible Amount	Recovery from borrower	% of Eligible amount
2013	749.64	53.92	7.19
2018	3339.68	669.95	20.06
2021	3854.87	302.21	7.84
Total	7944.19	1026.08	12.91

The decision to implement such schemes are approved by the State Govt. and on occasions, the same has proved to be a time consuming process. Further, the terms and conditions are not very attractive and the borrowers having chronic overdue generally do not come forward. It may be recalled that the rate of interest charged by the ARDB structure was quite high, in fact prohibitive if viewed in present context. The huge backlog of interest (additional interest, penal interest and so on) and charges make it difficult for the borrower to meet the liability. There are instances where a tractor loan availed in the year 2003 for ₹ 4 lakh, the total liability of the borrower has worked out to more than ₹ 67 lakh (repeat ₹ 67 lakh). The continued existence of chronic overdue in the books of accounts in spite of many OTS Scheme is because of unattractive terms for the borrower, lack of efforts and absence of any publicity of the outcome of such efforts.

7.11 Conclusion

It may be observed that the recovery performance of the ARDBs has not been very good irrespective of the nature of the structure in different states. The inability of the entire structure to enforce its security of agricultural land notwithstanding the statute, is at the core of entire problem. The existing socio political climate has forced the SCARDBs to restrain their coercive activities for recovery. Under the circumstances, the waiver schemes and "on Tap" OTS have proved to be the major means of recovery. This has affected their recovery in normal course. The vitiated atmosphere has led to a situation where these banks have not framed any appropriate recovery policy and the efforts have been half hearted in normal course. The absence of adequate support, monitoring and supervision from the SCARDB over the affiliated PCARDBs in the federal structure, has further deteriorated the situation. The entire gamut of recovery needs urgent attention.

CHAPTER 8

Governance, Management and Human Resources – The Pillars

8.1 Introduction

a) Governance refers to the framework of policies and guidelines that determines the conduct, control, decision-making and conducting business of an entity. The structure of Governance is built upon four key principles viz., accountability, transparency, fairness and responsibility. Governance influences how an organisation's objectives are set and achieved, how risk is monitored and addressed and how performance is optimised. It is a core component of the unique characteristics of a successful organisation, be it in the corporate or cooperative fold.

b) The distinct feature of Cooperatives is members having only one vote, irrespective of the size of his / her shareholding. This unique feature differentiates the Cooperatives from all other forms of business organisations. This core feature reinforces the basic human values of equality, democratic process of decision-making and concern for the community. It is in tune with these principles that in case of a Credit Cooperatives, the borrowers (beneficiary in the present parlance) have as much say in the decision-making process as any other member. In fact, the charge against the system is that the decision is largely influenced by such set of members. Any sort of governance mechanism prescribed whether by the byelaws of the cooperatives or the rules and laws framed by the Govt. revolve around this basic principle.

c) The constitutional arrangement adopted in our country divides the subject matters for the purpose of legislation. This arrangement provides for legislative powers to the States in relation to Cooperatives. Since, the State has the powers to frame laws for incorporation, regulation and winding up of cooperative societies, the State Govt. exercises overreaching influence in governance of such societies. The governance issues are largely determined by the policy of the State Governments and manifested through the Cooperative Societies Acts and the Rules. This is further extended through approval of the byelaws adopted by such societies and the entire administrative machinery set up for implementation of legislative provisions. This role of the State Govt., from the cradle to death, has to a great extent shaped the governance of these cooperative societies in the country. Their presence is more conspicuous in respect of credit cooperatives because of financial involvement. This situation has influenced the entire management and human resource aspect in the credit cooperatives.

8.2 Governance in LTCCS

a) It is in this background that the issue of Governance in LTCCS has to be seen. The unique nature of the institution - the SCARDB financing the ultimate borrowers / providing credit to the affiliated ARDBs without their own substantial resource base for this purpose, makes the governance even more challenging.

The LTCCS is primarily a borrower-oriented structure and so the governance concerns do not dominate till the time general members experience the heat of the health of the organisation. As there are multiple agencies in the financial system taking care of their credit concerns, there is a general apathy on the part of members to address the governance issues in the LTCCS.

b) LTCCS is a people's organisation and so like any other Cooperative Society, it is governed through the general will of its members. The final authority of the society vests in the general body meeting of the general members of the society and the laws/bye-laws provide for conduct of at least one meeting in a year normally referred as Annual General (Body) Meeting to secure this will from general members. Normally such meetings are convened (bye laws/rules also make such stipulation) within 3 month of the end of the year. The usual agenda in the meeting is consideration of the broad policy announcements, annual accounts of the completed year, declaration of dividend, budget for next year, etc. It was observed that such meetings were not held regularly: in some cases even together for many years. There is hardly any discussion or even murmur in govt. circles or among members about the failure of such an important forum. For all practical purposes, the prolonged apathy has made this structure of governance outdated. There is no wonder, that these institutions do not enjoy the recognition and the confidence which is generally due to a public institution.

8.3 Board of Directors

a) There is a variety of structures of the LTCCS in our country: federal, unitary and hybrid/mixed category. But, irrespective of the nature of the structure, all are established under the Co-operative Societies Acts applicable to the respective State/UT or the Multi Societies Cooperative Act. In a few states, supplemental/separate Acts are in place particularly to take care of their governance mechanism. However, irrespective of the statues applicable, the overall governance of these institutions vest with the elected Board of Directors.

b) The role of Board of Directors in the governance of any institution is very crucial, especially for a financial institution in the co-operative fold. In addition to ensuring good governance, the Board should be in a position to provide proper direction and guidance to its top management in all policy and business-related matters. The Board is also expected to exercise overall supervision and control over the functioning of the bank. However, it should not interfere into the day-to-day affairs of the management.

c) The unique nature of the LTCCS, wherein the SCARDBs, sans any resource base of their own, provide credit to its members through their branches (under the unitary structure) or through the affiliated PCARDBs (under the federal structure), makes the governance issue an extremely challenging task. The LTCCS is primarily engaged in lending business and the elected members of the Board normally represent the interest of the borrower members who alone have voting rights.

d) However, the experience suggests that many of the State Govt. are not very enthusiastic about the elected Board of Directors governing the institution. At times, they have taken control of the affairs of these institutions in their own hand by superseding the elected Board or not conducting fresh elections for constitution of the Board. This is not to suggest that the board has functioned in all cases in a manner that the supersession can be always considered as unjustified, but the balance of action appears not to be in the larger interest of the organisation.

e) The Study Team observed that out of 16 SCARDBs in the country, the elected Board of Directors was not in place in as many as 7 States/UTs viz., Kerala, West Bengal, Rajasthan, Puducherry and Jammu & Kashmir as also in Assam and Odisha (both these SCARDBs were not functional). The concerned State/UT Governments have posted an Administrator, in lieu of the elected Boards, to look after the affairs of these banks.

f) The worrying part is that the control of affairs of the bank through this mechanism by the State Govt. does not appear to be a temporary phenomenon or a passing phase. For example, the SCARDB in Rajasthan and West Bengal continue to be under Administrator's reign for last 7-8 years. No elections were held for the past 15 years in Puducherry. Definitely, whatever be the reasons for superseding the elected Boards, not holding elections indefinitely for such long periods, does not auger well, as it is against the core co-operative principles and also defeats the legislative arrangements. The details of status of the elected Board of Directors in the SCARDBs are enclosed as Annexure 16.

g) The respective State Acts / Rules / Bye Laws determine the size, composition and tenure of the Board and as such there is wide variation in this regard among the SCARDBs. The total number of the Directors on the Board varied from as low as 8 (Tripura) to a maximum of 28 (Tamil Nadu). Further, the Act / Bye law provisions governing the composition of the Boards of SCARDBs, generally provide for nomination of State Govt. officials on the Board of Directors, irrespective of the fact whether State Govt. had any shareholding in the SCARDB or not. The number of such representatives was as high as 3 members in some cases. The Directors of the Board elected one of them to act as Chairman, who enjoyed more powers vested in terms of the provisions of bye laws/ Act or rules. However, in some cases, the nominated member was even appointed as Chairman ensuring complete control of the State govt. over the institution. For example, the Chairman of Punjab SCARDB was one of the govt. nominees on the board.

h) The role of the Board is to provide leadership role so that the affairs of the institution can be run efficiently. This would require the presence of capable and professional people on the Board. Many a times, the election process does not help in election of such persons. It is for this reason that some of the statues provide scope for co-option of professionals on the board. In practice, however, this clause provides yet another opportunity for the State Govt. to place their own person on the Board of SCARDBs. In some States , this is taken care by co-opting a NABARD official on the board.

i) The decisions of the Board of Directors are generally examined by the Cooperation Department to ensure that these are in conformity with the laws. So, there is a feeling that all their decisions are subject to the final approval of the State Govt. This has resulted in the State Govt. nominees enjoying a lot of clout and assuming greater role than envisaged in the Act or bye-laws. Their views often prevailed irrespective of the majority opinions and in some instances even if those decisions were not in conformity with the strict provisions of the law.

j) The discussions in the Board meetings were not always business oriented and the Study Team observed that the administrative issues dominated their proceedings in many cases. Though NABARD has issued some guidelines on agenda items for discussion in the Board, the same is not scrupulously adhered to. Some do's and don'ts have also been communicated by NABARD for the members of the Board. It was generally observed that the decisions relating to sanction of loans were taken in the meeting of the Board at the PCARDB level. (The same was done by the branch / district committee consisting of representatives elected by the borrowing members under the unitary structure). This often results in conflict of interest which is bound to invite governance issues to the forefront. Moreover, the Board often interferes in operational matters pertaining to recruitment, placement, training, etc. thus encroaching upon management decisions which are otherwise not under its domain. The Board involvement in such matter resulted in absence of any long-term strategies in this regard. It has also led to inadequate internal controls and poor house - keeping.

8.4 Committees of the Board

In order to discharge its functions effectively, the Board are required to constitute committees, which meets more frequently, and delve upon the issues in a more focused manner. NABARD has advised constitution of Risk Management Committee and

Audit Committee of the Board by the SCARDBs and suggested agenda items for discussion in the same. However, the constitution of these committees and its functioning was not taken seriously by the banks. For example, Gujarat SCARDB constituted both these committees consisting of large number of members (11) and the Audit Committee did not hold any meetings during 2021-22. Kerala, Karnataka and West Bengal SCARDBs had also constituted the Audit Committee. A review of the status of constitution of these committees and their functioning in various SCARDBs, gives an impression that the matter has not received due attention of the Board or yielded the desired results. The ARDBs had constituted various committees like Executive Committee, Loan Committee, Investment Committee, Asset & Liability Management Committee, etc. Some of these committees, consisting largely of officials, like Investment Committee met regularly and performed assigned functions in some SCARDBs. They provided their feedback to the Board and assisted in discharge of its functions.

8.5 Chief Executive Officer / Managing Director

a) The CEO / Managing Director is the key functionary and primarily responsible for carrying forward the policies and decisions of the Board. As such, a competent person is appointed by the Board and occupies the position till he/she enjoys the confidence of the Board. The role of CEO / MD in SCARDB is very critical since he / she is the executive head of the bank who is expected to execute all decisions taken by the Board and various committees constituted by it. The CEO / MD, should also have the requisite skills to strike a balance between the Board and staff, so that the affairs of the bank are managed smoothly in a professional manner.

b) However, the position in the LTCCS was quite different and the provisions of the Cooperative Societies Act / Rules governed the appointment of CEO, both in SCARDB and at the PCARDB levels as well in federal structure. These provisions generally empowered the State Govt. to post its officers as the CEO in such institutions. In almost all the SCARDBs (except Gujarat and Multi-State Cooperative Land Development Bank, Patna), the CEO was an officer of the State Govt. Generally, the officer was a senior officer from the Cooperation Department. However, in a few cases (Punjab and UP), a senior administrative officer (IAS) was posted as the CEO. Both Gujarat SCARDB and the Multi-State Cooperative Land Development Bank, Patna had appointed retired senior IAS officer as the CEO. Even at the PCARDB level, the State govt. officials manned the post of CEO.

c) The management of a financial cooperative is indeed challenging and quite different from administering a government department. But, it is difficult to presume that the aptitude, skill and knowledge of the incumbent were factors considered by the State govt. in the identification for the post of the CEO / MD of SCARDBs.

d) As already discussed above, since the state govt. officials posted as Administrator were in place in many states, the entire management of SCARDB was in effect in the hands of the State Govt. in a number of states.

e) The details of background of CEOs posted in the SCARDBs are enclosed as Annexure 17.

8.6 Human Resources

The total staff strength of the LTCCS covering both SCARDBs and PCARDBs, which was 22,240 as on 31 March 2004, with an almost equal share between SCARDBs and PCARDBs, declined drastically to 8,931 as on 31 March 2022. The share of each tier, however, maintained the same proportion as around two decades ago. It may be recalled that the Vaidyanathan Committee had expressed its concern about the age profile of the staff members. The large scale retirement which took place since the year 2004 , with no commensurate replacement through fresh recruitment, has brought the position to such a sorry state of affairs.

SCARDB

a) The human resources in LTCCS, be it in the federal or unitary structure, can be broadly grouped into four categories viz., (i) CEO / Top Management (ii) Officers (including Technical Officers and Field Supervisors) (ii) Clerical staff and (iii) Subordinate staff . The broad category wise break up of staff in SCARDBs as on 31 March 2022 was as indicated in Table 8.1 below:

Table 8.1: Category wise Staff in SCARDB – March 2022

Sl. No	Category	Number
1	CEO & Top Management	37 (0.84)
2	Officers	764 (17.29)
3	Technical Officers	25 (0.57)
4	Field Supervisor	1015 (22.96)
5	Clerk	1931 (43.69)
6	Subordinate Staff	648 (14.66)
7	Total	4420 (100.00)

Note : Figures in bracket indicate share (%) in total

b) It may be observed from the Table 10.1 above that Officers cadre, comprising of CEO, Senior Executives, Officers, (including Technical Officers) and Field Supervisors, constituted 41 % of the total staff strength. However, vide variations were noticed among individual SCARDBs with their share ranging from as low as 5% in case of Tamil Nadu to as high as 88% in West Bengal. Kerala, Puducherry, Punjab and Rajasthan had above 50% of the total staff strength in this category. The remaining 59% of the staff members in clerical and subordinate cadre provided secretarial and other support. The strength of officers, clerical and sub staff was in the ratio of 41:44:15. The core function was handled by comparatively small group of manpower. The share of clerical staff was very high in Tamil Nadu (89%) and Karnataka. J& K SCARDB had huge manpower (52%) in the subordinate cadre.

c) The staff was not evenly distributed and the UP SCARDB alone had 60% of total manpower with the SCARDBs in the country. Gujarat SCARDB also accounted for 10% of the total manpower in the SCARDBs. There was acute staff shortage with many of the SCARDBs. The state wide variations has been discussed in some detail in following paragraphs.

d) As on March 2022, all the 13 functional SCARDBs, put together, had a network of 790 offices (106 supervisory offices and 684 branches), with a total staff strength of 4,420. The five states in unitary structure had more than three fourth (3389) of the work force which was in alignment with the nature of their functioning. The average work force per office / branch of SCARDB worked out to 5.59.

e) The top management consisting largely of officers on deputation was another important aspect of the composition of staff with SCARDB. Some generalist officers were also on deputation. SCARDB wise details of various category of staff is enclosed as Annexure 18.

f) Out of the total work force, 25 were on deputation from State Govt. Departments of which as many as 20 were occupying the posts of CEO / Senior Executives. As such, for all practical purposes, the structure was guided and managed by these officials. The situation in Kerala SCARDB is an example of overwhelming presence of such officials. The SCARDB had five top senior executive posts, out of the existing seven posts, including that of CEO, filled by officers on deputation from the state government departments.. The state govt. official on deputation with the SCARDB generally held the post of CEO. Since, the second line of management was also largely on deputation, there was a feeling of despair and frustration among the bank's staff due to resultant absence of opportunities for their future promotion.

g) The presence of a good complement of Technical Officers (TOs) in various disciplines related to agriculture & allied sectors was a major source of strength for the SCARDBs. Over a period of time, the strength of TOs in SCARDBs has depleted, particularly after introduction of Automatic Refinance Facility by NABARD. Earlier, SCARDBs were required to submit individual schemes for sanction of refinance and the services of TOs were essential for preparation, appraisal and monitoring of such schemes. The total number of TOs in position, as on 31.03.2022, was only 25. Even this were concentrated in a few states like Punjab (12), Kerala (6) , Karnataka (3) and two each in Uttar Pradesh and Tamil Nadu SCARDBs. The remaining SCARDBs had no TOs. This has not only affected the quality of appraisal and sanction of loans, but also the volume of business and their capability to diversify their business. This has forced them to compete in the line of business followed by any other bank. With their limited ability to compete with institutions having larger resource base and quality manpower, this has also contributed to the decline of the LTCCS.

PCARDBs

a) The PCARDBs bore the main brunt of the loaning operations in the states with federal structure. In six states, they undertook the financing to ultimate borrowers. In West Bengal and Himachal Pradesh (where there was only one PCARDB), a large area of the state/s was catered to by them. There were 603 PCARDBs, with a total of 1,894 outlets / branches, in 8 states as on 31 March 2022.

b) The PCARDBs had total work force of 4378 as on March 2022 with similar category of work force as the SCARDBs because of their identical nature of functioning. The PCARDB had total strength of 7244, of which 77 were on deputation as on March 2008 and the staff strength has considerably declined as on March 22. The staff status at PCARDB level as on 31st March 2022 is indicated in Table 8.2 below:

Table 8.2: Category wise Staff in PCARDBs – March 2022

Sl.No	Category	Number
1	CEO & Top Management	262 (5.98)
2	Officers	501 (11.44)
3	Technical Officers	83 (1.90)
4	Field Supervisor	811 (18.52)
5	Clerk	1055 (24.10)
6	Subordinate Staff	1046 (23.89)
7	Others*	620 (14.16)
8	Total	4378 (100.00)

Note : Figures in bracket indicate share (%) in total
*Others represents staff strength of PCARDBs in West Bengal as no break up has been reported.

It is evident from above that not all the PCARDBs had full time CEO and a single person was in charge of more than one PCARDB.

c) Further, even at the primary level, there were a number of staff on deputation from State Govt. Departments / SCARDBs and they formed about 3% of the total workforce compared to 1% of such staff about 15 years ago. In Rajasthan, the State govt. officials were acting as CEO/ Top Management of all the PCARDBs. Similar situation existed in case of Karnataka where the top management and entire generalist officers were on deputation.

d) An analysis of the cadre wise strength of staff available in PCARDBs revealed that the Officers cadre, comprising of CEO, Senior Executives, Officers (including TOs) and Field Supervisors, constituted 44 % of the total staff strength. However, vide variation was noticed among states with the percentage share ranging from a low of 33 % in case of Haryana and Punjab and as high as 89% in Tamil Nadu. The Staff belonging to clerical cadre accounted for 28% with Rajasthan having 52 % of their staff belonging to that cadre. The subordinate cadre accounted for 29% of total staff with the single PCARDB in Himachal Pradesh having 64 % of their staff from that category.

e) Karnataka and Kerala were the only states having technical officers at PCARDB level. The technical officers in Kerala were on deputation.

f) The average number of work force per PCARDB and per outlet / branch worked out to 7.26 and 2.31 respectively. The ratio between officers, clerical and sub staff was broadly 44:28:28.

g) The total loan outstanding in six states covered by PCARDBs was ₹ 12564 crore as on March 2008 which increased only to ₹ 14416 crore as on March 2022. The depleted staff strength can be attributed as a major reason for the snail pace of increase in loan outstanding over such a long period.

8.7 Staff strength - Wide Variation in distribution

There was wide variation among the SCARDBs in respect of available staff, irrespective of the nature of structure. The following discussions would elucidate the matter further.

Unitary Structure

a) Out of the total work force, the share of UPSCARDB (unitary structure) with 18 Regional Offices and 323 branches, alone was 2,647 (60%). The average number of staff per office / branch of UPSCARDB worked out to 7.74 as against all India average of 5.59. With the total asset of only ₹2,850 crore, average size of asset per staff was only ₹ 1.07 crore. It had undertaken a large-scale recruitment of around 1300 employees, in different cadres 5 years ago. It is evident that there was absence of adequate manpower assessment for this exercise. The entire exercise has also raised allegations of corruption and malpractices as no professional recruitment agency was engaged for this purpose. The study team was informed that a Special Investigation Team is examining / probing the incident. Such a massive recruitment has not only affected the financial position of the bank, but has also posed issues relating to their placement. The placement of about 250 staff (around 20% of the total) in Head Office speaks volumes about this serious lapse.

b) In sharp contrast to the position in UPSCARDB, the total staff strength of GSCARDB, also in unitary structure, was only 489. It had 17 Regional Offices and 176 branches. As such, the average staff strength worked out to 2.52 staff per office / branch in respect of GSCARDB as against 7.74 (UPSCARDB) and 5.59 (All-India). It was reported that out of 176 branches, as many as 44 branches were managed by a single staff member, while another 4 branches were under dual charge. Even this position of staff strength was as a result of regularization of services of 284 persons, engaged on contract basis, during 2022-23. The average size of assets per staff worked out to ₹ 2.78 crore. The bank had total assets of about ₹ 1,360 crore.

c) The vast divergence in the staff strength, vis a vis average asset size per staff leads us to conclude that there was absence of any co-relation between the staff strength and business of the ARDBs. It underlines the need for proper manpower assessment and proper recruitment process.

Federal Structure

a) A comparison of the position of the SCARDB in federal structure would be necessary to comprehend the entire gamut of issues. Kerala SCARDB, had undertaken an assessment of manpower and had a sanctioned staff strength of 492. However, the actual staff available (only 144) was far short (30%) of sanctioned strength. This shortage was at all levels – be it senior executive (8 against 26) or the supervisory / appraising officers (49 against 146). The bank had, however, recruited 52 Agricultural Officers (AOs) during 2022-23 and was in the process of recruiting another 18 AOs. This entire exercise of recruitment was undertaken through state Public Service commission.

b) The position of staff was somewhat better in Karnataka as it had 257 staff against the sanctioned posts of 485 in various cadres. This was largely possible because of the recruitment of 127 persons in the year 2018. However, the SCARDB had no Technical Officer for Agriculture & Allied disciplines though a large amount of financing was concentrated in these activities.
c) Similar situation of depleted staff strength existed in all the remaining SCARDBs irrespective of the nature of its structure.

The cadre wise staff strength in SCARDBs and PCARDBs as on 31.03.22 is given in Annexure 18.

8.8 Recruitment system

One of the reasons for depleted staff position in the SCARDB was absence of well-established norms for recruitment. The selection process was a big challenge and various practices were in vogue in this regard. However, some states had adopted systems/ identified agencies for this purpose. For example, Kerala was following a system of recruitment through State Public Service Commission for its officers. This has secured some good quality of manpower for them. Even for recruitment in the PCARDBs, a specialized body viz. Kerala Co-operative Service Examination Board (KCSEB) has been set up to undertake the recruitment to various posts in the co-operative fold. The board conducts only the written examination. West Bengal SCARDB was recruiting their personnel through Cooperative Service Commission to ensure quality of manpower.

HP SCARDB had engaged the services of Institute of Banking Personnel Selection (IBPS) for recruiting personnel in various grades. Karnataka SCARDB had engaged the services of National Institute of Rural Banking (NIRB), Bangalore, for conduct of written examination. Some other SCARDBs were following state govt. norms. The absence of proper system of manpower planning and recruitment has resulted in non- availability of required and qualified manpower in most of the cases and had adversely affected the functioning of the SCARDBs.

8.9 Training

a) The LTCCS in almost all states were having their own training establishments to take care of the training needs of their personnel. However, over a period of time, the functioning of some of them have got impaired. It was observed that some SCARDBs viz. Kerala, Punjab, West Bengal and Uttar Pradesh, continued to maintain their training centres and conducted their activities regularly.
b) All these institutions were accredited to Centre for Professional Excellence in Cooperatives (C-PEC) at Bankers Institute of Rural Development (BIRD) Lucknow. This accreditation ensured quality of training through standardization of training courses as also training material. The training centres received grant support from NABARD for their training activities.
c) The Directors of the board of the primaries and staff members of the SCARDB were receiving regular training on courses like Business Development Plan, Management Development, Turnaround Strategy for Non-viable PCARDBs, Credit Appraisal, Effective Recovery, KYC, NPA Management and so on.
d) The Institute of Training and Management (ITM), Kerala and the Institute of Cooperative Management for Agriculture and Rural Development, West Bengal had even conducted onsite training programmes. The number of staff receiving training was however very less and their share was on the decline.
e) The details of total number of staff and the share of those trained during last 10 years are indicated in the Table below:

Table 8.3: Number and share of Staff trained in LTCCS - Decadal Position (2012-13 to 2021-22)

Year	SCARDBs			PCARDBs		
	Total staff	Trained	Share in Total (%)	Total staff	Trained	Share in Total (%)
2012-13	4,647	763	16.41	5,761	2,094	36.35
2013-14	4,739	774	16.33	5,744	936	16.29
2014-15	4,536	289	6.37	5,555	1,548	27.88
2015-16	5,026	2,241	44.59	5,216	1,200	23.00
2016-17	5,004	1,813	36.23	5,109	1,282	25.09
2017-18	4,992	2,552	5.12	4,809	1,112	23.12
2018-19	4,792	227	4.74	4,732	332	7.02
2019-20	4,459	169	3.80	4,052	262	6.47
2020-21*	4,378	49	1.12	4,588	763	16.63
2021-22	4,420	232	5.24	4378	654	14.50

* Covid pandemic year

f) It may be observed from the data furnished above that the staff strength of LTCCS has been showing a continuous decline in last 10 years, except for some odd years. The reverse trend was witnessed for the year 2015-16 (in case of SCARDB) and the year 2020-21 for the PCARDBs. The total staff strength as at the end of 2021-22 was less than the year 2012-13.

g) The share of staff undergoing training in the SCARDBs has remained between 1% to 5 % in the last 5 years. The share of staff trained in the PCARDBs was higher.

Internal Checks and Control Systems in SCARDBs

a) A sound system of internal checks and control is an integral part of the management functions. This is required to ensure effective delegation of authority, compliance with rules, systems and procedures and to ensure integrity in all the dealings of the SCARDBs. The Board of Directors and its Committees play an important role and the same is discussed in the following paragraphs. The top management, specialised departments and those performing audit and inspection functions constitute the team for internal control in an organisation.

b) The internal checks and control were integral to risk management but the SCARDBs had not provided due attention to this aspect. The nature of business (loan against gold ornaments) of some of the SCARDBs in southern states enhanced their risk as there was absence of any supervision over valuation exercises undertaken at the PCARDBs level. Many PCARDBs were employing staff on contract basis for this purpose. Notwithstanding the enormity of the problem, the efforts made by the LTCCS was quite inadequate. For example, though the UP SCARDB had constituted a Risk Management Committee, it neither met at regular intervals nor took specific measures to identify the various types of risk or manage the same. The existing Management Information System also did not provide enough signals for the purpose. Some of the SCARDBs like West Bengal did not even compute details of cost of funds and yield on assets and as such were not aware of basic requirements of these calculations of profitability.

c) The SCARDBs have taken some steps for managing and strengthening the internal control system. An important step in this regard was a defined job role and flow chart indicating hierarchy and assigned responsibility for different levels of staff as framed by Kerala and UP. The regular review meetings of branches in the unitary structure and that of the PCARDBs in the federal structure, were another important facet of internal control mechanisms. The system of internal inspection and audit filled the remaining space in this regard. The concurrent audit undertaken for the transactions at Head Office of Kerala SCARDB was a good example worth mentioning.

d) The overall system prevalent in the LTCCS, however, did not enthuse much confidence. Generally, the SCARDBs had no manual for guiding the day to day operations (Uttar Pradesh). The system of inspection of branches (in the unitary structure) and the PCARDBs (in the federal structure) was more or less aimed at fulfilling numerical targets. Even this target was not achieved in case of Uttar Pradesh as only 188 out of total of 323 branches were inspected for the year 2021-22 in March 2023 (at the time of visit of the Study Team).

e) The supervising units, which conducted inspection, had not forwarded the reports to Head Office of SCARDB (case of PCARDBs in Punjab). The quality of inspections required vast improvements as many important aspects like compliance with Know Your Customer guidelines (Punjab SCARDB) and other aspects were not covered. The inspection role did not assume much significance in monitoring and review of its overall functions. It was observed that quite often the internal inspection machinery in SCARDBs has failed to highlight and pinpoint the existence of gross and serious irregularities such as improper credit appraisal, disbursements without observing the terms of sanction, failure to exercise proper post disbursement supervision etc. The failure of the internal inspection machinery is mainly attributable to the incompetence of the internal inspection personnel and the casual manner in which the work was carried out & also due to lack of follow up of the inspections.

f) The audit of PCARDBs were generally carried out though with some delay. The system of concurrent audit was not in vogue in all the SCARDBs and in any case, audit was not concurrent in case of branches and the PCARDBs. The compliance to inspection and audit report was a casualty universally as the same was either not submitted or submitted very late. The quality of compliance also was routine in nature with hardly any substantial changes at the ground level.

g) There were instances of fraud in some SCARDBs like Rajasthan and Punjab. However, very little attention was paid to vigilance and prevention of fraud. The absence of codified instructions coupled with inadequate audit and inspection machinery had not helped the cause of internal control systems in SCARDBs.

h) NABARD has advised SCARDBs to frame 'Fair Practice Code' for lenders duly approved by their Boards. However, it was observed that most of the SCARDBs had not introduced the Board approved Fair Practice Code for Lenders. One issue, which has emerged universally, was not providing copy of the sanction letter with the detailed terms and conditions to the borrowers. The SCARDBs should make this standard practice, which will help in avoiding disputes and may in fact help in improved recovery from the borrowers due to their prior knowledge of repayment amount and date.

Asset Liability Management System

The ARDBs as financial institutions are required to manage their assets and liabilities to be able to make disburse new loans and make repayments for the existing borrowings. The SCARDB had large part of resources through long term borrowing largely from NABARD which was repayable half yearly. Some deposits were also mobilised in the nature of term deposits generally up to 3 years forming their liability. The long term nature of its loans and poor recovery provide very little scope for matching their asset and liabilities. The SCARDBs have made efforts to manage their assets and liabilities through constitution of ALCO, keeping 15% of the deposits raised in "liquid funds", fixing a cash retention limit for branches and availing overdraft against the their fixed deposits with banks.

The means adopted by them to match their assets with liabilities in a particular time period were not good enough to serve their purpose. Still, some SCARDBs like Kerala prepared monthly fund flow chart and presented to the Board to address this issue. There is a need for SCARDBs to be conscious of need for ALM for their future role. The absence of compliance with normal operational requirements like maintenance of due date diary for amount due from borrowers (including PCARDBs in federal structure) or even its own deposits with other banks added further complications to its asset liability management exercise.

8.10 Conclusion

The influence of the State Govt. on governance and management is quite pervading with their officials acting as Administrator, most important representative on the Board and occupying the position of CEO & top management. However, the State Govt. officials have not discharged their role with the sense of urgency and accountability resulting in the present state of affairs. The Board of Directors was mostly not equipped professionally to provide direction and guidance to the management of the LTCCS. The nomination of CEOs by the state government has often not helped the cause of the banks as they hold additional charge and the Board's control over them is also tenuous. The absence of proper manpower planning, recruitment and training system has resulted in inadequate and ill-equipped manpower to handle the emerging challenges. As a result, many of the SCARDBs are experiencing grave problems relating to governance, threatening even their identity and very existence. There is a need to revamp the entire system of governance and management with detailed diagnosis so that these can act as a professional institution.

CHAPTER 9

Taking a Permanent Detour - Case of Tamil Nadu and Puducherry

It is a well-established fact that the LTCCS is primarily dependent on the borrowings for its loaning operations. The borrowings from NABARD have always constituted the major source of their funds. It has served the LTCCS well as the tenure and purpose of the same is in alignment with the operations of LTCCS. The SCARDBs of Tamil Nadu and Puducherry have not been able to avail refinance from NABARD for a long time. This failure of these SCARDBs have resulted in "off the track" character of their operations and deserves special attention. This aspect has not received much attention as NABARD has followed a policy of undertaking inspection of the SCARDBs (voluntary in nature) only in respect of SCARDBs having outstanding borrowing from NABARD.

9.1 Tamil Nadu

1. Structure of LTCCS in the State

a) The LTCCS in Tamil Nadu is having a federal structure. 180 PCARDBs, each having jurisdiction of one or two talukas, are affiliated to Tamil Nadu Cooperative State Agriculture and Rural Development Bank (TNCSARDB). The TNCSARDB was among the early state level land mortgage banks to be established in the country (Year 1929). Besides, its Head office and supervisory units, it had 08 Jewel Loan Extension Counters.

b) The PCARDBs in the state were allowed to mobilise deposits from public. Hence, the lending at their level also utilizes these resources, besides their own funds and loans from the SCARDB. Many of the PCARDBs have also expanded their operations to provide non-credit services of Common Service Centre. Out of 180 PCARDBs, 100 of them had accumulated losses aggregating ₹128.66 crore. About one third of the PCARDBs earned profit during 2020-21.

2. Resource Base

The bank was last inspected by NABARD in respect of its performance for the financial year 2005-06. The SCARDB has not been able to avail refinance from NABARD since the year 2006-07. This has resulted in changes in the nature of its sources of funds as under:

a) In its long existence, the bank had performed quite well till early years of the current century. The paid-up capital was subscribed by the PCARDBs and the State Govt. to the extent of ₹ 25.42 Crore and ₹ 15.79 Crore respectively. The balance amount of ₹11.34 Crore, out of total paid up capital of ₹ 52.55 Crore, was contributed by Chennai CCB. The bank was generally in profit (it had no accumulated loss) in its long existence. The good financial performance of the bank had helped it to build up its owned funds over a period of time and the same stood at ₹ 1065 crore as on March 2022. The owned funds of the SCARDB, maximum in the country, alone constituted more than one fifth of the total owned funds of all the SCARDBs in the country. The owned funds formed about three fourth of its total resources.

b) The SCARDB had deposit outstanding of ₹ 299.57 crore, next only to Karnataka and

Kerala, as on March 2022. The outstanding deposits have hovered around this level as the bank was largely mobilising short tenor deposits. Its contribution to the total resources was 21%.

3. Loan Portfolio

a) The TNCSARDB had an average loan disbursement of ₹200 crores till the year 2004. However, it had not disbursed any medium / long term loans to agri & allied sectors, due to non availability of NABARD refinance for more than 15 years. This does not need any emphasis since the State of Tamil Nadu had always had good potential for loans to these sectors.

b) The situation has resulted in SCARDB resorting to an alternative (many consider it as necessary for survival) step of providing largely the short-term non-agricultural loans against the security of gold ornaments. Over a period of time, the loan portfolio was expanded to cover some rural development activities in non-farm and rural housing sector, as mandated for the structure. The loans to salaried staff have also been added to their portfolio. However, as on March 2022, out of a total of loan outstanding of ₹ 841.46 crore, the short-term non-agricultural loans comprised of ₹ 736.20 crore (87%) of the total loans. The outstanding loans under rural non-farm sector (includes rural housing) was only 10 % of the total. The balance (3%) largely represented very old outstanding under long term loans. It is clear that the TNCSARDB was compelled to move away from its objective of providing long term finance to agriculture and rural development, for which the LTCCS was created, due to non-availability of State Govt guarantee for availing NABARD refinance. The change in the nature of its loan portfolio has forced the SCARDB/PCARDBs to deviate from their routine business to survive in the market.

c) Incidentally, it was noted that this change in its loan portfolio with concentration of loans against security of gold ornaments, has led to very high degree of exposure risk. The very high degree of volatility experienced at times in the gold prices has the potential of putting the institutions at considerable risk because of the short tenor of its loans. This portfolio is also prone to very high risk due to issues related to physical security of the pledged gold ornaments and operational matters. The single product loans and the recovery being considered assured because of the pledge and value of gold, had led to complacency among the personnel of the institution. However, the recovery performance of the SCARDB was good because lending against gold and the impaired assets as on March 22 was quite low compared to other SCARDBs in the country.

4. Others

The State Govt. had constituted a High-Level Expert Committee in the year 2020 to revamp the functioning of the SCARDB. The Committee has observed financial soundness of the structure and felt an urgent need for its strengthening. It has also favoured independent functioning of the structure.

9.2 Puducherry

1. LTCCS Structure

a) Puducherry Cooperative Central Land Development Bank (PCCLDB) Ltd. established in 1960, operates in the Union Territory of Puducherry as the SCARDB. The LTCCS has a unitary structure. The Head Office of PCCLDB Ltd. is located at Puducherry and its only branch is located at Karaikkal.

b) The area of operation of the bank extends to entire UT, which comprises of Puducherry, Karaikal, Mahe and Yanam areas, with a total geographical area of 490 square kilometers. These areas are scattered over southern part of the country. The UT had a total population of about 12 lakh and even otherwise offered very limited scope for development of agriculture and allied sector through institutional credit (except fisheries).

2. Resource Base

a) The SCARDB could not borrow from NABARD after 2009-10 due to non-availability of State Govt guarantee. This resulted in its inability to disburse medium or long-term loans for agriculture or non-farm sector activities to its members.

b) PCCLDB had an outstanding deposit of ₹ 77.55 crore which formed more than 85% of its total resources as on March 2022.The owned funds contributed another 10% of its resources. The SCARDB had a paid up capital of ₹ 5.41 crore largely contributed by the Govt. The share capital contributed by others and the reserves constituted two third of the owned fund of the SCARDB. The Cash Credit/Overdraft facility availed from nationalized bank and the State Cooperative Bank formed remaining part of the resources.

3. Loan Portfolio

a) The SCARDB had total loan outstanding of ₹ 44.39 crore, the second lowest among the SCARDBs in the country. This was entirely for short term non-agriculture purposes. The loans were primarily issued to govt. employees though some Govt. Corporations had wound up. The loan against gold ornaments formed more than one fourth of its loan outstanding and was the main business activity at present. It was also providing Safe Deposit Locker facility.

b) The nature of loans ensured good recovery and the SCARDB had the lowest share of impaired assets in the country. The over dues were mainly concentrated in loans provided to employees of Govt. Corporations long ago. It had accumulated loss of ₹ 4.68 crore.

9.3 Conclusion

The present nature of operations of the two SCARDBs in the country requires attention of policy makers. It has brought to the fore the issues relating to diversification of loans and the role of long term resources in the functioning of the LTCCS.


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CHAPTER 10

Wings of Federal Structure - PCARDBs

10.1 Introduction

a) The PCARDBs are independent entities affiliated to the SCARDB with federal structure in their State. As the ground level institution, the fund-based business activities of the SCARDB in the state are largely carried out through them. Though a few SCARDBs, of late, have opened branches for their direct operations, the number of such branches is insignificant and the nature of business activity is also skewed. Being an independent entity, the PCARDBs have their own governance structure and are separate accounting units. The area of operation of individual PCARDBs varied from State to State and so the PCARDBs, generally with large area of operation, had opened their branches. The SCARDB is the largest resource provider for them, though some of them do mobilise some resources on their own. The nature of involvement of the State Govt. is similar as in case of the SCARDB. The institutions, being in direct contact with the masses, bear the brunt of ill-effects of socio, economic and political environment of the society whereas SCARDBs in federal structure are insulated against such challenges. Hence,an analysis of the LTCCS to assess its strength and weaknesses would necessitate a separate discussion on the PCARDBs. The various Committees in the past have also examined their role and made suggestions mainly focusing on the resource mobilisation at their level. As already indicated in Chapter 1, our Study Team ensured visit to select PCARDBs, held discussions with their Board/ top management and staff as also some borrowers, and collected useful data to get an insight into their working and issues associated with their operation.

b) This chapter provides details of working of various aspects of the PCARDBs to highlight their role in the federal structure of LTCCS. The discussions in this Chapter serve only as a supplementary and the same must be comprehended in conjunction with other parts of the Report for a complete understanding of their role and importance. The details about their state-wise distribution and number of their branches have been covered in Chapter 2 (Table 2.2). The data on membership provided in Chapter 2 also includes the membership particulars of PCARDBs during that year.

Own Funds

The PCARDBs being the primary lending institutions mobilise capital from borrowers through share linkage. Apart from capital contribution from members, State Govt. also contributes to the capital of PCARDB. Incidentally, the paid-up capital of PCARDBs was more than all the SCARDBs in the country. This was primarily because PCARDBs cater directly to grassroots level borrowers of the LTCCS and share linkage for borrowing being higher at their level. The details of contribution of share capital of PCARDB are furnished in Table 10.1 below:

Table 10.1: Share Capital Contribution by State Govt. and Individuals & Others- March 2022 (₹ in Crore)

Sl. No.	Name of the State	Share Capital Contribution as on March 2022			
		State Government	Individuals & Others	Total	Share (%) of State Govt. Contribution to Total
1	Haryana	26.10	59.99	86.09	30.31
2	Himachal Pradesh	0.32	9.91	10.23	3.16
3	Karnataka	3.34	211.51	214.85	1.55
4	Kerala	0.00	363.25	363.25	0.00
5	Punjab	0.00	139.09	139.09	0.00
6	Rajasthan	20.18	75.36	95.54	23.12
7	Tamil Nadu	11.87	69.10	80.97	14.66
8	West Bengal	11.15	91.66	102.71	10.84
	Total	72.96	1019.87	1092.83	6.68

Source: NCARDBF

The amount of contribution of the State Govt. in respect of PCARDBs in Haryana and Rajasthan was quite substantial. Tamil Nadu and West Bengal also had State govt. contribution exceeding 10%. However, the share of State Govt contribution in the paid-up capital of PCARDB in Kerala and Punjab was "nil'. Himachal Pradesh and Karnataka also had less than 5% of the contribution of State Govt. in the paid-up capital.

Borrowings

The borrowings were the main source of their resources and the lending was entirely provided by the SCARDB with the sole exception of PCARDBs in Tamil Nadu. The borrowings (from sources other than the SCARDB) of the PCARDBs in Tamil Nadu was less than 5% of their total borrowings. The details of State-wise borrowing of PCARDBs were as under: -

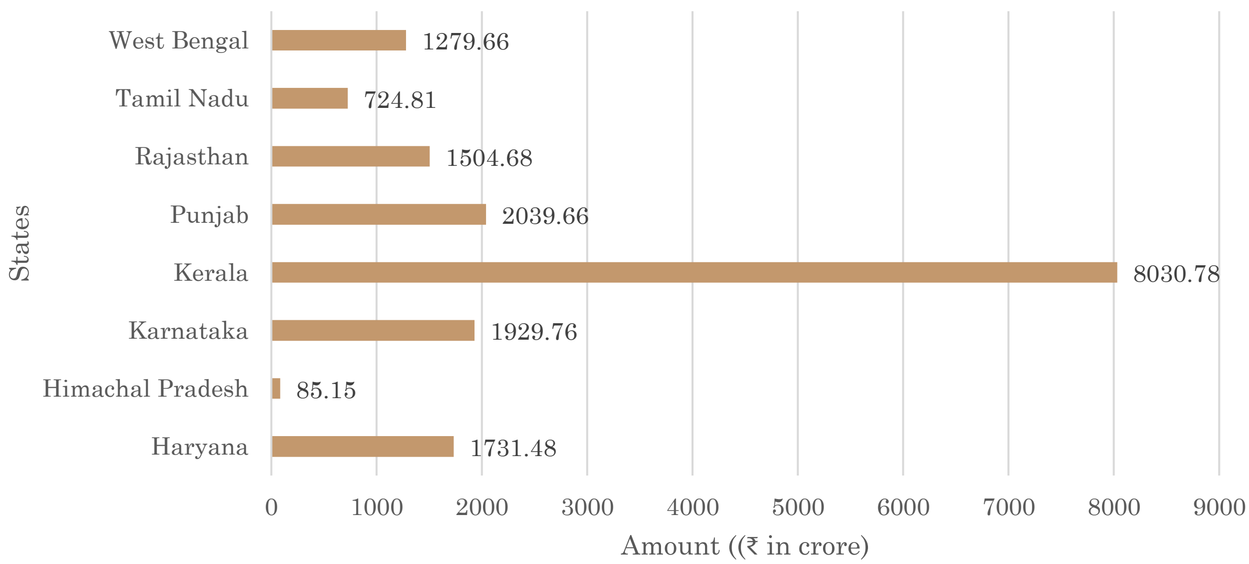

Figure 2: State wise Borrowings of PCARDB – March 22 (₹ in Crore)
Source: NCARDBF Statistical Bulletin

It may be observed from the bar diagram that the borrowings of the PCARDBs in Kerala alone constituted more than 45% of the total borrowings of PCARDBs in the country. The borrowings of PCARDBs in Punjab and Karnataka individually exceeded 10% of the total borrowings of PCARDBs in the country.

10.2 Business Performance

Fund based Business

PCARDBs were generally not permitted to raise deposits except in a few states and that too with a lot of restrictions. Hence, the amount of deposit raised by them was quite small. They had hardly any investment and a small portion of their resources was invested in the form of bank deposits for their day-to-day operations. The loan disbursement was the most important component of the fund business of PCARDBs. In the federal structure, it was the PCARDBs, which primarily disbursed loans to the ultimate borrower.

The details of purpose-wise loan disbursement by the PCARDBs in the triennium-ending year 2021-22 was as under:-

Table 10.2: Purpose-wise Loan Disbursement during the Triennium Ending year 2021- 2022 and Growth for the FY 2020-2021 and FY 2021- 2022 – PCARDB level (₹ in Crore)

Farm Sector Advances	FY 2019-20	FY 2020-21	Growth (%) FY 2020-21 Over FY 2019-20	FY 2021- 2022	Growth (%) FY 2021-22 Over FY 2020-21
Minor Irrigation	77.84	60.07	-22.83	73.77	22.81
Farm Mechanisation	129.22	145.67	12.73	100.98	-30.68
Plantation & Horticulture	164.98	393.36	138.43	348.18	-11.49
Land Development	150.24	234.93	56.37	524.66	123.33
Purchase of Land	3.89	6.33	62.72	4.29	-32.23
Others	0	0	0	0.05	0
Allied Sector Activities					
Dairy	68.90	94.02	36.46	298.91	217.92
Poultry	28.64	63.93	123.22	150.16	134.88
Others	92.97	213.19	129.31	203.00	-4.78
Total A.H.	190.51	371.14	94.81	652.07	75.69
Fisheries	37.00	42.00	13.51	43.37	3.26
Total Allied Sector	227.51	413.14	81.59	695.44	68.33
(I) Total Farm Sector Advances	753.68	1253.50	56.57	1747.37	39.40
Non- Farm Sector Advances					
Rural Housing	950.65	941.66	-0.95	1066.8	13.29
SRTO	28.04	14.05	-49.89	18.93	34.73
Rural Godowns / Storage	14.76	2.98	-79.81	0.36	-75.99
Other Non-Agril. Adv.	288.26	305.51	5.98	336.93	10.28
(II) Total Non-farm Sector Advances	1281.71	1264.2	-1.37	1423.02	12.56

Farm Sector Advances	FY 2019-20	FY 2020-21	Growth (%) FY 2020-21 Over FY 2019-20	FY 2021- 2022	Growth (%) FY 2021-22 Over FY 2020-21
Short Term Advances					
Short Term Agril. Loans	68.49	228.35	233.41	468.99	105.38
Short Term Non-Agril. Loans	2056.56	2472.8	20.24	1916.88	-22.48
(III) Total Short Term Advances	2125.05	2701.15	27.11	2385.87	-11.67
GRAND TOTAL (I+II+III)	4160.44	5218.85	25.44	5556.26	6.47

The purpose wise loans disbursed by the PCARDBs during 2017-2022 is given in Annexure 19

The loans disbursed by PCARDBs have increased from ₹ 4160 crore in the year 2019-2020 to ₹ 5556 crore in the year 2021-2022. The disbursements have shown healthy growth of 25 % in the year 20-21 but moderated to 6% in the year 21-22. The disbursements under farm sector in these years have grown by a whopping 56% in the year 20-21 and 39% in the year 21-22. The growth in term loan segment under agriculture and allied activities during 2020-21 and 2021-22 was driven largely by Poultry (123% and 135% respectively). The other term loan activities driving growth were Plantation & Horticulture (139%) in 2020-21 and Dairy (218%) and Land Development (123%) in the year 2021-22. Short-term agricultural loans grew in the years 2020-21 (233%) and 2021-22 (105%). The disbursements to rural housing sector grew by 13% during 2021-22 over the position at the end of previous financial year. The details of loans outstanding of PCARDBs during the triennium ending year 2022 and the growth % have been presented in the following table:

Table 10.3: Sector wise Loan Outstanding for the Triennium Ending March 2022 and Growth for the Years Ending March 2021 and March 2022 – PCARDB level (₹ Crore)

Sl. No		Particulars	March 2020	March 2021	Growth (%) March21 vis a vis March 20	March 2022	Growth (%) March 22 vis a vis March 21
1		Farm Sector					
	A	Long Term	7824.60	8208.15	4.90	8535.07	3.98
	B	Short Term	40.81	114.91	181.57	310.16	169.92
2		Rural Housing (NHB / NABARD etc.)	4663.19	4486.86	-3.78	4613.08	2.81
3		Non-Farm Sector (L. T.)	1331.86	1278.95	-3.97	1209.82	-5.41
4		Other Non - agricultural Purposes-Long Term	641.90	214.27	-66.62	123.04	-42.58
5		Other Non - agricultural Purposes-Short Term	1251.98	1226.28	-2.05	1404.82	14.56
6		Total Loan Outstanding	15754.35	15529.42	-1.43	16195.99	4.29

(Source : Statistical Bulletins of NCARDBF) -Includes the figures of Himachal Pradesh and West Bengal as a whole. The sector wise loans outstanding at PCARDBs level during 2017-2022 is given in Annexure 20

It may be observed from the Table above that the loans outstanding at PCARDB level have shown only a modest growth (4%) from the level recorded at the end of March 2020. The only sector, which has shown tremendous growth in both years, was short-term agriculture loans.

Non-Fund based Business

In order to improve their profitability, the PCARDBs undertook many non- fund activities. 157 PCARDBs in Tamil Nadu have set up Common Service Centres in their premises through which 35 types of services relating to different departments of the state govt. were made available to the general public.

Similarly, Alathur PCARDB in Kerala had established a medical shop and engaged agents for doorstep delivery of some social security benefits like old age pension against payment of nominal commission.

Recovery performance: The recovery is crucial for any financial institution and the PCARDBs are no exception. As the PCARDBs deal with the ultimate borrowers and so the real stress is felt at their level in federal structure of LTCCS.

They represented the true picture of recovery in the structure and so the health of LTCCS can be better understood only through analysis of the Demand, Collection and Balance of the PCARDBS. The DCB position in respect of PCARDBs was as under:

Table 10.4: Demand, Collection and Recovery at PCARDB level (₹ in Crore)

Sl. No.	Name of the State	Demand	Collection	Recovery (%)	Demand	Collection	Recovery (%)
			June 21			June 22	
1	Haryana	2012.55	211.32	10.50	2305.36	235.57	10.22
2	Karnataka	1147.69	798.69	69.59	816.55	475.64	58.25
3	Kerala	3351.80	1883.16	56.18	3766.15	2165.84	57.51
4	Punjab	2551.19	471.41	18.48	2640.74	358.05	13.56
5	Rajasthan	1090.75	324.44	29.74	1062.18	345.98	32.57
6	Tamil Nadu	1287.74	1200.83	93.25	1437.04	1304.20	90.76
7	West Bengal	984.05	364.23	23.51	1007.46	381.45	37.86
8	Himachal Pradesh*	62.42	34.51	55.29	62.66	32.64	52.09
	Total	12488.20	5288.599	42.35	13098.10	5299.37	40.46

Source : NCARDBF
* Himachal Pradesh – Figures In respect of PCARDB only (Source: NABARD)

It may be observed that the total recovery of the PCARDBs in the country was only around 40% during both the years (July-June) 2020-21 and 2021-22. However, there was wide variation among the states as it ranged from as low as 10 % to 90%. The average recovery of 40.46% in the total column above, however did not reflect the true picture.

In order to have a deeper understanding of the recovery at PCARDB level, an attempt has been made to analyse the situation of recovery on the basis of distribution of the PCARDBs in a state based on the level (percentage) of recovery. The number of PCARDBs in different range of recovery was as under:-

Table 10.5: State wise Distribution of PCARDBs (Number) on the Level of Recovery – March 22

Sl. No.	Name of State	Above 40%	Between 40% - 25%	Between 25% - 15%	Less than 15%	Total
1	Himachal Pradesh	1	0	0	0	1
2	Karnataka	145	23	5	5	178
3	Kerala	63	12	1	0	76
4	Punjab	8	20	26	35	89
5	Rajasthan	12	1	4	19	36
6	Tamil Nadu	176	3	0	1	180
7	West Bengal	6	5	5	8	24
8	Total	411	64	41	68	584

Source : Compiled on the basis of NCARDBF Statistical Bulletin

It may be observed from the Table above that the recovery was less than 25 % in respect of 109 out of 584 PCARDBs in the country. The position of recovery of 19 PCARDBs in Haryana, as a whole, was not readily available so the position available in respect of 70 branches of the PCARDBs has been analysed in the following paragraphs. A detailed analysis of recovery based on data in above tables and other information in this regard was as under:

a) The recovery was abysmally low in the State of Haryana. 19 District level PCARDBs (DPCARDB) in Haryana were operating through their 70 branches. The recovery of these branches was extremely poor with 59 branches of the DPCARDBs having recovery of less than 15% and the recovery in respect of another 10 branches of DPCARDBs was less than 25%. The remaining lone branch had recovery exceeding 50%.

b) The situation was almost similar in case of Punjab with 35 PCARDBs having recovery of less than 15%. The recovery was less than 25% in respect of another 26 PCARDBs, thus taking the number of PCARDBs having less than 25% of recovery to 61 out of 89. The PCARDBs having recovery percentage exceeding 40% aggregated only eight in the state.

c) Another State, where the recovery of PCARDBs was quite low, was Rajasthan. The state has 36 PCARDBs with more than half (19) of them having very low recovery (less than 15%). A deeper analysis revealed that the situation was quite worse as more than 67% of the overdue was for period exceeding 6 years. However, 12 PCARDBs in the state had recovery exceeding 40% with some of them having recovery in excess of 70%.

d) The PCARDBs in the southern states of Tamil Nadu, Kerala and Karnataka showed better recovery performance. The recovery performance of PCARDBs in Tamil Nadu was the most impressive in the country. The average recovery of the PCARDBs was reported at a whopping 91%. Only 4 PCARDBs had recovery less than 40% and 151, out of remaining 176 PCARDBs reported recovery of more than 80%. The recovery was in excess of 60% in respect of other PCARDBs. The loaning pattern of Tamil Nadu, however, needs special attention to understand its recovery performance. It may be noted that the bank has been disbursing only short-term loans. This enables frequent contact with the borrowers compared to the term loan borrowers. The higher amount of demand and collection in the State was primarily because of short term nature of loan . The loans are sanctioned against the security of gold ornaments for last many years at interest levied at par with the competitors for similar lending. The borrowers are assured of a fresh loan on repayment. Since the value of pledged gold has shown an increasing trend in recent past, the repayment of the jewel loan has been steady.

e) The recovery of the PCARDBs in Kerala was around 58%. However, 13 out of 76 PCARDBs had recovery of less than 40%. Besides, concerted efforts for recovery by the bank officials, the relief provided by the permanent structure of Farmers Debt Relief Commission in Kerala has also helped in improving the recovery performance of the PCARDB. The loan outstanding with PCARDBs in Kerala constitute approx. 40% of the total loan outstanding with all the PCARDBs in the country. Viewed in this background, the total overdue at PCARDB level was at a high level of ₹ 1600 crore with more than 30% in overdue exceeding 3 years. There was wide disparity in the position of overdue at PCARDB level in Kerala compared to the SCARDB level, which reflected a far rosy picture as discussed in the separate Chapter relating to recovery.

f) Karnataka was another State showing better recovery performance at the PCARDB level. 128 PCARDBs, out of a total of 178, reported recovery exceeding 50% in the year 2021-22. 33 PCARDBs had recovery less than 40 %. The over dues were concentrated in period exceeding 3 years and 68 % of the total overdue at PCARDB level was for such period. The lower interest burden on the farmers of only 3% in case of agricultural loans (with balance being compensated by the State Govt.) has been attributed to be an important reason for improved recovery performance of PCARDBs in the State.

g) Himachal Pradesh, which had the mixed structure, had only one PCARDB. It had a total demand of only ₹ 62 crore and the recovery was high at 52 % in year 2021-22.

10.3 Financial position

a) The overall financial position of the PCARDBs was not good and 459 PCARDBs, out of total of 603 in the country had accumulated losses. All the states had PCARDBs with accumulated loss. The position of accumulated loss in the States was as under:

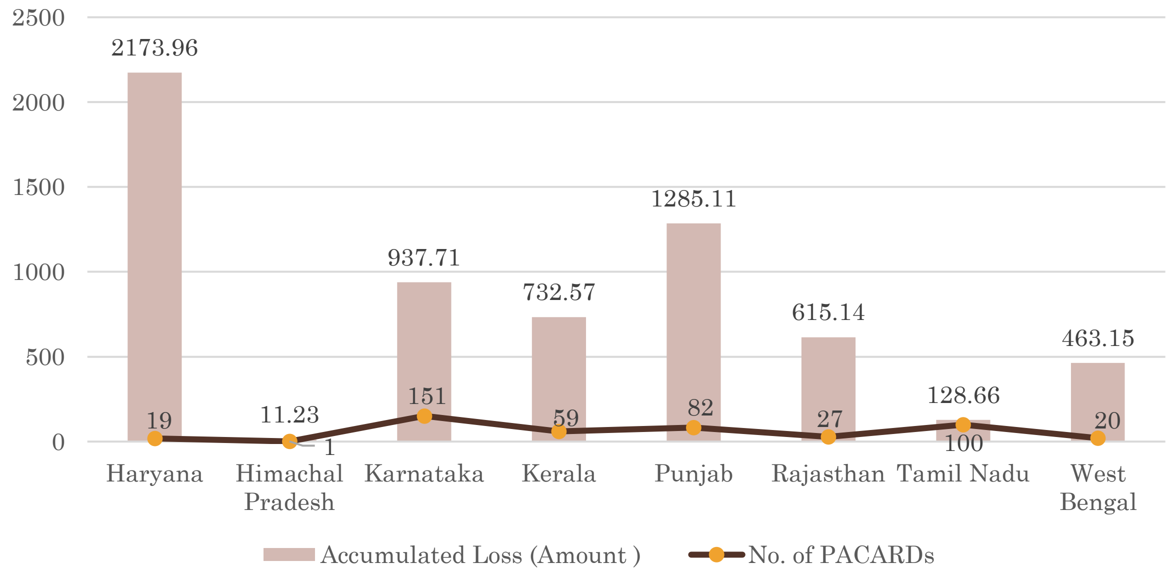

Figure 3: State wise PCARDBs with Accumulated Loss – No. and Amount- March 2022 (₹ in crore)

b) There was a total accumulated loss of ₹ 6348 crores at the PCARDB level which was spread across all the states in federal structure. In case of Haryana, all the 19 PCARDBs had accumulated loss (₹ 2174 Crore) with their share alone accounting for more than one third of the total amount in the country. The position at the PCARDB level in Punjab was almost similar with 82 out of 89 PCARDBs in the State having accumulated loss aggregating ₹ 1285 crore i.e. more than 20% of the total accumulated loss. The accumulated losses of PCARDBs in two states was more than 50% of the losses of PCARDBs in the country. Incidentally, the effect of accumulated loss at PCARDB level had different impact on the position of overall financial performance of the SCARDBs in these two states. The accumulated loss of Haryana SCARDB was the maximum in the country whereas there was no accumulated loss in respect of Punjab SCARDB. The PCARDBs in Karnataka, Kerala and Rajasthan also had huge accumulated loss.

c) A further deep dive in the data indicated that the average accumulated loss per PCARDB worked out to ₹ 13.83 crore on All India basis. However, there was wide variation in this regard among the states with the same being recorded at ₹ 114.42 crore (maximum) and ₹ 1.29 crore (minimum) in case of PCARDBs in Haryana and Tamil Nadu respectively.

10.4 Overall Performance

a) PCARDBs were assessed during the course of their audit and were assigned rating based on their performance. The departmental auditors generally undertook the audit at PCARDB level. Some of the PCARDBs could not be audited and the audit was not very prompt as well. The position of audit classification of PCARDBs as on March 2021 was as under:-

Table 10.6: Audit classification of PCARDBs – State wise – March 2021 (No.)

Sl. No.	Name of State	A	B	C	D	Not Audited	Total
1	Haryana	0	3	7	1	8	19
2	Himachal Pradesh	0	0	1	0	0	1
3	Karnataka	10	27	139	2	0	178
4	Kerala	6	12	55	2	1	76
5	Punjab	3	7	53	26	0	89
6	Rajasthan	2	10	22	1	1	36
7	Tamil Nadu	33	28	118	1	0	180
8	West Bengal	9	10	5	0	0	24
9	Total	63	97	400	33	10	603

b) It may be observed from the Table that the performance of PCARDBs in the State of West Bengal (with reference to the audit classification) was the best among all the States with more than three-fourths of the total of 24 PCARDB, being placed under top two categories i.e. "A" and "B". Barring West Bengal, the poor performance of the PCARDBs was a universal phenomenon. Out of 19 PCARDBs in Haryana 8 PCARDBs, could not be audited. Of the remaining 11 PCARDBS, 8 were placed in the lowest category of "C" and "D".

c) The performance of PCARDBs in Punjab was also quite poor as 26 out of 89 PCARDBs were classified under "D'' category, the lowest rating. It may, be further noted that the norms for audit rating were liberalised in recent years for classification under "C" category so as to bring a greater number of PCARDBs under this classification. Some of these PCARDBs could have been otherwise rated under "D" category. The large number of PCARDBs (53 out of 89) in Punjab under "C" category has to be viewed in this background. The story was similar in case of PCARDBs in Rajasthan. The position was not different even in southern states. Kerala (with more than 40% share of the business of SCARDBs in the country) and Karnataka, with large number of PCARDBs (second only to Tamil Nadu) each had three-fourths of the PCARDBs classified under "C" category indicating their performance being no different. About two-thirds of the PCARDBs in Tamil Nadu were also placed in "C" category though its nature of business provided greater ease of recovery.

d) Some other details in respect of PCARDBs have been discussed in the relevant Chapters along with discussion on the SCARDBs. It was observed that there was a need to address the weaknesses of the PCARDBs so that the 'wings of federal structure' could become more vibrant and stronger.

CHAPTER 11

Legal Framework for SCARDBs

The SCARDBs are institutions registered as cooperative societies undertaking specialised function of credit in the field of agriculture and rural development. As such they operate primarily within the domain of law enacted by the State Govt. for cooperative societies generally or those enacted specifically for these cooperatives. In the course of their business, they carry on certain functions which are governed by various legislations passed by the Central and State Acts. This Chapter examines the relevant Act/s for better understanding of their functions. The reforms required in respect of these legislations are discussed in Chapter 16.

11.1 Cooperative Societies Act

a) Prior to independence, the ARDBs (initially known as Land Mortgage Banks), were governed by the Provincial Laws. The same arrangement continued in the post-independence era since under the Indian Constitution, 'Cooperation' is included in the State list by virtue of which 'Regulation, Incorporation and Winding up of Cooperative Societies' are governed by the Cooperative Societies Act applicable to the respective State /UT. States which were having a separate LTCCS, generally provided for an exclusive chapter in the State Societies Act for the governance of such entities. (eg., Rajasthan Cooperative Societies Act, 2001 -Chapter XII – Land Development Banks).

b) The need to have a separate law to govern the working of LTCCS was felt as early as in the year 1934 and the Presidency of Madras enacted a "Madras Cooperative Land Development Bank Act" in that year. The Act was later on adapted for the whole State of Tamil Nadu and governs the present LTCCS in the state. After independence, Assam brought a separate legislation to facilitate the working of SCARDB in the year 1960. Uttar Pradesh followed suit with an Act in 1964. Kerala State Co-operative Agricultural and Rural Development Banks Act enacted in the year 1984, presumably is the most comprehensive legislation for the structure in any state.

c) The state/s of Punjab and Himachal Pradesh have enacted supplemental laws (to the State Cooperative Societies Act) for governing the LTCCS.

d) Though, the structure is normally confined to the geographical jurisdiction of a State/ UT, the bifurcation of State/s in the year 2000 put the branches/ primaries in areas beyond their area of jurisdiction. As the Multi State Cooperative Societies Act, 2002 (Section 103) provides for "deemed registration of multi-state cooperative societies status" to such societies under the Act, the SCARDBs operating in Bihar (since renamed as The Multi State Cooperative Land Development Bank Limited, Bihar) has been converted into a deemed multi-state cooperative society. This is now governed by the provisions of the Central Act. The SCARDB in Uttar Pradesh, which met the similar fate has since been registered under the State Act in the year 2013 and is governed by the State Act. This was done after the General Body of SCARDB in Uttar Pradesh resolved to retain its jurisdiction only to the State of Uttar Pradesh.

Reform

The provisions in the Act generally provide for the purpose and security of loan and the special procedure and power relating to manner of creation of charge and its priority, distrain and sale of land without the intervention of the court. There is a wide variation in the purpose of loan permitted to the structure among States. The differences exist also in the process of enforcement of security of land as well. Various governance and management parameters like composition of Board, its powers, appointment of CEO, etc. have also been addressed in different manner in these legislative enactments. The issues involved have been discussed in various chapters. Based on this, there is a need to suggest a model SCARDB Act for adoption by the states . Various aspects to be covered and suggestions in this regard are included as Annexure 24.

11.2 Banking Regulation Act,1949

a) At the time of extension of The Banking Companies Act, 1949 to the cooperative banks (with effect from 01 March 1966), the Amendment substituted Section 3 and expressly provided that the Act would not be applicable to "a cooperative land mortgage bank" (Section 3 (b)). Accordingly, the amended Act since known as Banking Regulation Act, 1949 has not been applicable to ARDBs. NABARD Act, 1981 which governs the functioning of NABARD in relation to its activities, defines State Land Development Bank and provides various facilities to them as available to other banks. The State land development Bank have also been using the nomenclature "Bank" in their name. In this background and other developments in banking sector, the Section 3 of the Banking Regulation Act, 1949 has been substituted again in the year 2020.

b) The Act, specifies to ignore the provisions of NABARD Act for this purpose. Further, the Act now restricts the exemption from application of the Act only if primary object and principal business is providing of long-term finance for agricultural development provided such. Such society should also do not use the words "bank", "banker" or "banking" as part of its name, or in connection with its business, and also not act as drawee of cheques. The developments in the field of ARDBs over a period of time, bring to the fore the facts that though they are not acting as drawee of cheques, they use the words "bank" in their name and also in connection with their business. So long as the ARDBs do not fulfil both the conditions, they are outside the purview of BR Act.

c) RBI had issued a Press Release on 22 November 2021 which cautioned co-operative societies not to use the words "bank", "banker" or "banking" as part of their names, except as permitted under the provisions of BR Act, 1949 or by the Reserve Bank of India (RBI). The Press Release also indicated that some Co-operative societies are accepting deposits from non-members/ nominal members/ associate members which is akin to banking business in violation of the provisions of the BR Act, 1949. It is reported that the Govt. of Kerala has made a representation to RBI in this regard.

Reform

a) ARDBs have been using the term Bank in their name for more than a century. The nature of their functioning is also etched now in public understanding . There have been absence of ground level experience of ARDB structure misusing the name for a regular bank and doing general banking. Some legal luminaries have also opined that the use of the word "bank" by the ARDB structure is neither improper nor barred by the provisions of the BR Act. In view of this, there is a need to have a closer look into the effect of recent amendment (year 2020) in relation to the use of the term "Bank " (Section 3) in respect of ARDB structure. RBI may make efforts to clear the air in this regard. A specific provision in the Act may be brought into the Act, if such a need arise.

b) A suggestion has been made for amendment in NABARD Act for definition of State Land Development Bank in view of their name and purpose of lending. The same may be accepted for the purpose of this Act (BR Act) as well.

c) It may also be examined whether there is a need to define the term ARDB in the Act separately. The existing definition (clause (ccii) of Section 5 in Part V of the Act " cooperative credit society includes a cooperative land mortgage bank" may require a relook in view of the scale of operations in the time to come.

11.3 NABARD Act, 1981

a) A mention of NABARD Act, 1981 is considered necessary as it affects the operation of ARDBs. The Section 2 (v) of the Act defines State Land Development Bank, with principal objective of providing long term finance for agriculture development, as the principal land development bank in a State. As such, it recognises SCARDBs acting in a particular State and as an institution providing long term finance.

b) As a corollary to this, the NABARD Act has provision for providing investment credit to SCARDBs primarily for their long term finance under Section 25 (1) (a) and (b) of the Act . The provision (Section 25 (1) (a)) considers SCARDB as an eligible entity for loans and advances by way of refinance for their disbursement for agriculture and rural development. The clause (b) provided for NABARD's subscription to the debentures issued by SCARDBs. NABARD has since discontinued the system of investment in Special Development Debentures and refinance is provided by way of loans and advances.

c) A special provision (Section 28) of the Act deals with security for credit in respect of loans provided by NABARD, inter-alia, under Section 25 of the Act. This requires full and unconditional guarantee of the Government for the repayment of principal and payment of interest in respect of financial accommodation provided under the provision (Section 25) for agencies other than Scheduled Bank. Section 28 permits refinance, in the absence of guarantee, subject to security to the satisfaction of the Board of NABARD. Accordingly, the SCARDBs are securing NABARD refinance either on the basis of govt. guarantee or against the security of bank fixed deposits .

d) Section 35 of the Act provides for access to all records of the borrowing institution and accordingly NABARD has been exercising its rights wherever required.

e) NABARD acts as a coordinating agency for operations of various agencies, including SCARDB, engaged in the field of rural credit (Section 38). It also provides facility and financial support for training for their staff and collects their information for its own publication and also that of RBI. Government of India is seeking consultation from NABARD in respect of SCARDB.

Reform

a) The present definition of SCARDB is not in tune with ground level realities either in respect of its nomenclature or functioning. These institutions, which were initially known as Land Mortgage Banks were later on came to be called as Land Development Banks at the time NABARD Act was enacted. However, over a period of time, with the expansion in their activities, they have acquired a new name and are presently known as Agriculture and Rural Development Banks and both the primaries and the Apex level institution use the same in their name (except in case of UTP and UP). The changes in the Act should be made to give effect to this reality. Further, the existing provisions indicate long term finance for agriculture development as their primary objective. However, these banks are providing long term finance for various "Rural Development" activities as well.

b) With the bifurcation of the State of Bihar, the SCARDB operating in the state is now registered as deemed to be a MSCS. There is no provision in NABARD Act to provide for refinance to a State Land Development Bank registered as MSCS. The Amendment in Section 2 (v) should take care of this requirement and provide for NABARD refinance to such MSCS. It is left to the discretion of NABARD to examine separately whether this relaxation should be extended to all other MSCS or may be limited only to the ARDBs.

c) A suggestion is also being made in this Report to permit these institutions to finance working capital/short term activities as part of their normal business. Suitable changes are required in the Act to give effect to this suggestion. NABARD is providing refinance to Rural Cooperative Banks viz. State Cooperative Bank and District Central Cooperative Banks for various short term activities listed in clause (1) (i) to (v) under Section 21. These activities relate to production and marketing of agriculture and rural enterprise. The refinance is available to these banks generally against the security of promissory note and a declaration in lieu of actual assignment of the security of loan obtained by the borrowing institution. This facility is not available to SCARDB. Since this report suggests such short term loans as a normal activity of SCARDB, the scope of Section 21 may be enlarged to provide for such refinance to SCARDBs. At present, short term refinance is available to SCARDBs only in connection with the activities eligible for refinance under clause (a) or clause (b) (applicable for SCARDB) of Section 25 of the Act and does not cover various purposes under Section 21. (Clause c of Section 25 is not applicable for SCARDB).

d) As an extension of this facility (Section 21), it would be desirable to expand the facility of conversion of short term production loans into medium term loans to SCARDBs like the Rural Cooperative Banks viz. StCB and DCCBs. The facility under Section 22 of the Act is made available both for the purpose of repayment of borrowings made by these institutions to NABARD as also to provide loans to primary rural credit societies, directly or indirectly depending upon the different tiers of structure. The facility may be extended, as it is to SCARDBs in federal structure and may be restricted only to convert the outstanding borrowing in case of SCARDBs in unitary structure. The Study Group has noted the existing requirement of Govt. guarantee in respect of loans to cooperative credit structure under Section 22. Since the issue of Govt. guarantee has been dealt separately, the reforms suggested therein would hold good for these purposes.

e) Section 23 of NABARD Act extends similar facility of rescheduling in respect of loans to artisans, small-scale industries, industries in the tiny and decentralised sector, village and cottage industries and those engaged in the field of handicrafts and other rural crafts. Since the reform suggested in this Report include disbursement of such loans by SCARDB, the facility of Section 23 is required to be extended to SCARDB as well.

f) The existing provision of the Act lays down great emphasis on Government guarantee for NABARD refinance to SCARDB. The guarantee of the State has become a complex issue particularly in the wake of emphasis on rapid economic development and involvement of foreign companies / institutions. The process of securing Govt. guarantee, the amount of guarantee fee charged by the State Govt. and their eligibility to provide, have been a thorny issue. The details have been discussed separately in the Chapter 12 NABARD Act provides for its support to the Cooperative Banks (StCB and DCCBs) only against Govt. guarantee under Section 22 (Conversion). Besides, many other provisions of the Act require government guarantee for support to Cooperative Banks. The amount of NABARD support provided, where such requirement exist, has reduced drastically. The Act was enacted more than four decades ago when the instrument of govt. guarantee was also considered a way of securing greater and close involvement of the State Govt. in the affairs of Cooperatives. Over a period of time, the demand on the State is to act more as a facilitator. NABARD has also expanded nature of its clients and gained experience in lending to such institutions without the backing of Govt. guarantee. In the present day context, the security of sovereign guarantee is primarily the need of agencies/institutions operating in foreign jurisdiction. The guarantee is required by them for the uncertainties emanating from absence of complete understanding of socio, economic and political environment of a different country. As such, there is a case for Govt. of India to revisit the prescription of Govt. guarantee for provision of financial assistance to SCARDBs (and other Cooperative Banks) in the NABARD Act.

g) The voluntary nature of inspection of SCARDB by NABARD has not served the purpose to ensure compliance with laws, observance of system and procedure as also protection of the interest of various stakeholders. It is observed that there is no definite periodicity in inspection of SCARDBs across the States. In some of the States, inspections are carried out annually, while in others the same has not been conducted for many years. This gives an impression that the inspection is a regular exercise in States where NABARD has refinance outstanding against the concerned SCARDB. This change in approach has led to a situation where these inspections are not so focussed as to secure closer and detailed examination of the compliance with various legislative provision, adherence to systems and procedures as also protection of interest of various stakeholders. There is a need to ensure conduct of regular inspection with detailed guidelines similar to those conducted in respect of rural cooperative banks. In view of NABARD's association with inspection of SCARDB since its formation and experience gained by it, NABARD is the most appropriate authority for this task. These views were also echoed by various stakeholders during the course of interaction at field level. A suitable provision may be incorporated in NABARD Act to provide for this purpose. GoI may like to examine separately whether such powers may be extended to NABARD in respect of MSCS, primarily national level societies, engaged in activities relating to agriculture and rural development.

h) There was a feeling among the members of NCARDB Federation that the policy initiatives for SCARDB in the recent past has not matched their expectation. They have attributed this to the absence of professional representative of cooperatives on the Board of NABARD. This issue can be adequately addressed through existing provisions in the Act. The Section 6 (1) (b) of NABARD Act provides for inclusion of 3 experts from various fields including those having experience in the working of Cooperative Banks, "appointment of three directors from amongst experts in rural economics, rural development village and cottage industries, micro-enterprises, small enterprises and medium enterprises or persons having experience in the working of co-operative banks, regional rural banks or commercial banks or any other matter the special knowledge or professional experience in which is considered by the Central Government as useful to NABARD" on the Board of Directors of NABARD. Suitable guidelines may be framed so as to ensure nomination of such persons to Board of Directors of NABARD who can further the cause of the LTCCS. Further, the Act, ibid provides for constitution of an Advisory Council (Section 14) consisting of the members of Board and other persons to advise the Board on matters referred to it. NABARD may consider to exercise the option provided in this regard to address the concern of LTCCS.

11.4 RBI Act,1934

The issue of acceptance of deposits by ARDBs was examined by the 'Study Group on mobilisation of deposits by ARDBs', constituted by NABARD. The Group examined the applicability of RBI Act, 1934 which provides for provisions relating to Non-banking institutions and Financial Institutions accepting deposits, in relation to ARDBs. Section 45 H of the Act, ibid lays down that this Chapter (Chapter III B) containing provisions in this regard, are not applicable to primary credit societies. The recommendation of the Group led to issue of guidelines by NABARD for mobilisation of deposits in the year 1997. SCARDBs continue to accept deposits generally on the basis of those guidelines. There has been no change in the relevant provisions of the RBI Act, 1934 or any connected legislation in this regard. The actual experience is also that RBI has not interfered in the deposit taking activity of SCARDB in any manner, (except for a deposit mobilsation scheme in the year 1971). As such, Study Team also inclined to go by the conclusion of the Study Group on mobilisation of deposits by ARDBs (Dr. Bhandari Committee) that the Chapter III B of RBI Act is not intended to cover the activities of ARDBs.

11.5 The Banning of Unregulated Deposit Schemes Act, 2019

a) A series of financial frauds in the form of ponzi schemes, chit fund scams and similar unregulated deposit schemes led to Govt. of India issuing an Ordinance in February 2019 to ban such activities. The Banning of Unregulated Deposit Schemes Act, 2019 was later on enacted repealing the ordinance. The Banning of Unregulated Deposit Schemes

Rules, 2020 have since been framed by Govt. of India for the effective implementation of the Act. The objective of this legislative measure is to ensure protection to the hard earned savings of the public from fraudsters.

b) The First Schedule of the Act provides for a list of regulated deposit schemes and their regulation. The State Government is notified as the Regulator for deposit schemes of a cooperative society in a state. As such, the deposit schemes of the SCARDBs are required to be regulated by the State Govt. The Act requires appointment of "Competent Authority" (Section 7) not below the rank of a Secretary to the Govt. for this purpose. Section 9 of the Act also stipulates that the Govt. of India may designate an authority, to create, maintain and operate an online database for information on deposit takers. Incidentally, a provision in the Act (Section 41) indicates that the Act does not apply to deposits taken in the normal course of business. The Rules, 2020 framed for implementation of the Act requires Regulator/ Competent Authority to furnish information for the database.

c) It is observed that the awareness about the provisions of the Act and the Rules in many of the States was quite low. It was also gathered that even the "Competent Authority" required to be appointed, has also not been appointed in some States. In this situation, the Schemes prepared by some of the SCARDBs and submitted to the Cooperation Deptt. (with the understanding that the concerned Deptt. is the competent authority) has not received much attention. There is a situation of uncertainty and confusion regarding implementation of a regulated deposit scheme visualised by the Act.

Reform

Notwithstanding the present level of implementation and the absence of adequate experience in the implementation of the Act, it is observed that the Act or the Rules do not require presence of any professional or expert in decision making for deposit schemes. The deposit taking exercise, particularly of an apex level institution of SCARDB or even primary cooperatives (PCARDBs) involves complex issues. As such, there is a need to provide for changes in the Rules/ Act so as to ensure approval of deposit schemes in respect of SCARDB/ PCARDB by the "Competent Authority" only after such professional advice. In view of the role visualised for NABARD (as discussed separately), it is considered the most appropriate institution for such support and guidance. Whether NABARD should be considered for such professional support in respect of other cooperatives, is a decision which may be taken by the "Competent Authority" independent of this decision.

There is also a need to bring more clarity to the provision in Section 41 of the Act which exempts deposits taken in the normal course of business. SCARDBs have been mobilising term deposits for more than a quarter of century and has turned out to be part of their normal course of business. There are varying opinions about the applicability of the Act for SCARDBs and doubts have been expressed in this regard. In this background, more clarity in the provisions would settle the issue regarding applicability of the Act for SCARDB.

11. 6 Multi State Cooperative Societies Act, 2002

a) The Act provides for registration of Cooperative Societies having area of operation beyond a particular state/UT. The Govt. of India acts as the "State Govt" for such societies and the Central Registrar , appointed by Govt. of India acts as the equivalent of Registrar of Cooperative Societies. As the Hon'ble Supreme Court in respect of MSCS upheld the 97th Constitutional Amendment Act, the Govt. of India has introduced an Amendment Bill, 2022 mainly to incorporate the provisions of those contained in the constitutional amendment. A Joint Parliamentary Committee has also examined these amendments and submitted its report.

b) There has also been a demand by the NCARDB Federation to allow extension of the area of operation of SCARDB beyond a particular State and hence permit registration of such SCARDBs as a MSCS. Such registration would enable them to extend the area of operation beyond a particular state and be governed by the MSCS Act compared to the State Act presently applicable to them.

c) In this connection, the provisions of Section 3 (a) of the MSCS Act, 2002 defines the "area of operation" as the area for which the members are admitted. At present, the members of the SCARDB are admitted only from the concerned State in case of a SCARDB. As such, this extension in respect of existing SCARDB (conversion from state society to a multi-state) would require changes in the state laws by which they are governed. This would also imply that the State Govt. would have to shed their control over such societies.

d) At present, Section 22 of the MSCS Act, 2002 provides for such conversion and the Act lays down procedure in this regard. The Section 22 (2) (b) requires Central Registrar to consult the Registrar of Cooperative Societies of the concerned state (where the cooperative is presently registered) for his satisfaction before any such action. Further Section 22 (5) (c) of the Act provides for the Registrar of cooperative Societies of the State to make an order for cessation of such a society from the state Act. With a view to ensure ease of doing business by the cooperative, the recently enacted MSCS Amendment Act,2023 has substituted the provisions of Section 22 (5) (c) of the MSCS Act, 2002. The proposed substitution removes the role of Registrar of Cooperative Societies of the State regarding issue of an order for cessation of a cooperative society as a state cooperative and provides for deemed deregistration as MSCS after the necessary order from the Central Registrar.

e) A mention of Section 103 of the Act, ibid in this regard would be in order. The Section provides for "deemed registration" of societies, as MSCS, confined to a particular State prior to reorganisation/ bifurcation of a State/s, but whose area is extended after such reorganisation/bifurcation. Consequent upon reorganisation of States in the year 2000, the provision was invoked for registration of SCARDBs in Bihar and Uttar Pradesh and these SCARDBs were registered as multi-state cooperative societies. The SCARDB in UP later on restricted its area of operation only to the State and secured registration under the State Act. The MSCS Amendment Act, 2023 stipulates a time limit of 3 years for successor States for the re-organisation of deemed MSCs into State societies.

f) The Bihar SCARDB has since become The Multi State Cooperative Land Development Bank Limited, Bihar and is governed by the MSCS Act. The experience suggests that the entire process of "deemed registration" has not proved to be a pleasant experience for both the SCARDB and concerned State Govt. so far. In view of the experience gained and difficulties visualised (on account of conversion/ deemed registration), a suggestion was made to the JPC to provide for continued application of provisions of the extant state Act relating to recovery of loans on the basis of mortgage of property. However, the suggestion did not find favour with the JPC.

g) The Study Team feels that the amendment in MSCS Act, 2002 would take care of the demand made by the NCARDBF. However, the future events would only indicate the exact nature of implementation of the provisions in the Amendment.

Reform

The Act does not make any distinction among MSCS on the basis of their object and activities. However, the Multi State Cooperative Societies (Amendment) Act, 2023 provides for amendment so as to ensure adherence of several norms laid down by RBI in respect of Multi State Cooperative Bank. These relate to value of paid up capital, provision of reserves and liquidity norm (Section 7), issue of shares (Section 26), standards of accounting and auditing as also scheme of rehabilitation or reconstruction (new proposals). In view of the clause of deemed registration and the proposals made in this Report regarding powers to NABARD in respect of SCARDB, there is a need to provide for provision similar to multi state cooperative banks, in respect of (multi-state)SCARDBs, to ensure adherence to NABARD guidelines to be issued in this regard.

CHAPTER 12

Role of State Government- "Need for Balanced Participation"

12.1 Framework governing Role of State Govt.

a) The role of the Provincial Govt. (as the State was so called) in the cooperative field dates back prior to the independence era. The Govt. of India Act, 1919 transferred the "Cooperation" as a subject to the provinces. This led to enactment of The Bombay Cooperative Societies Act of 1925, the first such Act to be passed by a province. The grant of greater autonomy to the provinces in the year 1935 gave further impetus to legislation by the provinces. Many such Acts passed by the provinces continued to guide the role of state govt. in the field of cooperatives operating in those provinces after independence.

b) The Constitution of India retained this arrangement and the State List provided for "Incorporation, Regulation and Winding up of Cooperative Societies" along with some other entities. (Entry 32, Seventh Schedule, Constitution of India). The constitution makers had visualised the role of State Govt. in tune with this provision.

c) The Govt. adopted a planned model for economic development of the country and the First Five Year plan outlined the vision of the Cooperatives as a preferred organisation for this purpose. This led to the appointment of an All India Rural Survey Committee, (1951). A major recommendation of the Committee was State Partnership in the cooperatives through share capital contribution and participation in their management. The consequent changes in legislation by the States continued to define the role of State Govt. since then for almost next half a century. The recommendations of the Vaidyanathan Committee requiring legislative reforms brought some changes in State participation in select States. The 97th Constitutional Amendment, 2011, though ultimately declared null and void for its application to the States in some aspects, also led to changes in the State Acts.

d) The LTCCS, being a unique structure, called for some special role for the State Govt. As such, the State Acts provided for guarantee of the State Govt. to the debentures issued by the SCARDB and powers of the State to sell mortgaged land for loans availed from the LTCCS.

e) The present role played by the State Govts. is based on these legislative developments and experience gained by them in their association with the cooperatives in general and LTCCS in particular.

12.2 Incorporation and Winding Up

a) The State Govt. have provided for liberal provisions in the Act/ Rules for incorporation of cooperative societies. The process laid out for the same and the authorities established for this purpose have proved supportive in this regard. Incidentally, the 97th Constitutional Amendment, 2011 granted the status of fundamental right for formation of cooperative societies. In order to promote the development of cooperatives outside the domain of support from State government, some States also enacted laws for formation of self- supporting / mutually aided cooperatives having still more liberal provisions for formation of cooperatives.

b) As regards provisions relating to winding up, there are well laid down detailed procedure for the same. The relative provisions have been invoked by the State Govt. in respect of LTCCS in States like Andhra Pradesh and Chhattisgarh for integration and Manipur, Maharashtra and Madhya Pradesh for liquidation of the structure.

12.3 State Partnership

The state partnership in the LTCCS has been witnessed through their contribution in their share capital and involvement in management. The details have been discussed in following paragraphs:-

1. Share capital contribution

a) The share capital contribution by the State govt. in the cooperatives was visualized for ensuring state's involvement in the affairs of cooperatives. This also provided state govt. with the legitimate right for the participation in their management. The State Cooperative Societies Acts provide for State Govt. shareholding in the cooperative credit structure, both directly or indirectly through the Fund provided to the Apex Society, as the structure has been considered important for agriculture and rural development. The details of share capital contribution by the State Govt. in the LTCCS have been discussed in the Chapter on Resource Mobilisation.

b) During the course of field visit, the representatives of Uttar Pradesh SCARDB raised the issue of absence of any contribution by the State Govt. Their demand was primarily with a view to augment their resources for their business and improving their Capital to Risk weighted Assets Ratio (CRAR). Incidentally, Gujarat SCARDB and the PCARDBs in the states of Kerala and Punjab had no share capital contribution. The state Govt., however, participated in their governance and management like any other states.

2. Participation in Governance and Management

- **Board of Directors – Composition, Election and Supersession**

a) The overall governance of LTCCS vests with the elected Board of Directors. The composition of Board of Directors provided for nomination of state govt. officials on their Board and they even acted as Chairman in some cases. These were generally administrative officials who did not necessarily possess requisite professional skills to manage credit institutions. In some states, the state govt. has provided for nomination of the Regional Office in Charge of NABARD as an expert. The absence of professionals on the Board made it difficult for these institutions to provide the requisite guidance and leadership.

b) Some of the State Govts. have established an independent Cooperative Election Authority to hold elections. Notwithstanding this, it was reported to the Study Team that the norms relating to conduct of elections were not observed scrupulously and those were also violated for extending favour to political parties in power. An important example in this regard was presence of defaulting members as Director on the Board in many PCARDBs.

c) The State Govts. have powers to supersede the elected board in certain situations. In such an eventuality, the State govt. appoints a person, generally govt. official to act as the Administrator, by whatever name called. It is evident that this power has not necessarily been used in the true spirit as the elected boards were superseded for a pretty long period even up to 15 years in respect of some SCARDBs, particularly Puducherry, Rajasthan and West Bengal.

- **Management**

a) The state govt. has an important role to play in the management of the LTCCS. It was observed that a Senior Officer of the respective State/UT Government in almost all the SCARDBs occupied the post of CEO / MD. Similar provisions for appointment of State Govt. official existed in respect of the PCARDBs in the States having federal structure. These officials were not necessarily professionally equipped. It was also observed that officials from Co-operation Department of the State Government were deputed to occupy top management and other positions in the LTCCS. This had placed enhanced burden on the administrative expenditure (because of better service conditions), demoralized the staff members and stunted the growth of capabilities of the bank's manpower to manage their institutions even in future.

b) The State Acts incorporate provision for qualification for the appointment of manager, officers, and their terms and conditions. The initiatives of some of the states like Kerala and West Bengal providing for qualification commensurate to the post to be held by their personnel and their appointment through State Public Service Commission/ a separate Co-operative Service Commission deserve special mention. Kerala Govt. had also set up a separate Services Board for conducting examinations for selection of candidates for various posts in PCARDBs along with other co-operative institutions. Similarly, Rajasthan Government has also set up a Cooperative Services Board for making recruitment in the cooperatives. In sharp contrast, appointment of about 1000 personnel in UP SCARDB without actual assessment of manpower requirements and alleged corruption in recruitment process has not proved to be a good example of State involvement in this regard.

c) It was observed that there was involvement of the State Govt. in all operational matters in the day-to-day affairs of the SCARDBs. It was observed that the State Govt. decided the basic operational matter like investment, One Time Settlement Scheme and fixation of rate of interest on deposits & loans though it did not involve any financial liability for the State. The decision of Kerala SCARDB to invest ₹ 5.00 Crores in the shares of a Medical College, in the co-operative fold, was one such example as the investment has turned out to be non-performing. It was reported that such a close association has led to the LTCCS acting upon even oral instructions, which were not always in the best interest of the organisation. In effect, for all practical purposes, the State Govt. was managing the affairs of the LTCCS.

12.4 Audit and Inspection

The State Acts provide for conduct of an important function of audit and inspection of the Cooperative Societies, including those in the LTCCS. Some of the States have even created a separate department in the govt. to undertake this function. The audit function, in many cases, was performed through govt. employees deputed to the LTCCS. Some of the State Govt. like Kerala had adopted a Manual providing for separate and detailed guidelines for conduct of audit in respect of LTCCS. However, such exhaustive guidelines were not in place in many states affecting quality of audit. The function of Concurrent Audit was also assigned to the Departmental Auditors in some of the States, but it was observed that the same was not "concurrent' defeating the very purpose of such audit. This function of the State was at a handsome cost for the institutions. West Bengal Govt. had set a good example of not charging the LTCCS for undertaking such function and borne the cost involved itself.

12.5 Role of Trustee and Govt. Guarantee

An important role played by the State Govt. in respect of SCARDB was providing guarantee in respect of its main source of borrowing – the loans provided by NABARD by way of refinance (earlier through contribution to debentures). Though the system of floatation of debenture (as provided in the Act has ceased to exist), the State Governments. continue to extend guarantee as stipulated by NABARD for provision of its refinance. The State govts. had to actually bear the burden of repaying the dues of NABARD in many States like Maharashtra, Tripura, Bihar and Haryana , to name a few.

The guarantee was made available for a period of 3-5 years (referred as Block Guarantee) in case of States like Punjab and Haryana. In other cases, it was valid only for a financial year. In many cases, the delay in completing the formalities by the State Govt., resulted in actual execution of guarantee at the fag- end of the financial year, which defeated the whole purpose.

The guarantee was made available to the SCARDB at a very high cost in some cases and there was no uniformity in charging of commission/fee for this purpose. An unusual case of levy of guarantee fee which had a serious effect on finances of the SCARDB was observed in case of Kerala. The State Govt. charged an amount of 0.75% of outstanding borrowing from NABARD against the guarantee fee. The SCARDB had to shell out a whopping ₹ 47 Crore during the financial year 2021-22 for this purpose, which had a serious impact on its financial performance as its borrowings from NABARD was the maximum in the country. As the SCARDB passed on the entire burden to the intermediary structure of PCARDB, the ultimate borrowers had to pay a higher cost as the PCARDBs fixed their rate of interest taking into account the same. The guarantee fee charged in other States was in relation to the amount of guarantee extended and the period for which they were valid.

12.6 Role of Facilitator - Legal action for Recovery

As discussed in the Chapter on Recovery Performance, the State Govt. had the power to sell mortgaged land without the intervention of the Court. In some states, the Act provided for such powers to the SCARDB officials, subject to certain safeguards at the time of initiating such action, confirmation of sale and so on. At the time of establishment of the LTCCS, this role of the State was considered to be crucial in ensuring recovery of loans and hence their survival. However, the socio, political and economic considerations have forced the State Govt. to desist from playing the role visualized for them in this respect. This had an extreme adverse effect on the recovery climate and performance of the SCARDBs throughout the country and brought some of them even to the level of their extinction.

12.7 Role of State in Agriculture and its effect on LTCCS

a) The State Govt. has an important role to play in the field of agriculture. Since the LTCCS was established mainly to further this agenda, the decisions taken by the State Govt. for the agriculture sector and the farmers has a strong impact on the LTCCS. It was observed that the State Govts. in Rajasthan, Haryana and Karnataka had implemented schemes to reduce financial burden of interest on farmers in respect of agricultural term loans availed by them from the LTCCS. The interaction with a few borrowers in Karnataka, where loan up to ₹ 10 lakh is available at 3% per annum in case of timely payment, gave an impression that both the LTCCS and the farmers appreciated such initiative. Similarly, in the State of Kerala which suffered natural calamities at a regular frequency, the relief made available through statutory Debt Relief Commissions provided the much-needed relief to farmers and the fishermen. However, the SCARDBs could not appreciate the full impact of these initiatives because of delay in release of committed liability by the State Govt.

b) Another important decision taken by the State Govts. have been waiver of loans for agricultural and allied activities. The waiver schemes generally announced covered only crop loans, a miniscule portion of loan portfolio of the LTCCS. Such schemes (U.P. and Karnataka in year 2017) were not applicable to large number of the borrowers in LTCCS (as they had very little or no such loan), but vitiated the recovery climate. The waiver schemes in general, though provided relief to the farmers and ensured recovery of large portion of loans, had impacted the overall recovery adversely. The considerable delay in release of govt. liability was observed in many cases.

12.8 Others

There were some other initiatives of the State Govt. which would require discussion in order to assess its role in a comprehensive manner. The financial assistance provided by Govt. of West Bengal to SCARDB to reduce the imbalances, support business development and improving systems & procedures needs mention. The Govt. of Haryana had provided financial support for meeting the interest liability to specified extent in respect of borrowers availing the facility of One Time

Settlement Scheme implemented by the SCARDB. In a significant development, Punjab Government had provided support for meeting pension liabilities in respect of retired staff of the SCARDB. The provision of soft loan and grant in aid by the State Govts to tide over liquidity crunch proved to be of great help for SCARDBs in Punjab and Haryana. The initiative of Risk Fund (for reduction of liability in case of death/chronic ailment of the borrower) and the Deposit Guarantee Scheme in the State of Kerala are unique in nature and may serve as a model.

12.9 Conclusion

The role of State Govt. is all pervasive in respect of LTCCS because of its close involvement in not only governance and general management, but all spheres of its operations. The States had, however not initiated requisite action under BUDS Act. Some of the State Govt. were conscious of the need for review of the position of the LTCCS because of various developments over a period of time. The State Govt. of Karnataka (Administrative Reforms Commission) had undertaken such a review for future course of action. The initiatives of State Govts. had huge impact in conjunction with the role played by it in agriculture development. At present, there is no external stakeholder playing such an important role for the LTCCS. There is a case for appropriate balance in respect of its initiatives in view of their diverse impact.

CHAPTER 13

Role of NABARD - "Improved Focus Crucial"

13.1 Background

The recommendations of The Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) led to enactment of National Bank for Agriculture and Rural Development (NABARD) Act, 1981 by the parliament. NABARD was set up in the year 1982 and integrated the functions of Agriculture Credit Department (ACD) and the Rural Planning and Credit Cell (RPCC) of the RBI and its wholly owned subsidiary viz. the Agricultural Refinance and Development Corporation (ARDC). The preamble of the Act visualized the institution to act for provision of credit for agriculture, which was amended to assign the task of regulation of credit and encompass the activities beyond agriculture in rural areas. The activities of the institution have since been governed and guided by these provisions.

13.2 Multi-Dimensional Role of NABARD

At the outset, it must be noted that NABARD is an apex body in the field of agriculture and rural development. It has attained an enviable position due to its performance in various fields for more than four decades. This chapter makes an assessment of its role only in relation to the LTCCS and is not intended to pass any judgement on its overall performance.

The role of NABARD has been multi-dimensional in respect of the LTCCS and covered the areas of financial support, institutional development and supervision. The association of NABARD and LTCCS is four decades old and an attempt has been made to analyse the relationship of NABARD with LTCCS in the following paragraphs:

a) The Beginning

As NABARD came into existence on 12 July 1982, the year 1983 -84 (it used to be July-June), was the first full year of its performance. As per the mandate provided to NABARD, it took many actions and reported the same prominently in its Annual Report. Some excerpts from the NABARD Annual Report, 1983-84, which would throw some light on its involvement with the LTCCS, is worth mentioning as under:

- SLDB was one of the four agencies (SLDB , RRB, CB and StCB (then SCB)) for its long term refinance operations. NABARD's commitment in respect of 401 Schemes was one third of the total scheme committed by it. The refinance provided to SLDB was ₹ 314 crore , which worked out to 35% of the total schematic refinance disbursement of ₹ 892 crore.
- Some pre investment expenditure like obtaining encumbrance certificate, registration of document, payment of evaluation fee by borrowers were made eligible for refinance in respect of SLDB earlier than other agencies. (Para 3.5 of AR, 1983-84).
- The AR 1983-84 mentioned that the " the rehabilitation measures of weak SLDB have also contributed for large availment of refinance for them". (Para 2.25, ibid)
- Rehabilitation of weak SLDB received prominence. NABARD conducted Organisation & Method (O&M) studies to understand the issues in 6 SLDBs and similar studies were also conducted in 9 other SLDBs.
- Modernisation of systems and procedures of SLDB was considered an important part of the

"Pilot Project for Strengthening Credit Delivery System" launched by NABARD.

- Grant assistance from Research & Development Fund for Technical Monitoring and Evaluation Cell was sanctioned in respect of 11 SLDBs as on June 1984 (Para 3.36, ibid)
- Assistance was provided for appointment of 111 Key Personnel in the Cooperative Banks (including SLDBs)
- Special Training programme was conducted in 5 states for officials of weak SLDB
- As a measure of functional integration of STCCS and LTCCS, PACS were selected in 5 states viz. Haryana, Karnataka, Madhya Pradesh, Rajasthan and West Bengal to act as an agent of LTCCS for collection of loan application, loan disbursement and recovery of loans.
- Letters were written by Union Finance Minister and the Union Agriculture Minister to Chief Ministers on importance of recovery. This was followed up by the Chairman, the Managing Director, and Regional Officer in charges. (The SLDBs also benefitted from this initiative.)

b) Two Decades Thereafter

- The Annual Report, 2002-03, NABARD highlighted the continued dominance of SLDBs in availment of refinance from NABARD, which stood at ₹ 2854 crore for the financial year. This formed 38.5% of investment credit refinance disbursed by NABARD during the year. However, as regards other initiatives and support, the same declined to a great extent. The AR mentioned about the declining profitability of the LTCCS and expressed concerns about the high proportion of their assets as non -performing and the DAP- MoU exercise was renewed.
- The two developments which had taken place by that time and which affected the future course of NABARD's engagement with LTCCS require mention. Reserve Bank of India had reduced its contribution to National Rural credit (Long Term Operations) Fund to a token of ₹ 1 crore and the SCARDBs (not being banks) were outside the domain of Board of Supervision constituted by NABARD . As it was observed later on , the focus of NABARD supervision shifted to the banking agency of StCB, DCCB and RRB.
- The Vaidyanathan Committee, 2005 (Task Force on Revival of LTCCS) made an assessment of the role of NABARD in relation to the LTCCS. It acknowledged that the financial resources provided by NABARD to the SCARDB and its capacity building efforts have helped provision of investment credit in the rural sector. The Committee deliberated upon various reasons for the financial health of the SCARDBs. The Committee thought of assigning some share of financial package to NABARD but accepted that a host of factors outside the control of NABARD drove deterioration in financial health of LTCCS.
- The Task Force expressed apprehension about the quality of assets at the SCARDB level and feared defaults to NABARD. The Committee suggested for bearing half of the cost by NABARD in respect of the capacity building and skill improvement of manpower of the LTCCS.
- NABARD' s response with an initiative known as Business Revitalisation and Managing Human Aspirations (BRAMHA) , a recast of Organisation Development Intervention (ODI) in the year 2007-08 needs a mention. However, it was felt that ODI was a better intervention and the focus shifted back to ODI.
- By the year 2012-13, the stated position of NABARD was that it balances its finance and development function. As indicated in the message of Chairman of NABARD in its AR, 2012-13, it also underlined that the credit absorption capacity has to increase and flow of credit has to sustain. The "institutions" were identified as a major plank of its financial operations and development. As a part of its role, the AR pointed out that " NABARD enables RFIs to adopt technology, build their capacities and create a level playing field so that they survive and compete in the rural credit market".
- The refinance to SCARDBs slumped to mere ₹ 1741.31 crore during the financial year 2012-13. Within a span of a decade, its share in refinance for medium and long term loans of NABARD was now reduced to only 10%

compared to the maximum share of 38.5% (2002-03) a decade ago. The short term cooperative credit structure (State Cooperative Banks) received a refinance support of ₹ 2071.06 crore in respect of medium and long term loan activities compared to the SCARDBs during the year 2012-13. The total refinance outstanding against SCARDBs declined from ₹ 12344 Crore as on March 2012 to ₹ 10249 crore as on March 2013. The financial position of SCARDBs started worsening. As a redeeming feature, NABARD introduced alternative (to the govt. guarantee) security of pledge of Government Securities or Fixed Deposits with Scheduled banks, subject to certain terms and conditions .

c) Present Position

- A total of 21 apex level institutions of LTCCS were established in the country over a period of time. With the integration of the structure with STCCS in two states and liquidation of another 03, because of their continued poor health, their number has reduced to 16. Out of these 16, the financial constraints and poor performance have resulted into inactivity in respect of three SCARDBs. Most of the remaining 13 functional SCARDBs in the country are also not operating in all the States/ UTs with substantial business or great financial health in respective States/UTs. As on date, 5 SCARDBs viz. Tamil Nadu, Puducherry, Tripura, Jammu & Kashmir and Haryana had no outstanding borrowing to NABARD. This had either curtailed their activity drastically or forced them to take a permanent detour in the nature of their operations. Our report discusses in length about the present status of LTCCS in various respects and there is a general consensus that the LTCCS can still play an important role . The consensus is primarily based on the sentiments expressed by CRAFICARD and also echoed by NABARD in its latest AR , 2021-22 (Chapter 8) that "Being crucial to structural stability, the viability of financial institutions has to be sustained".
- In order to have a proper and just assessment of NABARD's role, it would be necessary to discuss about its most important contribution of refinance assistance to the SCARDBs. This role has been equated by many to that of the human heart pumping the crucial finance, the life blood of any financial institution. The details of refinance disbursed to the SCARDB during last decade were as under:

Table 13.1: NABARD's Refinance to SCARDBs – Decadal Performance (2012-13 to 2021-22) (₹ Crore)

Year	Amount of Refinance	Share (%) of NABARD's Total MT & LT Refinance
2012-13	1741	9.85
2013-14	1815	8.45
2014-15	2924	9.30
2015-16	3258	6.78
2016-17	3398	6.35
2017-18	2594	3.98
2018-19	1936	3.00
2019-20	2148	3.00
2020-21	2976	3.00
2021-22	2541	2.00

(Source: NABARD Annual reports)

The SCARDB wise refinance outstanding, interest rate wise refinance outstanding and SCARDB wise & interest rate wise LTRCF refinance outstanding as on 31.03.23 are given in Annexures 21,22 and 23

It may be observed from the Table that the refinance support has hovered between ₹2000 crore to Rs 3000 crore, however the share of refinance availed by the SCARDBs from NABARD, as a percentage to total long term refinance disbursed by NABARD has come down drastically. In this connection, it is pertinent to mention that the number of functional SCARDBs had come down during this period and their eligibility to draw refinance also was affected due to introduction of risk rating w.e.f. the financial year 2016-17 which restricted eligibility of the SCARDBs. The discontinuation of system of interim finance (short term accommodation to enable long term loan disbursement and consequent availment of refinance) affected the flow of credit at ground level, which further restricted refinance to these institutions.

- It was also observed that the repayment of refinance by SCARDBs to NABARD during a particular year, had exceeded disbursement of fresh refinance during each of the year from 2017-18 to 2020-21.
- Further, NABARD has disbursed a total refinance of ₹ 107015 crore during 2022-23. The amount of refinance disbursed to the SCARDBs during 2022-23 worked out to 2% of NABARD's long term refinance disbursed during the year. The refinance of ₹ 2285 crore disbursed during the year, was made available only to 8 SCARDBs viz. Gujarat, HP, Karnataka, Kerala, Punjab, Rajasthan, UP and WB. Two-thirds of the total refinance in respect of SCARDBs was cornered by Kerala and Karnataka. Just to recall, the refinance disbursed to the SCARDBs formed 35% (1983-84), 38.5% (2002-03), 10 % (2012-13) and a mere 2% in 2022-23 of the total refinance disbursed during the year by NABARD. In contrast, the refinance disbursed to the State Cooperative Banks for medium and long term loans during the year 2022-23 alone was ₹ 12955 Crore, more than 12% of NABARD's total refinance .Taking into account the repayments made by the SCARDBs, the total refinance outstanding of NABARD against the SCARDBs in the country stood at ₹ 10,495 cr. (March 2023).
- As regards, the support to capacity building efforts of the LTCCS, NABARD is providing grant support to the training institutions managed by the SCARDB in some states, which are accredited to NABARD's promoted Centre for Professional Excellence in Cooperatives (CPEC). The accreditation has helped them in standardisation of their training course and material.

13.3 Overall Assessment

a) NABARD has expanded its list of clients and products for refinance and their inclusion has also contributed to the reduction in the share of refinance of LTCCS vis a vis overall refinance of NABARD. It is also a fact that the reasons for the declining refinance disbursements were also internal to the LTCCS, like limited loan products and poor recovery performance. The influence of external factors like State Govt policies and the socio-political climate had also impacted the performance and credit absorption capacity.

b) The fact remains that the importance and focus given by NABARD (as a development financial institution) to develop and mould/mentor especially SCARDBs should have received more attention. The attention and importance given by NABARD to institutional development of SCARDBs to build them as strong banks for absorption of higher refinance and for purveying rural credit seems to have lost its priority in other pressing commitments of NABARD.

c) The establishment of Board of Supervision was meant for the banking institutions viz. StCB, DCCB and RRB. There was very little activity for guidance, supervision and monitoring of the SCARDBs. The voluntary inspections were restricted only to the SCARDBs with refinance outstanding. There was scope for improving the compliance mechanism in respect of findings in its inspection reports. Not many operational instructions were issued to the SCARDBs for more than a decade.

13.4 Conclusion

In the absence of any meaningful option of resource mobilisation for the LTCCS, the borrowings from NABARD continues to occupy the most important position. As such, the LTCCS continues to view NABARD as the only ray of hope not only for financial support but also in a leadership role to guide them and engage with other stakeholders on their behalf. Keeping in view the mandate of NABARD, its involvement in the LTCCS needs greater focus to assuage the feeling of neglect which has crept in some quarters of the structure and display its commitment and willingness to support the LTCCS in their future journey.


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CHAPTER 14

Adoption of Technology – Status and way forward - "Move with Times"

14.1 Introduction

Since 1990-91, Information Technology (IT) based initiatives have brought about a sea change in the banking and financial sector of the country. The adoption of technology has benefited institutions in several ways mainly, resulting in drastic reduction in transaction cost, reduced human error in operational system, transparency and efficiency. This has also helped improve customer's confidence and their grievances have reduced to a great extent. It has also been possible to access and analyse the data real-time enabling a strong reporting system. Speedy disposal of loan and other services have attracted more customers and thereby increased the customer base. Monitoring and audit have also become easier and faster. Although the financial cooperative sector has kept pace with the computerisation, the LTCCS sector has been lagging far behind in this respect. The technology adoption is, therefore, imperative for the repositioning of this sector.

Importance of IT System

Based on our observation of the functions and procedures of the SCARDBs/PCARDBs and interaction with the officials, the Study Team proposes the following system architectures:

14.2 Technology adoption in ARDBs

At present, the SCARDBs/PCARDBs do not undertake banking business. Hence, the 24*7 online CBS system is not essential, as the business model of ARDBs do not require real time connectivity between the branches. As of now, the only situation which requires inter branch connectivity is when a customer repays his / her dues in another branch. This being the case, the following proposals are suggested for adoption.

1. Bank Level transactional software

A web based system software will be customised based on the offering from the SCARDBs and PCARDBs in a state. The same software can be a state level software or a national level software based on the level of co-operation among the SCARDBs.

An off-line module is recommended based on the requirement of the ARDBs. However, the software will have capability of handling transactions in respect of other branches of the SCARDB / PCARDB and manage the same through inter-branch reconciliation.

The software will take care of all financial transactions of the SCARDB / PCARDBs as well as branches and will be available real time at a central server hosted by the vendor.

This server may be hosted with the cloud service providers, given the progress of Data Centre facility extended by various large providers in the country like Amazon Web Services (AWS) along with facility of Disaster Recovery Centre (DRC). This will provide security at an affordable cost. Care should be taken to ensure that these are at least Level 3 Data Centres.

- The software will have features to capture all loaning related and savings related transactions of members.

- All back-end hardware requirements in the project are required to be handled by the vendor. SCARDB will be responsible for PCARDB / Branch level hardware. The vendor may handle connectivity to the servers or the Bank based on the Service Level Agreement (SLA) entered into.
- The branch level network can be handled through LAN and / or Wi-Fi router.
- Along with the existing functional related software, the SCARDBs will also complete the process of migrating to a HO module which will be part of the computerisation and shall include the following modules:
  - ➢ HRMS Module, including pay, PF management, Leave Management and all required report returns related to the Drawing and Disbursing Official (DDO).
  - ➢ Share Accounting Module which will also capture nomination, ensure reconciliation etc.
  - ➢ Investment Module
  - ➢ Fixed Assets Module including provision of depreciation etc.
  - ➢ Bank Reconciliation Module

- An email facility will also be procured as part of the computerisation and all communication from the SCARDB, its branches or PCARDBs will only be through the official domain e-mail.
- SMS facility will be part of the software to ensure proper communication to the customers. The SMS facility may also be utilised for serving due-date notices and periodical customer awareness.
- The Software will be bi-lingual in nature based on the requirement of the state.
- The computerisation will also include a Help Desk structure as part of the project along with proper escalation matrix and penalty clauses.
- Effective Active directory (AD) would be put in place to ensure proper user management in the system.
- 2nd factor authentication of user, either through biometric or through mobile based OTP, needs to be considered for providing additional layer of security to the system.

The detailed content and various processes to be followed for effective implementation of the project may be as under:-

2. Loan Processing Software

- The transactional software as mentioned above will only capture the vouchers generated during a transaction to enable generation of various reports / returns, General Ledger etc.
- The main business of the ARDBs (SCARDB & PCARDB) is to provide loans to the customers. Accordingly, it is pertinent that the process of loan sanctioning is also undertaken through a software to ensure that all loans are sanctioned within the approved policies of the institution
- This software will also digitise the security etc., which are part of the loan sanctioned.
- The system will have facility to generate flags in case a security is becoming time barred. It will also provide a search facility in the system.
- The legacy data also has to be captured as part of the process and migrated to the system.
- Both the above parts of the package will have an audit module allowing auditors to have view only access. This will ensure that the systemic data can be checked/counter verified by the auditors.

3. Digital Payment Facility

- Within the existing structure, the ARDBs cannot provide any modern banking facility to the customers. However, there is always demand from the customers for basic banking facility like remittance through RTGS/NEFT/ IMPS etc.
- The effective solution for the same would be to tie-up with a technology savvy bank and extend all these facilities to the customers through this established link.
- There is technology solution available for receipt of Direct Benefit Transfer (DBT) by enabling the ARDBs to act as BC of the StCB.

4. ARDBs provided with banking license

- The ARDBs which can obtain Banking license from RBI may follow the Application Service Provider (ASP) model of SOFTWARE implementation in line with the "NABARD initiated SOFTWARE project in Co-operatives". This will be a per branch per month payment model and will include the following services :
  - All banking services to the customers covering Core Banking System, Treasury Management System, Asset Liability Management System, Financial Management System etc.
  - Remittance services through RTGS/NEFT/IMPS
  - Remote banking services like mobile banking.
  - On-boarding to QR-code based services, UPI
  - NACH on-boarding
  - Generation of all reports /returns.
  - HO Module - Post CBS implementation
  - On-boarding to NFS, CTS etc.

- In both the above models (Software solution & CBS), all the activities of the institution will be in digital environment, enabling generation of all reports/ returns and effective management of the working of the institution.
- All necessary MIS would be generated from the system for transmission to GoI, State Govt., NABARD etc. The HO of the SCARDB/PCARDS would also be in a position to establish connectivity to the various GoI, State Govt., sites based on requirement/instruction.

14.3 Methodology

The detailed methodologies to be followed in implementation of the above proposals are elaborated below. This also includes various nuances of migration of banking services to a comprehensive software either from a manual system or from a partial automation scenario.

1. PEOPLE READINESS

The crucial link in the software migration process is preparing staff at different levels in the institution to not only accept but also use the SOFTWARE platform efficiently through a structured plan, involving:

- Identification of a Nodal Officer
- Identification of Core Team Members at institution level
- Organising basic computer familiarization for the branch user
- Software Orientation Programme for Branch User

2. DATA READINESS

For keeping branches in Data Readiness, various formats need to be created for capturing the following:

- Branches data (details: Address, Name, Department etc.)
- Details of active Accounts - This will capture all basic and financial details of the customers.
- Complete Balancing of Books at all branches: Balancing of Books & completion of KYC data, updated branch information including collection & data cleansing for migration including signature and photograph.

3. INFRASTRUCTURE READINESS

- **Procurement of Branch Hardware:** Procurement of branch hardware has to be made on the basis of gap identified after taking a stock of existing hardware in the branch and the requirement specified by VENDOR. Format for inventory of existing hardware and assessment of hardware requirement is required. Branch hardware as per configuration prescribed by the vendor is required to be put in place.
- **Setting up of LAN cabling at the Branch (Only for CBS):** LAN cabling, switch, rack etc., would be provided/ maintained by the banks wherever LAN is installed.
- **Adequate Arrangement for Power Back up (UPS/GEN Set/Earthing/Electricity Point/Solar)** SCARDBs/PCARDBs and their branches have to make adequate arrangement for power back up to ensure supply of power for day-to-day banking operations.
- **Electricity Points:** Stable voltage and proper earthing with AMC is to be ensured by the ARDBs.

- **Generator SET & UPS:** To be procured based on the decision of the institution.
- **Connectivity:** The software recommended is a web-based software and would require stable broadband connectivity. Based on business of the branch, institution may also explore requirement of second connectivity. The same is to be ensured by the vendor. In case of CBS, there will be requirement for online connectivity along with a second connectivity. There are many types of Network Connections like VSAT, Leased Line, ISDN Line, RF, CDMA, WIMAX, MPLS, etc. The Vendor needs to provide the Network Connections and bear the cost of establishing the network connections up to institution level. Two network connections (primary/ secondary) are required to be set up under the project - *primary network connection* for day to day activities and *secondary network connection* as a backup. If the first network connection fails for any reason branch could function smoothly with the help of the secondary network connection. Both connections are to be of different kinds, so that the branch could function smoothly by switching from one to the other. Both the network connections have to be provided by the vendor through instruments like VSAT/ RF/ Modem/ Router & drop up to branches and carry out all related activities for establishing network like VSAT / RF Installation.
- **Training:** All necessary training to be imparted to the core team members as also the end-users before migration of the branch to the new software.

4. HELP DESK / REDRESSAL MECHANISM

Help desk assists institution and their branches in day to day working. Help Desk would attend/solve all kinds of issues like software / application related issues, network issues, hardware issues except for electricity related issues and LAN related issues. Issues related to electricity and LAN would have to be solved by the branch itself.

- **L-1 Help Desk:** Level-1 Help Desk is to be maintained by SCARDBs at the HO level with the SCARDB providing infrastructure like building / room / hall, furniture, and hardware with necessary trained manpower. Generally, Nodal Officer, Core Team members or officers (separately trained) by the vendor) can man the L1 Help Desk. Training for the L1 Help Desk personnel is to be provided by the vendor to the identified bank staff who would manage the Help Desk and attend to the complaints of the end users through the Help Desk login tool. The login tool would help to measure the penalty for delayed solution in Help Desk response. Vendor to ensure L 1 Help Desk readiness before migration of Pilot branches.
- **L-2 Help Desk:** Issues which are not resolved at L1 will have to be escalated to the L2 again through the login tool. The L2 Help Desk would be set up by the vendor at the State level or at PMU by vendor or at Head Office premises of SCARDB. Vendor would run the L2 Help Desk and provide the infrastructure which must be ready before migration of the Pilot branches in a State. Individuals appointed by vendor would attend to the issues at the L 2 Help Desk.
- **L-3 Help Desk:** The unresolved issues from L2 are to be further escalated to L3 Help Desk provided by vendor at the central Data Centre (DC) / Disaster Recovery (DR) level. While L2 was basically a State level set up, L3 Help Desk would be a single national level setup which will normally look after issues beyond the powers of L2 like software modifications, version updates, customization etc. The vendor to run the L3 Help Desk and also provide the infrastructure for it. In case state-wise vendors are selected for state level software L2 and L3 can be merged.

Belated response/default at the vendor level would attract penalty guided by the prescribed escalation matrix.

14.4 Implementation Activities

1. PRE-MIGRATION ACTIVITIES

Setting-up of Project Monitoring Unit (PMU) : PMU is to be set up specifically for purpose of conducting training of the core team members, resource persons / trainers' training, preparation of Gap Analysis Document (GAD), involving the core team members, conducting User Acceptance Test (UAT) and then uploading of data for migration.

Project Implementation Structure: In order to ensure a smooth implementation of the project software the following steps are to be taken in sequence.

Steps of Project Implementation Structure	Detailed System study (DSS)
	Gap analysis Document (GAD) & GAD Sign-off
	Customisation
	UAT and sign off by bank
	Master Parameterisation Document (MPD)
	Data Migration from Legacy systems
	Mock Migration
	Final Migration

Detail System Study (DSS)

DSS is an institution specific exercise including study of the Current System elaborating among other things the status of products available in the institution, information technology involved, parameterization, procedures employed for using the legacy systems. The DSS also covers features of software prevalent in the industry and a general methodology which could be adopted for the project.

State wise Standardization: In order to simplify parametrization for ARDBs' standardization of function requirements across the SCARDB/PCARDBs in a State like standard (common) product, procedure and balance sheet is to be attempted. Once this exercise is done report-mapping would be easier for the state.

GAD or GAD Sign Off

Gap Analysis Document (GAD): GAD is to be prepared by the SCARDB and vendor in consultation by analysing the available software being offered by the vendor and the DSS carried out earlier. The GAD would form the backbone of customization required by the SCARDB containing the list of necessary features not present in the given software but required by the them.

GAD Sign Off: Nodal Officer or any other senior officer authorised by the SCARDB to sign off the GAD after being satisfied that all the products are covered and necessary customisation has been outlined in the document. The Study Team would like to emphasise that this is the most important step in the computerisation process and should be given utmost importance as the customisation and delivery of expected outputs in future critically depends on this phase.

Customization of application as per GAD

Vendor will do the customization of application based on GAD to include the modules that are not covered in the original software.

User Acceptance Test (UAT) and sign-off

The customized software would be placed in an UAT environment (also called UAT region) created by the vendor. The nodal officers / core team members will be expected to test the customized software and provide a UAT sign off to the vendor.

Master Parameterization Document (MPD)

After UAT and before Pilot data migration, institutions are required to set parameters like product name, type of scheme, rate of interest, period/ term, etc., in the software. The MPD will consist of these details, which are to be carefully identified and listed for inclusion in the customised software by the vendor.

Data migration from Legacy Systems

The vendor would ensure successful data migration from the legacy systems to the new environment and provide all necessary data extraction tools. "Data Migration Strategy" needs to be formulated by the vendor and the process documents will be reviewed and signed off by the institution prior to commencement of the data migration exercise. Entire data pertaining to the live accounts (from the time of account opening or from the time the data is available) for accounts like term deposits, recurring deposits, loans and advances, SB/Current and operative accounts etc., is to be migrated to the proposed solution for all the branches being converted to the software. The historical data fulfills the objectives of printing backdated customer statements (for all products, accounts, and schemes supported by the legacy application- eg., SB, Current /Cash credit A/C's, FDR & Term Loan full data) passbook, general ledger, profit & loss statements, trial balance, account master information, standing instructions and transaction history (including General Ledger , Profit & Loss heads and other office accounts) and also supports printing MIS reports as desired by the institution for the legacy data migrated. As a matter of precaution, institution may maintain legacy data also on a separate PC to avoid any problem in the future.

The ARDBs are either following manual system of day to day functioning or a hybrid system with partial computerization of processes. Data migration of SCARDBs in these systems will be slightly different from each other.

Data migration for Banks following manual systems: Formats to be provided by vendor wherein data is to be filled by the SCARDB/PCARDBs using the Data Entry Tool (DET) installed in the branch. The vendor will extract data from the format for migration. Data is required to be checked and validated after generation of reports by vendor. The data will then be used for a mock / test 01 migration. The mock / test 01 migration errors, if any, are to be rectified by the branch with the help of Core Team. The rectified/ error free data is used for final migration to software.

Data migration for partially Computerised SCARDBs and branches: ARDBs/branches using any software will first be required to complete their legacy data in every branch. The data would be first obtained from existing software. The remaining gaps required will then be updated using the data entry tool. Both the legacy data and data extracted through the extraction tool will be put into the data entry tool. SCARDBs are responsible for ensuring and handing over validated error free and accurate data to the vendor including identification & activation of inoperative accounts, signature/ photo upload etc.

Signature & Photograph of Customer Account: SCARDBs and PCARDBs are expected to capture the Customer's Account Signature before migration. Customer account details including customer signature and photograph which form an integral part of the KYC norms, may not be fully available with the Bank branches. However, for migration on the software platform, ARDBs have to make extra efforts to gather the information and the same needs to be pursued vigorously.

Mock Migration

The data once validated will be sent for mock / test 01 migration by the vendor. The mock / test 01 migration errors, if any, are to be rectified by the branch with the help of Core Team. After ensuring that the data is error free it will be used for final migration into software.

Final Migration

The validated error free data will be sent only through the branch link and not through internet, pen drive, CD drive or any other media as this would enable simultaneous checking of branch's link with the Data Centre for the purpose of System Integration Test (SIT). Test One Upload is to be done a minimum 15 days prior to the final migration. Migration of the extracted data will be done by the vendor in Data Centre. The concerned branch manager would be responsible for signing the data migration sign off document after validation and checking of pre and post migrated data.

ROLL OUT

- **Pilot Branches Roll Out:** SCARDBs and vendor to identify pilot Branches / PCARDBs per bank.
- **Mass Branches Roll Out:** Once the pilot roll-out issues are resolved mass roll out in factory mode will be undertaken for the SCARDBs and PCARDBs.

Hand-holding support / Support system for IT Vendor would provide "hand holding support" which is post migration online training support to the SCARDBs' branch staff for day to day activities. Hand holding support to be given for 15 days from the date of migration and the Core team needs to handle thereafter. The hand holding sign-off document is to be signed by the Branch Manager on the last day of support only after getting satisfied with the hand holding support.

2. POST MIGRATION ACTIVITIES

Migra Amount: Books of the accounts are to be balanced and the difference, if any, to be frozen after obtaining approval from the competent authority and the necessary entries to be passed. In case of difference between the legacy data and the migrated data viz., migra amount; rectification entries are to be made after migration with necessary approvals through a centralized mechanism to avoid fraudulent practices, problems in the general functioning or annual closing of the banks. SCARDBs are to ensure that these amounts are brought to zero within a given period so that all these amounts are accounted for.

Generation of Reports: Various reports viz., software related daily reports, State level reports and Operation Support Systems (OSS) reports are to be generated by the SOFTWARE system and forwarded to NABARD, State Government, etc. ARDBs need to finalise all required report and map the reports for effective generation.

User Management (User ID): User ID represents an official with power to originate/approve financial transactions. For this, the ARDBs have to create necessary systems & procedures in place for creation of User IDs and their authority to undertake activities in software environment. Any transaction that takes place through software is traceable through the Internet Protocol (IP) address and User Identity Documents (IDs). All transactions have their digital footprints and transactions can be tracked to the extent of the machine from which it was undertaken, by whom the transaction was undertaken and when the same was done. As a precautionary measure, it is to be ensured that post migration, temporary IDs will not be used in the system. ARDBs are advised to remove all the temporary IDs created during the migration process and would become redundant.

i.

ii. **E-Mails** the vendor based on data provided by ARDBs will provide user-wise Corporate E-mail system. It would be mandatory for the officers and staff members to use only Corporate e-mail IDs for official correspondence.

iii. **Antivirus:** Antivirus installation & update would be an integral part of the software package. For installing antivirus update, the vendors would share the procedure with the institution which is to be followed.

iv. **Bilingual Software:** Vendors will provide in desired vernacular form based on demands by the ARDBs.

14.5 Software Contents/Modules

1. HO-Module

Various HO modules which will be a part of the project are:

- HRMS Module
- Share Module
- Investment Module
- Fixed Assets Module
- Bank Reconciliation Module

HO Module implementation involved data compilation, data cleansing, User Acceptance Test (UAT) of all its components like Human Resource Management System (HRMS), share application, investment, fixed assets, Asset Liability Management (ALM), Human Resources (HR) Payroll, inventory, asset management, bank reconciliation etc. While an SCARDB can be on software without HO modules, having these modules in place would enable taking automation to a higher level.

2. Core Modules

- General Ledger, Trial Balance, P & L Account, Balance Sheet.
- ALM
- Basic Investment and Treasury Module
- Basic HR & Pay Roll
- Bilingual
- Corporate e mail system

Retail Banking

- All types of allowed deposits
- TDS

Loans and advances

- Term loans, including Agriculture loans.
- Automated Asset Classification (NPA)
- Borrowings from higher financing agencies

Reporting and MIS

- Monthly Balance sheet
- Statutory returns
- Priority Sector Statements and Tax Collection reports
- Inspection report schedules

SMS Alert

Banks must provide SMS alerts to customers for ant transaction. This has to be ensured in the project.

14.6 Security Architecture And Implementation

- It would be worthwhile to design the architecture keeping in view various Information Security implementation framework like RBI's Comprehensive Security Framework (CSF), Institute for Development and Research in Banking Technology (IDRBT) Cyber Security Guidelines, Cyber Security and Information Technology Examination (CSITE) Guidelines etc.
- Ensure to keep in mind major regulatory guidelines/directions on Information Technology by RBI /IDRBT/Computer Emergency Response Team (CERT) etc.
- Devise, formulate and suggest suitable security architecture for the proposed SOFTWARE and delivery channel solutions and other related components integrated with it.

1. Disaster Recovery and Business Continuity Plan

- Suggest suitable disaster recovery procedures Disaster Recovery Planning (DRP) and Business Continuity Plan (BCP) for the core banking solution and the functions supported by it.
- Provide the road map for implementing the DRP and BCP.
- Formulate procedures for monitoring Disaster Recovery and Business continuity for software on an on-going basis.

2.Information Technology (IT) Policy

Computerisation is governed by a sound IT policy. IT policy is essential requirement for effective usage of IT assets and IT security. The policy seeks to achieve seamless delivery of services, confidentiality, integrity, and value of assets.

Coverage of IT policy

- **IT services** - outlines how to address the needs and problems of technology and who will be responsible for acquisition, installation, maintenance etc.
- **Permissible use of technology** - dos and don'ts of use of all electronic devices and connectivity.
- **Disaster recovery** - retrieval of data in case of disaster and data back up.
- **Security** - Hierarchy of access to the network, password management, virus protection, usage of data and confidentiality.
- **Technology Standards** - guidelines to specify the quality and standards of software, hardware and systems that would be purchased and also items prohibited.
- **Network set up and documentation** - guidelines for software licensing, configuration of network, permission to employees.

IT policy may be classified into following groups:

- Software acquisition, installation, maintenance and licensing.
- Hardware acquisition, installation, maintenance.
- Network (Intranet and Internet) use policy.
- IT usage.
- Security policy.

This policy needs to be approved by the Board of Directors.

3. IT Security (IS) Policy

IT Security (IS) policy provides an integrated set of **protection measures** to ensure a secured operating environment for banking and other business operations. The policy seeks to address the information security requirements of:

- **Confidentiality** - protection of sensitive information so that it cannot be divulged to the unauthorised persons or the system.
- **Integrity** - ensuring accuracy, entirety and timeliness of information.
- **Availability** - every piece of information and vital services are accessible to authorised users as and when required.
- In addition to the above, **authenticity, accountability and auditability** are also addressed in the IS policy.

4. Scope of the policy

- All employees, contractors, partners, interns, trainees working in the organisation are covered by this policy.
- Third party service providers providing hosting service, if data are held outside, are also covered under this policy.
- IS policy also covers the information stored, communicated, processed within the organisation and also across the outsourced location.
- All policies should be approved by the Board of Directors.

Conclusion

There can hardly be any disagreement on the need for computerisation of the LTCCS and the same is essential. However, the Study Team would like to put a word of caution to the effect that the computerisation is no panacea for all the evils of the LTCCS. This issue is highlighted, as time and again , during the course of its field visit, the Study Team encountered such an impression. There was a feeling, even among the top management in LTCCS, that computerisation would take care of all their inadequacies. Further, the cost involved in computerisation is quite prohibitive for the structure to bear on its own and require financial support. The details in this regard have been discussed in Chapter 17.

CHAPTER 15

Agri Value Chain Financing and ARDBs - "In search of greener pastures"

15.1 Introduction

India has come a long way from being a food-scarce nation in the 1960's to a food surplus nation. Currently, India is the largest producer of milk, pulses, banana, mango, pomegranate, papaya, lemon, okra, ginger and non-food crops like cotton and jute; the second largest producer of rice, wheat, fruits and vegetables, tea and one of the leading producers of eggs and meat in the world.

Not only, the production of cereal and other crops has increased significantly, but rising incomes, urbanisation and increased awareness has led to higher demand for high value agricultural commodities such as fruits, vegetables, milk, eggs, meat and fish, and processed and packaged food. Indian farmers have adequately responded to changing patterns of consumer demand. However, the higher production and diversification in cropping patterns have not led to commensurate rise in the income of farmers. There is hardly any agri-commodity which is not a victim of "surpluses" and making the glut becoming a commonplace resulting in surpluses, bringing miseries rather than happiness to the agriculturists.

Developing Agriculture Value Chains (AVCs) and integrating small and marginal farmers with them can help in improving the income and well beings of the farmers. The central sector scheme of formation of FPOs of Government of India, which allows aggregation of both inputs and outputs and adoption and dissemination of technology through agri start-ups, provide the opportunity for developing AVCs.

15.2 Defining Agri-Value Chain

The term value chain refers to the full set of activities that are crucial to bring a product or service from inception through the different stages of production to final consumers. A value chain in agriculture identifies the various sets/groups of stakeholders and their activities that bring an agriculture product from production to final consumption; where at each stage value is added to the product. AVCs entails linking of producers, processors, marketers, retailers and support service providers like transporters, financing institutions and suppliers. Traditional value chains are existing in different agricultural products, however, the value chains could not be modernised in the absence of finance, technology and risk mitigation measures. Few commodities where value chains have become successful in terms of financial sustainability (producer's share in consumer rupee) are in the dairy sector. The secret of success of dairy value chain lies in availability of finance for purchase of dairy animals, aggregation of produce through dairy cooperatives, storage of milk at village level through Bulk Milk Cooling Units (BMCUs) established either the by Milk Unions or private dairy units and linkage with large milk processing plants like AMUL, SUDHA, or Nestle, etc.

15.3 Existing AVC Models

The AVCs are often driven by different stakeholders depending upon their basic aim. Existing AVC models in the country are of four types, which primarily seek to reduce transaction costs and maximise the benefits to the driver of the value chain (Table 15.1).

Table 15.1: Different models of AVCs

Type	Aim/Benefit	Driver	Examples
Producer Driven	Producers' share in the consumers' money	Cooperative Society	AMUL
Buyer Driven	Seamless availability of produce to meet consumer demand	Processors, exporters, retailers, traders & wholesalers	Contract farming of milk by Nestle India Ltd., potatoes by PepsiCo
Facilitator Driven	Provide market access for the small and marginal farmers	Government Agencies, NGOs, Banks, CSR wings of corporates	Mother Dairy Fruits and Vegetables Limited.
Organised Food Retailer Driven	Keeps consumer demand at the core	Organised food retailers and food delivery agencies	Big basket, Grofers, Reliance Retail

All these four models have an inherent bias toward interests of the driver. There is a need to ensure win-win situation for all the players in the value chain.

15.4 Value chain financing

The Working Group on Agri Value Chain Financing (2021) set up by Government of India has defined the Value Chain Finance as under:

"When credit or other financial services flow through actors along the value chains, it is called value chain finance, and may or may not include support from formal financial institutions."

The value chain reduces commercial risk by providing an assured market for the produce, thus making it easier for chain actors to obtain financing from banks and other formal sources. It is important that the financing institution should identify the lead firm/anchor among the players in the value chain who can act as intermediary to enable credit to percolate to other players in the chain. The presence of lead firm helps the banks in reaching out to large number of small producers and also ensures recovery through marketing tie-up.

15.5 Agriculture Value Chain Finance (AVCF)

Compared to conventional financing of a particular segment of the marketing system, value chain finance represents "a flow of funds to different actors of the value chain in order to improve efficiency and competitiveness, to reduce risk within the chain and also to promote and develop the chain. In the value chain among the various players, to start with the farmers need affordable finance for purchase of inputs and for investment in land improvements, irrigation, storage, machines and equipment. Secondly, the traders need finance for purchasing, bulking and stocking of the produce before it is sold. They also need funds for purchase of vehicles, to construct a warehouse, or pay for equipment to weigh or grade products. At the next level, small-scale processors need funds for investment in processing infrastructure. Similarly, the wholesalers and retailers need finance for buying, bulking and stocking and also for their retail chains. Various players in AVC, their activities and their financial requirements have been discussed in Table 15.2.

Table 15.2: Players, Activity and Financial Requirement in AVCF

Sr no	Players	Activity	Financial Requirement
1	Input Supplier	Supply of inputs like seed, fertilisers, pesticides, etc.	Working Capital for purchase of inputs
2	Farmers	Crop production	Agriculture investment like minor irrigation, pump sets, tractor or farm equipment's and working capital for inputs and labour
3	Local aggregator	Purchase of produce from local farmers, grading, sorting and supply to local processor or large aggregator	Creation of small storage facility and working capital for purchase of produce
4	Large aggregators	Purchase of produce from small aggregators and storage, or supply to processors	Creation of storage, purchase of transport vehicles and working capital for payment to local aggregators
5	Agri – logistic provider- Ware housing and cold storage and transportation	Providing transport /storage facility to large aggregators and processors	Credit for creation of storage facilities / transport vehicles
6	Primary processors	Purchase from local aggregators and processing and supply in local markets	Investment requirements for setting up small processing units and working capital requirements
7	Large Processors	Purchase from large aggregators and processing	Investment requirements for setting up large processing units and working capital requirements
8	Whole sellers	Whole sale trading – supply to retailers	Working capital requirement
9	Retailers	Retail trading – sale to ultimate consumer	Working capital requirement
10	Exporters	Export of raw material or processed food	Pre-shipment and post shipment credit

15.6 Sources of value chain financing – Internal vs. External

The partners/players in the value chain will be able to access/avail finance either from participants of the value chain or from sources outside the chain. For e.g., a supplier of inputs may provide credit to a farmer or a wholesale dealer may advance funds to a retailer or market intermediary. As all players in the chain may not be able to avail formal loans, informal and internal lending also plays a major role in the form of an internal source of finance. In case of internal funding, the sources could be a trader, processor, contract farming agencies that play the dual role of provider of funds for production/processing and also buyer of the produce. The fund support could be in the form of cash or kind (supply of goods/services) without collateral but against hypothecation of crops and/ or an assured commitment from the producer to sell the produce only to the provider of finance at a pre-determined mutually agreed price. External finance refers to formal financial institutions extending finance to the chain activities with or without intermediation by the chain sponsor. As the value chain expands and gets well consolidated in terms of efficiency and market demand, the financial institutions get the benefit of lower transaction cost and lesser credit risks.

15.7 AVCF - Role of Financial institutions

AVCF is a comprehensive and holistic approach as compared to a conventional lending wherein finance is extended to each of the individual partners/players in a value chain without any link or coordination among them. AVCF entails systematic analysis of the entire value chain and understanding how the relationship among the different parties in the value chain unfolds and arranging finance for all the actors of the VC in a wholesome & integrated manner. In fact, AVCF may warrant designing of tailor made financial products & services depending on the particular value chain and to meet the unique requirement of that AVC.

The financial institutions have realized the importance of financing AVC and developed models to finance the players involved in it. These financial institutions have also developed capabilities to provide digital advisory services and market information. The important models of financing AVCs in operation; one by SBI and other by Sammunati (an NBFC) are discussed below.

15.8 SBI-YONO Krishi "Simple and Fast Agri Loans" (SAFAL) Dairy Loan scheme

SBI has launched YONO Krishi SAFAL Dairy Loan Scheme on its YONO mobile banking platform to fulfil the farming needs of eligible farmers. The dairy farmers can avail a pre-approved loan under Corporate tie up and enjoy benefits like low interest rates, zero collateral, fast loan sanction and easy to apply. The major objective of this SAFAL is to empower farmers to embrace technology and make them future ready in digital transformation. The multi-lingual platform is offering four major services to its farmers: Khata (agri loan products), Bachat (investment & insurance), Mitra (free farm advisory) and Mandi (online market place). Under this model, to start with, SBI gets leads from Corporates based on MOU with them. The corporates share data of farmers who are engaged in milk supply with them. Secondly the data of farmers received from the Corporate is validated with the PAN number of the farmers and due diligence checks is undertaken by the bank. The details of the farmers are verified with the CIBIL score to ensure his/her credit worthiness. The bank assesses the risk profile of the farmers based on pre-defined parameters and the farmer's loan limit is computed. The above data is transferred to the branch portal for the branch to conduct pre sanction scrutiny including verification of dairy activity and later the loan documentation formalities are completed at the identified branch and the loan is disbursed.

The benefits to the customer are: Easy access to bank credit at affordable interest rates, better customer experience, only a single visit to the branch for documentation, and convenience in availing the loan. It is a 'Win-Win' situation for the bank too as the bank is able to save considerable time and manpower in sourcing, verifying, creation of loan account, and loan disbursal. It also enables better supervision and management of credit and prompt collection of the loan instalments.

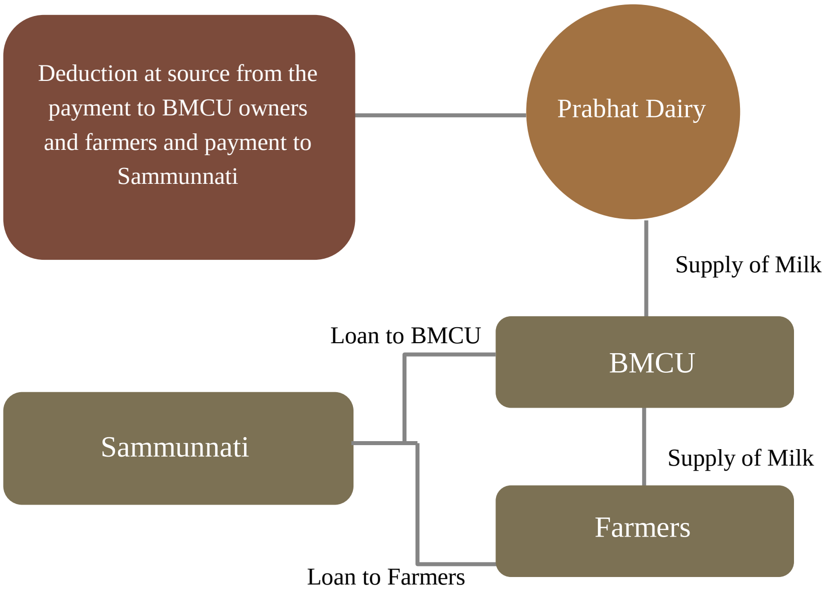
15.9 NBFCs and AVCF - Samunnati Model

Samunnati has presence in around 100 AVCs in 22 states. It presently has access to around 1,500 FPOs with a member base of over 6o lakh farmers, particularly SF/MF. The network stands for collective growth & prosperity for the agri ecosystem.

Samunnati's Agri Commerce and Agri Finance Solutions serve the entire value chain and also enable affiliated FPOs and the whole ecosystem to be more efficient and productive through technology-enabled interventions and collaborative partnerships. Various facilities offered to the farmers include agri commerce solutions, market linkages between producers and agri enterprises, trade solutions, agri finance to all the players across the value chain. The Aggregation, Market Linkage, and Advisory (AMLA) approach entails a competitive and holistic engagement beyond finance with the FPOs. The FPOs are assisted to source inputs in bulk at lower costs by leveraging the bargaining power that comes with numbers. It also extends advisory services to its farmer members. Skill upgradation training is offered covering situation analysis, business planning, financial literacy and disaster preparedness. Dissemination of information regarding new cropping techniques and modern technologies in agriculture are also shared with the farmers.

An important achievement of the NBFC was its support to Prabhat Dairy in expanding its milk collection by 1.5 lakh litres per day through finance to farmers and "Bulk Milk Cooling Unit (BMCU) owners" engaged in procuring milk from the farmers. There was an agreement with Prabhat Dairy to deduct loan instalment from payment being made to BMCU owners and farmers and remaining amount is paid to BMCU and farmers. The pictorial depiction of the arrangement is given below:

Sammunnati's interventions in Prabhat Dairy – Pictorial Depiction



Samunnati has created a platform named "FPOnEXT" for bringing FPOs on a single network to facilitate knowledge sharing & collaboration. The platform offers unique customised benefits and access to wide range of services to member FPOs. The member FPOs secure a range of services like Pre-Sanctioned Loan, Daily weather alerts & market prices, call centre services, Input & Output linkages, medical/life insurance coverage, crop advisory services, setting up of custom hiring centres, processing centres & export market etc.

15.10 Provision of non-services

Unlike NBFCs, the banks and other financial institutions have inherent challenges in providing non-credit support services like advisory role in better cultivation practices, storage/processing facilities, transportation, supply chain management for inputs, insurance services etc., to the different players of the value chain. Providing these add-on services entails additional cost to the bank to be paid by the borrowers. FPOs can be roped in to provide these services as they are in direct contact with their members and the members benefit considerably due to these backward / forward linkages. To begin with FPOs can be used for financing production requirements of the farmers and depending upon the growth of FPOs the banks can finance FPOs for storage, transportation and processing.

15.11 Working Group on AVCF set up by DFS, MoF, GoI

Keeping in view the importance of developing AVCs and ensuring adequate finance for the sector, a Working Group was constituted by the Department of Financial Services (DFS), Ministry of Finance (MoF), GoI in 2021 to deliberate on (a) the current status of bank financing in the AVC, (b) the existing financing models being used by banks and NBFCs for financing AVCs, (c) the potential for collectivisation of farmers, (d) the need for digitisation of operations and (e) the way forward for seamless financing of these value chains.

The Working Group assessed the potential of ₹ 10,22,000 crore for financing AVCs by the banks. It also indicated that the major part of the unfunded portion may be loans for allied agri activities like Dairy (GVA ₹ 6,83,500 Cr.), Poultry (GVA ₹ 99,300 Cr.) and Fisheries (GVA ₹ 2,51,839 Cr.) and to the tenant/lessee/sharecropper farmers engaged in crop cultivation, going by the feedback from major banks.

The working group has recommended that a four-pillar approach to the AVCF would yield optimum results. The four pillars of this structure are: 1. Collectivisation of farmers as FPOs 2. Promotion/development of FPOs by a dedicated agency 3. Institutional finance for AVCF & 4. Credit guarantee scheme for AVCF. These four pillars will give a fillip to AVCF facilitate the sustainability and self-sufficiency of the farm households.

15.12 Need for ensuring access to finance and risk mitigation

To ensure that AVCs are competitive and sustainable it is imperative to enable assured access to timely and adequate finance. Even though the overall access of SF & MF to credit has considerably increased in the last decade, thanks to KCC and Interest Subvention and Incentive Schemes of the GOI, still a sizeable portion of SF/MF and landless labourers depend on the money lenders and traders for their farm and non-farm related credit requirements. In addition to timely and adequate credit to all the AVC operations, farm insurance products should also be extended to the eligible farmers. There is considerable knowledge gap among the farmers with regard to crop insurance schemes under PMFBY. Linking of bank credit with farm insurance will ensure access to credit for the farmers and also a good measure of risk mitigation for them.

15.13 Collectivisation of farmers through FPOs

The Working Group on AVCF has also emphasised on the collectivisation of farmers through FPOs which will help in creating collective bargaining power with the farmers and better market linkage in view of aggregation of produce. GoI has already launched a central sector scheme for formation of 10000 FPOs through Community Based Business Organisations (CBBOs).

15.14 Initiatives of GOI for collectivization of farmers (FPOs)

The GoI has been actively pursuing formation of FPOs by extending

- Support to the equity base of FPCs by providing matching equity grants.
- Credit Guarantee support for facilitating collateral free lending to FPCs.
- 100% tax exemption for FPOs has been granted in FY 2019 to those FPOs with annual turnover of up to ₹ 100 crores for a period of 5 years.
- Central Sector Scheme for formation of 10000 FPOs

15.15 GoI Schemes for agro processing & value addition in agri & allied activities

a) **PM Kisan SAMPADA Yojana** was launched in the year 2018 as a comprehensive package for creation of modern infrastructure with efficient supply chain management from farm gate to retail outlet. The following schemes are under implementation under PM Kisan SAMPADA Yojana:
   - Integrated Cold Chain and Value Addition Infrastructure
   - Creation/ Expansion of Food Processing and Preservation Capacities (Unit Scheme)
   - Infrastructure for Agro-processing Clusters
   - Food Safety and Quality Assurance Infrastructure
   - Human Resources and Institutions–Research & Development

b) **Operation Greens:** Operation Greens announced in 2018 which covered three crops: Tomato, Potato and Onion, has been extended to cover 22 perishable commodities. The post-harvest processing facilities created for these crops will be eligible for a grant in aid of upto 50% of the project cost, subject to a maximum of ₹ 50 crore.

c) **PM Formalization of Micro Food Processing Enterprises:** This scheme aims at helping small micro-units engaged in the food processing industry. Many businesses at the grassroot level such as chilli drying, spice packaging, pickle, and papad making engage directly with farmers. Recognising the role of such micro-units, a 35% subsidy is available on their project cost, up to a maximum of ₹ 10 lacs.

d) **Agriculture Infrastructure Fund, Dept. of Agriculture & Farmers Welfare, GoI:** GoI announced ₹ 1 lakh crore Agri Infrastructure Fund (AIF) for creating post- harvest infrastructure like godowns, silos, ripening chambers, ware houses, cold chains etc. at farm gate and aggregation points with a view to reduce the wastage and enhance value addition. The Scheme also allows for creation of community assets like organic input production, infrastructure for precision agriculture, etc. The bank financing will be provided for funding Agriculture Infrastructure Projects at farm-gate & aggregation points (PACS,FPOs, Agriculture entrepreneurs, Start-ups, etc.). This Scheme will be operational from 2020-21 to 2032-33.

   Under this scheme credit guarantee coverage will be available for eligible borrowers from this financing facility under Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) scheme for loans up to ₹ 2 crore. The Government will pay the fee for this coverage. In case of FPOs the credit guarantee may be availed from the facility created under FPO promotion scheme of DA&FW. Moreover, all loans under this financing facility will have interest subvention of 3% per annum up to a limit of ₹ 2 crore for a maximum period of 7 years.

15.16 Scope for Financing of AVC by SCARDBs

SCARDBs have been pioneers in financing of medium and long-term investment credit in agriculture projects for the past so many decades. They have mainly supported the activities of small and marginal farmers and have earned their good will. SCARDBs and PCARDBs have been financing dairy animals, rural godowns, small road transport operators, etc. over a period of time.

However, at present many SCARDBs are facing existential crisis due to their financial performance, and so may not be in a position to finance big ticket projects in agri value chain. However, with proper planning and help of technical expertise, they can definitely participate in financing of individual farmers or even cater to the needs of FPOs in a limited way. The remaining SCARDBs which do not have the resource crunch may collaborate with other players for a meaningful role in this regard. The SCARDBs have generally not thought of their participation in such activities as they have been tied with financing in a traditional way. The suggestion for manpower planning at the PCARDBs and SCARDB level as also their capacity building efforts may enable the SCARDBs to play an important role in such financing. The Study Team suggests the Resources, Opportunity and Enablers (ROE) approach, discussed in following paragraphs, as a way forward.

15.17 ROE approach for financing AVCF by SCARDBs

The ROE approach involves the following three components:

1. Resources
2. Opportunity
3. Enablers

Resources: Working Group on AVCF set up by DFS, MoF, GoI (2021) has indicated that the major financing requirements are in the dairy, poultry and fisheries sector where SCARDBs have been lending traditionally. As such, it would not be difficult for the SCARDBs to extend finance to these activities based on their level of resources. However, so far their financing has been in sporadic manner and they would be required to do the same on a project basis. In view of limited resources, they can explore the possibility of their participation through consortium arrangements with State Cooperative Banks/ other banks.

Opportunity: The various initiatives of Government of India are creating opportunities for financing agri- value chain, some prominent ones are discussed below:

- The recent focus on establishment of large number of new primary societies in rural area, would open tremendous scope particularly for financing in areas of dairy and fisheries. The SCARDBs can enter into MoU with the newly established dairy cooperative societies in their areas for financing investment needs of their members and milk storage infrastructure like

BMCUs. Similar arrangements can be explored in respect of fisheries and poultry cooperative societies. Apex fisheries cooperative societies like Benfish, West Bengal are running fish value chain from rearing of fish to marketing of fish and readymade delicacies. There is growing opportunity in financing of milk parlours and ice cream parlours as well.

- The Community Institutions under National Rural Livelihood Mission (NRLM) viz. Federation of SHGs like Village Level Organisation (VLO) and Cluster Level Federation (CLF) could be another area of opportunity as many of them have commenced business as Producer Organisation. Besides, the formation of FPOs under Central Sector Scheme for 10,000 FPOs also offer opportunity for financing agri value chain through FPOs.
- The GoI scheme of construction of rural godowns of capacity of 2,000 tonnes by PACS with subsidy support would provide scope for financing of the balance amount of the project.
- Many existing corporates like ITC, Dabur, Himalaya , Rallis etc are involved in the contract farming and many new corporates would like to enter into contract farming arrangements to meet the demands of the consumers. SCARDBs can also explore these opportunities.
- Some state specific interventions also provide opportunity for the LTCCS in that particular state. One such intervention worth mentioning is the Farm Plan Based Development Programme (FPD) of the Kerala Govt. The State Govt. has launched a supply chain/value chain development and integration under its FPD. The Vegetable and Fruit Promotion Council, Keralam (VFPCK) Horticorp, Cooperatives, Kudumbasree and FPOs are major partners in this programme . Under the scheme, Cooperatives, FPOs and Kudumbshree Collectives can set up the aggregation centres and sales outlets also. There is provision of subsidy for setting up marketing outlets.

Enablers: In order to utilize the opportunity, the LTCCS should be provided support in the following areas for enabling them to take part in growth story of Indian agri- value chain:

1. **Better Human Resource and their capacity building:** It is important that SCARDBs recruit special officers having qualifications in agriculture and finance. These officers should be imparted both class room and on -field training. One option which can be considered to have a tie -up with NBFCs like Samunnati for training these officers. A centralized Processing Cell can be established in SCARDBs which will extend support to PCARDBs.
2. **Credit Guarantee Support**: SCARDBs should be made eligible for membership of Credit Guarantee Scheme for FPOs launched by NABSanrakshan and any such scheme, if launched in this area in future. With this support, there should be amendment in the Cooperative Societies Act or special acts for SCARDBs and bye- laws to allow financing without security of land wherever, such guarantees are available.
3. **Permission to participate in Government Schemes:** The SCARDBs should be allowed as eligible institution for financing the infrastructure facilities under schemes like Agri Infrastructure Fund, etc.
4. **Technology:** These SCARDBs should be equipped with not only the technology for handling day to day operations but also technology for customers' interface. The technology should enable the customers to apply on-line for sanction of loan. Over a period of time, SCARDBs should gear up to finance the complete AVC from pre-production to production, processing/value addition and storage/transportation/marketing of the final products to the end level customers. This will be possible only through technology adoption as in the case of SBI YONO. The SCARDBs should create IT based facilities, website and mobile app so that they will be able to extend finance to the all the actors in the value chain. Creating technological solutions would increase acceptability among the farmers and reduce the transaction cost of both farmers and SCARDBs. NCARDB Federation may like to take a lead in providing technological support to different SCARDBs.

15.18 LTCCS as dedicated institutions for AVC Infrastructure

As discussed above, the LTCCS would have ample scope for financing of AVC infrastructure provided necessary conditions are created. The Study Team feels that financing of agriculture investments and agri value chain infrastructure should be the major activity of these institutions in future. However, at present, they are not in a position to serve as the dedicated institution for financing of AVC infrastructure. It may be recalled that ARDBs have suffered enormously due to restrictive business model imposed on them and their inability to make necessary changes in their operation in tune with the changing requirement of their members. As such, they must be permitted to continue financing for other purposes like rural housing, rural non-farm sector activities and even permitted to expand business for activities like short-term agriculture loans to enable them to act as "one stop shop" for meeting credit requirement of their members.

CHAPTER 16

Reforms, Restructuring and Innovations-Building the Future – "The BHARAT Way"

The evolution of LTCCS in our country, its contributions in accelerating the pace of private capital formation in agriculture, the problems encountered by it in the long journey traversed by it so far and its present status, analysis of its different forms of structures and their strengths and weaknesses, have been discussed at length in the earlier chapters of this report. Specific areas covering different aspects of business performance, mobilisation of resources, recovery, governance, human resources, legal framework, hurdles encountered, restrictions imposed, role played by different stake holders, besides emerging opportunities and challenges like technology adoption have also been studied in detail in this report.

An attempt is made in this chapter to map the reforms and restructuring suggested by the Study Team to revamp the LTCCS, to help it to come out of the difficult phase it is passing through. The Study Team has also taken efforts to document some of the innovations attempted and good practices adopted by the LTCCS and the same are discussed separately under the sub heading 'innovations' in the later part of this chapter.

This chapter delineates the strategies needed for rejuvenating and revitalizing the age old LTCCS and to make it future ready. Needless to say, that the suggested road map needs the wholehearted support and patronage of GoI, State Governments, NABARD and all other stakeholders. The recommendations on reforms and restructuring made by the Study Team are grouped into six broad heads under an acronym

"BHARAT" viz.,

16.1 BUSINESS EXPANSION

Loaning Business

One of the major issues, which dominated the field level discussions that the Study Team had with different stakeholders, is the restrictive business model forced upon the LTCCS. Initially, they were designed as specialized institutions for disbursing MT / LT loans for accelerating the pace of private capital formation in agriculture and a scheme for resource support through floatation of debentures was thought of. However, over a period of time, there have been momentous changes in the rural credit scenario, in terms of creation of new institutions, introduction of guidelines on Priority Sector Lending and expansion of its scope and coverage, etc. But the restrictions on business activities of LTCCS continued and the entry of new players further stunted its growth trajectory. This section of the chapter makes an attempt to map the restrictions on the business activities of LTCCS and makes suitable recommendations for addressing them.

a) Restrictions on purposes of loans and clients to be served:

The purposes for which LTCCS can provide loans and the clients to whom the loan products can be offered are at present decided based on the provisions of the Rules / Bye laws framed under the respective SCS Acts. The Study Team observed that the SCS Acts / Rules / Bye laws prevailing in most of the states restrict the purposes for which loans can be extended and there is no provision to provide loans for meeting the credit needs of members for undertaking the Short Term Seasonal Agricultural Operations in many of the states. Similarly, many SCS Acts do not have the provision for financing member collectives like JLGs / FPOs, group of farmers/artisans, etc. In general, it is found that the existing prescriptions are rather rigid and restrictive, and in certain states, though RCS is empowered to relax the norms, the process involved is quite cumbersome and time consuming. These restrictions deny LTCCS the business opportunity of meeting all credit needs of their members and often force their members to move away from them and scout for alternate sources of financing which also becomes difficult since they do not have any other tangible asset to offer as security, other than land, which is already mortgaged with LTCCS. In view of this, the Study Team is of the opinion that the relevant SCS Acts should have provisions for membership of groups of farmers/artisans, etc. and financing of various economic activities that the members of LTCCS want to undertake. In case, a decision is required for provision of loan beyond the purposes specified in the Act, such decision should be left to the discretion of the Board.

Recommendation - 01

The existing provisions of SCS Acts governing the LTCCS, in most of the states, restrict the purposes for which loans can be extended and the type of clients. In many states, there are no enabling provisions for financing ST (SAO) or farmer collectives like JLGs / FPOs, artisan groups, etc. These restrictions compel the members to scout for alternative channels for meeting their credit requirements. To obviate these difficulties and to provide a level playing field to the LTCCS, a broad framework for a Model SCARDB Act (Annexure 24), along with a suggestive list of activities and types of clients that can be considered for extending credit support, is recommended which also provides for allowing the Board of Directors to take a conscious and rational decision on including other activities beyond those specified in the said list, primarily based on the potential and risk management capabilities in respect of such exposure.

b) Restrictions on providing additional loans

During the course of the interactions the Study Team had with stakeholders, many SCARDBs have represented that at present there is no provision in the SCS Acts to provide additional loan to the same borrower for a different purpose, even if the existing loan account is 'standard' and the value of land already mortgaged is adequate or more to cover the additional loan sought. This pushes the borrowers to a difficult situation as they are unable to approach another formal financial institution for a fresh loan since the only piece of land owned by them is already mortgaged to SCARDB / PCARDB. These restrictions stand in the way of the business expansion plans of LTCCS. The Govt. of Kerala has taken the initiative in this regard, by inserting enabling provisions for extending more than one loan to the same borrower, provided it is within the overall Individual Maximum Borrowing Power (IMBP) and subject to fulfilment of other norms. There is, however, a need to restrict the number of loans to be provided to an individual borrower.

Recommendation - 02

There should be an enabling provision in the SCS Acts / Rules / Bye laws to provide for extending more than one loan to members against the mortgage of same land, provided the existing loan account is 'standard' and the value of land offered as security is adequate to cover the amount of additional loan sought, subject to adherence to norms related to Individual Maximum Borrowing Power. There is, however, a need for comprehensive assessment of the requirements of borrowers so as to ensure reasonable restriction on the number of loans to be provided to an individual borrower against the same mortgage. This would help LTCCS to retain its borrowers.

c) Restrictions on quantum of loans

During interactions with stake holders, the Study Team was apprised that restriction on quantum of loan, especially on Housing Loan, has curtailed the scope of business expansion. One such area brought to the notice of the Study Team was the limit of ₹ 15.00 lakh prescribed by NABARD in the year 2005 for direct housing loan for SCARDBs. This has not since been revised and many SCARDBs are following this limit. It was observed that in recent past, not many guidelines issued to the LTCCS relating to business operation aspects. A suggestion has been made elsewhere in the Report to address this issue. However, since this may take some time to materialise, the Study Team would like this particular issue to be addressed urgently.

Recommendation – 03

The ceiling for individual housing loan by Cooperative Banks has been revised recently depending upon the own fund of these banks. The Boards of SCARDBs / PCARDBs may be permitted to fix suitable upper limits based on similar criteria. To overcome the tendency of over financing in case no conditions are stipulated, Loan to Value Ratio criteria could be considered.

d) Land as security

Notwithstanding the changes in the nature of financing activity over a long journey of the LTCCS, the Act/Rules/Bye laws continue to provide for mortgage of land as the sole security for loan, irrespective of the purpose of loan. The restrictions placed on SCARDBs / PCARDBs to finance only against the security of mortgage of land has made a large number of activities and potential borrowers ineligible for availing loans from these institutions. The emphasis on land as security often leads to exclusion of NFS units from the loan basket of SCARDBs / PCARDBs. Further, it also impacts financing of farm mechanisation activities for which hypothecation of assets created out of loan availed is also insisted as security, apart from mortgage of land. Though other agencies could reap the benefits of financing even the landless farmers through collateral free group approach in lending through JLG / SHG concept, SCARDBs / PCARDBs throughout the country, barring Kerala, could not make any headway.

Recommendation - 04

Despite expansion of lending activities over a period of time, there has been no perceptible changes in the security norms prescribed in the relevant SCS Acts governing the LTCCS, which continued to rely mainly on mortgage of land, irrespective of the purpose of loans and type of borrowers. The fact that in the event of default, SCARDBs / PCARDBs are not able to auction the land mortgaged to it, due to socio-political reasons, raises doubts about the efficacy of the security norms presently in vogue. The time is ripe for the LTCCS to revisit its age old norms relating to security for loans. Other forms of security like lien on Fixed Deposits of Banks, Insurance Policies, Gold Ornaments, Third Party Guarantee, hypothecation of assets created, etc., should also be reckoned as eligible items of security for providing loans. The Study Team recommends that the nature of security to be obtained for loan (other than land) should be left to the discretion of Board of Directors.. Alternative modes of financing, adopting group approach like JLGs / FPOs, may also be tried out by providing suitable training / exposure to the staff.

e) Risk mitigation - Credit Risk Fund

Credit risk is a major handicap hampering the business expansion of any financial institution and the LTCCS is no exception to this. The ARDBs often come across cases wherein the loan accounts of borrowers become sticky due to the demise / chronic ailment of the borrower during the currency of the loan period. In case of SF / MF, their dwelling houses or the land owned by them could be the only asset they possess, which they would have already offered as security for availing a loan from SCARDB / PCARDB. This property, if attached, in the event of default in loan repayment on account of the sudden demise or chronic ailment of the loanee, can cause unbearable miseries to the family of the deceased / sick borrower. Such a situation calls for the need for establishing a 'Risk Fund' to provide financial succour to the affected families. Government of Kerala has established 'The Kerala Cooperative Risk Fund Scheme', which aims at providing relief to the family of deceased / chronically ill borrowers in respect of their loan liability up to the specified limit. Details of the Scheme are furnished in Annexure 27.

Recommendation - 05

Credit risk is a major impediment affecting the LTCCS across the country. At present LTCCS, as a group, is not covered by any national level Credit Risk / Guarantee Schemes. Government of Kerala has established 'The Kerala Cooperative Risk Fund Scheme', which is aimed at providing relief to the family of deceased / chronically ill borrowers in respect of their loan liability up to certain specified limits. The Study Team recommends that the State Govts. may like to examine the Kerala Scheme for implementation with suitable modifications, if any. Alternatively, NCARDBF may take the lead for setting up a Risk Fund for the LTCCS structure in the country as whole, with financial assistance from MoC, GoI and State Governments. The Fund may be strengthened with contributions towards premium from the participating institutions and members. In order to ensure financial viability of such a Fund, GoI/ NCARDBF and National level Federation of Cooperative Banks viz. NAFSCOB and NAFCUB, may like to examine an idea of setting up a Risk Fund for the cooperative sector , as a joint venture.

DEPOSIT MOBILISATION

a) Systems and procedures

The SCARDBs and PCARDBs were allowed to mobilise term deposits beyond one year based on the recommendations of Dr. Bhandari Committee. NABARD has issued detailed guidelines in this regard . The deposit mobilisation efforts of the LTCCS has not met with the desired success as they were not allowed to mobilise deposits of all types and tenors. The absence of strong systems and procedure, technology and deposit guarantee scheme etc., have inhibited the growth of the deposit portfolio of LTCCS.

Recommendation - 05

To address the problems encountered by LTCCS in mobilisation of deposits the following recommendations are made:

- Compliance to KYC guidelines should be a precondition for mobilisation of deposits by LTCCS.
- The prudential norms for deposit mobilisation should include minimum capital in the form of CRAR, maintenance of adequate liquid funds, enhanced disclosure in annual accounts, periodic audit and inspection and establishment of sound governance practices.
- ARDBs mobilising deposits should establish proper ALM tools with periodic review of pricing of loans and deposits to ensure a remunerative margin in business operations.

b) Legal framework

After the promulgation of The BUDS Act 2019, the State Government has been designated as the Regulator for all deposits mobilized by Cooperative Societies registered under the SCS Act of the respective states. This entails the deposit schemes to be implemented by the LTCCS would require the approval from the State Government under the relevant provision of the BUDS Act, 2019. Since LTCCS has to mobilise deposits to suit the needs of expanding and differentiated credit portfolio, the new deposit scheme to be introduced should have provisions for accepting deposits of varied tenure. It would also necessitate a built-in internal mechanism for appropriate pricing of the deposits based on overall cost of funds and risk mitigation measures to address the market driven movement in interest rates.

Recommendation – 07

The State Governments should initiate action as required under the BUDS Act 2019, at the earliest, to facilitate the process of deposit mobilisation by the LTCCS. The Deposit Schemes to be approved for LTCCS should be based on professional advice and should also incorporate necessary safeguards to protect the interest of the depositors.

(c) Guarantee cover

The deposits mobilised by the LTCCS do not enjoy guarantee cover under DICGC as the institutions under LTCCS are not “banks” as defined under the provisions of B R Act. There has been a demand from the LTCCS to extend the DICGC coverage to the deposits mobilised by SCARDBs / PCARDBs. The issue has been examined by the Study Team and a Note in this regard is enclosed as Annexure 25.

There is a felt need for providing some form of guarantee cover to the deposits raised by these institutions to instil confidence in the depositors. In this connection, the Deposit Guarantee Scheme for cooperatives implemented by Government of Kerala needs a mention and the same may be examined by other States for implementation, with suitable modification.

Recommendation: 08

Since the deposits mobilised by LTCCS are governed by the BUDS Act 2019, respective State Governments. may examine the issue of providing guarantee cover for such deposits to protect the interest of the depositors and the institutions mobilising such deposits. NCARDBF may take an initiative for creating an Institutional Protection System (including deposit guarantee) with support from other stakeholders to address the issue.

(d) Banking License for ARDBs

SCARDBs are credit institutions in field of agriculture and rural development and serving particularly the disadvantaged sections of society. These institutions are primarily engaged in provision of term loans mainly for Agriculture & Allied Sectors, NFS and activities in the rural development sector and there is hardly any institution providing ground level credit with such focused mandate. These institutions have gained experience in deposit mobilsation since RBI itself had mooted such an idea for the SCARDBs more than half a century ago. The SCARDBs have continued their efforts for deposit mobilsation adhering to the guidelines issued by NABARD later on. In order to provide a level playing field to ARDBs, there has been a demand for provision of Banking License to SCARDBs. This demand, if met, will provide equal opportunities to SCARDBs to mobilise all types of deposits from the public. The Study Team feels that it may not be desirable to exclude an institution like ARDBs from the list of eligible entities for banking license. However, this is a complex issue involving legal aspects and a policy decision is to be taken by the banking regulator in the matter. The Study Team has examined the issue in greater detail and the recommendation on licensing of ARDBs is presented in the form of a Note which is furnished in Annexure 26.

Recommendation: 09

RBI may favourably consider the plea of SCARDBs for converting themselves into Banks by including them in the list of eligible entities for Banking License as Small Finance Bank/Universal Bank. However, suitable parameters are required to be developed for consideration of their application for this purpose. The financial strength, technology adoption, robust systems and procedures, as also skilled manpower may be considered as basic prerequisites for this purpose. The guidelines to be formulated by RBI in this regard may put more emphasis on adoption of sound cooperative principles by the structure in their operations.

INVESTMENT

a) Participation in Call Money / Notice Money Market

The Call Money / Notice Money Market is generally used by banks for overnight / short term requirement for meeting their liquidity obligations. Since banks are also flush with sizeable short term surplus funds at times, call money market also provides an opportunity for them to earn income from such operations. The Study Team has observed that though some of the SCARDBs do have some surplus funds at times, the amount is not so huge as to make any material impact to them or the market by their entry. Even, if it is expected that the business of SCARDBs would grow in future, the better course would be to allow them to reap the benefits of this market through intermediation of StCB/ other banks rather than permitting them to become a direct participant in the call money / notice money market.

b) Investment in Mutual Funds

In terms of NABARD guidelines issued in 2011, SCARDBs are not permitted to invest in Mutual Funds. Such an instruction was largely in tune with NABARD's guidelines to other Cooperative Banks.

NABARD has in 2016 permitted the Cooperative Banks to invest their non-SLR investments in various instruments including units of Debt Mutual Funds and Money Market Mutual Funds. A Debt Mutual Fund invests in fixed income instruments that offer capital appreciation, have a pre-decided maturity date and the returns are usually not affected by fluctuations in the market. Similarly, Money Market Mutual Funds invest in high quality, short-term debt securities and pay dividends that generally reflect short term interest rates. Both these funds are considered to be low risk investment options. Considering the low risk involved and availability of the schemes to suit their time horizon, SCARDBs may be allowed to participate in these funds. However, because of risk involved, other instruments like Commercial Papers may not be favoured at this stage.

c) Umbrella Organisation

There is a felt need to explore the possibility of establishing an Umbrella Organization (UO) for SCARDBs to provide professional services to support their functions, including investment operations. SCARDBs may consider recruiting professionals to take care of their investment decisions depending on the need till the said suggestion materializes.

Recommendation: 10

Since there are not enough short-term surplus funds with SCARDBs, no useful purpose will be served by allowing them to directly participate in Call Money / Notice Money Market at this stage. The purpose can be easily served through inter-mediation of StCB/ other banks. As regards investments in Mutual Funds, keeping in view the low risk involved and availability of schemes to suit their time horizon, SCARDBs may be permitted to invest in Debt Mutual Funds and Money Market Mutual Funds. These aspects can be taken care of in a better way once an Umbrella Organisation is formed for providing professionals services to SCARDBs.

4) NON- FUND BASED SERVICES

a) Establishing Common Services Centres (CSC)

The country has embarked upon an ambitious Digital India Programme. The 'Public Internet Access Programme' (PIAP) is an important pillar of the said programme and the CSC is considered as the main enabler for the same. The CSC being the access point for delivery of various services, has proved to be extremely useful, particularly to those in rural and far-flung areas. Since they offer assisted access to a large number (about 300) of e-services relating to government and public utility services, social welfare schemes, financial services, agriculture services and so on, the grass root level cooperatives, viz. PACS have been taken on board to act as CSCs. ARDBs though have lesser strength numerically, branches of SCARDBs / PCARDB enjoy similar outreach like PACS. ARDBs should also be provided an equal opportunity to serve as CSCs to expand their footprints and enhance their business.

b) Providing marketing support

Many of the SCARDBs / PCARDBs are having their own land and building which most often are not put to effective use. Since these institutions are meeting the credit requirements of the farming community for various investment activities, more so relating to agriculture and allied sectors, it provides a good opportunity to them to set up retail outlets for marketing of the produce of farmers to the customers directly, thereby avoiding the exploitation of middlemen, resulting in better income to the farmer producers.

c) Providing post- harvest storage facilities

On the lines of providing marketing outlets, post-harvest storage facilities can also be provided by LTCCS which will help in ensuring better price realisation for the farmers' produce. Though some initiatives were taken by a few ARDBs in this direction, such interventions were rather sporadic. Scope exists for taking such initiatives by other ARDBs who have vacant land / premises, by partnering with farmers collectives like FPOs / Farmers Clubs / JLGs etc.

d) Setting up of custom hiring centres

ARDBs having available space in their own premises can also think of starting custom hiring centres for various farm equipment which are having good demand in their area of operation. This will help farmers to undertake their farming operations on time. These centres can also provide advisories on various farming operations by forging a tie up with the extension wings of Agricultural Universities, Krishi Vigyan Kendras (KVK) etc, with the help of mobile applications.

e) Providing safe deposit locker facilities

Another non fund-based activity that can be taken up by ARDBs which have their own buildings is provision of safe deposit locker facilities, with necessary safeguards, to their customers. This will help them in not only bringing in regular footfalls but also attract deposits

Recommendation: 11

There should be enabling provisions in the SCS Acts / Rules / Bye-laws of all SCARDBs / PCARDBs for providing non-credit services like Common Services Centres, Marketing Outlets, Post-harvest Storage Facilities, Custom Hiring Centres, Safe Deposit Locker Facilities etc., to farmers and other members which can act as sources of non-fund based income, besides providing an opportunity for increasing their customer base. The Study team recommends that non- fund services to be left to the discretion of the Board of Directors.

BORROWINGS

a) Refinance from NABARD

Borrowings from NABARD have always been the main source of resources for the SCARDBs. However, NABARD refinance is available subject to satisfying certain terms and conditions. Only 8 out of 13 functional SCARDBs are eligible to avail refinance from NABARD. Due to the poor financial health of SCARDBs, and issues relating to obtaining State Government guarantee etc., over the years, there has been a declining trend in the share of SCARDBs in the quantum of refinance disbursed by NABARD compared to other agencies. Some of the issues relating to availing refinance by SCARDBs from NABARD and suggested remedies are discussed in the following paragraphs.

b) LTCRF - Separate allocation for LTCCS

The LTRCF is a dedicated fund set up in NABARD as a concessional refinancing window to incentivize term credit in agriculture sector provided by eligible institutions which include SCARDBs as well. This fund is operated on a 'first come first served basis' and is not available 'on tap'. Due to the delay in obtaining State Government Guarantee, SCARDBs are in a disadvantageous position to draw eligible refinance from LTRCF, since by the time they approach NABARD, the funds would have been fully drawn by other banks which do not have the requirement of obtaining State Government guarantee. SCARDBs are the only term lending institutions in the cooperative fold providing long term credit for private capital formation in agriculture and allied sectors. In order to ensure business expansion, there is a felt need to ensure providing reasonable amount of concessional refinance to the LTCCS.

Recommendation: 12

A separate allocation, within the overall allocation under LTRCF, should be made exclusively for SCARDBs. The annual lending programme of the LTCCS should be a guiding tool for deciding the quantum of allocation and the same should remain on tap for the whole year.

c) State Government Guarantee for NABARD refinance

A case of differential treatment being faced by the SCARDB is in respect of availment of refinance from NABARD. Unlike in the case of SCBs, RRBs, StCBs etc., NABARD provides refinance to SCARDBs against the security of guarantee provided by State Government. The State Government guarantee is generally available against payment of a guarantee commission / fee, up to one percent of the loan amount, which in some states is charged on the total loans outstanding. This again puts the farmer borrowers in a disadvantageous position as they are forced to pay a higher rate interest compared to the farmer borrowers of other banks, since the financial burden arising out of guarantee commission / fee is factored into the rate of interest charged on loans.

Recommendation: 13

NABARD provides refinance to SCARDBs against the security of guarantee provided by State Government, which is available against payment of a hefty guarantee commission / fee in some cases. NABARD should treat SCARDBs on par with other eligible agencies and consider providing refinance to them on the basis of their financial strength, without insisting on State Government guarantee. The Govt. guarantee is not available easily, and involves cost , due to financial prudence exercised by the State Government.

d) Augmentation of RBI's contribution to NRC (LTO) Fund of NABARD

SCARDBs depend mostly on borrowings for their loaning operations as their ability to mobilse low-cost deposits from members/public are highly restricted due to various reasons. Secondly the SCARDBs are forced to compete with other banks for their lending operations. Since the other banks are mobilising low-cost deposits, they are in an advantageous position to extend loans for agri and allied activities at competitively lesser interest rates as compared to SCARDBs.

The borrowing from NABARD continues to be the most important source of funds for SCARDBs. NABARD refinance to SCARDBs at present is mostly market driven and therefore costlier as NABARD resorts to market borrowings to meet the demand for refinance of SCARDBs & other Rural Financial Institutions (RFIs) for meeting their MT/LT credit requirements for agriculture and rural development activities. The availability of zero / low cost fund may help NABARD to allocate concessional refinance to SCARDBs. The Study Team has examined the issue of augmentation of RBI's contribution to National Rural Credit (Long Term Operations) Fund maintained by NABARD in this regard. A detailed note in this regard is enclosed as Annexure 33.

Recommendation: 14

RBI's contribution to NRC (LTO) fund of NABARD may be augmented to enable NABARD to leverage this fund with market borrowings and facilitate NABARD to extend refinance to SCARDBs at comparatively concessional interest rates so as to ensure financing of agriculture and rural development activities by SCARDBs at lower interest rates.

e) Loans from STCCS

The Study Team observed that some of the PCARDBs which have the potential for better performance are not in a position to exploit the same because of the poor financial status of the SCARDB. To overcome such a situation there is a case for providing financial accommodation to such PCARDBs from the STCCS.

Recommendation: 15

Suitable steps should be initiated by the State Governments, in states where the LTCCS is financially weak, for providing financial accommodation to good working PCARDBs from STCCS. In case the need arise, NABARD may consider developing a refinance policy for STCCS for the lending to ARDBs in such cases.

f) Loans from Commercial Banks

At present loans provided by Commercial Banks to NBFCs qualify for Priority Sector Lending status, depending upon the purpose of loan disbursed by the latter. As SCARDBs are lending primarily to the sectors coming under the purview of Priority Sector, Commercial Banks may consider extending loans to SCARDBs and such loans should also qualify for Priority Sector Lending status. This, if permitted, can act as an alternative channel for resource mobilisation for the SCARDBs, which at present are having limited avenues.

Recommendation: 16

Commercial Banks may consider extending loans to SCARDBs for activities covered under Priority Sector and such loans should also qualify for Priority Sector Lending status.

g) Rating of ARDBs by external agencies

SCARDBs primarily depend on borrowings from NABARD to undertake their lending operations. NABARD has recently introduced risk rating norms for SCARDBs for determining their eligibility for availing refinance. Apart from borrowings from NABARD and limited option for mobilisation of deposits, ARDBs do not have many other options to mobilise resources for their lending operations on favourable terms. To widen the scope for resource mobilisation, SCARDBs have to gear up to access resources from wider financial markets in future and raise resources through other instruments in the financial market. The Study Team had observed that Kerala SCARDB got itself rated by CRISIL, for availing a credit facility from a Commercial Bank. The Study Team believes that with the launch of revival package, some SCARDBs may be able to get externally rated.

Recommendation: 17

SCARDBs should get themselves rated through independent rating agencies approved by RBI to become eligible for accessing resources from the financial market. NABARD may also consider using these external ratings for extending refinance to those SCARDBs where State Government guarantee is not available.

h) Business Planning & Recovery Cell

The Study Team has observed that the system of regular business planning and review of progress was generally found lacking in SCARDBs. Similarly, poor recovery of loans has been a major area of concern for all SCARDBs. There is a felt need to give focused attention to this vital aspect and put in place a suitable system to address it.

Recommendation: 18

A permanent structure, in the form of a Business Planning & Recovery Cell, which can give focused attention, should be set up in each SCARDB with grant assistance from NABARD.

6) OTHER ISSUES

a) Multi State ARDBs

As indicated in Chapter 2 (para 2.4.3), in some States, the medium term and long term credit needs were catered to by STCCS in the cooperative fold. It may be observed that the States where the LTCCS did not come into existence were the States with different geographical landscape, comparatively low level of population and having less potential of traditional economic activities in the field of agriculture and rural development requiring investment credit. Incidentally, these States also have their strong individual regional socio-ethnic identity. As such, there are issues relating to the acceptability of a people centric organisation with multi- state existence in these areas. The success of a new multi-state ARDBs covering such states has to be viewed in this background. The same would also be true for expansion of area of a State level ARDBs covering these States.

As regards, conversion (reorganisation) of the existing State specific SCARDBs into multi state entities, the issues relating to such conversion and the experience of Bihar SCARDB's expansion to the State of Jharkhand, has been discussed in greater detail in Chapter 11. The cooperatives enjoy a lot of patronage and support under the State Act, particularly in relation to recovery of dues . The SCARDBs being a borrowing based credit institution require even greater support in this respect. Further, any effort by the SCARDBs to convert as MSCS (and be governed by the MSCS Act) with the existing governance issues, as highlighted in this Report, has the potential of affecting its health adversely. This is because of the fact that the provisions of the MSCS Act are more aligned to facilitate ease of doing business than to exercise closer monitoring and supervision over such societies, as required in case of SCARDBs in view of their present health.

Recommendation: 19

In view of the fact that the States not covered by the LTCCS are generally the States with strong individual socio ethnic identity (besides other limitations for business expansion), the Study Team recommends that the establishment of any new multi-state ARDB or expansion of area of operation of existing SCARDB so as to cover these States must take into account this unique nature of these States. Further, the Study Team is of the view that the existing SCARDBs may consider expansion of their area of operation and conversion into MSCS only after improvement in their working through close monitoring and supervision. A time frame of 3-5 years is visualised for expected improvement, once various measures suggested in the Report see the light of the day. Moreover, in any case (whether creation of a new Multi-State ARDB or conversion of existing SCARDB into MSCS), the financial viability of the LTCCS should be the important guiding principle for such an exercise. The regional socio ethnic identity should also be suitably factored in such a decision.

b) Agri Value Chain Financing

The Working Group on AVCF set up by GoI in 2021, has recommended a four-pillar approach, viz., (a) Collectivisation of farmers as FPOs, (b) Promotion of FPOs by a dedicated agency, (c) Institutional finance and (d) Credit Guarantee Scheme for AVCF, for developing and enhancing credit flow to AVCF sector. It has also assessed a potential of ₹10.22 lakh crore for financing this sector. The major financing requirements are in the dairy, poultry and fisheries sectors which SCARDBs have been lending traditionally.

The existing FPOs, Dairy Cooperative Societies and formation of new societies in every village, offers enough opportunities to SCARDBs. This can be exploited fully only with the help of specialized manpower and adoption of technology. Over a period of time, SCARDBs should gear up to finance the entire value chain from pre-production to production, processing / value addition and storage / transportation / marketing of the final products to the end level customers which will be possible only through technology adoption. The implementation of various suggestions made elsewhere in the Report for recruitment of specialized officers, Central Processing Cell, membership of Credit Guarantee Schemes, etc. would have a positive impact on the financing of AVCF.

Recommendation: 20

The Study Team recommends Resources, Opportunity and Enablers (ROE) approach, as a way forward for enabling LTCCS to become effective partners in financing AVC.

- SCARDBs which have sufficient resources can finance investment requirements of primary producers and FPOs in these sectors. For bigger projects, consortium arrangement with STCCS / others can be explored.
- As regards converting SCARDBs into specialized institutions for financing AVCF and post-harvest infrastructure, the Study Team is of the view that having a limited mandate can restrict the business opportunities and pose problems in future.
- SCARDBs should be made eligible institutions for financing infrastructure facilities under schemes like Agri Infrastructure Fund, etc.
- SCARDBs should be equipped with technology for handling day to day operations and customers' interface in AVCF. NCARDBF may take a lead in providing technological support to SCARDBs.

c) Fixation of Interest rates

Interest rates on loans & advances and deposits are now deregulated and the same are determined, reviewed and revised periodically by the respective banks / financial institutions. However, such freedom to fix rate of interest rate on their own is not available to LTCCS in all the States. In some States, the same is determined by the State Level Committee constituted by the State Governments at fixed intervals unlike in the case of other financial institutions which undertake need based revisions linked to market trends and other related factors.

Recommendation: 21

The operational decisions relating to fixation of interest rates on loans & advances and deposits may be left to the discretion of the Boards of the LTCCS in each state, which should take appropriate decisions based on expert advice. This would enable the LTCCS to fix and revise the rates of interest based on need / market conditions.

d) Engaging Agents - Business Correspondents (BCs) model

Engaging BCs has been accepted as a customer friendly and cost-effective solution in the outreach policy of the banks. ARDBs, with limited brick and mortar outlets and depleted staff strength, are finding it difficult to identify prospective borrowers and provide loans to them and undertake effective post sanction monitoring and follow up to ensure prompt recovery. The services of BCs like agents can be utilised for a basket of activities viz.,

- Enrolling new members for ARDBs and assisting them to apply for loans,
- Preliminary processing of loan applications & verification of primary data,
- Forwarding loan applications to PCARDB / SCARDB branch for scrutiny and sanction,
- Post-sanction monitoring, follow-up, recovery of principal / interest, mobilisation of deposits and marketing of loan products.

A few PCARDBs in Kerala and Karnataka have introduced models akin to BCs which are reported to be cost effective and functioning well. However such moves are isolated and based on local initiatives. The need of the hour is to introduce a fool proof mechanism for the structure as a whole with built in safeguards.

Recommendation: 22

ARDBs can formulate a policy, on the lines of BC Model existing in banks for extending their outreach to exploit the available business potential. Such a policy would help extend their outreach without increasing branch network and associated manpower, which have cost implications.

e) Rationalisation of branch network based on viability formula

SCARDBs in the unitary structure and some PCARDBs operate through their branches. As brick-and-mortar branches involve considerable cost, viability of such network is crucial for the overall profitability of these institutions. Further, on creation of new Taluk / Block, some States are bifurcating the PCARDB for providing an exclusive PCARDB for the newly formed Taluk / Block because of the limitation of operational area stipulated in the SCS Act or otherwise.

The present practice of bifurcation of the branch of SCARDB and PCARDBs consequent upon bifurcation of the revenue unit should be reviewed. Instead, viability should be the sole criteria for opening a branch of SCARDB and PCARDBs. An option SCARDBs / PCARDBs may like to examine is the possibility of converting their non-viable branches as extended arms of nearby branches on the lines of Customer Service Point / Ultra Small Branch / Fixed Point Business Correspondent models existing in banks

Recommendation: 23

An exercise may be undertaken by the LTCCS in different states for rationalization of branch network. The place ceded by the closure / shifting of branches may be filled in by low-cost touch points. Similarly, establishment of a new PCARDBs should be subject to viability considerations and not based on revenue units.

f) Standardisation of accounting system

The accounting system presently followed in the LTCCS is not uniform to provide a correct and common understanding of their financial particulars. One of the main reasons for the high incidence of imbalance reported in the federal structure is the type of accounting practices being followed at present. There is a felt need for adoption of universally accepted accounting standards by LTCCS and their accounts should be prepared and audited based on those principles. The framework of Model SCARDB Act (Annexure 24) suggested in the Study Report may provide a stepping stone in this direction.

Recommendation: 24

LTCCS should progressively adopt the universally accepted standard of accounting and their accounts should be prepared based on those principles. This involves adoption of Common Accounting System by them and preparation of Annual Accounts with adequate disclosure as per the accounting standards. This would facilitate common understanding of their affairs and ensure enhanced disclosure.

g) Coordination with STCCS

The relationship between the STCCS and LTCCS, as it exists today, is largely limited to parking of funds by the LTCCS with the StCB / DCCBs and availing temporary overdraft facility against the same to tide over short term liquidity issues. There are a few instances where Cash Credit limits are sanctioned by StCB / DCCBs to SCARDBs / PCARDBs. Some support for meeting the banking needs of the clients of LTCCS are also being made available by the STCCS. However, coordination in respect of their main business operations is found missing, despite the fact that both the structures have many things in common and the leadership of their Federations (NCARDBF and NAFSCOB) have some common presence. Moreover, cooperation among cooperatives is expected to benefit both the structure.

Recommendation: 25

NCARDBF may take the lead for establishing better coordination between LTCCS and STCCS for their mutual benefit.

h) Structure of ARDBs

The structure of LTCCS is not uniform throughout the country. The two prominent forms of the structure are Federal and Unitary. The PCARDBs are independent grass root level primary cooperatives, largely catering to the ultimate borrowers in federal structure. The branches of SCARDB play this role in the unitary structure. The SCARDBs have established supervising units in both the formats. There is a mixed structure in Himachal Pradesh and West Bengal. However, there is bias towards the unitary structure in Himachal Pradesh (with only one PCARDB) and federal structure in West Bengal with large number of PCARDBs. The SCARDBs / PCARDBs under the federal structure have also opened some branches and undertaking business operations. Whether change in structure will make a difference to the business of LTCCS is a point deliberated by some of the expert committees which have reviewed their performance. The Task Force on Revival of Cooperative Credit Institutions (LTCCS), in its report submitted to GoI in 2006, had suggested for conversion of branches of SCARDB under the unitary structure into PCARDBs as it felt that the structure should follow the federal pattern. The Committee was of the view that the federal structure is more aligned to democratic principles of cooperatives.

The Study Team is in agreement with the spirit behind the recommendations of Task Force on Revival of Cooperative Credit Institutions (LTCCS), which echoed that the LTCCS at all levels must uphold the democratic principles of cooperatives. However, in our opinion this purpose could be easily served in the Unitary Structure as well with democratic participation and control at all the levels viz. Head Office, supervisory unit and branch level. The functioning of the PCARDBs have not displayed any distinct positive / superior features vis a vis unitary structure in terms of business operations for the Study Team to suggest any preference for the federal structure. The opening of branches for business operations by SCARDBs in Federal structure provide some clue in this regard.

Recommendation: 26

There is no need for disturbing the diverse patterns of LTCCS through any extraneous efforts and all efforts should be made to strengthen the structure in its present form itself to secure business expansion in the LTCCS.

i) Viable PCARDBs

The PCARDBs are the wings of federal structure under LTCCS in our country. However, the performance of PCARDBs across the states (wherever they exist) is generally poor. Being independent institutions (though affiliated to the SCARDB), they are expected to take their own decisions. However, with limited opportunities for mobilisation of resources for disbursement of loans, they are totally dependent on the SCARDBs, which affects their decision-making powers practically in all spheres. There is a need to examine the financial position of individual PCARDBs in each state. It is also possible that some of the states would have already undertaken such an exercise, the findings of which are however not available in public domain. Besides, the Study Team observed that supervision and control of SCARDBs over PCARDBs have not been very effective. . A suggestion in this regard has been made in the Model ARDB Act (Annexure 24).

Recommendation: 27

There is a case for a decisive action based on viability considerations of each PCARDB. The implementation of financial package suggested in the Study Report may provide an opportunity to assess the financial position of individual PCARDBs. There is a need for legal backing in the states having a federal structure, for SCARDBs to supervise the functioning of PCARDB for exercising effective control over them.

j) Detour from the mandate

Tamil Nadu and Puducherry SCARDBs have taken a permanent detour from the original mandate of financing of medium term and long-term loans for agriculture and allied activities. Their financing is now for short term purposes against the security of gold ornaments. Some of the financing is also to salaried persons. As they are not monitoring the end use of credit, the loans are purpose neutral.

Recommendation: 28

LTCCS in an important state like Tamil Nadu may not be allowed to function with a detour from the original mandate for long. A High-Level Expert Committee constituted by the State Govt. has favoured independent existence of the LTCCS in the State. Various stakeholders may join together to take forward the agenda of revamping the LTCCS in the State with the Report of the State Govt. Committee being a starting point.

16.2 HUMAN RESOURCES, GOVERNANCE AND MANAGEMENT

The issues related to Governance, Management and Human Resources in LTCCS have been identified based on the interactions with various stakeholders. The major issues identified in respect of Governance and Management are lack of professionalism in the Board, interference in the day-to-day affairs and functioning of LTCCS by the State Government and posting of CEOs without adequate experience in banking. A few measures to address these issues have been suggested in the framework of Model SCARDB Act given in Annexure 24. The Study Team is of the view that improper assessment of manpower, staff shortage, ad hoc process of recruitment and inadequacy in training are some of the critical issues in Human Resources Management affecting the LTCCS. The recommendations of the Study Team in this regard are as given below.

a) Manpower planning

The staff strength varied widely across the SCARDBs. On the face of it, there were extreme situations relating to over staffing and acute staff shortage in some states. This clearly established that the manpower presently available with the LTCCS were not recruited based on any proper assessment or planning. Technical Officers necessary for formulation of schemes, appraisal of loan proposals and monitoring & evaluation were found missing in most of the states now, though at one point of time they formed a major source of strength to the LTCCS. Though, efforts to computerize the operations were undertaken by different SCARDBs, the same were not successful. The recruitment in future should keep in view the requirement of staff for computerization.

Recommendation: 29

There is a need for proper assessment of manpower at all levels of the LTCCS, be it Head Office of SCARDB or its branches or PCARDBs. The norms for manpower assessment may be developed based on the types and volume of business, number of loan / deposit accounts, volume of transactions, follow up and recovery measures and other related functions. The manpower requirement should also take care of the needs emerging out of computerization of the structure.

b) Recruitment

The procedure followed for recruitment of personnel in various cadres in SCARDBs / PCARDBs differ from state to state. Some states like Rajasthan and Kerala have specialized State Government agencies like Public Service Commission, Cooperative Recruitment Board etc. Himachal Pradesh SCARDB has roped in the services of IBPS for recruitment of personnel.

Recommendation: 30

The recruitment in Officer/Clerical cadre in LTCCS may be made through professional agencies like IBPS or Public Service Commission, etc. Another alternative could be setting up of a national level professional agency for the purpose.

c) Capacity building

The Study Report highlights the need for capacity building at both PCARDB and SCARDB level in view of changing economic environment and the need for keeping the staff abreast with latest knowledge and use of technology. Training and capacity building of all cadres of human resources, from Board of Directors, CEO to Sub Staff are considered key to the long-term sustainability of the structure. It was observed that there was no effort to sensitise the Board of Directors of SCARDBs / PCARDBs for their expected role except securing some commitment for Do's and Don'ts prescribed for them. The training institutions of SCARDBs supported largely the needs of PCARDBs in federal structure. The Study Team also observed that at present there is no specialized professional course for the ARDB officials in the educational institutions or with Centre for Professional Excellence in Cooperatives (C-PEC), BIRD, Lucknow.

Recommendation: 31

The capacity building at all levels of LTCCS must form an integral part of the revival exercise. In view of state level variations in the nature of business activities, there is a need to undertake bank specific studies on Training Needs Assessment (TNA). The course modules in the accredited training institutions of SCARDB should strictly be in tune with the TNA. The "Ridge to Valley Approach" (a top to bottom approach, akin to the approach followed in development of watershed) covering Board of Directors, all cadres of Staff of DCCB/ PACS and members, experimented for training in the STCCS in Wayanad district of Kerala by BIRD, Mangalore could be one possible approach that could be tried out . The experiment was based on a detailed diagnostic study and the TNA. C-PEC may explore the possibility of launching a certificate course for ARDB officials. Besides, it may also publicize its existing certification course meant for Cooperative Bank officials among the LTCCS so that interested officials may get an avenue to improve their knowledge and skill. The new Cooperative University may also design suitable courses keeping in view the needs of the LTCCS. In order to encourage staff members to take such courses suitable financial incentive may be designed for staff completing the same successfully.

d) Governance, Management and HR Policies

The existing system of Governance, Pattern of Management and HR Policies prevailing in the LTCCS provide a lot of scope for improvement to make them more effective. There is a need for a thorough review of the systems and practices in place to usher in better governance and bring in professionalism in management, by adopting a scientific approach to recruitment, placement and training of personnel.

Recommendation: 32

The task of undertaking a thorough review of the existing system of governance, pattern of management and HR policies prevailing in the LTCCS in each state may be entrusted to a reputed professional agency, having expertise of the cooperative sector, for designing a definite road map to streamline the entire process and suggest appropriate corrective measures. It may specifically cover the following:

- The Role of State Govt. may be limited so as not to interfere in operational matters. The nominee of State Govt. on the Board should ensure compliance of provisions of law and operational guidelines issued by the supervisory institution (proposed for NABARD).
- The operational guidelines should be exclusive domain of the supervisory institution.
- A suitable '"fit and proper" criteria may be developed for Directors on the Board of LTCCS.
- In order to improve the Governance of LTCCS, nomination of adequate number of professional directors on the Board, following 'fit and proper criteria' may be considered.
- The CEO / MD is the key functionary who is primarily responsible for carrying forward the policies and decisions taken by the Board and it is essential that a professionally qualified and experienced person is appointed as CEO/MD.
- There should also be a Board of Management, below the Board of Directors, consisting of 3 to 5 professionals satisfying the 'fit and proper criteria', which shall assist the Board to frame policies.

Suitable amendments to the SCS Acts may be considered to give effect to the suggested changes. The proposed Model ARDB Act also may address the above areas.

16.3 ACCEPTABILITY

By virtue of its unique status as a financial institution established under the State Acts, ARDBs which have the word 'Bank' in their names, are technically not Banks per-se, as defined in the B R Act. Due to its aforesaid status, they are often excluded by GoI, RBI, NABARD etc., from the privileges extended to the banking fraternity. This also often drives away the potential clients as they are deprived of the benefits of many schemes for the sole reason that they have availed loans from ARDBs.

a) **Membership in Credit Information Companies (CICs)**

The business performance of the LTCCS is also restricted due to certain limitations they experience vis-a-vis other financial institutions. Besides restrictions on financing of various activities, there are some enabling arrangements which are not available to the LTCCS. Some of these issues like denial of membership of Credit Information Companies were raised before the Study Team by the individual SCARDBs and the NCARDBF during the course of their interactions. The study Team has examined the issue in greater detail and a note on the same is enclosed as Annexure 28.

Recommendation: 33

The membership of Credit Information Companies would not only benefit the LTCCS but would be in the larger interest of credit institutions as a whole. Besides improving the quality of financing, it will support the spirit of credit discipline, which is so essential for both the borrowers and the credit agencies. SCARDBs should be considered eligible for normal membership of CICs subject to complying with the conditions laid down by RBI in this regard.

b) Membership in Credit Guarantee Schemes

GoI has laid a lot of emphasis on provision of credit guarantee for improving flow of institutional credit to various sectors of the economy and have decided to set up separate Credit Guarantee Funds for housing loans, education loans and skill development loans to facilitate youth in acquiring market-oriented skills, in addition to the Credit Guarantee Fund Trust Scheme for Micro and Small Enterprises, which is already in operation since 2006. As regards extension of credit guarantee to the borrowers financed by LTCCS, the Study Team recognises the fact that the membership of any Guarantee Scheme should be subject to compliance with the defined eligibility criteria only so that this does not put unnecessary burden on the corpus of such funds. However, the SCARDBs must be recognised as an important lending institution and should be made eligible for membership of various guarantee schemes in operation. The Study Team has examined the issue in greater detail and a note on the same is enclosed as Annexure 29.

Recommendation: 34

SCARDBs, being an important lending institution, the membership of SCARDBs in the Credit Guarantee Schemes supporting activities financed by LTCCS, like Micro and Small Enterprise (CGTMSE), Housing (NHB) Micro Units (NCTGC) and FPOs (NABSanrakshan Trustee Pvt. Ltd) may be considered favourably, subject to compliance with the norms developed for them.

c) Interest subvention for Short Term Crop Loans

SCARDBs are at present eligible to draw refinance from NABARD against the ST Crop Loans disbursed by them to farmers. However, the benefit of Interest Subvention Scheme of GoI, which is intended to reduce the interest burden of SF / MF, is not available to those financed through LTCCS. Incidentally, the same was made available earlier. The Study Team is of the view that SCARDBs may be made eligible for interest subvention on short term loans (KCC for crop loans and AH / Fisheries) to provide level playing field to them. Besides, as these institutions are providing investment credit for animal husbandry and fisheries sector, the provision of interest subvention through them may also help in reaching out to such borrowers who are otherwise could not be provided benefit of such schemes.

Recommendation: 35

At present farmers who avail ST Crop Loans from LTCCS are not eligible for the benefits under the Interest Subvention Scheme of GoI. To provide a level playing field to LTCCS and to avoid discriminating farmers on the basis of financial institution from which such loans are availed, the benefits under the said Scheme should be extended to the farmer borrowers who avail loans from LTCCS as well.

d) Participation in Government Schemes

SCARDBs are not considered as eligible lending institutions for providing loans under various subsidy schemes of GoI. The absence of on boarding of the LTCCS on Public Financial Management System (PFMS) is the reason normally cited for this situation. As such, the borrowers of LTCCS are deprived of the benefits under such schemes introduced by GoI. One such scheme is Agriculture Infrastructure Fund, wherein post-harvest infrastructure at farm gate or aggregation point can be financed.

Recommendation: 36

SCARDBs should also be considered as eligible institutions for routing different subsidised schemes of GoI so that their borrowers are not deprived of the financial support provided by GoI. Suitable measures to overcome the issue relating to on boarding on PFMS platform needs to be worked out.

e) Recovery measures - Delegation of powers of RCS

As per the provisions of the SCS Acts in vogue in various states, the powers to initiate recovery proceedings are vested with the RCS of the State Government. One such example is the Gujarat SCS Act,1961, which provides for delegation of the powers of Registrar under Section 159 (recovery of amount due under decree, etc., by attachment and sale) to other officials. The powers of RCS have been delegated to the CEOs of StCB and DCCBs and also to the Secretary, State Urban Banks Federation in respect of UCBs in Gujarat. However, no such delegation has been made in respect of Gujarat SCARDB.

Recommendation: 37

The powers vested with RCS under the Gujarat SCS Act (Section 159) for recovery of amount due under decree by attachment / sale may be extended to Gujarat SCARDB as well, as done in case of other institutions in the cooperative fold. The issue needs to be examined by Gujarat State Government. to ensure a level playing field for SCARDB in the State.

f) Improving acceptability - Statutory powers to NABARD

The present state of affairs in the LTCCS, to a great extent can be attributed to the fact that the LTCCS has been out of the radar of all the stakeholders with regard to providing guidance through operational instructions, monitoring and close supervision. Though, the State Government continues to exercise its supervisory and monitoring role over the LTCCS, it lacks the requisite professional skill and expertise for guiding these institutions on various financial aspects.

The operational instructions issued by NABARD are often not taken very seriously by LTCCS. Since NABARD is not vested with any regulatory powers, the findings of the periodical inspections undertaken by it, which are voluntary in nature, do not result in enforcing any punitive action. The net result is the further deterioration in the financial health of the LTCCS. This concern was shared with a lot of emphasis by SCARDBs and others during the course of interactions with the Study Team.

An important highlight of the role of NABARD is the visible change in the functioning of many of the Rural Cooperative Banks viz., State Cooperative Banks and DCCBs as also the RRBs in the country. This has been possible large because of the supervisory powers vested with NABARD. This added role of a supervisor provides ample powers to NABARD to engage with these institutions on a continuous basis by issuing operational instructions on regular basis, besides ensuring continuous monitoring and exercise of close supervision over them.

The general feeling expressed in almost all States during the course of the stakeholder consultations was that NABARD should be assigned the supervisory role over LTCCS backed by statutory powers. NABARD alone can fit into this special role considering its close association with the LTCCS since its inception. The framework of the Model SCARDB Act (Annexure 24) takes care of this aspect.

Recommendation: 38

SCARDBs, due to their inherent weaknesses, do not enjoy a respectable status and acceptability in the financial system of the country, mainly because they are not regulated by an independent All-India institution vested with regulatory powers. The involvement of a pan India institution like NABARD in monitoring, supervising and regulating their activities, if ensured, can provide them greater acceptability. The role to be assigned to NABARD should include regulatory powers, besides the existing operational, monitoring and supervisory roles. This suggestion, on acceptance, can provide more strength to NABARD to exercise its control over LTCCS. The framework of the Model SCARDB Act suggested in the Study Report covers these aspects.

g) Role in Financial Inclusion

Long Term Cooperative Credit Structure is an important part of the architecture for financial inclusion in the country. For more than a century of its existence, the structure has brought lakhs of farmers into purview of formal credit system. Apart from credit , the ARDBs also mobilise deposits from its members to promote thrift. The structure has considerable outreach with a membership base of more than a crore.

Recommendation: 39

The study team is of the view that the nationwide financial inclusion initiative should also include LTCCS as a partner with following programmes:

- Financial Literacy Programmes
- Credit Counselling
- Borrower education on credit discipline.
- Promotion of thrift among members of cooperative

16.4 REPAYMENT /RECOVERY

Timely repayment of loans has an important bearing on the performance of any financial institution and this is more relevant in respect of LTCCS which depend mainly on borrowed funds for their lending operations. Declining repayment is the single most important factor responsible for the poor performance of the LTCCS and during interactions each stakeholder had an expectation of a magic wand to improve the same. The poor repayment has impacted the recycling of funds and opportunity to generate income. The more worrying feature was that taking mortgage of land as security was not helpful in improving the recovery position. An attempt is made in the following paragraphs to identify areas that impact the recovery performance of LTCCS and suggest practical solutions to address them.

a) Enforcement of security of agricultural land

Issues related to enforcement of security of agricultural land mortgaged for securing the loan is at the core of the problems faced in the recovery front. Though there are chronic overdues, the structure is not able to enforce the security. Since the mortgage does not adversely affect the right of possession, ownership or use, the borrower (or the successor) normally does not evince keen interest in repayment of the loan. It has been the experience of LTCCS that in many such cases, repayment is received from the successor when the land offered as security is about to be auctioned / sold. The increase in the value of land and the migration of the successor are the main reasons for such recovery. It may be noted that Commercial Banks, RRBs etc., are able to enforce the security (other than agricultural land) provided to them through the special procedure provided under

SARFAESI Act, which has proved to be quite useful. This further highlight and establishes the need for enforcement of security by the credit agencies in the cooperative fold as well. However, SARFAESI Act is not applicable to LTCCS which is guided by the special provisions of the SCS Act / Rules governing them, operationalisation of which is not that easy considering the socio-political issues such actions could invite.

Recommendation: 40

- The issue of enforcement of security of agricultural land needs closer attention in the context of LTCCS. The importance attached to agricultural land, particularly for SF / MF, for many of whom it is the only source of subsistence and livelihood, cannot be ignored. However, this should not result in a general ban on enforcement of the security for the LTCCS. A possible way out could be to the State Govt. fixing a floor limit of the agricultural land (provided as security), which could be outside the purview of enforcement of security.
- The State Government should provide wholehearted support for enforcement of security in all other cases. The need for sale of land to recover the dues may not actually arise in most cases and the show of mere support to such an exercise would be enough to make considerable change at the ground level.
- An alternative which State Governments may like to explore could be by assigning the task of taking possession of land in some cases, albeit by clearing the dues of LTCCS, to an existing State Government institution and use the same for creation of public infrastructure in the villages. With the experience gained thus, State Governments may even consider promoting a separate institution for executing this task.

b) Informal ban on coercive measures

There is an informal ban on adopting coercive measures for recovery of loans and the LTCCS is unable to enforce the security of agricultural land mortgaged to it. As most of the loans disbursed by LTCCS are against the security of land, the same has proved to be of hardly any practical use. There was common refrain among the SCARDBs and the concerned State Government officials not to enforce the relevant provisions of the SCS Acts / Rules, fearing the socio-political impact such actions would invite, which has proved to be the nemesis for the structure. The vitiated environment has demoralized the LTCCS officials to such an extent that even the normal recovery exercise could not be undertaken in right earnest. The need for prompt repayment in the LTCCS can hardly be overemphasized.

Recommendation: 41

The poor loan recovery in the LTCCS has reached to a stage that the issue can no longer be sidestepped. Notwithstanding the electoral compulsions, the political leadership has to take initiatives in this regard. As a first step, ensuring prompt repayment of agricultural and other advances should be an area of major concern of the GoI. Repayment of loans should take the centre stage which calls for concerted efforts from all stakeholders. A practice of issuing Demi Official (D.O.) letters by Union Minister for Cooperation / Finance / Agriculture / Rural Development to the Chief Minister/s of States, at the beginning of the recovery season each year, highlighting the need for ensuring prompt repayment of loans may serve as a good beginning. At the state level, the Chief Ministers should issue such communication to District Collectors soliciting their support for the recovery efforts of financial institutions in the cooperative fold.

c) Loan Policy and Operations Manual

The basic operations of LTCCS relate to loan related activities. The recovery of loan has to take the centre stage of their action from the very beginning, albeit, without affecting expansion of loaning activities. This would require a professional approach in the entire process of sanction of loan involving identification of borrower, scrutiny and appraisal of loan application, fixing terms and conditions of sanction besides the time taken in the process. SCARDBs must address this issue with all seriousness. A detailed Loan Policy and Operations Manual is the need of the hour.

Recommendation: 42

NCARDBF may take the lead in preparing a Loan Policy and Operations Manual which could serve as a reference / model document for all SCARDBs. Individual ARDBs should make suitable improvement for adoption of the same. The efficiency and promptness must be the key to the entire process. As appraisal of loan proposals will become increasingly complex with the inclusion of new areas for financing by ARDBs and deployment of specialized manpower with requisite skill and technical qualification at branch level will not feasible, there is a need to establish Centralised Loan Processing Centres by SCARDB to process loan proposals mobilized by the branches / PCARDBs. ARDBs should start the practice of issuing sanction letters with detailed terms and conditions and repayment schedule to sensitise the borrowers about credit discipline and repayment obligation.

d) Terms and conditions of loan

The loan agreement and sanction letter containing the terms and conditions of sanction govern the bank's relationship with the borrower. However, it is observed that many a times the borrower is not provided with a copy of loan agreement or even copy of the sanction letter. It is a common knowledge that even the educated people do not have proper understanding of the terms and conditions of sanction of a loan. The situation is more adversarial in case of an ordinary borrower of the ARDB having still lesser comprehension of such details. The interactions the Study Team had with the borrowers generally highlighted this aspect. Strangely, it was observed, in some states, this was not a priority for the ARDB officials. In fact, the ARDB officials had altogether a different perception on the subject and held the view that the borrower has a knowledge or were expected to know. It also came to notice that some of the officials were themselves not keen on prompt repayment of loan on the due date as it deprived them of the opportunity of earning interest on higher quantum in view of declining disbursements in most of the SCARDBs.

Recommendation: 43

Even though the SCARDBs were advised by NABARD to adopt the "Fair Practice Code for Lenders", the Study Team observed that even the essentials of the code were not adhered to. ARDBs must provide, without fail, a copy of the sanction letter highlighting the important terms and conditions of sanction like due date for repayment, rate of interest, along with an illustrative example of calculation and the details of penal charges, etc. in case of delayed payment. The borrowers should be informed about the important details, in local language. In view of the wide difference in perception between the borrower and the lender, this requires to be included as a part of loan / recovery policy of the ARDBs and must be adhered scrupulously.

e) Recovery Policy / Manual

It was observed that in many ARDBs there was no recovery policy / manual in place to guide the activities of the ground level officials. The LTCCS in some of the states has recruited young staff members in the recent past, who are quite competent but not effective in the recovery front. They undertake the task of recovery as guided by their seniors, who themselves may not have requisite knowledge and experience. This has resulted in the recovery efforts going directionless. The absence of monitoring and proper guidance further complicated the situation. The need of the hour is to frame a model Recovery Policy / Manual. Some of the SCARDBs have adopted alternate methods for recovery like collection of post-dated cheques and obtaining mandate for auto debit from the borrower's bank account. Such practices will facilitate recovery without the need for physical collection of cheque or cash from borrowers on due dates. This practice is particularly appropriate in the context of poor staff strength in ARDBs. A few suggestions for framing a model recovery policy are given in Annexure 30.

> Recommendation: 44
>
> There is a case for adoption of proper recovery policy/ manual by the ARDBs. NCARDBF may facilitate the task of preparation of a Model Recovery Policy / Manual, as suggested by the Study team.

f) Borrower contact

The LTCCS generally provide loan to be repaid in half yearly / quarterly instalments. The loans for many activities also involve grace period before commencement of repayment, depending on the type of activities. As such, the financial institution and the borrower loses contact with each other for a long time, once the loan has been disbursed. Efforts need to be taken to bridge this time lag in their contact particularly with a view to ensure timely repayment.

> Recommendation: 45
>
> The activities relating to financial literacy, advisory services, third party products / services, etc. may help in improving the frequency of contact between the LTCCS and their borrowers. This may be considered an integral part of the repayment/recovery policy.

g) Procurement Centres

A lot of importance and publicity is given to the procurement drive at the time of major crop harvesting seasons. PACS being ground level institutions and provider of crop loans have been identified as procurement centre in many states. This enables the PACS to recover crop loan dues from such farmers. However, such a facility has not been extended to LTCCS.

> Recommendation: 46
>
> The State Governments may consider providing the facility of procurement centres to the LTCCS to enable them to provide an opportunity to recover their dues through such exercise.

h) Incentives for prompt repayment

In the present socio-political scenario where the political establishment does not prefer coercive measures for recovery of dues, some of the State Governments like Rajasthan, Haryana and Karnataka have tried to encourage farmers for timely repayment by providing interest rebate on the loans availed from LTCCS. The study team was informed during stake holder discussions that these initiatives have yielded positive results. Similarly, Kerala SCARDB has also introduced a 'Good Paymaster Scheme'. Under this scheme, borrowers who repay their loan instalment and interest thereon promptly, on or before the due dates, are rewarded with an incentive equivalent to 12% of the amount of interest due, which is shared between

SCARDB and PCARDBs in the ratio of 3:1. These initiatives have helped to improve the otherwise vitiated recovery climate marred by loan waiver schemes.

Recommendation: 47

Keeping in view the importance of capital formation in agriculture, the State Governments may consider introducing incentive schemes for prompt repayment.

i)Delay in release of Committed Amount

The state governments have commitments under various Schemes/ Awards towards the LTCCS. One such important scheme was in Kerala where the State Govt. has set up 'Kerala State Farmers' Debt Relief Commission' and 'Kerala Fisherman Debt Relief Commission' which are empowered to pass awards, after adjudication, to fix a fair rate of interest and an appropriate level of debt to be repaid by the farmers in distress.. Likewise, other state govt. have made commitments under Schemes, etc. However, there has been undue delay in release of the State Government's share which has impacted the financial performance of LTCCS adversely.

Recommendation: 48

The Government of Kerala may take necessary steps to release its share as soon as the Awards of the Farmers'/ Fisherman Debt Relief Commission/s are announced. Similar action is required by other State Governments to avoid financial loss to LTCCS.

16.5 ACCOUNTABILITY

Cooperatives are autonomous institutions which are democratically controlled by their members who contribute equitably to the capital. The Directors are elected among the members and are accountable to the members. State Government, a major stake holder, has a pivotal role to play in regulating these institutions. Besides, it has a major role in nurturing these institutions which are established under the respective SCS Acts. The Study Team after critically analysing the functioning and performance of the LTCCS and the role played by the State Governments and other stake holders, has flagged certain issues related to 'accountability' which are discussed in the following paragraphs.

a) Supersession of Boards and not holding elections

Out of the total 13 SCARDBs in the country, which are functional, elected boards were superseded and Administrators posted to look after their affairs in five states. In three such states, elections were not held for more than a decade. Though there are enabling provisions in the SCS Acts forbidding the State Governments from unduly postponing the holding of elections beyond a certain period, they are often circumvented by invoking exceptions or other reasons, for exemptions. The supercession of the elected Boards, indefinite postponement of the conduct of elections and bringing the LTCCS under the State control by posting Administrators is against the principles of cooperation. Direct control of these institutions, that too for years together, will have an adverse impact on their functioning.

Recommendation: 49

Only an elected Board of Directors can ensure better accountability in the LTCCS. The relevant provisions of the SCS Acts, which provide for postponement of the elections indefinitely, should be subjected to review and measures be initiated to ensure conduct of elections in time for putting in place an accountable elected Board.

b) Composition of Board - Fit & Proper Criteria

The SCS Acts in some of the states have been amended to nominate a few professional experts with proven track record, on the Boards of SCARDBs by adhering to the 'fit and proper criteria'. However, this was not put in practice all the states. A democratically elected Board with professional experts in its midst, and a Board of Management consisting of domain experts, would be in a better position to ensure professionalism and accountability in the day-to-day functioning of these financial institutions in the cooperative fold

Recommendation: 50

The SCS Act should provide for co-option of professional experts possessing prescribed qualifications and experience on the Boards of SCARDBs. To ensure professionalism, the SCS Act should also have a provision to constitute a Board of Management consisting of domain experts.

c) Interference in day-to-day functioning

One of the major reasons for the present state of affairs prevailing in the LTCCS, is the frequent interference by the State Government in their day to day functioning. The elected Boards have no other option but to follow the dictates of State Government which are executed through the CEO / MD who is generally nominated by the State Government. LTCCS cannot continue to survive in the competitive environment in the midst of such frequent interference which will, for sure, impair their performance.

Recommendation: 51

The frequent interference by the State Government in the day-to-day functioning of LTCCS is having an adverse impact on their performance. In the larger interest of LTCCS, State Governments. should desist from interfering in their day to day administrative and business functions.

d) Deputation of staff from State Government Departments

Besides CEO/MD, it is observed that officials deputed from State Government departments manage some senior posts in SCARDBs / PCARDBs. The job of Concurrent Auditors and Sale Officers are handled by staff deputed from Cooperation Department and their salary and other establishment costs are also borne by the LTCCS either fully or partly. This system which is in vogue in most of the states, not only adds to the establishment cost of the respective SCARDBs / PCARDBs, but also creates an adverse effect on the motivation level of the regular staff since it affects their career progression as well.

Recommendation: 52

State Governments may examine the scope of delegation to LTCCS in respect of functions presently required to be performed by their officials. The State Govts should also desist from deputing its officials to the LTCCS to avoid additional financial burden on them. On the contrary they should help the structure to develop its own capacity in different fields.

e) Share Capital Contribution

It was observed that in some of the SCARDBs, the concerned State Governments do not have any contribution towards share capital, though they continue to dominate and interfere in the policy decisions and day to day affairs. Since there was no financial involvement on the part of State Governments, the feeling of accountability was however found missing, though their interference continued unabated.

Recommendation: 53

All State Governments should have a minimum level of shareholding in the respective SCARDBs to ensure their accountability to the LTCCS.

f) Role of GoI

The State Governments would be required to play an important role in the entire strategy of reforms, revival and innovation in the LTCCS as discussed above. Some of the suggestions would require continuous engagement with the State Governments on a long-term basis for them to get implemented successfully. Some of the examples in this regard are state level enactment on the lines of Model ARDB Act, action relating to auction of land etc. The suggested actions in this regard would require a gentle push from GoI.

Recommendation: 54

Any movement forward to reform, revive and bring in innovations in the LTCCS, would necessitate continuous engagement with the State Government. MoC, GoI may be required to lead this initiative to ensure that such reforms see the light of the day.

g) Follow up Action -Model ARDB Act

The Study Team has suggested broad contours of a Model ARDB Act (Annexure 24) and considers such changes as crucial for revival of the LTCCS. It has put a lot of emphasis on action on this count and expects that some institution must take the lead to take the same forward. NCARDB federation, a national level institution of the LTCCS and representing the interest of the LTCCS is the best suited to take appropriate action in this regard.

Recommendation: 55

NCARDB Federation may develop Model ARDB Act incorporating the broad suggestions made in this regard . The Federation may ensure that even if professional advice is sought for this purpose, the spirit of the recommendations are not diluted. The task of devising suitable bye- laws , in tune with the aspirations of the model Act, should form an integral part of the exercise.

16.6 TECHNOLOGY

a) Plan for computerisation

During the interactions the Study Team had with the stakeholders, there has been a uniform demand from all quarters for support for computerisation in LTCCS. The management and staff members have recognised the importance and need for technology adoption and are convinced that these institutions cannot survive without it. There were attempts for computerisation of operations in the past in different SCARDBs, however, they have not met with success to the desired extent. Adoption of technology in ARDBs would improve access to digital financial services, improve efficiency, enhance customer experience, promote transparency, help in better risk management, and effect cost savings/ reduced Cost of Management. The Study Team is aware that NCARDBF has also made representation to MoC, GoI for providing financial support for computerisation.

Recommendation: 56

The level of computerization in the PCARDBs and the branches /HO of the SCARDB is inadequate. The Study Team recommends a plan for computerisation for different future scenarios of SCARDB to ensure their competitiveness with other lending institutions. In case, a SCARDB is granted banking license, there would be a need for a uniform CBS platform for SCARDB as well as PCARDBs. The Study Team has suggested suitable computerisation to take care of the activities of the existing stage of SCARDBs/PCARDBs (not having banking license) as well. This can be done in collaboration with STCCS, parallel to the CSS on PACS computerisation.

NABARD in consultation with NCARDBF has elicited the requirements and a budget of Rs. 240 crores was estimated and the details of the same were furnished to MoC, GoI for approval and sanction. SCARDBs, PCARDBs including HO, Supervisory or Administrative Units/ Zonal Offices and the branches will be computerised. The estimates include cost of software (including customisation), hardware, data digitisation, migration audit and other support services.

b) Payment system

ARDBs still rely on traditional payment methods such as cash and cheques which are time consuming and inefficient. The lack of digital payment systems also makes it difficult for customers to access banking services from a remote location. At present, ARDBs neither have a policy in place nor the requisite technology and related infrastructure.

Recommendation: 57

The Study Team recommends that the LTCCS may offer digital services to their members in tie-up with any bank till the time they equip themselves in this regard. In the proposed tie-up, the ARDB personnel have to get trained in skills required for offering digital services.

INNOVATIONS

During the course of its field visits to the SCARDBs / PCARDBAS, the Study Team has come across a few good practices / innovations introduced by LTCCS. The prominent among them are introduction of 'Good Pay Master' Scheme by Kerala SCARDB, making CIBIL score compulsory for lending and developing a mobile application for borrowers, support of SCARDB to PCARDB in recovery and use of Lok Adalats by Rajasthan SCARDB, running of CSC by PCARDBs in Karnataka. However, the institutions located in different parts of the country had no knowledge of such initiatives. A list of good practices followed in LTCCS is furnished in Annexure 31. 'A case of Business with Social Purpose', a success story on Alathur PCARDB in Kerala is also enclosed as Annexure 32.

Recommendation: 58

NCARDBF may develop a practice of collecting information regarding initiatives and good practices on regular basis and disseminate the same to all the stakeholders of LTCCS.

CONCLUSION

The Task Force on Revival of Cooperative Credit Institutions (LTCCS), in its report submitted to GoI in 2006, recommended a slew of measures to revive the LTCCS. The recommendations though were accepted by GoI, could not be taken forward due to various reasons. The subject of revival of LTCCS has gained momentum again recently after some of the SCARDBs and their Federation have taken the lead to air their concern in this regard. However, during the course of the present study, it was observed that this was still not figuring as a priority agenda before many of the State Governments. If the LTCCS, which has been, of late, showing signs of withering away, has to compete and survive in the prevailing competitive environment, it is essential that all stakeholders, including the State Governments, address the problems being encountered by it and come out with possible solutions to prevent these age-old institutions from degeneration and disintegration.

The recommendations made by the Study Team have addressed not only the present weaknesses of the structure but also tried to address the future challenges. The recommendations on acceptability of SCARDBs as Financial Institutions, Technology Adoption and Financial Support, in particular, could change the future of the structure. The Study Team believes that the recommendations made in this report would be examined in the right earnest by all stakeholders.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CHAPTER 17

Financial Package – A Life Line

17.1 Need for financial package

The discussions in earlier Chapters point out to the fact that there is considerable impairment of the LTCCS in a number of States / UT. The Study Team is conscious of the fact that the structure cannot retain its existence in its present resource starved form for long. The team visualizes limited options for the SCARDBs in future, viz., graduating to the level of full fledged banks, being the best possible option. This would lead to more than one state level bank in the cooperative fold. The Study Team strongly endorses this idea as it would instil a sense of competition between the two state level Cooperative Banks and bring much needed vibrancy in the cooperative fold. The other options include integration of the two structures, which is not favoured universally only for the reason that there is a strong wall between them and there are already some fissures which need not be exacerbated, at least, at this juncture. This leaves us with the only option of revival of the SCARDBs from its present stage and provide adequate support so that they can turn out to be an integral part of the cooperative credit structure. The Study Team recognises the need for credit institutions for financing of agricultural term loans, particularly to the small and marginal farmers, at the present juncture. The LTCCS, with its long journey and experience, is most suitable to play this role. However, this would require instilling sufficient strength in the structure, which is possible only with the support of a financial package backed by institutional reforms.

17.2 Guiding Principles and Approach

a) The package should not be restricted only to the SCARDBs. The financial package for revival must necessarily cover both the primary level (PCARDBs) and apex level (SCARDBs) in the Federal Structure of the LTCCS since the apex level can be strong only if the base level is strong. The revival package must therefore aim for restoration of some acceptable levels of financial health of the PCARDBs as well.

b) The package has to be liberal in respect of the units (SCARDBs and the PCARDBs) which are ultimately considered eligible as this may probably be the last chance for the LTCCS structure to regain its relevance.

c) As regards PCARDBs in the Federal Structure, it is acknowledged that a primary credit cooperative like PCARDB with such narrow range of product cannot survive at the ground level when the need for credit and other financial services of rural population have grown both in qualitative and quantitative terms. Moreover, due to the structural changes in agriculture, particularly with greater integration with the market, the scope of capital formation in agriculture has moved beyond on-farm investment to financing market driven production and value addition enterprises. The Study Team is of the view that PCARDBs should not only elevate their traditional role of term lending institutions, but should be given the opportunity to provide a wide range of credit products so that they have a level playing field vis-à-vis other rural credit institutions. Hence, their continuation alongside other cooperatives in the rural areas is essential. In spite of the greater numerical strength of PACS and with plans for expanding their footprints through the initiatives of business diversification and technology upgradation, the PCARDBs and the PACS are expected to play a complementary role at the ground level. Moreover, as the Govt. of India has already assessed the need of more ground level cooperative institutions, the Study Team feels that the continued existence of PCARDBs would contribute in filling this gap. This is the most pressing argument, which strongly supports the need for strengthening the viable PCARDBs at least at this stage.

d) Generally, there is absence of any empathy for the structure with other stakeholders for the reason that the LTCCS had not performed well in spite of their insistence on valuable security of land for their loans. The fact of the matter is that there can probably be no greater myth than the mortgage of land being an enforceable security in the present environment. A common thread observed by the Study Team, almost throughout the country, was that no auction of land could be undertaken for more than a decade by the LTCCS. It appears that all shades of political opinion share the view that financial institutions should not enforce the security of land for providing credit. Under such circumstances, any financial package considering recovery of overdues through enforcement of security of land needs to be ignored.The recommendation for financial package is based on one such premise.

17.3 Pre-conditions

The impairment of the LTCCS is largely due to its inability to recover huge outstanding overdues, mobilise resources for its operations and diversify its loan business so as to meet all the credit needs of its clients, particularly credit for short term activities, including crop loan. In order to enable the structure to widen the base of its services, there is a strong felt need for close regulation and monitoring of their operations by a professionally competent institution. This would, in turn, require the State Govt. to shed some of its roles in the operational management of the LTCCS. Some suggestions are been made in this regard, particularly as components of a Model SCARDB Act to be enacted by the concerned states. It is but expected that the State Govt., in consultation with other stakeholders, would carry out necessary institutional reforms to make these changes effective. The financial package, for being effective, should be implemented only after securing the consent of the stakeholders to implement the suggestions referred above in this paragraph, in the spirit that these have been made. The past experience suggests that it is not an easy task. However, the Study Team would like to stress, even at the cost of repetition, that the release of any financial assistance should be subject to agreement of the stakeholders on this score.

17.4 Financial Package

The banking institutions and other public financial institutions in the country have received a lot of financial support from Govt. of India for their strengthening since independence. However, the LTCCS has been singularly unlucky in respect of such support from Govt. of India. The need for such support for their revival was also acknowledged by the Task Force on Revival of the LTCCS (Prof. Vaidyanathan Committee, 2005), which suggested a financial package for implementation. Though Govt. of India had also expressed its willingness to implement the same, but ultimately it did not fructify. The situation has undergone considerable changes since then and the structure has witnessed further impairment reducing some of them to a precarious situation. The status and performance of the LTCCS discussed in various chapters highlight the present situation. But the clock cannot be reversed and hence, the recommendations of the Study Team are primarily based on their present state of affairs. It is in this background that the details have been discussed in the following paragraphs and cover the aspects relating to eligible institutions, items considered for financial support, suggested sharing pattern and the implementation framework.

17.5 Eligible institutions and criteria

SCARDBs

a) At present, there are 16 SCARDBs in the country, but 03 of them located in Assam, Odisha and Bihar (Multi- State) are not functional to a great extent, for almost last two decades. Govt. of Odisha has decided to liquidate the structure. Based on the field visits undertaken in these States and discussions with different stakeholders, the Study Team felt that the concerned State Govts. and even the SCARDBs in some cases, have no definite plan at present to revive the structure. The details made available in a separate note in respect of each of these SCARDBs (Annexure 7) provide more focus on their present state of affairs. Keeping in view the prolonged state of dormancy and weak financial condition of LTCCS, the Study Team is unable to recommend any feasible revival package for SCARDBs in these states. However, Govt. of India and State Govts. may take a view in the overall interest of the state/s.

b) It would be very difficult for the LTCCS to retain its separate identity and structure because of its present health in some of the States/UT. The financial package, how much liberal it may be, is not likely to strengthen them to a good effect because of their limited area of operation, absence of adequate potential in the traditional sector, role of other credit institutions and their low level of business even at the time of their peak performance. In some cases, the State Govts. had also invested considerable resources,albeit, without much impact. The SCARDBs falling in this category are in Jammu & Kashmir, Tripura, and Puducherry. These SCARDBs had very low level of loan outstanding and accumulated losses. Two of the SCARDBs had even negative net-worth and very high share of NPAs. The details in this regard are indicated in Table given below:

Table 17.1: Financial position, Loans outstanding and NPA of Select 3 SCARDBs (₹ in Crore)

Name of SCARDB	Loan Outstanding	Non-Performing Assets	Share (%) of NPA to Loan Outstanding	Accumulated Losses	Net-worth
Jammu & Kashmir	51.92	25.67	49.44	139.77	(-)107.82
Tripura	9.71	9.65	99.39	18.56	(-) 18.48
Puducherry	44.39	3.58	8.07	4.68	5.03

It may be observed from the data given in Table 17.1 that the loan outstanding in respect of all the three SCARDBs was the maximum of about ₹ 50 crores. It is very difficult to presume that a financial institution would survive in the modern competitive environment of narrow financial margin with such a low level of business. Tripura SCARDB had almost all its loans under NPA and had a negative net-worth of ₹ 18.48 crore. Jammu & Kashmir SCARDB had very high levels of NPA (about 50 %) and negative net-worth of ₹ 107.82 crore, which is more than double their loan outstanding at ₹ 49.44 crore. Puducherry had comparatively better standards in respect of all the parameters referred above. However, the low level of business and its nature (short term loan against gold ornaments), as also limited potential in its area of operation have constrained the Study Team to put this SCARDB in this category. It is also a fact that the other cooperative credit structure i.e. STCCS is also not very strong in these areas. The Study Team recommends that a decision on their revival, merger or otherwise, may be left to the discretion of the concerned State Govt. / Govt. of India (in respect of UTs).

c) The performance of remaining 10 SCARDBs, mostly representing the Federal Structure, varied quite significantly from one another. The case of Haryana SCARDB requires a special mention as the SCARDB had accumulated losses of ₹ 415.50 crore and the recovery of most of the PCARDBs was below 15%. The Study Team observed that though the State Govt. was closely involved in its management and day to day operations with not very good result, it had also taken a lot of initiative for supporting the LTCCS. There was also a lot of potential for financing of agricultural and rural development activities in the State. Under these circumstances, the Study Team would recommend that Govt. of India may take an independent call in respect of the LTCCS in the State after holding separate and detailed deliberations with the stakeholders. As regards remaining 9 SCARDBs, it is possible that with the implementation of financial package, there is a fair chance of their revival in due course of time.

PCARDBs

a) The understanding of true picture of the SCARDBs in Federal Structure would also require examination of the position of PCARDBs affiliated to them. The health and performance of the PCARDBs is crucial for the revival of LTCCS in the Federal Structure. The eligibility of the PCARDBs should be based on criteria which are uncomplicated and easily verifiable. Such criteria must be compatible with a simple methodology for analysis of data obtained for deciding their eligibility and working out the quantum of financial assistance. However, there must be scope for appropriate decision in respect of a PCARDBs and a final call should be taken at the state level.

b) Some of the parameters which form part of the suggested criteria for identification of the credit institutions for such support generally include the position of accumulated losses, loan disbursement, recovery performance, level of negative net worth, etc., in the previous years. Prof. Vaidyanathan Committee (whose recommendations could not be implemented) had prescribed the criteria based on recovery and gross margin in relation to operating expenses. The gross margin criteria has not found favour with the Study Team because of limited maneuverability to the PCARDBs to improve the same. As such, the Study Team is of the view that recovery performance should be 'the criteria' for providing support to individual PCARDBs and recovery of minimum 25 % in any of the last 3 years is considered an appropriate benchmark. A weightage of 70% is earmarked for this criteria. The performance on financial parameters of accumulated losses and negative net worth, as also the loan disbursement, are to be included as additional criteria for subsequent selection as the single criteria of recovery may result into many PCARDBs being considered eligible but not really 'fit' for the support. A weightage of 10% each for level of accumulated losses, negative net-worth and loan disbursement is considered to be in order. The individual benchmark for these parameters (accumulated losses, negative net-worth and loan disbursement) may be state specific and decided in consultation among the State Govt., NABARD and SCARDB. Since the criteria being recommended is very liberal in nature, the Study Team expects that no further dilution should be permitted without detailed analysis of the issues involved. The PCARDBs becoming eligible for assistance within the time-frame of implementation of this package should also be provided support under the package. The Study Team also recommends that the future financial status of the PCARDBs should also be monitored closely so that the non-viable, dormant and defunct PCARDBs are not considered for mergers.

c) Many of the PCARDBs have huge accumulated losses and with their limited area of operation, may not attain financial viability in the foreseeable future. As such, those PCARDBs have to be considered ineligible for any direct financial assistance.

d) The study team is not in favour of any separate recommendations in respect of the branches of SCARDBs. It is expected that their merger/ closure would be part of normal rationalisation exercise by the SCARDBs.

17.6 Items for support

The financial package must provide for such items, which result in not only cleansing of the balance sheet of the SCARDBs/PCARDBs, but also cover the required support for their functioning as a strong institution in future. In view of this, the eligible items for financial assistance may include accumulated losses, minimum capital to achieve a reasonable level of CRAR, short fall in suggested provision in respect of chronic NPAs, receivables from the State Govt, Imbalances (in Federal Structure), Technical support (cost of computerisation, physical infrastructure facilities & Management related expenses thereon), Human Resources Development and the cost for implementation of the reforms package.

A. Accumulated Losses

The LTCCS had accumulated losses over a period of time which had reduced its ability to expand its operations. The reduced level of their business has made it difficult for them to increase their profitability considerably even with improved performance. The losses incurred by the structure over a period of time was not entirely of its own making and various factors have contributed for the same. It may be recalled that the SCARDBs implemented many schemes of priority for agricultural development, particularly for disadvantaged sections of the society in the past which were more in the nature of social welfare measures than a credit products. Further, the interest rate on their loans were regulated by NABARD till mid-nineties and even thereafter by the State Govt. in some states.

Notwithstanding the two national level loan waivers and numerous such waivers announced by the State Govts., the SCARDBs continued to have many loans of very old days in their books (even more than 20 years old). The structure had the intrinsic design deficiency of single product of medium/ long term loan with high risk. The support to wipe out accumulated losses could serve as the first step towards cleansing of the balance sheet and revival of the SCARDBs. The position of accumulated losses at the SCARDB level as on 31 March 2022 was as under:

Table 17.2: SCARDB wise Accumulated Loss- March 2022 (₹ in crore)

Sl. No.	Name of SCARDB	Amount of Accumulated Losses
Federal Structure		
1	Haryana	415.50
2	Himachal Pradesh	7.74
Unitary Structure		
3	J&K	139.76
4	Puducherry	4.68
5	Tripura	18.56
	Total	**586.24**

It may be observed that the total amount of accumulated losses with the SCARDBs was ₹ 586.24 crore for the country as a whole, with more than 70% being concentrated in Haryana SCARDB alone. There was a total accumulated loss of ₹ 6,348 crores at the PCARDB level and was spread across all the states in the Federal Structure. In case of Haryana, all the 19 PCARDBs had accumulated losses with their share alone accounting for more than one third of the total amount in the country.

B. Capital to Risk Weighted Asset Ratio (CRAR)

The CRAR has been considered to be an important indicator of risk bearing capacity of the banks in the country with benchmark stipulated for them by the banking regulator. NABARD, which conducted inspection of SCARDBs, has been using a different yardstick i.e. net-worth of capital funds for this purpose. As the concept of CRAR was implemented for Rural Cooperative Banks in the country, NABARD had decided to align its prescription for SCARDBs in tune with those applicable to the banks in the rural cooperative credit structure. Accordingly, SCARDBs were advised to disclose the position of CRAR in the "Notes to the Balance Sheet" commencing from March 2012. The risk weight for different assets and the system of calculation was also communicated to work out the CRAR. The SCARDBs have been following this practice. The position of CRAR in respect of individual SCARDBs was as under:

Table 17.3 - CRAR (%) of SCARDB - March 2022

Sl. No.	Name of SCARDB	CRAR (%)
1	Gujarat	65.65
2	Haryana	1.10
3	HP	9.02
4	Karnataka	7.80
5	Kerala	11.17
6	Punjab	6.17
7	Rajasthan	22.21
8	UP	34.14
9	West Bengal	(-)1.21
10	TN	22.43
11	J & K	-120.90
12	Puducherry	3.20
13	Tripura	98.94

Source: NABARD and NCARDBF

It may be observed from the above Table that the CRAR was even negative in some cases. The CRAR was quite high in case of Tripura (with very low loan outstanding), Gujarat and UP. SCARDBs are institutions aspiring for banking license. The present norms of CRAR for Small Finance Banks (the type of bank SCARDBs may aim to become at present level) have been kept at 15%. it would be desirable that the SCARDBs, should aspire to achieve this level of CRAR within a limited time frame of 2-3 years. The share linking for loan and the Govt. participation largely contributed to their shareholding, but does not have the potential to help the SCARDBs achieve this level. The profitability was also not very high in most of the SCARDBs which could help increase their reserves. As such, this item may be considered for support under the package to help individual SCARDBs to achieve a CRAR of 15 % within the time frame for implementation of the suggested package. As regards PCARDB, with the kind of business being undertaken by them, a CRAR level of 9% to be achieved in 3 year time frame is considered adequate and would require to be provided for. The State Govt. and the LTCCS would be expected to ensure the level of CRAR in future with their own contribution.

C. Imbalances

The SCARDBs in the Federal Structure are struggling with the issue of imbalance. The imbalance in the structure could be attributed to many reasons viz., not passing on the entire recoveries to higher tier, appropriation of recoveries by SCARDB in a manner different from the collection at the PCARDB level, sanction of higher amount of loan in the books of SCARDB to cover old outstanding, misappropriation of recoveries and so on. As discussed in the Chapter on Recovery, there was an imbalance to the tune of ₹ 2,165 crore (includes Haryana) in respect of SCARDBs in the Federal & Mixed Structures. A long term vision for their survival would require that they must start on a clean slate. Hence this may also be considered as an eligible item for financial package.

D. Provision for Old Doubtful Assets

NABARD had advised the SCARDBs to follow prudential guidelines for classification of their assets and make suitable provisions so as to withstand the risk owing to impairment of assets. The norms made applicable for SCARDBs were on the lines of banking system and provided, inter-alia, for provision of only 50% in case of secured doubtful assets representing overdues over 6 years [Doubtful (Secured)-Category 3]. It was observed that more than one third of the total impaired credit (₹7,485.56 crore) belonged to this category alone. There was negligible recovery in respect of such overdue loans and for all practical purposes, most of these were not likely to be recovered after such a long passage of time. This entailed a huge risk and was not provided for to the desired extent. There was a need to provide fully for loans in this category. The shortfall in provision so as to provide fully for such loans would require assistance under the financial package.

E. Receivables from State Govt.

The balance sheet of the SCARDB included receivables from the State Govt. as an important component. These represented amount on account of commitment made by the State Govt. relating to the Awards, loan waiver schemes, interest subvention schemes, capital subsidy schemes, etc., which were not forth coming from the State Govt., for long period of time and were adversely impacting the financials of these institutions. The committed liability of the State Govt., at least those forming part of the balance sheet of the SCARDBs, may be covered under the financial package.

F. Assistance for Technology adoption

The adoption of technology is at quite a low level affecting their efficiency and ability to compete with other agencies. The Study Team has discussed the subject and the related issues in this regard in a separate Chapter in this report. NABARD in consultation with NCARDBF has elicited the requirements and a budget of ₹ 240 crores was estimated and the details of the same were furnished to MoC, GoI for approval and sanction. SCARDBs, PCARDBs including HO, Supervisory or Administrative Units/ Zonal Offices and the branches will be computerised. The estimates include cost of software (including customisation), hardware, data digitisation, migration audit and other support services. The financial package must cover these costs.

G. Specialised Manpower

In order to operate as a professional institution, the LTCCS require specialised manpower in respect of various fields like Information Technology, Legal, Financial Accounting and Project Appraisal. They are essential for both SCARDB and the PCARDBs to have a lasting impact. In order to enable the structure to appreciate the need for such personnel, the cost for the services of such professionals may be provided as part of the financial package.

H. Cost of implementation

The implementation strategy suggested by the Study Team includes conduct of Special Audit to ascertain the amount of assistance based on suggested parameters with the help of accurate and latest data. The cost of Special Audit both at the SCARDB and the PCARDB level needs to be factored in the package. Further, the implementation would involve guidance to the LTCCS , periodic review and monitoring at the State Level for the period of implementation of 3 years visualised by the Study Team. The expenditure to be incurred in this regard may be provided in the package.

I. Integration / Merger support

institutions on long term basis, it may give their commitment not to charge any audit fee for providing such services to SCARDBs.

The position of some of the SCARDBs is such that its continued existence as an independent entities may not be feasible. It may be necessary to provide for financial support to the StCB, in case of integration/ merger of the LTCCS, so as to incentivise such merger/ integration. In case of merger/ closure of the PCARDBs, the amount of assistance worked out in respect of entity being merged / closed would be passed on to the entity merging with it or the SCARDB, as the case may be. Needless to add, the amount of assistance in such cases would cover only selected items.

17.7 Sharing pattern

The LTCCS has shown its resilience notwithstanding the fact that it has not received any financial support from Govt. of India in the past in any form, be it for revival, rehabilitation or re-capitalisation. The Public Sector Banks (including Regional Rural Banks) have received re-capitalisation assistance and even a financial package was provided to the STCCS. Under these circumstances, there is a need for the stakeholders to accept their responsibility for their present state of affairs. In many states, the State Govts. have invested their financial resources to sustain the structure till now. There are budgetary constraints with the State Govt. in many states and so if a large financial burden is placed on them in the financial package, there is a fear that even this last chance of revival of the LTCCS may be lost. Govt. of India has displayed its commitment to the cause of cooperatives with the establishment of the separate Ministry of Cooperation with its vision of 'sahkar-se-samriddhi'.

As such, it is suggested that Govt. of India may bear the larger share of the financial package so that the hope of providing a chance (probably the last) to LTCCS would see the light of the day. The Study Team recommends that the liability of the State Govt. may be restricted to clearance of its outstanding liabilities to the structure (receivable from the State Govt.) and sharing of 50 % of the cost of special audit. The Study Team expects State Govt. to release the outstanding liabilities upfront. Moreover, the State Govt. to support these

Furthermore, State Govts. should reimburse salary and other benefits for officers deputed to SCARDBs

/PCARDBs. To substantiate its involvement in the entire process, the SCARDBs / PCARDBs may share 10% of the cost of any equipment / physical structure like computer, peripherals etc. However, loss arising out of fraud, misappropriation and branch adjustments which are not reconciled will have to be compensated by the respective SCARDB / PCARDB.

17.8 Implementation strategy

The Study Team recommends that the financial package should be anchored by a professional anchor agency. NABARD with its previous experience in the implementation of revival package for STCCS may be considered for this role. The anchor agency should take the lead, guide, do hand-holding and monitor the implementation of the package. The package may be implemented over a period of 3 years. While the package may be implemented straightway for the SCARDB in the Unitary Structure, the Federal Structure would necessitate a bottom-up approach. The effect of infusion of financial assistance to the PCARDBs in respect of accumulated losses, desired level of CRAR and shortfall in old over dues under doubtful category of NPAs, need to be reviewed for estimation of actual requirement of financial assistance for the SCARDBs in the Federal Structure. The utilisation of financial assistance by PCARDBs for repayments to the borrowings from SCARDBs and also subscription to the share capital would help firm up the requirements of financial assistance for SCARDB. In order to ensure effective utilisation of the financial assistance under the proposed package for strengthening of LTCCS, proper monitoring of the implementation of the package may be undertaken at various levels. Support for software may also be taken up to conduct real time monitoring of the implementation of the package

17.9 Financial Estimates

It is difficult to estimate the requirements of financial package in the absence of detailed PCARDB wise information on their financial parameters. Further, the effect of support provided to the PCARDBs would have a bearing on the actual financial requirements in case of SCARDBs in the Federal Structure. The estimates of financial assistance for specialist manpower and other items considered eligible for support, would actually be required once the revival process gets implemented. Considering all these, the available information in respect of these items were as under:

Table 17.4: Position in respect of select Items considered Eligible for Support (₹ in Crore)

Sl. No.	Particulars	SCARDB	of which		PCARDB
			Unitary Structure	Federal Structure	
1	Accumulated Losses	586.24	163.00	423.24	6,348.00
2	Imbalance	2,165.00	Not Applicable	2,165.00	Not Applicable
3	Shortfall in Provision	1,276.12	629.63	646.49	Not available
4	Total	4,027.36	792.63	3,234.73	6,348.00
5	Computerisation	240.00			
6	Grand Total (4+5)	4,267.36			

The figures indicated above includes all the SCARDBs in the country. The estimates of shortfall in provision have been made for the SCARDBs as a whole and the final figures may reduce because of the total provision already made by individual SCARDBs in respect of their impaired assets. The requirements of manpower, conduct of special audit, etc. for implementation exercise would form part of financial package and will have to be estimated separately.

CHAPTER 18

EPILOGUE

1. The LTCCS has been in operation, primarily through two structural variants viz., federal and unitary. The federal structure is operational in six states wherein the PCARDBs, which extend loans to farmers, are federated at the state level to SCARDBs. In another five states, it is unitary, in which the State Level SCARDBs are operating through their own branches for providing loans to farmers. In another two states, the structure is hybrid/mixed in nature. In three states, the structure is non-functional. Earlier, in two states, the LTCCS has been merged with the STCCS and the LTCCS has been wound up and liquidated in three states. The experience suggests that it is very difficult to cast the dye in favour of any particular structure. There are examples of success and failures in all the three types of structures. It can be concluded that it is not the nature of the structure, but functional efficiency, which has led to their present state of affairs across the country.
2. The LTCCS has a total membership of 110.85 lakh, of which the borrowing members were 65.30 lakh constituting 58.9% of total members. SCARDBs continued to depend mainly on refinance assistance from NABARD, which showed a declining trend over the years due to the poor financial health of SCARDB besides issues relating to obtaining State Government guarantee etc. Mounting overdues, due to poor repayment induced by loan waiver and other populist measures announced by Central / State Governments, inability to address the chronic issue of imbalances, impairment of governance, poor internal control and supervisory measures, etc., are some of the contributory factors that can be attributed for the present state of affairs of the LTCCS.
3. In the recent past, there has been a phenomenal growth in the flow of institutional credit for ST crop loans provided to farmers. However, there has been a decline in the share of credit for MT/LT investments. The domination of SCBs & RRBs in agriculture credit was observed both in short term and MT/LT loans. The scope for accelerated agriculture production in the next 25 years through technology innovations offers excellent opportunity for expansion of business for LTCCS in areas such as allied sector activities like animal husbandry, fisheries/aquaculture, and precision farming, protected agriculture etc., financing of FPOs, JLGs, Food Processing, and also AVCF.
4. Some of the learnings from other parts of the world, which are relevant for LTCCS, are, introduction of an Institutional Protection Scheme (IPS) for ARDBs at National Level with adequate authority to provide protection against financial weaknesses with Deposit Insurance Scheme embedded in it.
5. RRBs and SCBs were extended recapitalisation and other policy support for improving their performance. STCCS was also given financial support based on the recommendations of Task Force on Revival of Rural Cooperative Credit Institutions (STCCS). However, LTCCS could not get any support as the recommendations of the Task Force (LTCCS) could not be taken forward. All these developments affected the loan business of the LTCCS. The loaning activities expanded to cover only rural non-farm sector and rural housing sectors, though over a period of time, some of the SCARDBs have also financed

various short term activities. Some SCARDBs have also sanctioned loans for personal purposes, against security of gold ornaments.

6. One major requirement for lending by LTCCS is mortgage of agriculture land/ immovable property which makes it difficult to enhance the portfolios. Another issue, which has affected the credit flow to the sector, is non - availability of various types of credit guarantee for SCARDBs. Most of SCARDBs have not been able to finance JLGs and FPOs in the absence of provisions in the Act / Bye Laws. Though SCARDBs have expanded the list of activities, but financing under these purposes is limited as refinance from NABARD for consumer loans, personal loans, mortgage loans, gold loans etc. are not available and these are to be financed out of their own resources. Most of the SCARDBs are not able to lend for short term purposes since there are no enabling provisions in the Act/Bye Laws. Even though NABARD extends a line of credit for ST lending also, concessional rate of interest is not available to SCARDBs.
7. Since SCARDBs needed additional resources for their lending activities they were allowed to mobilise long term deposits. The fund management led to investment of their resources in fixed deposits with banks and Govt. Securities. Recognising the importance of investment functions by SCARDBs, NABARD issued guidelines for formulation of Investment Policy & constitution of Investment Committee etc. Further, in view of the risk involved in the investment functions, the SCARDBs were also advised by NABARD to initiate action to manage their risk. However, the system and procedures adopted by SCARDBs in respect of investment functions were found to be considerably weak and require improvement.
8. The resource base of ARDBs comprise of three major sources viz. owned funds, borrowings and deposits. The borrowings were the biggest source of resources of the SCARDBs and constituted 65% of the total resources. The owned fund & deposits contributed the balance 24% and 11 % respectively. Borrowing from NABARD has always been the biggest source of resources for SCARDBs. However, as NABARD refinance is subject to certain terms and conditions, all SCARDBs are not eligible for refinance. An important aspect of NABARD refinance is availability of the same against security of guarantee of the State Govt. or against security of the pledge of approved securities or Fixed Deposit in Scheduled Banks. The rate of interest charged by NABARD depends on the tenure of loan and generally higher than those charged to other clients.
9. As per the recommendations of the Study Group on Mobilisation of Deposits headed by Dr. M.C.Bhandari, ARDBs were permitted to mobilise deposits for a minimum tenure of deposit of one year with total deposit outstanding not exceeding net owned funds. ARDBs have also not fully internalised the mechanism of proper pricing of deposits to make deposit an efficient source for mobilising resources. Though ARDBs have issued guidelines to branches to comply with KYC and AML norms, the level of compliance is far from satisfactory. The implementation of Deposit Scheme was found lacking in necessary prudential measures to protect the interest of depositors in most of the ARDBs since the State Governments have not initiated necessary action under BUDS Act, 2019.
10. The cost of management formed an important part of total expenditure of the SCARDBs. In addition, they were also required to provide for shortfall in provision in respect of their assets. The cost of management and risk cost of the LTCCS were quite high which reduced the net margin leading to low level of profitability of the SCARDBs.
11. The LTCCS has huge NPAs in most of the States. Since the cooperative societies are governed by the State Acts, the ARDB structure is beyond the coverage of SARFAESI Act 2002 and the RDB Act, 1993. The SCS Acts provide for auction/sale of the property pledged as security for loan in the event of default, without the intervention of the Court. This require the ARDBs to approach the designated State Govt. officials to initiate the process of sale. Notwithstanding the unique and special provisions in the State Acts to enforce security available to the structure, the recovery

performance has been too poor. The socio political climate in the country has reached a stage, especially in recent past that any coercive action against the farmers aimed at recovery of loans is almost considered a sin. GoI & State Govts. are announcing various forms of relief in respect of credit provided to the farmers from the time to time. These measures ranged from a blanket ban on use of coercive measures for recovery to loan waiver schemes & 'on Tap" OTS schemes. This has affected their recovery performance very badly and totally vitiated the recovery ethics of the rural people.

12. State Govt's. interference in the recovery efforts of the SCARDBs need to be curtailed and the political announcements of loan waivers and OTS should be done away with. SCARDBs should aggressively take efforts in recovery of their dues through concerted monitoring of NPAs and prompt recovery measures on a continuing basis.
13. The State Govts are not very enthusiastic about the elected Board of Directors of SCARDBs governing the institution. At times, they have taken control of the affairs of these institutions in their own hands by superseding the elected Board or not conducting fresh election for constitution of the Board. The CEO / Managing Director is the key functionary and primarily responsible for carrying forward the policies and decisions of the Board. However, the position in the LTCCS was quite different and the provisions of the Cooperative Societies Act / Rules governed the appointment of CEO, both in SCARDB and at the PCARDB level as well in federal structure.
14. A sound system of internal checks and control is an integral part of the management functions. The internal checks and control were integral to risk management but the SCARDBs had not provided due attention to this aspect. In the normal course of their business operations, SCARDBs are exposed to several types of risks. The actions taken by the SCARDBs for implementing Asset Liability Management, Risk Management etc., were not adequate.
15. There was wide variation among the SCARDBs in respect of available manpower, irrespective of the nature of the structure. The situation is no different in PCARDBs in the Federal Structure wherein the staff position had depleted considerably. There is an urgent need to undertake recruitment to various posts in the LTCCS. The absence of proper manpower planning, recruitment and training system has resulted in inadequate and ill-equipped manpower to handle the emerging challenges. Many of the SCARDBs are experiencing grave problems relating to governance, management & human resources threatening their very existence.
16. The SCARDBs of Tamil Nadu and Puducherry have not been able to avail refinance from NABARD due to non-availability of State Govt guarantee for quite some time. This has resulted in a permanent detour in their operations. They have managed to survive with the help of providing short term loans against the security of gold.
17. PCARDBs are independent entities affiliated to the SCARDB of the State under the federal structure. As ground level institutions, the fund-based business activities of SCARDB in the state are largely carried out through the affiliated PCARDBs. SCARDB is the largest resource provider for them. PCARDBs, being in direct contact with the masses, bear the brunt of all ill-effects of socio, economic and political environment of the society whereas SCARDBs in federal structure are insulated to such challenges. State Govt. also contributes to the capital of PCARDBs. There is a need to address the weaknesses of the PCARDBs so that the 'wings of federal structure ' could become more vibrant and stronger.
18. SCARDBs operate primarily within the domain of the SCS Act enacted by the State Govt. or those enacted specifically for these institutions. In addition, the LTCCS in the course of their normal business carry on various functions which are governed by the provisions of various legislations passed by GoI. Some improvements in these laws may be necessitated.

19. The State Govt. has an important role to play in the management of the LTCCS. There was interference of the State Govt. in all operational matters in the day-to-day affairs of the SCARDBs. It was observed that the State Govt. decided the basic operational matters like investment, One Time Settlement Scheme and fixation of rate of interest on deposits & loans. The State Acts provide for conduct of an important function of audit and inspection of the Cooperative Societies, including those in the LTCCS. An important role played by the State Govt. in respect of SCARDB was furnishing of its guarantee in respect of its main source of borrowing i.e. loans provided by NABARD by way of refinance. The State Govt. had the power to sell mortgaged land without the intervention of the Court. However, the socio, political and economic considerations have forced the State Govt. to desist from playing the role visualized for them in this respect. This had an extreme adverse effect on the recovery climate and performance of the SCARDBs throughout the country and brought some of them even to the level of their extinction
20. The decisions taken by the State Govts. for the agriculture sector and the farmers have a strong impact on the LTCCS. The State Govts. have taken measures like prompt repayment incentive, constitution of permanent Relief Commissions to support the farmers in their repayment of loan to LTCCS. However, the SCARDBs could not appreciate the full impact of these initiatives because of the delay in release of committed liability by the State Govt.
21. The role of NABARD has been multi-dimensional in respect of the LTCCS and covered areas of financial support, institutional development and supervision. The LTCCS was functional only in 13 States/ UT, of which 5 SCARDBs are unable to avail refinance from NABARD due to their poor financial conditions and mainly non-availability of govt. guarantee. The share of refinance availed by the SCARDBs from NABARD, as a percentage to total long term refinance disbursed by NABARD has come down in the recent past. The concept of risk rating for refinance introduced. w.e.f. the financial year 2016-17, restricted eligibility of the SCARDBs. The refinance disbursed to the SCARDBs formed mere 2% of the total refinance disbursed during 2022-23 by NABARD. The influence of external factors like State Govt. policies and the socio-political climate, had also impacted the performance and credit absorption capacity of SCARDBs.
22. The LTCCS continues to view NABARD as the only ray of hope for financial support, as a guide and an institution to engage with other stakeholders on their behalf. There is a need for improved focus in the role of NABARD for displaying its commitment and willingness to support the LTCCS in their future journey
23. Presently the status of Computerisation of accounting operations among the SCARDBs & PCARDBs is too varied and in a very primitive stage. There is an urgent need for introduction of upgraded computerisation, particularly of its financial and loan appraisal operations. The 24 X 7 online CBS system prevailing in all the mainstream banks would be essential for the real time connectivity between the branches, once they acquire banking license. Meanwhile, the SCARDB Level Transactional software is proposed wherein a Web Based System Software will be customised based on the offering from the SCARDBs and PCARDBs in the state. This will be an off-line module recommended based on the requirements of the ARDBs. The software will take care of all financial transactions of the HO/branches and will be available real-time at a central server hosted by the vendor.
24. There is an urgent need for the SCARDBs & PCARDBs to go in for total computerisation of their operations to ensure speed, accuracy of their operations, timely MIS and better monitoring and control over their ROs, branches & PCARDBs. A tie up with banks would be required for digital offerings till they equip themselves.
25. The financial institutions have realized the importance of financing agri - value chains and developed models to finance the players in AVC. These financial institutions have also developed capabilities to provide digital advisory services and market information. Two

important models of financing AVCs in operation are by SBI and Sammunati (an NBFC). SCARDBs have been pioneers in financing for medium and long-term investment credit /agriculture projects for the past so many decades. The suggestions for manpower planning at the PCARDBs and SCARDB level, as also their capacity building efforts may enable the SCARDBs to play an important role in AVCF in the days to come.

26. The suggestions of the Study Team covering the Reforms, Restructuring & Innovations in SCARDBs are grouped into six broad heads under an acronym "BHARAT" viz., Business Expansion, Human Resources, Acceptability, Repayment, Accountability & Technology.
27. There is considerable impairment of the LTCCS in a number of States/UT and the structure cannot retain its existence in its present form for long. This may probably be the last chance for the structure to regain its relevance as any further delay would make it difficult to salvage even what remains of the structure at this stage. There is an urgent need for infusion of a Financial Package for revival and restructuring of the LTCCS in the country. A financial package has been suggested with a view to restore some acceptable levels of financial health of the LTCCS.

Annexure 1

Meeting with officials of NCARDB Federation, Mumbai: 03 March, 2023

List of Participants

Sl.No.	Name of participants
	NABCONS
1.	Shri Niraj Kumar Verma, MD/CEO, NABCONS (attended through VC)
2.	Shri Arvind Kumar Srivastava, Team Leader, Study Team
3.	Shri R. Srinivasan, Member, Study Team
4.	Shri R. K Srivastava, Member, Study Team (attended through VC)
5.	Shri Arun Pratap Das, Member, Study Team (attended through VC)
6.	Shri P.A. Premakumar, Member, Study Team
	NCARDBF
7.	Shri K.K. Ravindran, Managing Director
8.	Mrs. Rajashree V.N., Chief Director
	Participation through VC TELANGANA StCB
9.	Shri Konduru Ravinder Rao (Vice Chairman, NCARDBF) & President, Telangana StCB
10.	Dr. Nethi Muralidhar, Managing Director
	WEST BENGAL SCARDB
11.	Shri Moinul Hassan, Special Officer
	KERALA SCARDB
12.	Smt. Sindhu R. Nair, General Manager
	PUNJAB SCARDB
13.	Shri Jagdeep Ghai, Dy. General Manager
	GUJARAT SCARDB
14.	Shri K.B. Upadhyay, IAS (Retd.), Managing Director
15.	Shri V.M. Chaudhari, General Manager
16.	Ms. Bhumika Raychanda, Dy. General Manager In-charge
	UTTAR PRADESH SCARDB
17.	Smt. Arunakshi Mishra, General Manager
	HIMACHAL PRADESH SCARDB
18.	Shri Raj Narayan Jamalta, General Manager
	TRIPURA SCARDB
19.	Shri N.R. Chakraborty, General Manager

Annexure 2

Meeting with the Departments at NABARD, HO, Mumbai on 13 & 14 Feb 2023

List of Participants

S.No.	Name (Smt/Shri /Ms.)	Designation	Department
1	J. S. Upadhyaya	CGM	Institutional Development Department (IDD)
2	Suresh Kumar	GM	IDD
3	AVR Prasad	DGM	IDD
4	Pavithran Nair	AGM	IDD
5	C V Hariharan	Manager	IDD
6	V K Sinha	CGM	Department of Refinance
7	Vinod Kumar	GM	Department of Economic Analysis and Research
8	Badri Narayana	GM	Legal Department
9	K Rajesh Kumar	AGM	Legal Department
10	B Sridhar	CGM	Department of Financial Inclusion and Banking Technology
11	P.K Mahopatra	GM	Department of Supervision
12	Manoj Kumar	DGM	Department of Supervision
13	Suparna Tandon	CGM	Risk Management Department
14	Ashutosh Mishra	Chief Risk Manager	Risk Management Department
All the General Managers and Deputy General Managers of Department of Supervision held a separate meeting with the team at H.O.			

Annexure 3

Meeting of Study Team with the Faculty Members of BIRD, Mangalore on Mar 07, 2023

List of Participants

S.No	Name(S/Shri/Ms.)	Designation
1	K Pravin Raj Udupa	CGM/Joint Director
2	L Sanjivi	DGM/FM
3	V S Balasubramanian	DGM/FM
4	K S Ravi Shankar	DGM/FM
5	Satheesan Kartha	DGM/FM
6	R Ganapathy	DGM/FM
7	Mangala K Shroff	DGM/FM

Annexure 4

Meeting of Study Team with the Faculty Members of BIRD Lucknow on 21 March 2023.

List of Participants

S.No	Name (Shri/Smt./Ms.)	Designation
1	Sriram Appulingam	FM, BIRD
2	Shikha Tripathi	FM, BIRD
3	Smriti Bhagat	FM, BIRD
4	Prashant Dubey	FM, BIRD
5	N. Vikraman	FM, NBSC
6	Shankar Doraiswami	FM, NBSC
7	Prabhat Keshav	FM, NBSC
8	Sanjeev Raman	FM, BIRD
9	Suman Shukla	FM,BIRD

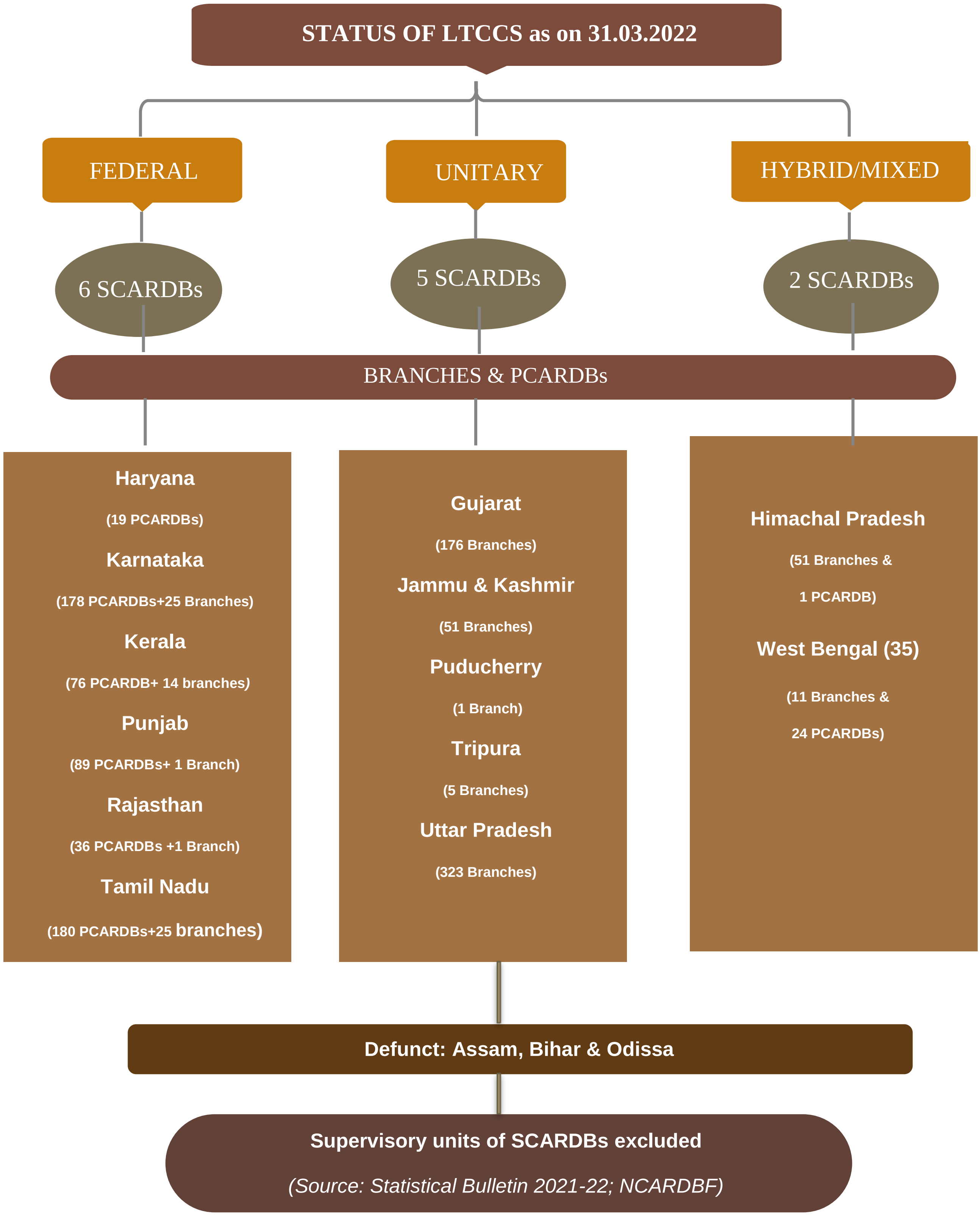
Annexure 5

Details of internal Meetings of the Study Team

S.No	Internal Meetings Details
1	Mar 12, 2023 (through Video Conferencing)
2	Mar 18, 2023 (through Video Conferencing)
3	Mar 25, 2023 (through Video Conferencing)
4	Mar 30, 2023 (through Video Conferencing)
5	Apr 08, 2023 (through Video Conferencing)
6	Apr 16, 2023 (through Video Conferencing)
7	Apr 20, 2023 (through Video Conferencing)
8	May 1, 2023 (through Video Conferencing)
9	May 11, 2023 (through Video Conferencing)
10	June 03, 2023 (through Video Conferencing)
11	June 23, 2023 (through Video Conferencing)
12	June 28, 2023 (at BIRD Lucknow)

Annexure 6

Status of LTCCS as on 31.03.2022



Annexure 7.1

Status Note - ASSAM

Brief Background of the SCARDB

The Assam SCARDB was established in 1955-56 as a cooperative society registered under the Assam Cooperative Societies Act 1949 and was the earliest SCARDB in cooperative sector to provide dedicated credit support to agriculture and allied activities. The management of the SCARDB is vested in board consisting of 16 members as per the byelaw of the SCARDB. The SCARDB was in federal structure at the time of inception. In the year 1991, the federal structure with 21 PCARDB was converted to Unitary Structure and 28 branches were established for operation of the SCARDB.

The functioning of the SCARDB experienced deterioration in the early part of 90s and the problem further got aggravated after large scale recruitment was done in all grades and with due implementation of uniform compensation package in the unitary structure the cost of management increased. This decision largely affected the viability of the SCARDB in subsequent year.

Due to continued deterioration in the financial position of the SCARDB, Assam Government declined to give govt. guarantee for Special Development Debenture floated by ASCARDB and NABARD did not subscribe to such debenture from 1995-96 onwards. As resources for lending operation was not available, the loaning operation of the SCARDB came to a halt in the year 1996.

Present Status

The SCARDB at present is non-functional for more than two decades. However, as the entity still exists with its assets and liabilities and as per the last audited accounts as on 31.03.2021 the total balance sheet size is only ₹ 163.11 crores. The balances in major heads of account are given below.

Liability (₹ Crore)	
Paid up Capital	6.88
Reserve	10.61
Borrowings	29.52
Deposit	4.62
Provision	102.57

Asset (₹ Crore)	
Loans and Adv	11.77
Interest on loans	14.42
Other Assets	39.65
Accumulated Loss	95.67

As per the last audit the net worth of the SCARDB is negative at ₹ 68.17 crore. Two officers of Cooperation Department of State Govt manage the affairs of the SCARDB presently and they are designated as follows:

1. **Chief Executive Director – Additional RCS**
2. **In Charge Committee – Deputy RCS**

The SCARDB has its own premises of Head Office and 11 branch offices in prime locations of substantial value though conditions of building in many places are not good.

The ASCARDB was properly operational up to 1991 and then the decline set in which resulted in complete cessation of business in 1997. Some of the factors responsible for the present status of the SCARDB is presented below:

1. Originally, ASCARDB was in federal structure with 21 PCARDB spread over the state. However, a decision was taken in 1991 to convert the structure to unitary and such a decision led to enhanced uniform salary and other benefits to all staff members without any reference to business. The cost of management became unsustainable.
2. In the year 1994-95, a massive recruitment of 500 personnel was undertaken in all grades, which again had no relationship with business. This move by the management put further financial burden on the SCARDB.
3. As SCARDB stopped its operation in 1997, there was a decision to retrench excess staff and such a decision was challenged in the court of law. The verdict of the court of law created further financial liability for the SCARDB.
4. Non- payment of salary since 1997, demotivated the staff, which led to complete dormancy in the functioning of the SCARDB.
5. The SCARDB was not following sound loaning practices with improper selection of beneficiary, poor appraisal and inadequate post disbursement supervision and follow up.
6. The security taken for loan did not have marketability and enforceability.
7. There was no proper MIS from branch to HO indicating lack control over the functioning of the branch by HO.
8. Deposit collected by branches were utilized for payment of salaries.
9. There was no provision of internal audit by HO of branches.
10. Overall, the accounting system followed by the SCARDB was far from standard accounting procedure followed by any financial institution.

View on Revival of ASCARDB

1. Regional Office was of the view that in the present form the LTCCS will not be sustainable. Hence, after financial support to take care of the existing liability, the structure can be merged with STCCS as a long-term wing of the STCCS.
2. State Govt also has conducted three studies including one High Level Committee to suggest a revival plan. All the reports have assessed the financial requirement to clean the balance sheet. However, the state govt is not ready to commit funds with no clear signs of sustainability.
3. State Govt is of the view that SCARDB in its present form with resource mobilization limited to borrowing and lending limited to term loan for agriculture will not be a viable institution in the long run.
4. The manpower presently available is not suitable for running SCARDB in sound business line and hence complete overhauling of manpower is required as a condition for revival of structure.

Participant Details

	03.04.2023	
S.No	Name of the Employee	Designation
1	Shri Naveen Dhingra	CGM, NABARD
2	Shri Nabin K Roy	GM, NABARD
3	Shri Amalan Dash	DGM, NABARD
4	Shri Bhasker Manta	DGM, NABARD
5	Shri Walter Kujur	DGM, NABARD
6	Shri Biswajit Deb	AGM, NABARD
7	Shri Gaurav K Bhattacharya	AGM, NABARD
8	Shri Binod Agarwal	Addl RCS, Chief Executive Director, ASCARDB
9	Shri Atiqur Rehman	In Charge, High Level Committee on Revival of SCARDB

S.No	Name of the Employee	Designation
	03.04.2023	
10	Shri Nilatpal Gohain	Deputy RCS
11	Prof Abhijit Sharma	Faculty, IIBM Guwahati
	04.04.2023	
1	Shri Narayan konwar	Registrar, Cooperative Society, Govt of Assam
2	Shri Rituraj Bora	Secretary, Dept of Cooperation Govt of Assam

Annexure 7.2

Status Note – Bihar and Jharkhand

The Multi State Cooperative Land Development Bank Ltd. (hereinafter, however referred as SCARDB) is registered under Multi State Cooperative Societies Act, 2002 with effect from July 2008. Prior to its registration under the Act, the SCARDB was known as Bihar Rajya Sahkari Bhumi Vikas Bank Ltd. It was earlier registered under the Bihar State Cooperative Societies Act. The bifurcation of the state of Bihar has resulted into deemed registration of the SCARDB as multi-state cooperative society. The SCARDB is having a unitary structure, with its registered office at Patna (Bihar) and is operating through its branches in Bihar and Jharkhand states.

The SCARDB had an elected Board. The Managing Director, who acts as the Chief Executive Officer, has been appointed by the Board. The MD is a retired officer of the rank of joint Secretary in the Govt. of Bihar. The SCARDB is reported to have more than 30 officers/employees on its roll. It has also engaged 325 employees in different grades, on contract basis, for the purpose of recovery.

The important financial particulars in respect of the SCARDB as on March 2022 was as under:

Sl.No.	Item	Amount (in crore)
1	Owned Fund	144.6357
2	Borrowing from State Govt.	196.488
3	Loan Outstanding	35.4736
4	Land & Building	44.6886
5	Investment	0.87.58

The entire amount of borrowing represents old outstanding to State Govt. and no repayment has been made from financial year 2009-10 onwards. The SCARDB has not disbursed loan for a long period and recovery of chronic overdue amount (largely from third generation of the deceased borrowers) is the only business activity being undertaken by the institutions. The SCARDB has been incurring losses.

The SCARDB had filed a case with Hon'ble High Court, Patna for direction to the State for payment of ₹ 570.69 crore. As directed by the Court, the matter was decided by the Arbitrator in January 2016. The Special Leave Petition filed by the State Govt in the Hon'ble Supreme Court for reference to Arbitrator was dismissed. The Award in favour of the SCARDB also provided for payment of interest at the rate of 8% from April 2014. The petition filed by the State Govt. against the Award has been dismissed in October 2020. The state govt. has not paid any amount so far. The SCARDB is showing an amount of ₹ 897.40 Crore in its Balance Sheet on 31 March 2022, as receivable from the Govt. of Bihar.

The claims made by the SCARDB relate to period since 1980-81 and for items ranging from the commitment of the state Govt. for capital subsidy, interest remission, etc. to shortfall in collection due to stoppage of recovery because of drought as also losses occurred during supersession of the Board. A representation (Letter no 611 dated 03 April 2023) was made to the Study Team for persuading the Govt. of Bihar to release the payment or Govt. of India to make the payment from the dues payable state govt. dues.

The representatives of the SCARDB and the cooperative training institution, who participated in the Stakeholders' Meeting during the course of the visit, pleaded for steps and assistance under the present dispensation of multi-state cooperative society.

Participant Details

Stakeholder discussion (03-April-2023) on Study on Reforms, Restructuring and Innovations in ARDB - Attendance Sheet		
S.No	Name	Designation
1	Dr. Sunil Kumar	Chief General Manager, NABARD
2	Arvind Kumar Srivastava	GM Retd, NABARD and Team Leader, Study Team
3	Binay Sinha	General Manager, NABARD
4	Sudhir Kumar Roy	General Manager, NABARD
5	Dr.K.K Singh	Managing Director, L.D.B, Patna
6	R.P Chaudhary	Retained Counsel, L.D.B
7	S.D Mehta	Legal Advisor, L.D.B
8	Kumar Vinod	O.S.D, L.D.B
9	Ram Raj Singh	Director, L.D.B
10	Rajiv Kumar	Director Tech, L.D.B
11	Shrey Chowdhary	Manager, R.B.I
12	Anup Kumar	Manager, RBI
13	Dr. K.P. Ranjan	Director, DNS
14	Sawan Prakash	DGM, NABARD
15	Anjani Kumar Verma	DGM, NABARD
16	Satpal Azad	DGM, NABARD
17	AK Ganguly	DGM, NABARD

Annexure 7.3

Status Note - Gujarat

Background: Gujarat SCARDB, was established in the year 1951 in the erstwhile state of Saurashtra under the name of "Saurashtra State Central Land Mortgage Bank". The major purpose was to provide loans to tenants for occupancy rights. Consequent upon the reorganization of Bombay state and its bifurcation leading to the formation of state of Gujarat, the area of operation of the SCARDB extended to the whole of Gujarat. The SCARDB since registered under Gujarat State Cooperative Societies Act, 1961, is a unitary structure consisting of Head Office and a network of 196 branches. It extends loans for medium and long-term agriculture investment activities as also for non- farm sector and rural housing, education, etc. It also accepts long-term deposits (above one year) from its member.

Board and Management: All the members of the SCARDB are not part of General Body of the SCARDB. General Body consists of 500 delegates (fixed by the by-laws) who are elected branch wise from amongst the members enrolled in branch membership register. The affairs of Gujarat SCARDB are guided by a Board consisting of 22 persons, of which 17 being elected by the delegates from the districts. Besides, 03 nominees of the State Govt., there is one official nominated by Gujarat State Cooperative Bank. The Managing Director, Gujarat SCARDB is an ex-officio member.

The present board has taken over charge in September 2021. The Chairman of the SCARDB is also the chairman of the national level federation of SCARDBs. The day-to-day affairs are managed by a Managing Director, Joint Managing Director, General Manager and other senior officials of the SCARDB. It was reported that SCARDB was facing acute staff shortage as 44 branches were single man branch and 04 branches were under dual charge. The regularization of about 200 staff earlier engaged on contract basis and recent revision in pay scales have boosted the morale of the staff member.

Business Performance: The SCARDB had an asset size of approx. ₹1400 crore at the end of years 2021 and 2022. The important financial particulars were as under:

Table: Important financial particulars during last three years (₹ Crore)

Sr No	Particulars	As on 31.03.20	As on 31.03.21	As on 31.03.22
Liabilities				
1	Paid up Capital	44.51	43.19	42.63
2	Reserves and Surplus	338.56	343.89	372.03
3	Revaluation Reserve	247.52	246.93	246.33
4	Deposits	267.12	245.89	238.10
5	Borrowing	135.59	167.79	118.25
6	Provisions	260.41	279.26	291.05
Assets				
1	Investments	525.49	581.97	545.27
2	Loans and Advances	564.99	536.45	550.43
3	Premises	264.19	264.19	264.19
Others				
1	Profit and Loss during the year	25.25	11.50	29.29
2	Gross NPA %	56.16	61.22	58.54

The loan disbursement during the year 2021-22 was ₹ 151 crore and it has earned a profit of ₹ 29 crore during the year. The SCARDB's gross NPAs, which touched 58% as on, 31st March 2022 is reported to have reduced to 26% as on 31st March 2023 and net NPA even brought to zero.

The normal business of disbursement and recovery of loans as mobilization of deposits is undertaken by the branches. The loan sanctioning powers are vested with District Loan Sanctioning Committee. The delegates are elected by the borrowers at the branch level and one delegate from each branch constitute the Loan Sanctioning Committee. The functioning of branches is monitored and supervised by 17 district offices. Besides, the Branch Level Committees of elected representatives have also been formed to guide the affairs of the branch.

Major Initiatives: The major initiatives of the SCARDB include efforts for the computerization of its branches with completion of the task so far in 110 branches. The Krishi Vikas Loan Scheme, a purpose neutral scheme, has increased its loan portfolio in substantial manner. The Scheme provides for a loan up to ₹ three lakh, repayable in six half-yearly instalments in 3 years, with the facility of disbursement of loan to the extent of instalment/s repaid during the tenure of loan. Further, it has also launched an accident insurance scheme for borrowers with a cover of ₹ 2.00 lakh. The insurance proceeds serve the purpose of clearing the dues of the borrower in case of unfortunate death. Besides, it also provides interest rebate of 2% on interest receivable i.e., approx. 0.4%, if current dues are paid in time. With a view to protect the interest of the depositors, the SCARDB has proposed amendment in its bye- laws to include a director from the depositors on its board.

The SCARDB made intensive follow up with the borrowers and around ₹ 57 crores were recovered under the latest OTS Scheme during the year 2022-23. A special feature of the Scheme has been charging of maximum 12% interest in respect of loans covered under the Scheme.

Accounting System: The 'hybrid system' i.e. booking of expenses on accrual but income on cash basis, formed the basis of accounting. The accounts are audited by Chartered Accountant with Government auditors undertaking the concurrent audit. The concurrent audit is often delayed due to paucity of staff.

The major challenges faced by the structure is low recovery, almost stagnant loan portfolio and restrictions on resource mobilization.

Participant Details

ARDB study-17 April 2023 Meeting with RO officials – Gujarat RO

Sr.NO	Name of the Participant	Designation
1	BK. Singhal	CGM
2	SK. Talukdar	GM
3	Arvind Kumar Srivastava	Ex-GM , NABARD, Team Leader, study Team
4	Rakesh Kumar Srivastava	Ex-CGM, NABARD, Team Member, Study Team
5	Somainder Singh	GM
6	M.P. Pahad Singh	DGM
7	Nidhi Sharma	DGM
8	Vinaj J Dixit	DGM
9	Sunil Jaggi	DGM
10	Ms Pryanka Soudiyal	PBCS, CO NABCONS
11	Rajesh Durve	AGM, IDD
12	GJ. Meher Devi	AGM, NABCONS
13	Raja. G. Iyer	AGM, DoS
14	Bharath Patel	AGM, DoR
15	Suma Harish	AGM, CPD
16	Harsha Rati	Mgr,IDD
17	Mitesh Yadav	Mgr,NABCONS
18	Neelam Meena	AM, DoR

ARDB study - 17 April 2023 Meeting with GSCARDB officials

Sr. No	Name of the Participant	Designation
1	Dollar Kotecha	Chairman, GSCARDB
2	K.B.Upadhyay	MD, GSCARDB
3	V.M. Chaudhri	Joint MD, GSCARDB
4	Bhumika Raychada	DGM, GSCARDB
5	Vinod Shah	CSIO, GSCARDB
6	Arvind Kumar Srivastava	Ex-GM, NABARD, Team Leader
7	Rakesh Kumar Srivastava	Ex-CGM, NABARD, Team Member
8	Vinaj J Dixit	DGM, NABARD

9	Ms Pryanka Soudiyal	PBCS, CO NABCONS
10	Rajesh Durve	AGM, IDD,NABARD
11	GJ. Meher Devi	AGM, NABCONS
12	Mitesh Yadav	Mgr,NABCONS

ARDB study - 18 April 2023 Meeting with Stake holders

Sr.No	Name of the Participant	Designation
1	SK. Talukdar	GM
2	Somainder Singh	GM
3	Nikesh Shah	DGM
4	Vinaj J Dixit	DGM
5	Arvind Kumar Srivastava	Ex-GM,NABARD, Team Leader
6	Rakesh Kumar Srivastava	Ex-CGM, NABARD, Team Member
7	R.D. Trivedi	Joint Registrar Credit, RCS
8	K.B.Upadhyay	MD, GSCARDB
9	Vinod Shah	CSIO, GSCARDB
10	Rajan Patel	Statutory Auditor, GSCARDB
11	Tek Chand Chatrurbhuj Tirthani	RCS Auditor, GSCARDB
12	T.Rathinavel Mudaliar	AGM, DoS RBI
13	Vinnet Joshi	AM, DoS RBI
14	Ms Lipsa Raval	Director, NICM
15	S.D. Jha	FM, NICM
16	Ms Pryanka Soudiyal	PBCS, CO NABCONS
17	Rajesh Durve	AGM, IDD
18	GJ. Meher Devi	AGM, NABCONS
19	Suma Harish	AGM, CPD
20	Mitesh Yadav	Mgr,NABCONS
21	Harsha Rati	Mgr,IDD

ARDB study - 18 April 2023 Meeting with GSCARDB officials

Sr.No	Name of the Participant	Designation
1	Dollar Kotecha	Chairman, GSCARDB
2	K.B.Upadhyay	MD, GSCARDB
3	V.M. Chaudhri	Joint MD, GSCARDB
4	Bhumika Raychada	DGM, GSCARDB
5	Vinod Shah	CSIO, GSCARDB
6	Arvind Kumar Srivastava	Ex-GM,NABARD, Team Leader
7	Rakesh Kumar Srivastava	Ex-CGM, NABARD, Team Member
8	Vinaj J Dixit	DGM
9	Ms Pryanka Soudiyal	PBCS, CO NABCONS
10	GJ. Meher Devi	AGM, NABCONS
11	Mitesh Yadav	Mgr,NABCONS

ARDB study - 19 April 2023 Visit to Ahmedabad branch of GSCARDB

Sr.N0	Name of the Participant	Designation
1	Arvind Kumar Srivastava	Ex-GM,NABARD, Team Leader
2	Rakesh Kumar Srivastava	Ex-CGM, NABARD, Team Member
3	Vinaj J Dixit	DGM
4	Ms Pryanka Soudiyal	PBCS, CO NABCONS
5	V.M. Chaudhri	Joint MD, GSCARDB
6	Bhumika Raychada	DGM, GSCARDB
7	Chirag Chadarma	Mgr, GSCARDB
8	Tejal Odedara	Mgr, GSCARDB
9	KT Raval	District Manager, GSCARDB
10	Digvijaysingh Jadeja	Branch Manager, GSCARDB

Annexure 7.4

Status Note - Haryana

Background

The LTCCS in the state has a federal structure with SCARDB at the apex level and 19 District Primary Agriculture and Rural Development Bank (hereinafter referred as DPARDB-DPCARDB) with 70 branches are functioning at Tehsil and Sub-Tehsil level. The main objective of the SCARDB is purveyance of Long Term Credit to the agriculturists through its 19 District Primary Agriculture and Rural Development Bank (DPCARDBs).

The affairs of Haryana SCARDB are managed by Board of Directors 9 elected directors, 2 state government nominees, RCS CGM, NABARD and Managing Director of the SCARDB as ex- officio members of the Board. At present full Board is in place.The State Govt. deputes Managing Director from cadre of Joint Registrar from RCS office. Chief Executive Officers of District Primary Cooperative and Agriculture Rural Development Banks (DPCARDBs) are posted from District Managers of Haryana SCARDB.

Membership

The membership base of LTCCS in Haryana was 733459, however borrowing members as on 31st March 2022 were only 83494, (12% of the total membership). The low borrowing membership reflects potential to finance new loans.

Human Resources

The structure as a whole is facing shortage of staff and as per the information available Haryana SCARDB is functioning with 562 staff members against the sanctioned strength of 2031. The SCARDB has been incurring losses for a very long period and the financial position of the structure is not able to support even the present complement of staff.

Analysis of the financial position of the SCARDB

The overall financial position of HSCARDB and PCARDB have distinct signs of weaknesses consequent upon low recovery and rising NPA. Major financial indicators of the Haryana SCARDB are presented below:

(₹ in crore)

Sr no.	Particulars	Position as on 31st March 2020	Position as on 31st March 2021	Position as on 31st March 2022
1	Share Capital	43.61	43.61	43.61
2	Reserves	476.45	476.45	476.45
3	Deposits	5.39	6.74	3.46
4	Borrowing	1363.62	1433.03	1323.44
5	Loans & advances	1879.44	1813.42	1739.39
6	Investments	18.39	18.66	18.90
7	Interest Receivables	708.19	759.36	830.26
7	Other Assets	7.86	78.70	112.41
8	Gross NPAs	81.05%	76.06%	77.58%

The financial parameters given above show a very poor picture of Haryana SCARDB as the NPAs have hovered in the range of 76 to 81% during the last three years, while the recovery at PCARDB level have been in the range of 10-12%.

The amendment in section 104 of Haryana Cooperative Societies Act 1984 that dues of the SCARDB will not be treated as arrear of land revenue and in addition Section 75 1 (ii) in the Act which requires SCARDB to give proper notice to the borrower has adversely affected the recovery at District Primary Agriculture and Rural Development Bank (DPCARDBs) level.

The SCARDB is conscious of the recovery problem and has initiated steps like OTS scheme and prompt payment incentive scheme for the farmers with the financial support of the state government.

Imbalance

As on 31.03.2022, there was an imbalance of ₹631 crore between SCARDB and PCARDB.

Technology

The SCARDB had computerized Accounts section, Loan & Refinance section at Head office level. All the financial reports i.e. General Ledger, Profit & Loss account, day book, and balance-sheet were being generated from the software at HO.

Support from State Government

The state government of Haryana has been very proactive and has provided support to SCARDB in the form of grant in aid and loan. During the last 5 years from 2018-19 to 2022-23, the government has provided a loan of ₹ 485 core and grant in aid of ₹394.25 crore. The total loan outstanding to the state government as on 31st March 2023 was ₹ 1005 crore. The state government is providing support under Timely Repayment Interest Incentive Scheme since 2009. In the beginning, the incentive @ 3% was being provided upto 31st December 2009. It was later changed to 5% and implemented during 1st January 2010 to 24th August 2014. Since 25th August 2014, the interest incentive is being provided @ 50% of the agreed rate of interest. 120942 loanees have availed the interest subvention up to 31.03.22.

The state government is also providing support for implementation of One Time Settlement Scheme which was launched on 30th August 2022 and is operational up to 3oth June 2023. All loanees who have overdues as on 31st March 2022 are eligible under the scheme. The ordinary loanee member is eligible for 50% overdue interest remission if he repays principal and 50% overdue interest. The legal heirs of deceased loanee members are eligible for 100% interest remission if they repay 100% principal amount. No penal interest is being charged by the SCARDB under OTS. The state government has borne a burden of ₹ 100 crore under this scheme up to 20th May 2023.

Suggestions and Feedback from Stakeholders

The suggestions to improve the functioning of the SCARDB and DPCARDBs in the state include permission to lend for short term purposes and interest subvention on ST crop loan. Provision for grant of personal loan and non – credit services to the members were some other suggestions.

Participant Details

List of participants of stakeholders meeting in Haryana on 25th May 2023		
Participants from Cooperation Department and RCS, Haryana		
S.No	**Participant Name**	**Designation**
1	Smt. Shivjeet Bharti	HSC, Deputy Secretary
2	Ms Poonam Nara	Additional Registrar
3	Sh. Yogesh Sharma	Joint Registrar
4	Smt. Shilpa Malik	Assistant Registrar
5	Sh. Rajender Singh	Secretary
6	Sh. Anil Sharma	Additional Secretary
7	Sh. Kaushal Bhardwaj	Assistant Secretary
8	Sh. Prem Pal	Assistant Secretary
9	Sh. Vikram Singh	Assistant Secretary
10	Sh. Baldev Singh	CEO, DPCARDBs
11	Sh.Anil Sharma	Assistant Manager
12	Sh. Pankaj Sachdeva	IT Executive
13	Sh Rajesh Datta	DGM, NABARD
14	Sh.Surender Kumar	AGM, NABARD

Annexure 7.5

Status Note - Himachal Pradesh

Background: HPSCARDB, established on 30th September 1966, is operating through its 51 branches in nine districts of the state, while three districts namely Kangra, Hamirpur, Una are covered by The Kangra Primary Cooperative Agriculture and Rural Development Bank (KPARDB). Thus, a mixed structure (i.e., unitary and federal both) exists in the state.

Board of Directors: The affairs of the SCARDB are managed by Board of Director The Board can have maximum of 21 members; 12 elected, 3 nominated by the state government, Registrar or his nominees (2), one nominee of HP StCB, 1 director nominated by Kangra PCARDB from its Management Committee, CGM, NABARD and MD, HP SCARDB (ex- officio directors).

The Board has been proactive in addressing the issues of the SCARDB as can be seen from the latest decisions taken by it. The major decisions include: reduction of the criteria of cultivable land in case of agriculture loans and minimum land criteria in case of rural housing loans, review of investment policy to allow placing FDRs with private banks up to 40% of the total investment, increase in consumer loan ceiling for the staff members, etc.

The Board of the HPSCARDB also functions as Board of Kanagra PCARDB while Kangra PCARDB has a management Committee of 10 member. The policy decisions taken by Management Committee of Kangra PCARDB are to be approved by the Board of HPSCARDB. This arrangement affects the autonomy of Kangra PCARDB and the newly appointed Chairman was of the view that Management Committee of the SCARDB should be made autonomous.

Day to day Management: The day-to-day affairs are managed by Managing Director and General Manager along with other officials of the SCARDB. Only officer from Indian Administrative Service or Himachal Administrative Service or Class 1 officer from Cooperative Department are appointed by the state government as Managing Director. At present, an officer from Himachal Pradesh Administrative Service is serving as MD. He is holding charge of additional secretary to Chief Minister of the state and serves as MD of the SCARDB. Like the case of Board, MD of SCARDB is also MD of Kangra PCARDB while GM of PCARDB looks after day-to- day affairs of the PCARDB.

Common Cadre: There is a common cadre for officers in the rank of AGM and above, i.e., the officers can be asked to work in either HPSCARDB or Kangra PCARDB. Generally, DGM of HPSCARDB is posted as General Manager of PCARDB, however, at present a Senior Manager of the SCARDB is operating as GM of PCARDB.

Staff Strength: Both HPSCARDB and Kangra PCARDB are facing staff shortage. They are functioning at 50% and 33% of the sanctioned strength. The staff shortage has affected the follow up and monitoring of loans and in turn recovery of the loans. There has been no recruitment since almost a decade. The approval for recruitment was difficult to come by from RCS due to accumulated losses of the SCARDBs. However, recently, some clerk cum recovery supervisors have been recruited through IBPS. The staff members are trained at ACSTI, Shimla.

Business Performance: The loans and advances of HPSCARDB have increased during the financial year 21-22. The assets of the SCARDB were concentrated in loans (68%) and investments (14%). Some important financial particulars relating to the performance of the SCARDB was as under:

Table: Important financial particulars during last three years

(₹ in crore)

Sr no	Particulars	As on 31.03.20	As on 31.03.21	As on 31.03.22
	Liabilities			
1	Paid up Capital	26.19	25.72	26.64
2	Reserves and Surplus	17.98	17.96	15.68
3	Deposits	102.49	113.55	123.66
4	Borrowing	242.49	239.7	246.3
5	Provisions	110.26	118.27	125.19
	Assets			
1	Investments	45.05	73.25	78.26
2	Loans and Advances	358.37	341.77	387.71
3	Interest Receivable	89.2	88.16	92.06
4	Land and Buildings	25.33	29.94	0.07

Sr no	Particulars	As on 31.03.20	As on 31.03.21	As on 31.03.22
5	Accumulated losses	10.6	9.59	7.74

The growth of loan portfolio is constrained by the fact that security of land is compulsory for all purposes. It cannot provide short-term loan, additional loan against the same mortgaged land and in the existing portfolio its NPAs form 43 % of loans and advances. Another factor, which affects the growth of loan portfolio is time taken in sanction and disbursement of loan. It was indicated that approximately 2-3 months' time is taken in sanction of loans. One noticeable feature is that in terms of para 15 (1) of the HPSCARDB Act "a public notice is to be given on receipt of the loan application" (before sanction of loan) and 7 days' time is given to public for raising objections. This also increases the time involved in sanction. The Study team was informed that earlier this period was 15 days, which has been reduced to 7 days now.

The SCARDB has been mobilising daily deposits, savings, recurring and fixed deposits from its member The SCARDB has mobilised deposits to the extent of ₹ 123 crore as on 31st March 2022, out of which ₹ 100 crore has been mobilised as fixed deposits and the remaining as daily deposit SB and recurring deposits. The average cost of deposits is 5.64% while the average yield on advances is 11.71%. The HPSCARDB is utilising the deposits for investment and lending purpose. One area of concern is return on investment, which was less than the average cost of deposits. The SCARDB has engaged daily deposit collectors in the branches. Though POS machine was purchased for them, it could not be integrated with the Co-operative Core Banking Solutions, hence, whole process of deposit mobilisation is manual.

Land Purchase Scheme: During discussions with the Branch Managers and other officials, it was observed that the SCARDB can auction the land of the defaulter after following the required process of issuing demand notice, defaulter notice and proclamation, etc. In case, the open auction is not successful, the SCARDB can purchase the land itself. In such cases the land is transferred in the name of the SCARDB and the SCARDB has to dispose it off in the open auction. Even after transfer to land purchase account, the SCARDB continues to levy interest at the rate indicated in the sanction letter. This results in very high demand from the borrower. The land purchase accounts are treated as Doubtful 3 and 50% provisions are made against these loans.

OTS Scheme: The SCARDB has launched OTS scheme for Land Purchase accounts where 11% interest is applied on the Bid amount instead of the rate of interest at which the loan was originally disbursed. The SCARDB has settled 32 loan accounts for an amount of ₹ 2.32 crore. The SCARDB had acquired land in case of 219 chronic defaulters amounting to ₹ 30 crore.

Computerisation: The SCARDB is implementing a Cooperative CBS designed by NIC, however, it is stand-alone software for the branches and the compilation of the figures has to be done separately at Head Office. NIC has not been able to upgrade the software as per SCARDB's requirement. NIC has agreed to provide the service on "as is where is basis" up to 31st August 2023. The SCARDB wants to extend it up to 31st March 2022.

Participant Details

Participants of meeting conducted for NABCONS study (25.04.2023)		
S.No.	Name	Designation
1	Dr. Sudhanshu K K Mishra	CGM, NABARD
2	Dr. Vivek Pathania	GM, NABARD
3	Sh. Sanjeev Sharma	DGM, NABARD
4	Mrs. Navita Wadhwa	AGM, NABARD
5	Sh. C. Paulrasu	Secretary Cooperation, GoHP

Participants of meeting conducted for NABCONS study (25.04.2023)		
S.No.	Name	Designation
6	Sh. R.S. Amar	Regional Director, RBI
7	Sh. Sachin Kanwal	MD, HPSCARDB
8	Sh. Rajneesh	Joint RCS, Deptt of Cooperation
9	Sh. Raj Narayan Jamalta	GM, HPSCARDB
10	Sh. Sitaram Thakur	Vice Principal, ACSTI
11	Ms. Sneh Pandey	AM, NABARD
12	Sh. Krishan Kumar Singh	AM, NABARD
13	Sh. Nikhil Ahuja	AM, NABARD
14	Sh. Kishore Mehra	AM, NABARD
15	Sh. Vijay Meena	AM, NABARD

	Meeting with LDB Officials (26.04.2023)	
Sr.No	Participant Name	Designation
1	Sh. Sanjay Singh Chauhan	Chairman, HPSCARDB
2	Sh. Sachin Kanwal (HAS)	MD, HPSCARDB
3	Sh. R. N. Jamalta	GM, HPSCARDB
4	Sh. R. K. Srivastava	Retd. CGM, NABARD, Study Team
5	Sh. Bidyut Vasu	Retd. DGM, NABARD, Study Team
6	Sh. K1shore Mehra	AM, NABARD
7	Smt. Deepa Sharma	Sr. Manager (BCS)
8	Sh. Kultar Singh	Sr. Manager (Accounts)
9	Smt. Manisha Thakur	Sr. Manager (Admin)
10	Sh. Tlkkam Da	Sr. Manager (Reconciliation)
11	Sh. Ramesh Thakur	Manager
12	Sh. V1vek Chauhan	Manager (Loan)
13	Sh. Govind Singh	Manager (Computer Section)
Branch Managers of 15 branches		

Visit to Namhol Branch, HPSCARDB on 27th April 2023		
Sr.No	Name	Designation
1	Sh. R. K. Srivastava	Retd. CGM, NABARD, Study Team
2	Sh. Bidyut Vasu	Retd. DGM, NABARD, Study Team
3	Sh. K1shore Mehra	AM, NABARD

Visit to Kangra PCARDB on 28th April 2023		
Sr. No	Name	Designation
1	Shri Ram Chander Pathania	Chairman, Kanagra PCARDB
2	Sh. R. K. Srivastava	Retd. CGM, NABARD, Study Team
3	Sh. Bidyut Vasu	Retd. DGM, NABARD, Study Team

4	Shri Ashwani Kumar	General Manager, Kangra PCARDB
5	Sh. Kishor Mehra	AM, NABARD
6	Sh. Dharamvir	Manager, Finance and Planning Section
7	Sh. Anil Kumar	Senior Manager, Recovery Section
8	Smt. Devindera Bandral	Senior Manager, Loan Section
9	Sh. Harish Kumar	In -charge, IT Section
10	Smt. Shushma Devi	Assistant Manager, Administration

Visit to Una Branch, Kangra PCARDB on 29th April 2023		
Sr.No	**Name**	**Designation**
1	Sh. R. K. Srivastava	Retd. CGM, NABARD, Study Team
2	Sh. Bidyut Vasu	Retd. DGM, NABARD, Study Team
3	Sh. Kishore Mehra	AM, NABARD
4	Sh. Jaswant Singh	Branch Manager, Una

Annexure 7.6

Status Note - Jammu and Kashmir

Background: Jammu and Kashmir SCARDB, was established as "Land Mortgage Bank" on 4th October 1962 under the provisions of Jammu and Kashmir Cooperative Societies Act 1960. Over a period of time, the activities of the Land Mortgage Bank have expanded to cover NFS also and it name was changed to Jammu and Kashmir State Agriculture and Rural Development Bank. At present, it is governed through separate chapter in Jammu and Kashmir Cooperative Societies Act 1989. The area of operation extends to both Jammu and Kashmir and Ladakh Union territories. It is a unitary structure consisting of Head Office and a network of 51 branches. It extends loans for medium and long-term agriculture investment activities as also for non- farm sector and rural housing, education, etc. It also accepts long term deposits (above one year) from its members and nominal member.

Board and Management: The affairs of the SCARDB are guided the Board comprising of 10 members consisting of i. Registrar or his nominee ii. 2 Directors to be nominated by the State Government and iii. 7 Directors to be elected by the General Body from out of members At present, the elected Board is not in place and Board of Management was constituted during July 2019 for a term of 2 years which expired in July 2021. The day-to-day affairs are being looked after Managing Director.

As on 31st March 2022, the SCARDB was having 201 staff members and many senior members were on the verge of retirement. Out of these 201 members,106 are permanent staff and remaining 95 are recovery helpers who have been engaged on a consolidated pay of ₹ 10000.00 per month. It is important to mention that these recovery helpers have filed a writ petition Jammu and Kashmir High Court in the year 2017 for regularization of their services.

Business Performance: The performance of J&K SCARDB has been declining over the years due to various factors like militancy and covid and other issues, which have affected the normal functioning. Another important factor which affected the performance of this institution adversely was stoppage of NABARD refinance in the year 2003 due to non- availability of government guarantee. The important financial parameters of SCARDB are given below:

Table: Important financial particulars during last three years

(₹ in crore)

Sr no	Particulars	As on 31.03.20	As on 31.03.21	As on 31.03.22
	Liabilities			
1	Paid up Capital	30.07	29.91	29.56
2	Reserves and Surplus	2.38	2.38	2.38
3	Deposits	160.23	164.09	164.65
4	Borrowing	6.16	6.16	6.16
	Assets			
1	Investments	63.81	56.23	37.00
2	Loans and Advances	57.35	57.13	51.91
3	Accumulated losses	102.31	116.93	139.77
	Others			
1	Loan disbursement	9.04	7.71	4.96
2	Profit and Loss during the year	-22.37	-14.62	-14.69
3	Cost of Management	14.48	14.99	12.49
4	Gross NPA %	32.13	41.50	49.44

The loan disbursement declined from ₹ 9.04 crore in the year 2019-20 to ₹ 4.96 crore during the year 2021-22. With focus on recovery and decline in disbursements, the loan outstanding has also been coming down every year and reached ₹52 crores as on 31st March 2022. The SCARDB's gross NPAs was 50% as on 31st March 2022. The SCARDB has been continuously incurring losses and its accumulated losses touched ₹ 139 crore as on 31st march 2022. The SCARDB has eroded its capital, reserves, borrowings and also a large part of its deposits. It is a matter of great concern that their loan disbursements have been less than their cost of management for the last three years continuously. This level of low performance has put the SCARDB's survival oat stake.

UT Government Support: The State Government has constituted following committees to review the financial health and various operational matters of the SCARDB. First Committee was constituted in September 2022 to review the financial health of SCARDB. Second committee was constituted in January 2023 on Deposit Mobilisation and the third Committee was set up to frame new OTS scheme and loaning schemes for SCARDB. Based on the recommendation of the Committee, new OTS scheme has been launched.

The government has earlier provided financial support in the form of grant (₹ 14 crore in the year 2008-09 for clearing the dues of financial institutions. The share capital contribution (₹ 25 crore) was also approved in the year 2011. Besides, ₹ 21.52 lakh has also been sanctioned as soft loan by the government.

Participant Details

ARDB study – 29 May2023 Meeting with RCS

Sr.No	Name of the Participant	Designation
1	Rakesh Kumar Srivastava	CGM Retd, NABARD, Study Team
2	Mohd Akbar Wani	Registrar of Cooperative Societies, Jammu and Kashmir
3	Asif Bhat	Assistant Manager, NABARD, Srinagar

ARDB study – 29th& 30th May2023 -Meeting with MD, J&K SCARDB

Sr.No	Name of the Participant	Designation
1	Shri Rakesh Kumar Srivastava	CGM Retd, NABARD, Study Team
2	M.A. Bhat	MD, J&K SCARDB
3	Asif Bhat	Assistant Manager, NABARD, Srinagar

Meeting with RO officials on 30th May 2023

Sr.No	Name of the Participant	Designation
1	Shri A.K. Sood	CGM, NABARD, Jammu and Kashmir RO
2	R.K. Srivastava	CGM- Retd, NABARD, Study Team
3	Tej Swaroop Reddy,	AGM, NABARD, Jammu and Kashmir RO
4	Ankit Sharma	Asstt. Manager, NABARD, Jammu and Kashmir RO

Annexure 7.7

Status Note - KERALA

The SCARDB was originally registered under Section 10 of the Travancore-Cochin Co-operative Societies Act, 1951 (X of 1952) as Kerala Cooperative Central Land Mortgage Bank Ltd. Subsequent to that, the SCARDB was established as an apex level co-operative institution under the Kerala State Co-operative Agricultural Development Bank Act, 1984 (Act 20 of 1984). Further to that, the SCARDB had become Kerala State Co-operative Agricultural and Rural Development Bank Ltd., (SCARDB) with effect from 11 May 1990 as an apex level co-operative institution. Its area of operation covers the entire State of Kerala.

The state has federal structure. KSCARDB is having its HO at Trivandrum and 14 ROs at district headquarters 76 PCARDBs, with each having jurisdiction over one taluk, are affiliated to KSCARDB. Consequent upon bifurcation of Kunnamkulam PCARDB, one more PCARDB was formed during 2022-23. 77 PCARDBs were having a total network of 99 branches as on 31.03.2022.

Board of Directors: The management of the SCARDB is vested in a Board, consisting of 25 members, of which 18 persons are elected from PCARDBs, viz., 14 PCARDB representatives from each district and 3 women representatives and one SC/ST representative are also elected from among the representatives of PCARDBs. In addition, the State Government nominates two directors, two technical experts are co-opted, and three ex-officio members', viz., Registrar of Cooperative Societies, Chief General Manager of NABARD and the Managing Director of the SCARDB constitute the Board of Directors. At present, the Board has been superseded and Administrator is looking after the affairs of the SCARDB.

Membership: The structure had a total membership of 15.50 lakh out of which 10.56 lakh members (70%) were borrowing members (March 22). It is heartening to note that both the total membership and borrowing membership has increased from 11.54 lakh and 6.37 lakh as on March 2018 to 15.50 lakh & 10.50 lakh as on 31/03/2022.

Staff strength: The SCARDB had a total staff strength of 144 against the sanctioned staff strength of 509. The SCARDB has also hired staff on contract and daily wages for smooth functioning of the SCARDB. KSCARDB had reported 148 vacancies under various cadres to Public Service Commission (PSC), of which 52 Agriculture Officers have been appointed (45 AOs joined) and the process of recruitment in respect of remaining vacancies are underway.

Financial Performance at a glance: The major parameters of financial performance of Kerala SCARDB for the last three years is discussed below:

(₹ in Crore)

Sr.No	Particulars	As on 31st March 20	As on 31st March 21	As on 31st March 22
1	Share Capital	204.32	217.39	228.88
2	Reserves	287.56	301.68	487.00
3	Deposits	409.64	384.08	396.13
4	Borrowings	5963.33	5814.79	6151.12
5	Investments	1042.95	430.79	562.68
6	Loans and Advances	7126.94	7658.82	8034.80
7	Interest Receivables	292.35	383.70	322.96
8	Other Assets	31.99	32.28	32.28
9	Profit/ loss during the year	28.68	26.46	29.30
10	Gross NPAs	5.81	6.13	11.06

The financial performance indicators depict a healthy performance by the Kerala SCARDB. The loan portfolio has grown by 5% while the borrowings have grown by 6% during the year 21-22. The deposits have grown nominally by 3% during the year 21-22. The SCARDB had no accumulated losses and has been in profit for the last many years.

At present, KSCARDB has been given permission to mobilise deposits through PCARDBs and these PCARDBs can mobilise deposits up to the level of their Owned Funds. PCARDBs are paid a commission of 1% on deposits mobilized. The deposits have hovered in the range of ₹ 380 crore to ₹ 410 crore. It is pertinent to point out here that the cost associated with deposits (7.47%) was higher compared to the cost associated with borrowings (6.76%), hence the SCARDB is not encouraging PCARDBs to raise deposits aggressively. The NPAs have increased from 6% to 11% during the year 21-22

Imbalance: The imbalance in loan outstanding had increased from ₹ 59.49 Cr as on 31 March 2021, to ₹116.12 Cr as on 31 March 2022.

Computerisation: The work pertaining to CBS in the SCARDB is at stand still since 2014-15, due to a series of enquiries ordered by Government/RCS/Vigilance Dept. of GoK.

State Government Support:

Kerala Cooperative Deposit Guarantee Scheme: The deposits mobilised by PCARDBs are insured upto an amount of ₹ 2.00 lakhs under the Kerala Cooperative Deposit Guarantee Scheme. All cooperative societies (except those, which are defunct, dormant, or under liquidation) have to pay a contribution of 10 paise per hundred rupees of deposits or parts thereof to Kerala Cooperative Deposit Guarantee fund. The contribution is to be paid within three months of the close of financial year on the deposits outstanding at the end of financial year. Non- payment of contribution within the stipulated time makes the society ineligible for the guarantee cover.

KERALA COOPERATIVE RISK FUND SCHEME – 2008

The above scheme is administered by Kerala Cooperative Development Welfare Fund Board (KCDWFB). It provides relief to the family of deceased borrowers, if the family is unable to pay the outstanding dues upto ₹ 3 lakh and interest thereon. This facility is available to any member of any Cooperative Credit Society, registered under the Cooperative Societies Act, 1969, who has availed a loan from the Society for agri or non-agri purposes (excluding loans against the security of gold or deposits), dies during the pendency of the loan period.

Good Practices followed by PCARDBs in Kerala

Alathur PCARDB which has been bagging the best performing PCARDBaward consecutively for the past three years has many innovations which helped in broadening and retaining its customer base. They are;

1. The PCARDB has opened a Neethi Medical store in the building of one of its branches through which it is able to dispense medicines to its members and public at a concessional rate of 15%.
2. The PCARDB has appointed agents who distribute social security/old age pension of State Govt. At their doorstep. The SCARDB earns a modest amount towards commission, besides good will of super senior citizens.
3. The PCARDB has introduced a e-payment of loan instalments through GPay by having a tie up arrangement with Federal Bank.
4. Some of the PCRDBs, like Chavakkad PCARDB have introduced Good Pay Master Scheme, which provided upfront incentives if the borrower pays instalments on or before the due date.

Participant Details

Kerala (13 to 17 April, 2023)		
Sl No	**Name of stakeholder**	**Designation of stakeholder/Official**
	13.03.2023 NABARD, RO, Trivandrum	
1	Gopakumaran Nair	CGM, NABARD, Kerala RO & Sr. Officers
2	R.Sankarnarayan	GM, NABARD
3	Amit Bhargava	DGM, DoS & IDD, NABARD,
4	Lalu Kutty	DGM, NABARD,
5	James	DGM, NABARD
6	P.S.Sailesh	AGM, IDD, NABARD (Nodal Officer)
7	Jamuda	AGM, DoS, NABARD
8	Akhil Punna	Manager, IDD, NABARD
9	V. Mohanan	Consultant, DOS, NABARD, Kerala RO

13.03.2023 Department of Cooperation, Govt. of Kerala		
S.No	**Name of stakeholder**	**Designation of stakeholder/Official**
1	Mini Antony, IAS	Secretary, Cooperation, Govt. of Kerala
2	P.S.Rajesh	Special Secretary, Coop., Govt. of Kerala
3	Subhash, IAS	Registrar of Coop. Societies, Govt. of Kerala

14.03.2023 Kerala SCARDB, Trivandrum		
S.No	**Name of stakeholder**	**Designation of stakeholder/Official**
1	Sindhu R Nair	GM, KSCARDB, HO
2	K.G.Madhusoodhanan Nair	CIO, KSCARDB, HO
3	R.Brinda	RM, Est., KSCARDB, HO
4	Vishakha, L	Agri. Dev Manager, (F&I), KSCARDB
5	Biju Varghese T	Agri Dev. Officer, KSCARDB, HO
6	Sakeerudhin Sait	RM, I/c, Recovery,KSCARDB
7	Thomas Kutty Thomas	RM, KSCARDB, Kottayam, RO
8	Unnikrisnan Nair G	RM, KSCARDB, Pathanamthitta
9	Ramdas C	RM, KSCARDB,Ernakulam

10	Sajikumar,	Finance Manager, KSCARDB, HO
11	Nirmal P	Asst. Manager, Accts Dept, KSCARDB, HO

15.03.2023 RO, KSCARDB, Trichur & PCARDB, Chavakkad, Trichur District		
S.No	Name of stakeholder	Designation of stakeholder/Official
1	Shajitha	Deputy Mgr., KSCARDB, Thrissur, RO
2	Seema	Asst. Manager, KSCARDB, Thrissur, RO
3	Naufal A.L	President, PCARDB, Chavakkad
4	Baiju	Director, PCARDB, Chavakkad
5	Manoj C.R	Director, PCARDB, Chavakkad
6	Shiv Das M.S	Director, PCARDB, Chavakkad
7	Shajahan M.A	Director, PCARDB, Chavakkad
8	Suresh	Director, PCARDB, Chavakkad
9	Rebia Jaleel	Director, PCARDB, Chavakkad
10	Asmath Ali	Director, PCARDB, Chavakkad
11	Krishna Das P.V	Director, PCARDB, Chavakkad
12	Yousaf	Director, PCARDB, Chavakkad
13	Kanjana	Director, PCARDB, Chavakkad
14	P.V.Rajani Bai	Secretary & Staff, Chavakkad, PCARDB
15	P.K.George	Borrower (Housing Loan), Chavakkad PCARDB
16	Ammini	Borrower (Housing Loan), Chavakkad PCARDB

16.03.2023 PCARDB, Alathur, Palakkad District		
S.No	Name of stakeholder	Designation of stakeholder/Official
1	C. Suresh Kumar	RM, KSCARDB, Palakkad,RO
2	C.G.Narayanan	V. President, Alathur PCARDB
3	T. Rajan	Director, Alathur PCARDB
4	Pramod	Director, Alathur PCARDB
5	Krisnankutty	Director, Alathur PCARDB
6	M.Rajesh	Director, Alathur PCARDB
7	Sarojini	Director, Alathur PCARDB
8	Radhakrishnan	Secretary & Staff, Alathur PCARDB

17.03.2023 Office of Regisrar of Coop Societies, Trivandrum		
S.No	Name of stakeholder	Designation of stakeholder/Official
1	R. Jyothi Prasad	Administrator, KSCARDB/Addl. RCS, GoK
2	Parvathy Nair, K L	M D, KSCARDB
3	Sonia Soman	Joint Director, Dept. of Coop Audit,GoK
4	Prabhihit	Joint Director, Dept. of Coop Audit.GoK

17.03.2023 Kerala State Cooperative Bank (KSCB)		
S.No	**Name of stakeholder**	**Designation of stakeholder/Official**
1	P.S. Rajan	MD/CEO, KSCB
2	K.C.Sahadevan	CGM, KSCB
3	Roy Abraham	CGM, KSCB
4	Roy T.K	GM, KSCB
5	Anil Kumar A	GM, KSCB
6	Raveendran	DGM, KSCB

Annexure 7.8

Status Note - Karnataka

The LTCCS in Karnataka came into existence with the establishment of the Mysore State Land Mortgage Bank in the year 1929 under the provincial rule. Subsequently, by virtue of a separate Chapter (IX) in the Karnataka Cooperative Societies Act which was enacted in the year 1959, which envisaged formation of a separate State Land Mortgage Bank at the state level and Land Mortgage Banks (primary) affiliated to it, The Karnataka State Land Mortgage Bank came into existence. As a sequel to passing of the Karnataka Cooperative Societies (Amendment) Act, 1964, the name of the Banks were changed to Land Development Bank and again to Agriculture and Rural Development Bank consequent to further amendments to the said Act in 1984.

1. **Structure**: Karnataka SCARDB is having a federal structure. KSCARDB is having its HO at Bengaluru and 25 Branch Offices located at district headquarters as on 31.03.2022, 178 PCARDBs, each having jurisdiction over one taluk, were affiliated to KSCARDB.

2. **Board of Directors:** The Management of KSCARDB is vested in a Board of Directors consisting of 21 members of which 18 are directors elected by the General Body from PCARDBs and one member is nominated by State Government. Apart from this, CGM, NABARD and RCS, GoK are the ex-officio members of the Board. The present Board was elected on 27 December 2020 and took office on 08 January 2021 for a period of 05 year.

3. **Membership:** The LTCCS in Karnataka had a total membership of 13.06 lakh out of which 9.60 lakh (73.50%) were borrowing members as on 31 March 22. The total membership and borrowing membership as on 31.03.2022 declined by 2.5% and 0.93% respectively, compared to the position as on 31.03.2021.

4. **Staff strength:** As on 31.03.2022, the SCARDB had a depleted staff strength of 259, including MD and GM who were on deputation from State Government, against a total sanctioned strength of 485. The last recruitment took place in March 2018. Though a major portion of the loan portfolio of the SCARDB was concentrated in agriculture & allied disciplines, the SCARDB does not have specialized officers in those disciplines. The staff position in PCARDBs was really pathetic since no recruitment has taken place in the past 30 years and these PCARDBs are run by retired staff or by those hired on contract basis, which exposes these PCARDBs to a high level of risk.

5. **Training arrangements:** KSCARDB does not have its own Training Centre at present. However, the staff of the SCARDB are being deputed for various training being conducted by NIRB, RICM, Bengaluru and BIRD, Mangaluru. The SCARDB has not framed a specific training policy.

6. **Financial Performance of SCARDB at a glance:** The major parameters of financial performance of Karnataka SCARDB for the last three years are given below:

(₹ in Crore)

Sr.no	Particulars	As on		
		31.03.2020	31.03.2021	31.03.2022
1	Share Capital	82.79	87.78	90.52
2	Reserves	59.84	68.11	93.12
3	Deposits	478.60	589.92	661.30
4	Borrowings	1265.48	1243.99	1251.53
5	Investments	139.42	346.89	293.96
6	Loans & Advances	1,837.37	1,800.48	1,973.84
7	Interest Receivable	147.44	177.29	158.31
8	Other Assets	64.32	44.19	48.82
9	Profit/ loss during the year	0.76	24.11	29.29
10	Gross NPAs %	31.40	27.10	33.04

The share capital contribution by State Government as on 31.03.2022 was ₹1.20 crore, which worked out to just 1.33 % of the total share capital of the SCARDB. The financial performance indicators of KSCARDB depicted a mixed picture. The loan portfolio, which showed a negative growth during 2020-21, has grown by 9.63% in 2021-22. Loans to agri. & allied sectors took a lion's share of 99% of the total loans & advances thus exposing the SCARDB to high concentration risk. In respect of borrowings, there was a negligible growth of just 0.60% during the year 21-22. The SCARDB had no accumulated losses as on 31.03.2022.

Recovery: The overall recovery of SCARDB which was 45.63% as on 30.06.2021 slipped to 31.70% as on 30.06.2022 while at PCARDB level it fell from 69.59 % to 30.73% during same periods. Frequent announcements on loan waivers by political parties during election times has vitiated the recovery environment and the inability of SCARDB/PCARDB to take effective legal action against defaulters has created a severe liquidity crunch in the SCARDB.

NPAs: The Gross NPAs of KSCARDB though slightly declined from 31.40% as on 31.03.2020 to 27.10 % as on 32.03.2021, increased substantially to end up at 33.04 % as on 31.03.2022.

7. Financial Performance of PCARDB at a glance: 134 out of the 178 PCARDBs (75%) incurred losses during 2021-22 and the aggregate losses was to the tune of ₹80.96 crore. A major area of concern is that 151 out of the total 178 PCARDBs were having accumulated losses aggregating to ₹937.72 crore which worked out an average of ₹6.21 crore per PCARDB. Out of 178, 40 PCARDBs had NPA of less than 10% while 23 had NPA % above 40% as on 31.03.2022. The total NPA amount for all PCARDBs as on 31.03.2022 worked out to ₹ 395.53 crore while the average % of NPA worked out to 20.50%

8. Deposit mobilisation: The deposits mobilised by the SCARDB have shown a fairly good growth of 12.10% during 2021-22. The SCARDB and PCARDBs continued to mobilize deposits for less than one year in contravention to NABARD guidelines. Pigmy deposits were also collected by the agents of SCARDB and PCARDBs. A few PCARDBs did not comply with the norm of keeping 15% of deposits collected as liquid reserves. There was no uniformity in the pattern of mobilisation of deposits and its utilisation by SCARDB and PCARDBs and proper monitoring was found lacking. Deposits are not covered under any deposit insurance scheme, thus exposing the depositors to risk.

9. OTS Scheme: SCARDB and PCARDBs participated in the One Time Settlement Schemes announced by the State Governments for agriculture purposes on different occasions. One of the common features of these schemes was waiver of interest on payment of principal amount. The interest amount waiver was shared between State Government and SCARDBs in definite proportions. Though these schemes provided some relief to farmers, and helped the SCARDBs in the recovery front to some extent, it impacted the financial health of the SCARDBs.

10. Interest Subvention Scheme: Government of Karnataka has introduced an interest subvention scheme for agriculture term loans upto ₹ 10 lakhs availed from cooperative SCARDBs, wherein farmers who repay their loans promptly are required to pay interest @ 3% p.a only, while the balance amount of interest will be reimbursed to SCARDBs by State Government. This scheme has helped the SCARDB / PCARDBs to improve their recovery position to some extent. Since the benefit of the scheme is not available to farmers who have availed loans above ₹10 lakh, and the fact that they have to pay interest of 12% or above p.a, has resulted discontentment among farmers who availed loans above ₹ 10 lakh.

11. Imbalance: Net imbalance in respect of PCARDBs as on 31 March 2022 was ₹777.16 crore as against ₹467.76 crore as on 31 March 2021. The number of PCARDBs having imbalance stood at 122 during 2021-22.

12. Computerisation: In the HO of SCARDB, Accounts section, loans & advances, staff payroll etc. are computerised with the aid of an Oracle-based software package. A few PCARDBs have gone for stand-alone software packages sourced from local vendors. There is no CBS system in place in SCARDB & PCARDBs.

13. Non-fund based business: 78 out of 178 PCARDBs have set up Common Service Centres (CSC), where E Stamping facilities are offered to public at rates fixed by State Government. Through CSCs, PCARDBs are able to generate additional income, besides earning the good will of the public. Some of the PCARDBs are also providing safety locker facilities to members.

14. Views of State Govt: Karnataka Administrative Reforms Commission - 2, set up by State Government, in its 5th report submitted in Dec 2022, has recommended for amalgamation of KSCARDB with KSCAB and merger of PCARDBs with long term financing wing of DCCBs. Alternatively, only PCARDBs that are continuously making losses for 5 years or more may be merged as indicated above and profit making PCARDBs may be allowed to continue. State Government is not keen to persist with existing LTCCS due its inefficient systems/imbalances/ accumulated losses/ NPAs etc.

Participant List

Karnataka (20 to 24 March 2023) 20.03.2023 Stakeholder's Meet Convened by NABARD RO		
S.No	**Name of Stakeholder**	**Designation of Stakeholder/Official**
1	T Ramesh	CGM, NABARD, Karnataka RO & Sr. Officers
2	Dr. Mahesh	GM, NABARD
3	Sarfraz Khan	Director,Coop Audit Dept, GoK
Officials of Audit Dept, RCS Office		
5	R.Sreedhar	MD/CEO, KSCARDB, HO, Bengaluru
6	P.Mahesh	Secretary, KSCARDB, HO, Bengaluru
7	M.M.Angadi	GM (Finance) KSCARDB, HO, Bengaluru
8	C.Manjunath	GM, (BDD), KSCARDB, HO, Bengaluru
9	Suresh Babu	GM (Recovery), KSCARDB, HO, Bengaluru
10	Lata Patil	DGM (A&I), KSCARDB, HO, Bengaluru
11	Venugopal Naik	DGM(HRMD), KSCARDB, HO, Bengaluru
12	Navaneetham	DGM (TMER), KSCARDB, HO, Bengaluru

20.03.2023 - Departmental Meetings NABARD, RO		
S.No	Name of Stakeholder	Designation of Stakeholder/Official
1	Brinda S	DGM, IDD, NABARD
2	Sandeep Darkar	DGM, DoR, NABARD
3	Ravindra Prasad	DGM,DoS, NABARD
4	Leena Shankar	AGM, IDD, NABARD
5	Arun MS	AGM, NABCONS / NABARD
6	Susheendar S	AGM, NABARD
7	Nimita	Manager, NABARD
8	Suresh	Asst Manager, NABARD

21.03.2023 Dept. of Cooperation, Govt. of Karnataka		
S.No	Name of Stakeholder	Designation of Stakeholder/Official
1	Uma Shankar, IAS	Additional Chief Secretary, Govt of Karnataka
2	C. Divakar	Officer on Special Duty, Dept of Coop, GoK

21.03.2023 - KSCARDB, HO, Bengaluru		
S.No	Name of Stakeholder	Designation of Stakeholder/Official
1	Mahantesh Mamadapur	Vice President, KSCARDB, Bengaluru
2	A.R Shivaram	Director, KSCARDB, Bengaluru
3	Sonne Gowda	Director, KSCARDB, Bengaluru
4	Rajasekhar Jain	Director, KSCARDB, Bengaluru
5	Ulaveppa Tippanna Dasanu	Director, KSCARDB, Bengaluru
6	Raju Bairugol	Director, KSCARDB, Bengaluru
7	R.Sreedhar	MD/CEO, KSCARDB, HO, Bengaluru
8	P.Mahesh	Secretary, KSCARDB, HO, Bengaluru
9	M.M.Angadi	GM (Finance) KSCARDB, HO, Bengaluru
10	C.Manjunath	GM, (BDD), KSCARDB, HO, Bengaluru
11	Suresh Babu	GM (Recovery), KSCARDB, HO, Bengaluru
12	Lata Patil	DGM (A&I), KSCARDB, HO, Bengaluru
13	Venugopal Naik	DGM(HRMD), KSCARDB, HO, Bengaluru
14	Navaneetham	DGM (TMER), KSCARDB, HO, Bengaluru
22.03.2023 - NIRB		
1	Venkatswamy	Director, NIRB, Bengaluru

23.03.2023 – K. R. Pete PCARDB Mandya Dist		
S.No	Name of Stakeholder	Designation of Stakeholder/Official
1	Pawan	DM i/c, KSCARDB, Mandya District
2	Kantharaj Gowda	President, K.R.Pete, PCARDB & BoDs
3	Ravikumar	Secretary, K.R.Pete, PCARDB & Staff
4	Dhananjayan	Vice President
5	Anjana Gowda	Director
6	Yejas Pasha	Director
7	Puttasamy Gowda	Director

23.03.2023 PCARDB Madhur		
S.No	Name of Stakeholder	Designation of Stakeholder/Official
1	Kempa Gowda	President, Madhur PCARDB
2	Savitha M	Vice President, Madhur PCARDB
3	Ire Gowda	Director,Madhur PCARDB
4	Sidharama	Director,Madhur PCARDB
5	Shivkumar	Manager i/c, Madhur PCARDB
6	Bhahyamma	Accounts Officer, Madhur PCARDB
7	Jai Shankar	Deposit Collection Agent, Madhur PCARDB

24.03.2023 Hoskote PCARDB		
S.No	Name of Stakeholder	Designation of Stakeholder/Official
1	Sudesha	President, Hoskote PCARDB
2	Srinivasamurthy	Director,Hoskote PCARDB
3	Venugopal	Director,Hoskote PCARDB
4	Krishnaiah	Director,Hoskote PCARDB
5	Narayanaswamy	Director,Hoskote PCARDB
6	Muniraju	Director,Hoskote PCARDB
7	Venktaramnappa	Director,Hoskote PCARDB
8	Doreswamy Gowda	Director,Hoskote PCARDB
9	Srinivasa	Ex-President, Hoskote PCARDB
10	Niranjan	Manager i/c, & Staff, Hoskote PCARDB
11	Shanthamma	Recovery Officer (Retired Officer on contract)
12	Manjunath	Borrower (Pig rearing farmer)
13	Byresh	Borrower (Poultry farming)
14	M.Gopal	Borrower (Pig rearing farming)
15	Sreenivasa Gowda	Borrower (Sheep Farming)
16	Chikkaramaiah	Borrower (Dairy farming)
17	Venkatesh	Borrower (Sheep Farming)
18	Gangaraju	Borrower (Sheep Farming)

24.03.2023 Bengaluru S & E PCARDB		
S.No	Name of Stakeholder	Designation of Stakeholder/Official
1	A.R Shivaram	V.President, B'lur S & E PCARDB & Director KSCARDB
2	Sudesha	Secretary, B'lur S & E PCARDB

Annexure 7.9

Status Note-Odisha

Odisha SCARDB was registered in the year 1938 and operated under a Federal Structure with 45 PCARDB spread over the state affiliated to the SCARDB. The SCARDB was providing long term agricultural loan and loans for non-farm sector through PCARDBs. However, due to poor recovery, the CARD SCARDBs all over the state stopped functioning and since 2008, there has been no operation of LTCCS.

Latest Financial Position of SCARDB

As per the last Audit report available for the year 2017-18 the financial position of SCARDB is presented below.

Sr No	Financial Parameters	Amount (₹ in crore)
1	Paid up Capital	8.63
2	Reserves	4.48
3	Deposits	0.53
4	Borrowings	65.25
5	Debenture	4.44
6	Interest Payable	181.46
7	Provision for NPA and Overdue Interest	132.28
8	Investments	19.38
9	Loans Outstanding	106.37
10	Interest and Other receivables	95.67
11	Accumulated loss	171.07
12	Net Worth of the SCARDB	(-) 157.96

Observations:

Based on the financial position of the SCARDB and almost two decades of lack of operation of PCARDBs, there has been a conscious move to liquidate the structure. Out of 45 PCARDBs at the ground level, 32 PCARDBs have already been liquidated and another 12 PCARDBs are in the process of liquidation.

Keeping in view the prolonged dormant condition of the SCARDB and lack of scope for successful operation of its business due to extremely poor financial condition, RCS vide its Notice No 1172 dated 13.01.2020 has served notice to wind up the SCARDB. However, the winding up operation is held up due to Writ Petitions filed by employees.

Participant Details

Sr No	Name of the participants	Designation
1	Dr Udhav Chandra Majhi IAS	Registrar of Cooperative Society
2	Shri Siba Prasad Swaini	MD/In Charge OSCARDB and Deputy RCS
3	Shri Sudhansu Chaulia	AGM, NABARD

Annexure 7.10

Status Note - Punjab

Background

Punjab State Cooperative Agricultural Development Bank (PSCADB) Ltd was established on 26.02.1958 for providing long term agriculture loan to farmers Initially, the PSCADB had started functioning through the District Central Cooperative Bank by appointing them as its agents. The agency system was discontinued in the year 1962 when 14 Primary Cooperative Land Mortgage Banks, now known as Primary Cooperative Agricultural Development Bank (PCADB) came into existence and were affiliated to the Punjab State Co-operative Agricultural Development Bank.

At present, the long-term Cooperative Credit structure is a federal structure with PSCADB at the state level and 89 PCARDBs operating across the state in 23 districts. The PSCADB and PCADRBs are registered under Punjab State Cooperative Societies Act and governed by the provisions of "Punjab Cooperative Agricultural Development Bank Act 1957".

Board of Directors: The affairs of PSCADB are managed by Board of Directors consisting of 13 elected directors, 3 state government nominees, CGM NABARD and Managing Director of the PSCADB as ex- officio members of the Board. There is provision for co-opting two professionals having positions of repute in institutions in the field of banking, management, economics or finance. At present, the board is having 12 elected members, 2 members nominated by the state government (the Chairman and the CGM, NABARD) and MD of PSCADB. No professional directors have been co-opted.

The Managing Director, deputed by the state government, is an IAS officer holding the charge of Additional Registrar (Administration). He along with other staff members is responsible for managing the day to day affairs of the PSCADB The affairs of PCADBs are guided by a Committee of Management having 11 members out of which 9 are elected and one director each is nominated by RCS and PSCADB. Reservations in respect of SC and women candidates is also applicable. All the staff posted to PCADBs belong to common cadre maintained by PSCADB.

Out of 89 PCARDB, elected boards manage 64, administrators are managing 24 PCADBs and in case of 01 PCADB process of election is underway.

Membership

The membership base of LTCCS in Punjab is more than eight lakh, however average borrowing members during last 5 years is 77600, which is less than 10% of the total member. It was also observed that during last 5 years borrowing members have declined from 99760 to 62752 due to squeeze on new sanctions and emphasis on recovery of old loans.

Human Resources

The structure as a whole is facing shortage of staff and as per the information available PSCADB is functioning with 77 staff members against the sanctioned strength of 178 and PCARDBs are functioning with 622 staff members against the sanctioned strength of 1650. The financial position of the structure is not able to support even the present complement of the staff.

The PSCADB conducts its recruitment through external agency and there is no separate board for recruitment as in other states.

Analysis of the financial position of the PSCADB

The overall financial position of PSCADB and PCADB have distinct sign of weakness consequent upon low recovery and rising NPA. Major financial indicators of the PSCADB are presented below:

(₹ in Crore)

Sr no.	Particulars	Position as on 31st March 2020	Position as on 31 st March 2021	Position as on 31st March 2022
1	Share Capital	78.88	78.88	78.88
2	Reserves	253.35	254.78	255.03
3	Deposits	401.51	401.86	367.42
4	Borrowing	1803.79	1664.59	1479.62
5	Loans & advances	2273.62	2136.36	2058.62

6	Investments	272.78	272.13	285.92
7	Other Assets	400.51	452.14	399.70
8	Gross NPAs	27.66%	32.27%	45%
9	Loans disbursed during the year	59.19	92.28	5.31
10	Deposits mobilized during the year	65.21	40.72	7.8

The financial parameters given above show almost a stagnant performance; deposits and loans and advances have declined marginally but NPAs have increased significantly and loans disbursed and deposits mobilized have declined drastically.

The increase in NPAs is the result of the decline in recovery during last five to six years, the SADB has attributed the low recovery to following reasons:

1. Demonetization as farm sector is based on cash economy.
2. Announcement of Debt waiver.
3. Prolonged Covid 19 pandemic and disruption of economic activity
4. Farmers agitation

The details of the recovery made during the Rabi and Kharif seasons of 2016, 2017 and 2018 are given below: *(₹ Crore)*

Sr. no.	Due date	Demand from ultimate borrowers	Recovery from ultimate borrowers	Remarks
1	31.01.16	911.31	367.84	
2	31.07.16	1054.27	402.22	
3	31.01.17	1129.56	197.47	Recovery hit by demonetization in Nov 16
4	30.06.17	1593.03	152.59	Promise of Debt. Waiver
5	31.01.18	1800.30	436.43	
6	30.06. 18	1837.00	377.20	
7	31.01.19	1886.71	337.26	

As can be seen, the recovery at ground level took a hit of around ₹ 500 crore in Rabi and Kharif 2017 season which resulted in increase in demand from the borrowers in subsequent years and the PCADBs could not recover from the shock and defaulted to PSCADB.As per the latest data 54 PCADB have defaulted to PSCADB. Besides, problems in auction of land of the farmers and issue of arrest warrants for recovery has severely curtailed the options of the PCADBs. The filing of court cases on bouncing of cheques under section 138 of NI Act due to opposition by farmers have also not been pursued vigorously.

The PSCADB is conscious of the recovery problem and has initiated steps like making CIBIL score of 650 compulsory for new lending, amending bye laws for providing additional loan to same borrower, use of recovery portal for getting up to date information and sending of SMS to all borrowers during the recovery season. The PSCADB has also launched OTS scheme under which it provides waiver of penal interest. The PSCADB has taken a decision to write off the interest of PCADBs of the state.

Imbalance

As on 31.03.2022, there was an imbalance of ₹ 248.86 crore between PSCADB and PCADBs involving 41 PCADB. In the year 2021-22, out of 89 PCADBs, 84 PCADB have incurred loss and 82 PCADBs have accumulated losses.

Technology

The PCADBs have adopted Cooperative Core Banking Solution developed by NIC, although the software application is presently run by PCADB on a standalone basis without integration with PSCADB. Moreover, PCADB have also not activated all the modules of the software. PSCADB is operating a different software.

PSCADB has launched a mobile App through which borrower can get information about the status of the loan and all about different loan products provided by the PSCADB.

Support from State Government

State Govt of Punjab has provided ₹ 730 crore during the year 21-22 and 22-23 as grant in aid to honour repayment commitment to NABARD. The state government also provided grant of ₹ 87.67 crore towards pension fund of the employees and ₹ 100.33 crore towards pension arrears.

Participant Details

Meeting with NABARD Regional Office (22.05.2023)		
Sr No	Participant Name	Designation
1	Shri B Raghunath	CGM NABARD Punjab RO
2	Shri H K Sablania	GM NABARD
3	Shri R P Singh	GM NABARD
4	Shri Manohar Lal	DGM NABARD
5	Shri Sushil Kumar	Manager NABARD

Meeting with PSCADB (23.05.2023)		
Sr No	Participant Name	Designation
1	CA Suresh Kumar Goyal	Chairman
2	Gulpreet Singh Aulakh	Managing Director
3	Jagdeep Ghai	DGM (loans and Recovery)
4	Rajnish Bansal	DGM(Inspection)
5	Kanwaljit Singh Rana	System Analyst
6	Nagendra Singh	Manager (Accounts)
7	Gurpreet Kaur	Manager (Loans)
8	Naman Sood	Sr IT Officer

Meeting With PSCADB (24.05.2023)		
Sr No	Participant Name	Designation
1	Jagdeep Ghai	DGM (loans and Recovery)
2	Rajnish Bansal	DGM (Inspection)
3	Nagendra Singh	Manager (Accounts)
4	Gurpreet Kaur	Manager (Loans)
5	Hardeep Inder Singh	Assistant Manager (Loans)
6	Harmanjit Singh	Assistant Manager (Loans)
7	Rohit Sharma	Assistant Manager (Recovery)

Meeting with Stakeholders (24.05.2023)		
Sr No	Participant Name	Designation
1	B Raghunath	CGM NABARD Punjab RO
2	Gulpreet Singh Aulakh	Managing Director
3	Rajneesh Sharma	Addl. RCS (Banking) Govt of Punjab
4	Manohar Lal	DGM NABARD
5	Jagdeep Ghai	DGM (loans and Recovery)
6	Rajnish Bansal	DGM (Inspection)
7	Nagendra Singh	Manager (Accounts)
8	Gurpreet Kaur	Manager (Loans)

Annexure 7.11

Status Note-Puducherry

The Union Territory came into existence on 01July 1963. With a total geographical area of 490 sq km., it is spread over four regions viz, Puducherry region (294sq.km) and Karaikal region (157 sq km), both lying in the East Coast of Tamil Nadu, Mahe region (9 sq km) lying in West Coast of Kerala and Yanam region (30 sq km) lying on the East Coast of Andhra Pradesh (30 sq km). The total population is less than 12.5 lakh. Four different languages viz, Tamil, Telugu, Malayalam, English & French are spoken in different regions. Main economic activities are Agriculture, Fisheries and Tourism.

Background: Puducherry Cooperative Central Land Development Bank (PCCLDB) Ltd. is registered as a Central Coop. Society on 04.01.1960, under the Central Coop Act. The PCCLDB is having a Unitary Structure and covers the entire Union Territory of Puducherry**.** It has got only one branch at Karaikkal. Mahe & Yanam regions do not have any branches.

Board of Directors: The management of PCCLDB Ltd. is vested with a Board of Directors consisting of 12 elected members, one director each nominated by RCS and Agri. Dept, besides a Managing Director nominated by UTP Govt. Election was held last on 12.12.2008 and the PCCLDB is now under Administrator's rule since 01.07.2011.

PCCLDB Ltd. is headed by a MD who is on deputation from Cooperation Dept, of UTP Govt. and is of the rank of Deputy Registrar. The PCCLDB has a total staff strength of 28 at present, as against a sanctioned strength of 32.

Membership: The Puducherry Cooperative Central Land Development Bank Limited had a total membership of 69,971 out of which 53,477 were borrowing members.

Financial Performance at a glance

The financial performance of PCCLDB for the last three years is presented in the table given below:

(₹ in crore)

Sr no	Particulars	As on 31.03.20	As on 31.03.21	As on 31.03.22
	Liabilities			
1	Paid up Capital	5.07	5.2	5.41
2	Reserves and Surplus	3.51	4.03	5.72
3	Deposits	33.17	38.13	41.09
4	Borrowing	4.33	0.14	3.5

	Assets			
1	Investments	3.23	3.73	3.38
2	Loans and Advances	39.34	40.24	44.39
3	Accumulated losses	4.53	4.68	4.53
	Others:			
1	Profit during the year	-0.25	-0.15	0.15
2	Loan Disbursement	28.03	25.35	37.19
3	Gross NPA %	7.6	13	8

The PCCLDB's area of operation is very small and it is operating through only one branch which is clearly reflected in its financial performance. It's loans and advances outstanding has been below ₹ 45 crores during the last three years. The PCCLDB was not eligible to draw refinance from NABARD since 2009-10, as the UT Government did not provide the government guarantee.

This development deprived the PCCLDB of the opportunity of providing the MT/ LT agricultural loans. As a survival strategy the LDB started providing jewel loans and consumer loans to the employees of the government corporations. While the recovery under jewel loans have been good, the recovery of loans under Consumer Loans has been poor as these corporations were either closed or salary to the employees have not been paid regularly.

The restriction on borrowing forced the PCCLDB to explore the option of deposit mobilization and the PCCLDB has mobilized deposits to the extent of ₹ 47.36 crore. Share capital and borrowings were other sources for supporting asset creation. As on 31.03.2022, PCCLDB Ltd. had a share capital of ₹ 5.41 crore, of which the share of UTP Govt. was ₹ 3.65 crore (67%).

PCCLDB also used borrowed ₹ 3.50 crore as on 31st March 2022 from Puducherry State Cooperative Bank. The PCCLDB was incurring losses till 2020-21. Though the PCCLDB has earned a Net Profit of ₹ 14.64 lakhs during 2021-22, it is carrying a burden of accumulated losses to the tune of ₹ 453.42 lakhs as on 31.03.2022.

UTP Govt. has been announcing electoral promises of waiver of agriculture loans which also vitiated the recovery climate in UTP. The gross NPA of the PCCLDB formed 8% of its loan portfolio as on 31st March 2022.

The frequent announcement of One Time Settlements by the UTP Govt. has not helped the PCCLDB to enforce repayment from its borrowers The PCCLDB is yet to receive a total amount of ₹ 17.96 lakh from UTP Govt. in respect of Loan Waiver Scheme for Farm Sector declared during 2015-16.

The PCCLDB provides locker facility to its members.

Participant Details

STAKE HOLDER CONSULTATION MEETINGS		
PUDUCHERRY- 13.04.2023		
Sl No	**Name**	**Designation**
Dept. of Cooperation, GoUTP		
1	Nedumchezhiyan	Secretary, Cooperation, Govt of UTP
2	Kuppuswamy Balmurugan	DDM Puducherry Cluster Head, NABARD
3	Sidharthan R V	DDM, NABARD, Puducherry
PCCLDB, HO,Puducherry		
4	Jyothi Raju	Dy.Registrar, PCCLDB
5	Vijay Kumar	Manager, HO, PCCLDB

STAKE HOLDER CONSULTATION MEETINGS		
6	P.Shankaran	Manager,HO, PCCLDB
7	S.K Murugan	Manager,Karaikkal Branch, PCCLDB
6	Murugan	Manager, Audit, HO,Puducherry , PCCLDB
7	Ravi	Asst Manager, HO,Puducherry, PCCLDB
PSCB, Puducherry		
1	Senthamji Selvene	MD
2	Athivaran	AGM
Murugapakkam PACS, Puducherry		
1	Krishnaraj	Secretary

Annexure 7.12

Status Note-Rajasthan

Background: Rajasthan Rajya Sahakari Bhoomi Vikas Bank Ltd. (for brevity referred as SCARDB hereafter) was established in 1957 and it is a federal structure consisting of SCARDB at the state level with 36 PCARDB operating across the state in 33 districts with a network of 124 branches. Earlier, it was supervising the structure through 7 regional offices, however, due to financial constraints ROs have been merged and at present 2 regional offices are functioning. Similarly, due to poor financial performance of PCARDBs, 67 branches of 18 PCARDBs have been merged with their Head office.

Board of Directors: There is provision to have 16 directors; 12 elected, 03 nominated and MD of Rajasthan SCARDB as ex- officio member. There is no board since 25th December 2014. The ARDB is headed by an Administrator and managed by a Managing Director, both deputed from Cooperation Department. The SCARDB has been functioning without a board since 2014.

Both SCARDB and PCARDBs are facing staff shortage. SCARDB is functioning with 50 staff members against the sanctioned strength of 165. Similarly, PCRDBs were functioning with 221 staff members against the sanctioned strength of 946. The daily wage and contract employees have been engaged in both SCARDBs and PCARDBs to meet the operational requirements. The State has a separate agency "Sahakari Bharti Board", for centralized recruitment of staff for SCARDB and PCARDB.

Financial position:

The financial parameters of Rajasthan SCARDB for the last three years are given in the table below:

(₹ in crore)

Sr no.	Particulars	Position as on 31st March 2020	Position as on 31st March 2021	Position as on 31st March 2022
1	Share Capital	39.88	39.91	40.56
2	Reserves	156.78	177.20	176.39
3	Borrowing	954.75	970.09	868.15
4	Deposits	0.51	0.19	0.14
5	Loans & advances	1481.03	1508.93	1555.74
6	Investments	29.13	93.29	60.29
	Others			
7	Profit and Loss	29.70	16.79	6.69

8	Loan disbursement during the year	89.41	165.06	173.63
9	Gross NPA	50.96	52.77	53.56

Rajasthan SCARDB mainly lends for agriculture and allied activities. It had a loan portfolio of ₹ 1555 crore as on 31st March 2022. The loan portfolio of the SCARDB has hovered around ₹ 1500 crore during last three years The loan disbursements during last three years have been in the range of ₹ 90 crore to ₹ 174 crore. The disbursements have almost been stagnant during last two years as NABARD refinance support was restricted due to poor recovery.

The SCARDB has stopped mobilizing deposits as state government permission for deposit mobilization under Banning of Unregulated Deposit Schemes Act, 2019 has not been received. There is nominal growth in share capital contribution by borrowers, while the capital contribution of state government has remained stagnant at ₹ 1.89 crore since last 10 years.

The recovery of the SCARDB has been declining and it touched 21% as on 30th June 2021. The SCARDB has made recovery teams to help PCARDBs in their recovery effort and also established a Recovery Call Centre which frequently contacts the borrowers for expediting recovery of over dues. The SCARDB is expecting a positive result from these efforts. The SCARDB's NPA touched ₹ 796 crore and constituted 54% of the loan portfolio as on 31st March 22. 65% of the NPAs were in Doubtful – 03 category (overdues above 6 years). The SCARDB has made excess provisions against NPAs as per prevailing norms. The one redeeming feature is that the SCARDB did not have any accumulated losses.

Imbalance

One of the major source of weakness in federal structure is imbalance between SCARDB and PCARDBs The amount of imbalance and number of PCARDBs having imbalance has been increasing every year. As on 31st March, 33 PCARDBs were having imbalance of ₹ 548.00 crore.

Computerisation: The SCARDB has entered into MoU with Rajasthan Electronics and Instruments Limited in 2010, however, computerization work has not been completed. At present, the Department of Information Technology and Communication of the state government has been authorized for computerization of SCARDB and PCARDBs. The department has taken up the work of online membership and loan application module. It is felt that the structure should be provided with customized CBS software and hardware.

Poor health of PCARDBs: As on 31st March 2022, 23 PCARDBs made a loss of ₹ 64 crore while 27 PCARDBs had accumulated losses of ₹ 665 crore.

Support and Involvement of the State Govt.

The State Government has not provided any direct financial support by way of recapitalization or any other grant assistance to SCARDB or PCARDB to cleanse their balance sheet or improving their functioning through computerization. However, the state government is providing budgetary support for implementing interest rebate scheme for prompt repayment.

Interest Subvention Scheme: The SCARDB is mainly lending under Interest Subvention Scheme for Term Loan through long term cooperative credit structure launched by the state government in 2014 wherein interest subvention@ 5% is payable to borrowers on timely repayment of instalments of principal and interest due during the year.

Loan Waiver Schemes: Four loan waiver schemes namely Rajasthan Loan Waiver Scheme 2018, Rajasthan Tribal Sub Plan Area Farm Waiver Scheme 2018, Rajasthan Farm Loan Waiver Scheme 2019 (for ST Loans) and Rajasthan Farm Loan Waiver Scheme 2019 (for MT/ LT Loans) have been implemented during last 5 years. The SCARDB waived a sum of ₹ 238 crore under Rajasthan Farm Loan Waiver Scheme 2019 (for MT/LT Loans) and the full amount has been reimbursed by the state government. However, the SCARDB had to bear 50 % of the overdue interest and 100% penal interest which amounted to ₹ 70 crore.

Suggestions

NABARD should extend support for establishment of recovery cell, computerization and exposure visits from its Cooperative Development Fund. NABARD should formulate a scheme for continuing critical refinance support to SCARDBs in the event of adverse financial performance due to external factors.

A separate allocation under LTRCF should be made for SCARDBs. SCARDBs should be treated as eligible lending institution for all government programmes of state and central government.

Participant Details

Meeting with NABARD RO Rajasthan (13.03.23)		
S.No	Name of the Participants	Designation
1	Shri B N Kurup	CGM NABARD Rajasthan RO
2	Shri B K Tripathy	GM NABARD Rajasthan RO
3	Ms Manju Khurana	DGM IDD
4	Shri Vidwan Bhagat	DGM DOS
5	Shri Deshraj Maurya	AGM IDD
6	Shri S S Chauhan	AGM DOR

Meeting with SCARDB and Cooperation Deptt (14.03.23)		
S.No	Name of the Participants	Designation
1	Smt Shilpi Pande	Administrator
2	Shri Vijaya Kumar Sharma	Managing Director
3	Shri Pankaj Agrawal	Additional Registrar (Monitoring)
4	Shri Ajay Upadhyay	General Manager
5	Shri Pradeep Babu Mittal	DGM (Accounts and Finance)
6	Shri Kartik Kumar Sharma	DGM(Admin)
7	Shri G S Suthar	DGM (Planning and Dev)
8	Shri Deepak Andrews	DGM (Rtd.) Recovery
9	Shri Bhanwar Lal	AGM (Accounts)
10	Shri Sanjeev Singh Yadav	AGM (Recovery)
11	Shri Mukesh Kumar Pipliwal	Sr Manager (Computer)

Visit to PCARDB (15.03.2023)		
S.No	Name of the Participants	Designation
1	Mukesh Gurjar	Borrower
2	Biswapal Singh	Borrower
3	Raju Gurjar	Borrower
4	Gaganjiram Dhakad	Borrower

Meeting with RCS (16.03.2023)		
S.No	Name of the Participants	Designation
1	Shri Meghraj Singh Ratnoo	Registrar Coop Societies

Annexure 7.13

Status Note -Tamil Nadu

Background: The LTCCS in Tamil Nadu is having a Federal Structure. The Tamil Nadu Cooperative State Agriculture & Rural Dev. Bank Ltd (TNCSARDB, for brevity hereafter also referred as SCARDB), established in the year 1929 operates through its 21 ROs and 08 Jewel Loan Extension Counters. 180 PCARDBs, with each having jurisdiction over one or two talukas, are affiliated to TNCSARDB. The LTCCS in Tamil Nadu is governed by 'Tamil Nadu Co-operative Cooperative Societies Act 1983'. The Act provides for a separate Chapter (XIV) dealing with the LTCCS i.e., SCARDB and PCARDBs.

Board of Directors

The management of the SCARDB is vested in a Board of Directors comprising a total of 29 members 21 elected members, 2 directors nominated by State Govt, and three ex-officio members, viz., RCS, CGM of NABARD and the MD of the TNCSARDB, constitute the Board. Two technical experts are co-opted. The Tamil Nadu State Coop. Societies Election Commission conducts elections to the Board.

Management / Human Resources

The day-to-day affairs of the SCARDB are managed by a Managing Director, in the rank of Additional Registrar, on deputation from Dept. of Cooperation, Govt. of Tamil Nadu (GoTN), who is assisted by two General Managers, in the rank of Joint Registrars, both on deputation from Dept. of Cooperation, GoTN. Apart from the MD and two GMs, the SCARDB has a total staff strength of 118, spread over different grades.

Financial position

The financial position of Tamil Nadu SCARDB for the last three years are given in the table below:

(₹ crore)

Sr No.	Particulars	31st March 2020	31st March 2021	31st March 2022
1	Share Capital	44.43	51.32	52.55
2	Reserves	916.19	958.88	1012.73
3	Borrowing	64.24	69.97	70.21
4	Deposits	246.63	292.32	299.56
5	Loans & advances	928.2	1066.91	841.45
6	Investments	167.75	134.07	237.17
8	Gross NPAs %	12.8	11.92	22.01

The total deposits of TNCSARDB had increased marginally by 1.6% from ₹ 292.32 cr in 2020-21 to ₹ 299.56 cr in 2021-22, as against an increase of 18.52 % recorded during the previous year. Total outstanding advances declined from ₹1,064.99 crore as on 31 March 2021 to ₹ 839.89 cr as on 31 March 2022, recording a negative growth of 21.14%. TNCSARDB has not been disbursing any medium / long-term loans under farm sector for the past 17 years mainly on account of its inability to avail refinance from NABARD due to non-availability of State Govt. Guarantee.

The jewel loans portfolio, the major business segment of TNCSARDB, registered a significant increase during the recent past. The jewel loan outstanding balance had increased from ₹ 563 cr as on 31.03. 2018 to ₹ 955 cr as on 31.03.2021, but declined to ₹ 733 Cr. as on 31.03. 2022. There has been nominal disbursements under NFS and rural housing.

The Apex SCARDB is not having any accumulated losses. The gross profit, which was only ₹ 10.44 cr in 2017-18, rose to ₹ 40.18 cr in 2021-22.

Financial position of PCARDBs

The aggregate financial position of all 180 PCARDBs, under broad heads under Liabilities and Assets as on 31.03.2022, was as under:

(₹ crore)

Liabilities		Assets	
Share capital	62.96 (3.62%)	Cash & C a/c Bal	16.33 (0.94%)
Reserves	240.39 (13.83%)	Investments	136.17 (7.83%)
Deposits	116.77 (6.72%)	Loans & Advances	816.67 (46.98%)
Borrowings	596.86 (34.33%)	Accumulated. Losses	210.09 (12.09%)
Other liabilities	721.46 (41.50%)	Fixed & Other Assets	559.16 (32.16)
Total Liabilities	**1,738.43 (100%)**	**Total Assets**	**1738.43 (100%)**

The major source of funding is share capital and reserves and borrowings. The deposits formed only 6.72% of the total resources. The share of borrowings was only 34.33 % mainly on account of non-availability of NABARD refinance for want of State Govt. Guarantee.The resources were used for loans & advances (46.98%). The PCARDBs had accumulated loss of ₹210 crore.

The Gross NPAs of all PCARDBs put together was 28.68% of the total loans & advances outstanding as on 31.03.2022. The share of loss assets was 6.15% of the total impaired assets.

Deposit mobilisation by PCARDBs

Only PCARDBs which are working on current profit, having no imbalances with TNCSARDB and having own funds above ₹ 10.00 lakh are given permission to mobilise deposits from public by RCS in the year 2012. Earlier, they were collecting deposits from public as agents of TNSCARDB.

PCARDBs are also required to contribute 15 % for ₹ 100 of deposit outstanding, as at the end of the year, as premium towards the Deposit Guarantee Fund to be set up and managed by TNCSARDB. Despite advice from RCS, no model regulation for governing deposit guarantee scheme has been framed by TNSCARDB, though premium of ₹ 8.70 lakh has been collected from eligible PCARDBs.

The State Level Committee, chaired by MD, TNSCB Ltd., determines rate of interest on advances and deposits mobilized by cooperative credit institutions covered under TNSCS Act 1983.

Infrastructure facilities

TNCSARDB is holding land and buildings housing its HO and RO at prime locations across the state. Almost all PCARDBs are operating from their own premises.

Impact of OTS, Loan Settlement / Waiver Schemes of State Govt.

Since 2005, four major OTS / Loan Settlement / Waiver Schemes were announced by GoTN which has adversely affected the financial position of TNCSARDB / PCARDBs. The details in this regard are furnished below:

(₹ lakh)

Name of Scheme	Loss to LTCCS	Amt due from Govt.
One Time Settlement Scheme, 2005	-	21.78
Special loan Settlement Scheme, 2009	71.03	-
One Time Settlement Scheme, 2014	83.48	-
General Jewel Loan Waiver Scheme, 2021	0.80	21.85
Total	**155.31**	**43.63**

Computerisation

Level of computerisation in PCARDB is in primitive stage using locally sourced software. To compete and survive in the rural banking sector, the LTCCS in the state should go in at the earliest for an advanced software package integrating the two tiers of the LTCCS.

Good practices followed

a) Common Service Centre

- Out of the 180 PCARDBs which are affiliated to TNCSARDB, 157 have set up Common Service Centres in their premises through which 18 various types of services relating to different departments of the state govt. are made available to the general public.
- During 2022-23, the total business turnover of all these 157 PCARDBs was to the tune of ₹ 196.30 lakhs. After meeting the administrative and operational cost, a total income of ₹ 111.96 lakh could be generated out of this service which worked out to ₹ 71,312 per PCARDB per year.

b) Medical Store

Tiruchendur PCARDB set up a medical store in its premises from where medicines are dispensed to the public at discounted rates. Since inception on 08.07.2022 till 31.03.2023, the dispensary sold medicines to the tune of ₹ 26.56 lakhs. After providing a discount of ₹ 4.01 lakh, the outlet could earn a profit of ₹ 0.69 lakh after meeting the overhead costs.

Views of stakeholders and suggestions

- ➢ State government should provide block government guarantee to enable SCARDBs and PCARDBs finance all eligible purposes specially MT/ LT agriculture loans. An Action Plan for strengthening and revitalising LTCCS through business diversification is essential to meet the growing credit needs of rural masses. State Govt. should release all amounts due to SCARDB/PCARDBs in respect of all past loan waiver/OTS schemes announced by it.
- ➢ Thrift deposit may be introduced for borrower members to improve recovery, and product diversification within FD Scheme may be introduced and a model recovery policy may be framed. State Govt. should not impose any restriction on recovery of loans, except in the unfortunate event of natural calamities.
- ➢ PCARDBs with potential / infrastructure facilities may be encouraged to function as Multi Service Centres (MSCs).

- SCARDB may be converted into a full-fledged bank in the cooperative fold capable of providing all banking products and services to the rural clientele.

Participant Details

Tamil Nadu (10 to 12 April 2023) 10.04.2023 Stakeholders Meeting NABARD RO & Meeting with ACS, Cooperation Dept. Govt. of Tamil nadu		
Sl No	Name of stakeholder	Designation of stakeholder/Official
1	T.Venkatkrishna	CGM, NABARD and Senior Officers of TN & UTP RO
2	Dr. Vilvasekaran	Additional Registrar of Coop Society, office of RCS TN
3	Ms. Hema	GM TNSCARDB
4	Ms.Anandhi	GM TNSCARDB
5	Bhagavathi	AGM, NABARD
6	Harjinder Singh	Manager, NABARD
7	Dr. J. Radhakrishnan, IAS	Addl. Chief Secretary, Cooperation, GoTN
8	Dr. N. Vilvasekharan	Addl. RCS, Finance & SCARDB
9	R. Lakshmi	Jt. Sec. Finance/ Directorate of Coop. Audit, GoTN
10	P.Jayaseelan Michaelraj	Asst. Director (HR), Directorate of Coop Audit, GoTN
11	M. Murugeshan	Asst. Director, Directorate of Coop Audit, GoTN
12	D. Safire Dinakaran	Coop. Audit Officer, Directorate of Coop Audit, GoTN
13	K.S.Mohammed Kassali	GM (i/c) / Principal, ACSTI
14	J. Arullalan	FM, ACSTI
15	Mathsuvanan	AGM, Pondicherry SCARDB
16	K. Maran	Senior Inspector, Pondicherry SCARDB
17	N. Manavalan	Consultant, Office of RCS, Pondicherry

11.04.2023 TNSCARDB, HO, Chennai		
Sl No	Name of stakeholder	Designation of stakeholder/Official
1	R.Parimelazhakan	President, TNSCARDB & Vice President, NAFSCARD
2	Muruganathan	Director, TNSCARDB
3	Kanchana	Director, TNSCARDB
4	A G Chandra sekhar	M.D, TNSCARDB
5	S. Anandhi	GM, F&A, TNSCARDB
6	M.Hema	GM, P&S, TNSCARDB
7	G.Anlet Lata	DGM, Accounts, NSCARDB
8	C.Madheshan	DGM (A), TNSCARDB
9	Mayavan	Manager, TNSCARDB
10	R.A.Suresh	Manager, TNSCARDB
11	D.Ambigeswari	Manager, TNSCARDB
12	S.Selvamani	Development Officer, TNSCARDB
13	T.Ganeshan	Development Officer, TNSCARDB
14	D.Suresh	Accounts Officer, TNSCARDB
15	J.Ravikumar	Accounts Officer, TNSCARDB
16	S.Manohari	Accounts Officer, TNSCARDB
17	V.Vinayakamoorthy	Asst. Development Officer, TNSCARDB

18	B.Victor Vijay Kumar	Asst. Development Officer, TNSCARDB
19	Secretary/Manager & Staff, TNSCARDB, HO Branch	
20	Jewel Appraiser, TNSCARDB, HO Branch	
21	J.L Borrower, TNSCARDB, HO Branch	

12.04.2023 PCARDB, Walajabad		
Sl No	Name of stakeholder	Designation of stakeholder/Official
1	N.R.Palani	President, PCARDB, Walajabad
2	O.V.Ravi	Vice President, PCARDB, Walajabad
3	C.Madheshan	DGM, TNSCARDB, HO, Chennai
4	Muraleedharan	RM,TNSCARDB,Thiruvallur/Kancheepuram, Ch'pet Dists

12.04.2023 PCARDB, Ponneri		
Sl No	Name of stakeholder	Designation of stakeholder/Official
1	R.Parimelazhakan	President, Ponneri PCARDB & TNSCARDB
2	Loknath	Director, Ponneri PCARDB
3	Shankar	Director, Ponneri PCARDB
4	Yuvaraj	Secretary, Ponneri PCARDB
5	Chandrasekhar	Borrower, Ponneri PCARDB

Annexure 7.14

Status Note-Tripura

Background: The Tripura Cooperative Agriculture & Rural Dev. Bank Ltd (for brevity herein after referred as SCARDB) was established in the year 1960 and after enactment of Tripura Cooperative Societies Act 1974, SCARDB was registered under the Act with separate provisions for SCARDBs. The SCARDB covers the entire state through its five branches. The SCARDB has a membership base of 22550. Presently, an elected board manages SCARDB with 06 elected board members and two nominated directors from the State Government. One General Manager appointed by the State Government operationally heads the SCARDB and 21 staff members are working in branches and Head Office. The SCARDB was entirely dependent on the refinance from NABARD and due to mounting over dues and accumulated loss, NABARD stopped giving refinance to ARDB in the year 2012-13 and since then the lending operations of Tripura SCARDB have almost stopped and SCARDB has only focused on recovery of overdue/NPA loans.

Financial Position

The financial position of the SCARDB is presented in the table below.

Liabilities *(₹ in Crore)*

Year	2019-20	2020-21	2021-22
Paid Up Capital	9.83	9.70	9.64
Reserve surplus and other grants	14.35	16.42	16.99
Borrowing	3.29	1.43	0.51
Provisions	13.57	13.61	13.55

Assets

(₹ in Crore)

Year	2019-20	2020-21	2021-22
Loans and Advances	11.29	9.71	8.85
Investment and SCARDB balances	2.27	3.55	3.54
Other Assets – Interest Receivable	8.83	9.25	9.25
Accumulated Loss	18.60	18.60	18.94
Profit/loss	0.026	0.63	0.378

Paid up Capital

The paid-up capital of the SCARDB is mostly contributed by the state government and as on 31.03.2022 out of total share capital of ₹ 9.64 crore, the share of state govt is ₹ 8.65 crore which is 89.73% of the total paid up capital of the SCARDB. As may be observed from the last three years data, the share capital is declining, though marginally, as recovery of the old outstanding loan has led to withdrawal of the capital contributed by borrowers The SCARDB has fixed 8% as share linkage for loan taken from SCARDB which is considered adequate for capital build up through borrowing members.

Reserve, surplus and grant

The reserve created by the SCARDB out of its surplus is only limited to ₹ 8.67 lakh as on 31.03.2022. But ARDB has received grants from the state govt. amounting to ₹ 16.90 crore.

Borrowings and deposits

The borrowing outstanding of the SCARDB has progressively reduced and as on 31.03.2022, outstanding dues to State Govt, GOI and NABARD was only ₹ 0.51 crore and it was reported that during 2022-23 the refinance outstanding to NABARD has been completely repaid. Hence, the outside liability of ARDB is limited. The SCARDB does not mobilise deposit and there is no scheme for deposit mobilization in the SCARDB.

Loans and Advances

SCARDB has made appreciable progress in recovery of the old NPA loans and the outstanding has been progressively declining during last three year the main reason for recovery of old overdues and NPA is implementation of One Time Settlement Scheme under which the SCARDB is sacrificing 5% to 50% of the interest due. It was further reported that due to good recovery during 2022-23, the outstanding loans has further reduced to ₹7.84 crore. The SCARDB with support of the state govt. has started lending operations on a limited scale. There are provisions in the byelaw of the SCARDB to provide loans for agriculture and allied activities, non-farm sector, rural housing, crop loan and loan to JLG.

Investment and SCARDB balances

SCARDB has been investing its surplus from recovery as deposit in STCCB as fresh lending was stopped until 2021-22.

Accumulated loss

The SCARDB has a high level of accumulated loss, which has not increased at a higher rate during last three year.

Other observations

In spite of poor financial position of the SCARDB with high accumulated loss, there is limited outside liability of the SCARDB and the SCARDB has submitted a plan to State Government for an assistance of ₹15 crore to turn around the SCARDB in 3 to 4 years. Incidentally, a decision to merge ST/ LT structure was announced in the Budget for 2018-19 by the State Government.

Participant Details

Meeting with Management and officials of TSCARDB (26.04.2023)		
S.No	Name of the Participants	Designation
1	Gauranga Bhowmick	Board Member TSCARDB
2	Prabin Debbarma	Board Member TSCARDB
3	Krishanu Dey TCS	Govt Nominee in TSCARDB board
4	N R Chakrabarthy	Joint RCS, GM TSCARDB
5	Krishnapada Bhowmick	ARCS, Govt of Tripura
6	Mithun Dey	OSD, TSCARDB
7	Manas Roy	CI O/o of RCS Govt of Tripura
8	Bablu Namsudra	CO Office of RCS
9	Sanjit Debbarma	CO Office of RCS
10	U K Debbarma	Branch Manager Agaratla Branch
11	Ratan Chakrabarthy	Branch Manager, Bishagarh Branch
12	Sanjoy Ch Saha	Branch Manager Udaipur Branch
13	Tapas Shom	Branch Manager Santibazar Branch
14	Tangshourai Reang	Branch Manager Kumarghat Branch

Meeting with Honble Minister Cooperation Govt of Tripura (26.04.2023)		
S.No	Name of the Participants	Designation
1	Shri Shukla Charan Noatia	Hoble Minister of Cooperation, Govt of Tripura
2	N R Chakrabarthy	Joint RCS, GM TSCARDB
3	Shri Loken Das	GM/OIC Tripura RO Tripura RO NABARD
4	Shri Diganta kumar Das	DGM Tripura RO NABARD

Meeting with RO Officials, RBI, TSCB and TSCARDB (27.04.2023)		
S.No	Name of the Participants	Designation
1	Shri Loken Das	GM/OIC Tripura RO NABARD
2	Shri Diganta kumar Das	DGM Tripura RO NABARD
3	Manoj K Moon	AGM RBI Tripura

4	N R Chakrabarthy	Joint RCS, GM TSCARDB
5	Rajesh Chandekar	AGM Tripura RO NABARD
6	Aparna Debbarman	AGM Tripura State Cooperative SCARDB
7	Manas Roy	CI O/o of RCS Govt of Tripura
8	Bablu Namasudra	CO Office of RCS
9	Sanjit Debbarma	CO Office of RCS

Annexure 7.15

Status Note - Uttar Pradesh

Background: Uttar Pradesh Sahkari Gramin Vikas Bank (UPSGVB, herein after for brevity also referred as SCARDB) Ltd. was established on 12th March 1959 under the Co-operative Societies Act, 1912 as a unitary structure providing long-term credit for agriculture and other allied activities. The SCARDB operates under the legislative framework of Uttar Pradesh Sahkari Gramin Vikas Bank Ltd. 1964 and the Uttar Pradesh Cooperative Societies Act,1965. With the reorganization of the state of Uttar Pradesh, its area of operation got extended to Uttarakhand State. Hence, the SCARDB was brought under the Multi State Cooperative Societies Act, 2002, in the year 2008, and its registration was converted as a muti-state cooperative society. However, based on resolution of the General Body in the year 2013, the SCARDB restricted its area of operation to the State of Uttar Pradesh and got itself registered under Uttar Pradesh Cooperative Societies Act.

Organisational Structure: The structure consists of Head Office and the largest network (branches) among the SCARDBs of its kind. The functioning of branches is monitored and supervised by 18 Regional Offices. The branches (323) were spread over across whole state of Uttar Pradesh. The Regional Offices were dismantled more than 15 years ago, leading to absence of adequate control and supervision over branches. This has forced the UPSGVB to revive the structure once again recently. There are a number of Departments at Head Office and around 250 staff (out of the total work force of about 2,800 staff members) are posted at Head Office.

Board of Directors and Management: The affairs of UPSGVB are guided by an elected board which is having 18 board members Out of these 18 members, 14 members are elected, 2 members are nominated by Government of UP. The Managing Director of UPSGVB and the Chief General Manager, NABARD are ex – officio members nominated on the Board. It was reported that the Board discussions normally revolved around administrative issues with lesser attention to business concerns. The Managing Director, a govt. appointee and normally a senior bureaucrat, is primarily responsible for the business activities of the SCARDB.

Business Performance: The loans were concentrated in agriculture investment activities, largely dairy and horticulture. Some efforts have been made for diversification through loans to certain disadvantaged sections of society through specific schemes for them. It also accepted long term deposits (above one year) from its members. There has been continuous decline in the amount of deposits mobilized by the SCARDB and hence there is increased dependence on borrowings.

The branches undertake the normal business of mobilization of deposits, and disbursement and recovery of loans. The Branch Management Committee consists of elected representative, the Branch Manager and two members nominated by the elected representative. The members at the branch level elect the representatives. The loan sanctioning powers are vested in Branch Management Committee for loans up to ₹ 10.00 lakh. The loans beyond this ceiling are sanctioned by Regional Managers and Head office. The participation of elected representatives in the sanction of loan has resulted in decisions beyond business considerations and affected the quality of loan.

The business of the SCARDB has witnessed a declining trend during last decade with the loan outstanding reduced to ₹ 2,598 crore as on March 2022 compared to ₹ 3,705 Crore as on March 2012. The assets of the SCARDB were concentrated in loans (88%) and investments (9%). Some important financial particulars relating to the performance of the SCARDB were as under:

Table: Important financial position of UPSGVB during the last three years

(₹ Crore)

Sr No	Particulars	As on 31.03.20	As on 31.03.21	As on 31.03.22
	Liabilities			
1	Paid up Capital	286.92	274.14	270.36
2	Reserves and Surplus	276.50	299.81	306.22
3	Deposits – Term deposit	52.70	41.99	30.52
4	Borrowing	981.56	819.36	880.16
5	Provisions	1201.47	1210.54	1178.34
	Assets			
1	Investments	221.05	270.05	247.67
2	Loans and Advances	2817.53	2572.43	2598.16
3	Accumulated losses	11.85	0	0
	Others			
1	Profit and Loss during the year	97.90	23.23	4.93
2	Gross NPA %	84%	96%	81%

The SCARDB had accumulated loss of ₹ 110 crore as on 31 March 2019 and ₹ 11.85 crore as on 31 March 2020. However, the SCARDB earned huge profit of ₹ 98 crore during 2019-20 as large number of cases were settled under One Time settlement Scheme and substantial amount of interest was earned in respect of such settled cases. This has helped the SCARDB to wipe out its accumulated loss. The SCARDB's profit has since declined substantially.

The SCARDB had very large NPAs, which formed 96% of its assets as on 31st March 2021. The SCARDB had made huge provision of ₹ 1,211 crore in respect of total NPA loan of about ₹ 2,462 Crore. The waiver schemes announced by the State Govt. in the past had vitiated the recovery climate. Some serious efforts have been initiated only in last few years and the NPAs have declined to 81% as on 31st March 2022. The SCARDB has implemented OTS schemes to recover past dues. The SCARDB has also established a Control Room in its Head Office for close monitoring of the recovery performance on daily basis, and also gets in touch with the defaulter borrower.

A large-scale recruitment of around 1,300 employees more than 5 years ago without engagement of any professional agency in the recruitment has attracted allegations of corruption. A Special Investigation Team is looking into the matter. Such a large recruitment has increased its administrative cost and also posed problems relating to their placement.

New Initiatives: A major initiative of the SCARDB has been to enter into a Memorandum of Understanding with National Schedule Castes Finance and Development and Corporation (NSFDC) and National Backward Classes Finance and Development and Corporation (NBCDFC) to extend concessional loan to the specified categories of borrowers The State Government has extended guarantee of ₹100 crore each to these Corporations for extending loans to UPSGVB which in turn disburses loan to ultimate borrowers. The SCARDB had an outstanding loan of approx. ₹ 36 Crore as on March 2021 in this regard. Similarly, the SCARDB has developed two apps namely Employee Attendance Tracking App (EATA) and Letter Tracking Management System (LTMS) and also a Management Information System portal on its own. The training centre of the SCARDB has been recognized as State Training Provider (STP) under UP Skill Development Mission for providing training to the farmers.

Suggestions: The state government may contribute to the share capital of the SCARDB, approve deposit mobilization scheme under BUDS Act 2019. SCARDBs should be extended financial package, support for computerization and resources at concessional interest rates. They should also be allowed to provide loan for all eligible activities.

Participant Details
Stakeholders Meeting on 23rd March 2023

Sr No.	Name	Designation
1	Shri B.L. Meena, IAS	Principal Secretary, Cooperation Department
2	Shri Balu Kenchappa	Regional Director, RBI, Lucknow
3	Shri Sanjay Dora	Chief General Manager, NABARD, Lucknow
4	Shri R.K. Kulshrestha, IAS	Managing Director, UPSCARDB
5	Smt B Chandra Kala, IAS	Additional Registrar, Banking, Cooperation Deptt, UP
6	Shri Arvind Srivastava,	Team Leader, NABCONS
7	Shri R.K. Srivastava	Project Director, NABCONS
8	Smt Upma Saxena	Deputy General Manager,NABARD
8	Shri P.K. Agarwal	Financial Advisor, Cooperation Deptt, UP
9	Shri Sanjai Kumar	DGM, RBI, Lucknow
10	Shri R. P. Singh	General Manager, UPSCARDB
11	Shri K B Lal	Deputy General Manager, UPSCARDB

Details of members present in the meeting with officers of NABCONS and Uttar Pradesh Cooperative Village Development SCARDB Ltd. on 24.03.2023		
Sr. No	Name of the Participant	Designation
1	Shri RK Kulshrestha	Managing Director, UPSCARDB
2	Shri Arvind Kumar Srivastava	Ex- General Manager, NABARD, Team Leader, Study Team
3	Sri Rakesh K. Srivastava	Ex- Chief General Manager, NABARD, Member, Study team
4	Mrs. Arunakshi Mishra	General Manager, UPSCARDB
5	Mr. RP Singh	General Manager, UPSCARDB
6	Mr. Subhash Chandra	Deputy General Manager, UPSCARDB
7	Mr. DK Singh	Deputy General Manager, UPSCARDB
8	Mr. KB Lal	Deputy General Manager, UPSCARDB
9	Mr. AK Srivastava	Deputy General Manager, UPSCARDB
10	Mr. AK Dubey	Assistant Auditor General Deputy Director Audit Office
11	Mr. Meraj Ahmed	Senior Manager, UPSCARDB
12	Mr. Pankaj Tejwani	Senior Manager, UPSCARDB
13	Mr. Pankaj Srivastava	Senior Manager, UPSCARDB
14	Shri Arvind Sharma	Senior Manager, UPSCARDB
15	Mr. Vishwajit	Manager, UPSCARDB
16	Mr. S.P. Singh	(Accounts Section), UPSCARDB
17	Mr. Parvez Athar	(Accounts Section), UPSCARDB

Visit to Bakshi ka Talab Branch on 29th March 2023

Sr No.	Name	Designation
1	Shri Arvind Srivastava,	Team Leader, Study team
2	Shri R.K. Srivastava	Member, Study team
3	Shri Rajeev Srivastava	Officer, UPSCARDB
4	Shri J.K.Saroj	Branch Manager, UPSCARDB
5	Smt Garima Verma	Asstt. Field Officer, UPSCARDB
6	Smt Rinki Yadav	Asstt. Field Officer, UPSCARDB

Annexure 7.16

Status Note-West Bengal

Background: The LTCCS in West Bengal operates through 24 PCARDB and WBSCARDB (referred as SCARDB hereafter) through 11 branches and the structure is both federal and unitary in nature. The branch network of Long-Term Structure includes 100 branches of PCARDB in 21 districts and 11 branches in 2 districts of the state. The SCARDB had two regional offices and two district offices out of which both the ROs are non-functional.

Board of Directors: The SCARDB did not have an elected Board of Directors since 2013-14. Shri Moinul Hassan was the Special Officer of the SCARDB and de facto administrator of SCARDB. He was taking interest in the affairs of SCARDB.

Management: The Managing Director, supported by General Manager, Deputy General Managers, managed the day-to-day administration of the SCARDB and other staff member. The SCARDB was facing staff shortage as it was functioning with 83 staff members against the sanctioned strength of 186.

Training Arrangement: Institute of Coop Management for Agriculture & Rural Development (ICMARD), Kolkata, is an apex-training institute, set up by WBSCARDB Ltd, in 1997, by merging JLTC & ACSTI. It is an accredited Training Centre of C-PEC, BIRD, and Lucknow. It conducts customised training programmes for the staff of SCARDB / PCARDBs.

Financial Performance at a glance

The financial performance of WBSCARDB for the last three years is presented in the table given below:

Table: Important financial particulars during last three years

(₹ Crore)

Sr no	Particulars	As on 31.03.20	As on 31.03.21	As on 31.03.22
	Liabilities			
1	Paid up Capital	42.47	42.54	42.64
2	Reserves and Surplus	6.49	15.04	18.99
4	Deposits – Term deposit	227.65	244.6	252.31
5	Borrowing	939.5	981.56	1052.82
6	Provisions	96.98	103.42	115.73
	Assets			
1	Investments	78.04	101.55	145.37
2	Loans and Advances	1246.91	1294.84	1336.08

Sr no	Particulars	As on 31.03.20	As on 31.03.21	As on 31.03.22
3	Accumulated losses	8.66	1.82	0.00
	Others:			
1	Profit during the year	3.57	10.6	6.14
2	Loan Disbursement	292.23	294.89	276.00
3	Gross NPA	24%	26%	24.5%

As can be seen from the above table, the West Bengal SCARDB had been able to continue its operations and made profits during the last three years The loan disbursements and deposits were range bound. The loans and advances have grown by 3% during the year 21-22 while the borrowings have increased by 7 % during the same period. The credit growth of the SCARDB is largely impacted by poor financial health of the SCARDB, poor recovery and high NPA. The average recovery rate of the SCARDB during last three years is around 35 % and gross NPA is around 25% of the advance.

The WBSCARDB formulated three different types of deposits *viz.*, Term Deposits with maturity period for one year to five years, Monthly Income Scheme for five years and Flexi Deposit Scheme. Deposits under Flexi Deposit Scheme provide for withdrawal before one year. However, the state government under BUDS Act 2019 has granted no permission.

The SCARDB has been able to wipe out the accumulated losses during 21-22 due to profits during the last three years.

Imbalance: There is a growing trend of imbalance and there was a total imbalance of ₹143.04 crore in respect of 16 PCARDBs as on 31st March 2022. The GoWB released, by way of grant an amount of ₹1604.52 lakh and ₹1800.00 lakh during 2020-21 and 2021-22 respectively to the WBSCARDB for wiping out the principal imbalance amount. The amounts were adjusted against the principal imbalance in the respective year consequently, the SCARDB wrote off interest against the principal imbalance amount received from the GoWB for different PCARDBs. The total amount of interest written off during 2020-21 and 2021-22 are as under:

(₹ crore)

Sr. No.	Year	Principal adjusted	Interest foregone
1	2020-21	16.05	6.38
2	2021-22	18.00	6.66

Computerisation: The SCARDB has been working on standalone systems wherein the HO and the branches of the SCARDB were not interconnected through a Core Banking Solution (CBS) system.

PCARDBs: The financial health of PCARDB is also not very encouraging and out 24 PCARDB, only 6 PCARDB are in profit. Due to poor financial health of most of the PCARDB, the growth in loaning operation has been adversely affected. WBSCARDB is not having proper supervision over the functioning of the PCARDB.

Non- receipt of interest subsidy: The SCARDB has not received the interest subsidy amount from the State Government as per the scheme of Govt of West Bengal.

Best Practices

- SCARDB has adopted ECS/NACH for recovery through SCARDB account of loanees.

- WBSCARDB has implemented computerization which is on line and integrated the operation of branches with HO. through web, not CBS.
- State Govt has provided support of ₹ 78.3 crore to reduce imbalance.
- State Govt has also provided support of ₹ 1.35 crore for computerization of PCARDB and SCARDB.
- State Govt has also provided financial assistance of ₹ 2.89 crore during last 4 years for infrastructure development and training of ARDBs

The present form of business with narrow product range and restricted source for mobilization of resources will not give sustainability to the operation of the SCARDB. Hence, the ARDB may be given greater freedom to mobilise deposit with framing of Deposit Insurance Scheme. WBSCARDB may also be considered for issue of banking license. SCARDB may be allowed to provide all types of loans specially short-term agriculture loans. Computerisation of the operation of the SCARDB is required to bring efficiency both operational and financial. SCARDB should explore the possibility of non-fund business like insurance, locker facilities, etc

The Branches of the PCARDBs should be developed as Multi Service Centre apart from their normal business operations:

Participant List

Meeting with Management and officials of WBSCARDB (12.04.2023)		
S.No	Participant List	Designation
1	Sri Moinul Hassan	Special Officer
2	Sri Monosij Mukhopadhyay	Managing Director
3	Sri Bibek Sen	Principal ICMARD
4	Sri Subho Roy	GM
5	Sri Saibal Ranjan Chowdhury	DGM
6	Sri Sudip Ghosh	DGM
7	Sri Suman Bhar	DGM
8	Sri Debashis Dutta	AGM
9	Sri JoyDev Sinha	AGM
10	Ms Sanchari Mitra	AGM/FM ICMARD

Meeting With Officials of NABARD (13.04.2023)		
S.No	Participant List	Designation
1	Smt Usha Ramesh	Chief General Manager
2	Smt Archana Singh	GM
3	Smt Deepmala Ghosh	GM
4	Amit Kumar Das	DGM
5	Sunil kumar Pande	DGM
6	Timir Baran Saha	AGM
7	Ashok K Nayar	AGM

Meeting with RCS and Officials of Cooperation Deptt (13.04.2023)		
S.No	Participant List	Designation
1	Smt Soma Ganguli	RCS
2	Sri Partha Basu	Addl RCS

Annexure 8.1

Note on Integration of LTCCS- Financing of MT and LT loans by Short Term Cooperative Credit Structure - Andhra Pradesh

Integration, Effect and Status of Cooperative Credit Structure

1. After the creation of Andhra Pradesh state in 1956, the State established separate short term and long-term cooperative credit structures. The STCCS was created as a three-tier structure. The LTCCS was established as a federal structure with primary ARDBs affiliated to the SCARDB. Government of India (GOI) in the year 1975 appointed Dr. Hazari Committee which recommended integration of both the structures and a single window system for the cooperative credit structure. As the Govt. of Andhra Pradesh found some merit in this recommendation, it constituted a committee, which also recommended single window system for rural cooperative credit structure in the state. The proposal to integrate the two structure was submitted by the State Govt. to NABARD and later on to the Govt. of India for final approval which appointed Ardhanareeswaran Committee to examine the same. The proposal of the State was approved in the year 1985 and the process of integration commenced in the state with restructuring at the district level in April 1987.
2. During April, 1990 the State Government appointed a committee under chairmanship of Sri C.S. Sastry to study the functioning of integrated structure (at the district level) and to make suggestions regarding improving, stabilizing and strengthening the same. The Committee in its report (January 1992) recommended for continuance of the Single Window Scheme and also recommended merger of Apex level banks at the earliest. The same was completed with state level integration taking place in the year 1994. A single window system, bringing all types of credit like short term, medium term and long- term credit under one umbrella, was established in the state. With this, Andhra Pradesh became the first state to bring in unified structure after integration. Since then, this system is in operation in the state.
3. At the time of integration, most of the PCARDBs were functioning in losses and the loan recovery performance was also poor. Hence, the Apex structure of LTCCS also suffered heavy over dues and liquidity crunch. So, the integration helped overcome this problem of LTCCS. The loans and advances outstanding of the two structure viz. STCCCS and LTCCS stood at ₹1070.83 crore and ₹ 981.34 crore as on March 1994 (at the time of integration) . Since then, the structure has made substantial progress. The position in respect of broad important financial particulars of the integrated structure at apex (StCB level) are indicated in the Table 1 below:

Table1: Broad Financial Particulars – March 1994 and March 2022

(₹ Crore)

S.No	Particulars	March 1994	March 2022
1.	Share capital	75.95	887.95
2.	Reserves	165.91	1415.14
3.	Owned funds	241.86	2303.09
4.	Deposits	455.32	8249.93
5.	Borrowings	1816.10	18597.91
6.	Investments	289.87	1995.69
7.	Loans & advances	2052.17	22337.69
8.	Net profit	21.87	181.45

It may be observed that there has been substantial progress in the performance of the structure after integration. The loans and advances have increased more than 10 times during the last 28 years.

4. The unified structure now better known as the STCCS structure is helmed by Andhra Pradesh State Cooperative Bank (APStCB) at the apex level and 13 District Cooperative Central Banks (DCCBs) operating at district level through 421 branches. The break up of loan outstanding for agricultural loans, non-agricultural loan and agricultural term loan for StCB and the DCCB level on March 2022, as indicated in Table 2 below, would provide a more clear picture of the effect of integration:-

Table 2: Loans Outstanding – StCB and DCCB – Agricultural Loan, Share of Agricultural Term Loan and Non- Agricultural Loan – March 2022

(₹ Crore)

Sl. No.	Particulars	StCB	DCCB
1	Agricultural Loans (ST+ ATL)	11705.06	14372.66
a	Share of Agriculture Loans in Total Loans (%)	52.4	50.9
2	Agricultural Term Loan (out of 1)	6181.10	5131.52
a	Share of ATL in Agricultural Loans (%)	52.8	35.7
3	Non-Agricultural Loans (MSME, Housing, Education, Vehicle, Personal and Consumer	10632.63	13874.27
2	Share of Non-Agricultural Loans in Total Loans (%)	47.6	49.1
3	Total Loans (1+2)	22337.69 (100.0)	28246.93 100.0)

Source: NABARD
Note: Figures in bracket indicate percentage (%)

It may be observed from the Table 2 that a large portion of agricultural loan outstanding at StCB level is in respect of agriculture term loan. APStCB has established a Business Development and Product Innovation Cell and the same is also assisted by NABARD. There are expectations that the Cooperative Banks would be able to expand their footprints in the term loan business in rural areas.

5. At the ground level, there were 2051 PACS operating and disbursing substantial agricultural credit in the state. The details of loan outstanding at ground level as on March 2021 (latest available) was as indicated in Table 3 below:

Table 3: Loans Outstanding – PACS/LAMPS - Agricultural and Non- Agricultural – Short term and Medium Term - March 2021

(₹. In Crore)

Sl.No.	Particulars	Amount
1	Agricultural Loans (ST+ ATL)	12145.91
2	Non-Agricultural Loans	1668.67
3	Others	662.03
4	Total Loans (1+2+3)	14476.61
5	Of which a. Short Term b. Medium term	10604.70 (73.2) 3871.91 (26.8)

It may be observed that PACS/LAMPS had more than 25% of the loans outstanding as term loan. In view of efforts for strengthening the PACS through various programmes like PACS as MSC, computerisation of PACS, etc., it is possible that the structure would be in a position to meet the term loan requirements of rural masses in a substantial manner.

Annexure 8.2

Note on Integration of LTCCS- Financing of MT and LT loans by Short Term Cooperative Credit Structure Chhattisgarh

The state of Chhattisgarh came into existence after bifurcation of the State of Madhya Pradesh in the year 2000. This led to establishment of Sahkari Krishi and Gramin Vikas Bank in the state, which was registered under the state cooperative societies Act. The State also enacted a separate legislation viz. Chhattisgarh Sahkari Krishi and Gramin Vikas Bank Adhiniyam, 1999 for regulation of the activities of ARDBs in the state. The State adopted a federal structure with State Cooperative Agriculture and Rural Development Bank (SCARDB) functioning at the state level. 12 District Cooperative Agriculture and Rural Development Banks (DCARDBs) which operated in the district through their branches. The structure took care of the long-term credit needs of its members. However, over a period of time the structure developed weaknesses mainly due to its inability to raise resources on its own and avail adequate refinance from NABARD due to its mounting overdues. Very soon, the primary units started incurring losses, which accumulated to a very high level. All this affected the ability of the LTCCS to cater to the needs of its members.

2. The country has the experience of integration of long term structure with the short term structure in almost similar circumstances long ago in the unified state of Andhra Pradesh. The Task Force to Study the Cooperative Credit System headed by Sri Jagdish Kapoor (1999) had also recommended the integration/merger of short-term and long-term credit structure for strengthening the cooperative credit structure. Taking a clue from these suggestions, Chhattisgarh Govt. examined the issue in view of limited geographical area of the state and the need to provide for all the credit requirements of the farmers in the cooperative fold through a single window approach. It was observed that a unified structure would bring efficiency of scale, reduce managerial expenses and would be in a better position to leverage the resources of short term structure for lending for MT/LT loans. It was also felt that the integration would lead to increased share of the cooperative credit in the ground level credit of the state.

3. In this backdrop to serve the public interest, the State Govt. exercised its power of formulating a scheme of reorganization of societies vested through Section 16 (c) of the Chhattisgarh State Cooperative Societies Act 1960 (the State has adopted the Madhya Pradesh Cooperative Societies Act, 1960) . The Chhattisgarh Govt. decided to integrate both the structures. Consequently, the Long Term Cooperative Credit Structure (LTCCS) in the State was merged with the Short Term Cooperative Credit Structure (STCCS) in the year 2013-14. The SCARDB and the DSCARDB, Raigarh were merged with the Chhattisgarh State Cooperative Bank. The remaining 11 DCARDBS were merged with 6 DCCBs in the state. Three DCARDBs were merged with the DCCB, Raipur while other DCCBs integrated one or two DCARDBs with them. The cooperative societies under long term structure have since been deregistered as per provisions of Section 18(1) of the Act, ibid.

4. The MT/ LT credit needs of the members of the cooperative credit structure in the State is being taken care of through the STCCS consisting of State Cooperative Bank and 6 DCCBs with a total network of 316 branches of these banks. The loan outstanding of these banks with break up for agricultural loans, non-agricultural loan and agricultural term loan was as indicated in Table below:

Table 1: Loans Outstanding: StCB and DCCB-Agricultural Loan, Share of Agricultural Term Loan and Non-Agricultural Loan – March 2022

(₹ Crore)

Sl. No.	Particulars	StCB	DCCB
1	Agricultural Loans (ST+ ATL)	1379.15	2289.29
a	Share of Agriculture Loans in Total Loans (%)	40.4	93.0
2	Agricultural Term Loan (out of 1)	19.35	137.42
a	Share of ATL in Agricultural Loans (%)	1.4	6.0
3	Non-Agricultural Loans (MSME, Housing, Education, Vehicle , Personal and Consumer	2035.57	171.23
2	Share of Non-Agricultural Loans in Total Loans (%)	59.6	7.0
3	Total Loans (1+2)	3414.72 (100.0)	2460.52 (100.0)

Source: NABARD

Note: Figures in bracket indicate percentage (%)

The share of agricultural credit was 93 % in the total loans disbursed by the DCCBs. However, this was largely concentrated in short term loan with very small portion (only 6%) being disbursed as term loan under agriculture. In case of StCB, the non-agricultural loans constituted about 60%, but the same were mainly for large units. The share of ATL in agriculture loans was abysmally low and the lower tier structure were largely utilizing their own resources for the small amount of ATL disbursed by them.

5. At the ground level, 2058 PACS/LAMPS were operating and disbursing substantial agricultural credit in the state. The latest details available (March 2021) of loan outstanding at ground level was as furnished in Table below:

Table 2: Loans Outstanding – PACS/LAMPS - Agricultural and Non- Agricultural – Short term and Medium Term - March 2021

(₹ Crore)

Sl.No.	Particulars	Amount
1	Agricultural Loans (ST+ ATL)	2067.13
2	Non-Agricultural Loans	104.35
3	Total Loans (1+2)	2171.48
4	Of which a. Short Term b. Medium term	 1769.24 (81%) 402.24 (19%)

Source: NAFSCOB

Note: Figures in bracket indicate percentage (%)

It may be observed that the PACS/ LAMPS had better share of ATL in agricultural credit compared to the StCB and DCCB level. The financing at their level was largely out of resources borrowed from the DCCB.

The integration of the structure has taken place less than a decade ago and the same is being established only by now. As such, it is difficult to reach any conclusion about the effect of integration at this stage. It was observed that the operation of other mainstream financing agency viz. RRB is comparatively smaller in the lending business in the state. This provides an opportunity for the cooperative credit structure of expanding credit particularly for the term loan largely. However, the poor health of some of the DCCBs may serve as a hindrance in this regard.

Annexure 8.3

Note on Liquidation of LTCCS - Financing of MT and LT loans by Short Term Cooperative Credit Structure - Madhya Pradesh

1. The long-term cooperative credit structure in the state of Madhya Pradesh operated through SCARDBs at the state level and 38 Primary ARDBs affiliated to it. Over a period, the financial position of the structure deteriorated continuously. It was observed that the SCARDB could recover hardly 2% of its demand from the District CARDBs as on March 2014. The recovery was only Rs.26.62 crore against the demand of ₹ 1192.72 crore. The situation in respect of ground level DCARDBs was almost the same as it had recovered only 7% of the demand (₹ 73.06 crore) as on the same date. A greater worrying factor was that they could pass on only 36% of the total recovery to SCARDB against their borrowing. The DCARDBs had also not passed on ₹ 10.42 crore of the total deposit of ₹ 46.59 crore mobilised at their level.

2. The ground level DCARDBs had an outstanding of only ₹ 621.91 crore against the farmers vis a vis their borrowing outstanding of ₹ 1031.10 crore from the SCARDB. This resulted in an imbalance to the extent of ₹ 409.18 crore as on March 2015. Not only this, even the SCARDB also had an imbalance in their position vis a vis their financing agencies as its total liabilities were to the extent ₹ 2499.51 crore against total receivables of ₹ 1573.94 crore only. Further, the State Govt. had provided a guarantee to NABARD in respect of refinance availed by SCARDB. As the SCARDB was not in a position to honour its commitment is respect of outstanding liability of ₹ 770.61 crore, the State govt. was required to honour the same. The SCARDB also had an accumulated loss of ₹ 788.42 crore as on March 2015 and the bank was incurring losses year after year.

3. The poor performance of the structure forced the State Govt. to initiate drastic action as the structure had failed to achieve its objective of provision of credit to members. As provided in MP Cooperative Societies Act, 1960 (Section 69), the State Govt. decided to wind up these societies (i.e., DCARDB & SCARDB) and appointed liquidator for the purpose. The employees of these institutions were accommodated in other cooperative societies.

4. The STCCS in the state is a three-tier structure with the 851 branches of the StCB and 38 DCCBs operating in the state. The loan outstanding of these banks with break up for agricultural loans, non-agricultural loan and agricultural term loan was as indicated in Table below:-

Table 1: Loans Outstanding: StCB and DCCB – Agricultural Loan, Share of Agricultural Term Loan and Non- Agricultural Loan – March 2022

(₹ Crore)

Sl. No.	Particulars	StCB	DCCB
1	Agricultural Loans (ST+ ATL)	10036.66	23255.32
a	Share of Agriculture Loans in Total Loans (%)	84.1	81.5
2	Agricultural Term Loan (out of 1)	0.00	176.40
a	Share of ATL in Agricultural Loans (%)	0.00	0.01
3	Non-Agricultural Loans (MSME, Housing, Education, Vehicle , Personal and Consumer	1903.90	5266.78
2	Share of Non-Agricultural Loans in Total Loans (%)	15.9	18.5
3	Total Loans (1+2)	11940.56 (100.00)	28522.10 (100.00)

Source: NABARD

Note: Figures in bracket indicate percentage (%)

It may be observed that there was preponderance of agricultural loans and that too for short term purpose. The share of ATL was non-existent/ negligible at the level of cooperative banks.

5. There were 4536 PACS/LAMPS at the ground level engaged in credit activities primarily for short term. All the PACS/LAMPS were engaging in a number of non-credit activities and lot of emphasis is being attached to such activities through specific schemes like PACs as Multi Service Centres. The latest details available (March 2021) of loan outstanding at ground level was as furnished in Table below :

Table 2: Loans Outstanding – PACS/LAMPS - Agricultural and Non- Agricultural – Short term and Medium Term - March 2021

(₹ Crore)

Sl.No.	Particulars	Amount
1	Agricultural Loans (ST+ ATL)	3399.59
2	Non-Agricultural Loans	118.92
3	Others	363.52
4	Total Loans (1+2+3)	3882-03
5	Of which c. Short Term d. Medium term	 3417.03 (88.0) 465.00 (12.0)

It may be observed that PACS had hardly 12% of the loans outstanding as term loan. In view of the recent focus of PACS on non-credit activities , a number of them (about 2975) being in loss and absence of adequate financial support available from higher tier institutions, it is difficult to expect them to enhance their term loan portfolio in any meaningful way.

The LTCCS structure was liquidated in the state about 7-8 years ago. There was nil / negligible disbursement at StCB and DCCB level for ATL. The share of non-agricultural loans was around 19% at their level. The medium term loans outstanding at the ground level institutions (PACS/LAMPS) was only 12% of the total outstanding. In view of this situation, the term loan, particularly ATL is not likely to reach any substantial level within a short span of time.

Annexure 8.4

Note on Liquidation of LTCCS - Financing of MT and LT loans by Short Term Cooperative Credit Structure - Manipur

The poor health of LTCCS resulted in the structure getting liquidated long ago. As such, after liquidation, the needs of MT and LT financing in the cooperative sector in the State is also being catered to by the STCCS. The State has two-tier structure of the STCCS with 261 PACS directly affiliated to it. There are 13 branches of Manipur State cooperative Bank in the State. Efforts are being made for expansion of the activities of PACS in the State to enhance credit including term loans for agriculture, animal husbandry sector and FPOs.

The details of loan outstanding at StCB level was as under:-

Table: Loans Outstanding – Agricultural, ATL and Non- Agricultural –March 2022

(₹ Crore)

Sl.No.	Particulars	Amount
1	Agricultural Loans (ST+ ATL)	51.42
a	Of above Agricultural Term Loan	41.17
2	Non-Agricultural Loans (MSME, Housing, Education, Vehicle , Personal and Consumer	90.79
3	Total Loans (1+2)	141.21

Source: NABARD

The State has very large share of financing by the Commercial Banks. A large number of PACS (more than one- fourth) are dormant and defunct. The borrowing membership of the PACS was mere 0.27 lakh though the State had 5.57 lakh families as per latest census.

Table 2: Loans Outstanding – Agricultural and Non- Agricultural – Short term and Medium Term - March 2021

(₹ Crore)

Sl.No.	Particulars	Amount
1	Agricultural Loans (ST+ ATL)	0.48
2	Non-Agricultural Loans	0.31
3	Others	0.00
4	Total Loans (1+2+3)	0.79
5	Of which a. Short Term b. Medium term	 0.34 (43.0%) 0.45 (57%)

Source : NAFSCOB

The cooperative sector has not catered to the credit needs of its members in any substantial measure as the loan outstanding was mere ₹ 0.79 lakh in the State. The medium term loans , however, constituted 57% of the total outstanding.

Annexure 8.5

Note on Liquidation of LTCCS - Financing of MT and LT loans by Short Term Cooperative Credit Structure - Maharashtra

1. The long- term cooperative credit structure in the state of Maharashtra operated through SCARDBs at the state level. The structure initially functioned as a unitary structure but converted into federal structure with effect from October 2001. 29 Primary ARDBs were affiliated to it. Over a period, the financial position of the structure deteriorated continuously. The bank was placed under interim orders of liquidation in November 2002 itself.

2. The action on the part of the State Govt. was necessitated because of adverse financial position of the bank . The accumulated losses of the bank exceeded ₹ 400 crore and the net worth was negative to the extent of approx. ₹ 600 crore as on March 2005. There was imbalance also exceeding ₹ 400 crore in the

outstanding loans of PCARDB vis-a-vis the SCARDB. The accumulated losses of all DCARMDBs stood at ₹ 851.04 crore as on 31.03.2004. (Source: NABARD R.O.) . The latest position available as on March 2011 revealed that the accumulated losses had further increased to ₹ 635 crore and the net worth has only marginally improved to negative figure of ₹ 590 crore. (Source NAFCARD).

3. The STCCS in the state is a three-tier structure having 31 DCCBs with total branches of StCB and DCCB being 3573. The loan outstanding of these banks with break up for agricultural loans, non-agricultural loan and agricultural term loan was as indicated in Table 1 below:-

Table 1: Loans Outstanding – StCB and DCCB – Agricultural Loan, Share of Agricultural Term Loan and Non- Agricultural Loan – March 2022,

(₹ Crore)

Sl. No.	Particulars	StCB	DCCB
1	Agricultural Loans (ST+ ATL)	9714.21	26662.30
a	Share of Agriculture Loans in Total Loans (%)	37.4	41.5
2	Agricultural Term Loan includes conversion and agri others (out of 1)	4010.69	4503.75
a	Share of ATL in Agricultural Loans (%)	41.2	16.9
3	Non-Agricultural Loans (MSME, Housing, Education, Vehicle , Personal and Consumer	16246.14	37636.05
4	Share of Non-Agricultural Loans in Total Loans (%)	62.6	58.5
5	Total Loans (1+3)	25960.35 (100.0)	64298.35 (100.0)

Source : NABARD
Note: Figures in bracket indicate percentage (%)

It may be observed that the banks were disbursing agricultural term loan as also non-agricultural loan (primarily in the nature of term loan) in very good measure.

4. The State has maximum number of PACS in the country. There were 20897 PACS (Source NABARD; SFP 2023-24) and some good functioning societies for sugar cooperatives, spinning mills, dairy, poultry, etc. The details of loan outstanding at ground level was as indicated in Table below :

Table 2: Loans Outstanding – Agricultural and Non- Agricultural – Short term and Medium Term - March 2021

(₹ Crore)

Sl.No.	Particulars	Amount
1	Agricultural Loans (ST+ ATL)	10077.27
2	Non-Agricultural Loans	2700.61
3	Others	663.40
4	Total Loans (1+2+3)	13441.28
5	Of which a. Short Term b. Medium term	 9474.55(70.5%) 3966.73 (29.5%)

It may be observed that PACS had about 30 % the loans as term loans. Even at the StCB and DCCB level, the focus was on the disbursement of term loan. The STCCS has proved that it has catered well to the needs of medium and long-term loans to the borrowers in the cooperative sector even after liquidation of LTCCS in the state.

Annexure 8.6

Note on Reorganisation of State of Uttar Pradesh - Bifurcation of Assets and Liabilities of LTCCS between UP and Uttarakhand

a) The reorganization of States in the year 2000 resulted in bifurcation of Uttar Pradesh and creation of the state of Uttarakhand. This led to deemed registration of the Uttar Pradesh Sahkari Gramin Vikas Bank Ltd. established in the year 1959, as a Multi- State Cooperative Societies in the year 2008. However, based on resolution of the General Body in the year 2013, the bank restricted its area of operation to the State of Uttar Pradesh and got itself registered again under Uttar Pradesh Cooperative Societies Act . This required the need for bifurcation of assets and liabilities of the UP SCARDB between the state of Uttar Pradesh and Uttarakhand.

b) The state of Uttarakhand decided for a single unified cooperative credit structure in the state and hence the share of assets and liabilities on bifurcation was to be received by the Uttarakhand State Cooperative Bank (UKStCB), the apex bank in the state. The bifurcation was a long-drawn process between the two states. Uttar Pradesh Sahkari Gram Vikas Bank Ltd (UPSGVB) Lucknow had submitted a detailed bifurcation plan to RCS, Uttarakhand in the year 2009. As per this plan, UP SCARDB had computed its liability for payment of ₹ 825.81 lakh after the transfer of all assets and liabilities to the State of Uttarakhand. Both, the State Govt. Ultimately agreed to the proposal and settled the matter accordingly.

c) Consequent upon bifurcation, Uttarakhand State Cooperative Bank applied to RBI for licensing of the branches of erstwhile UP SCARDB falling in its jurisdiction, as its own bank branches. RBI decided the same as per the norms.

d) Besides the State Cooperative Bank, Uttarakhand has 10 DCCBs in the state covering 13 districts of the state. These banks have about 400 branches spread out through the nook and corner of the state. There were 679 PACS supplementing these banks in the cooperative credit structure.

Annexure 9

Share (%) GCF to GVA – Agriculture and Allied Sector (2012-13 to 2021-22)

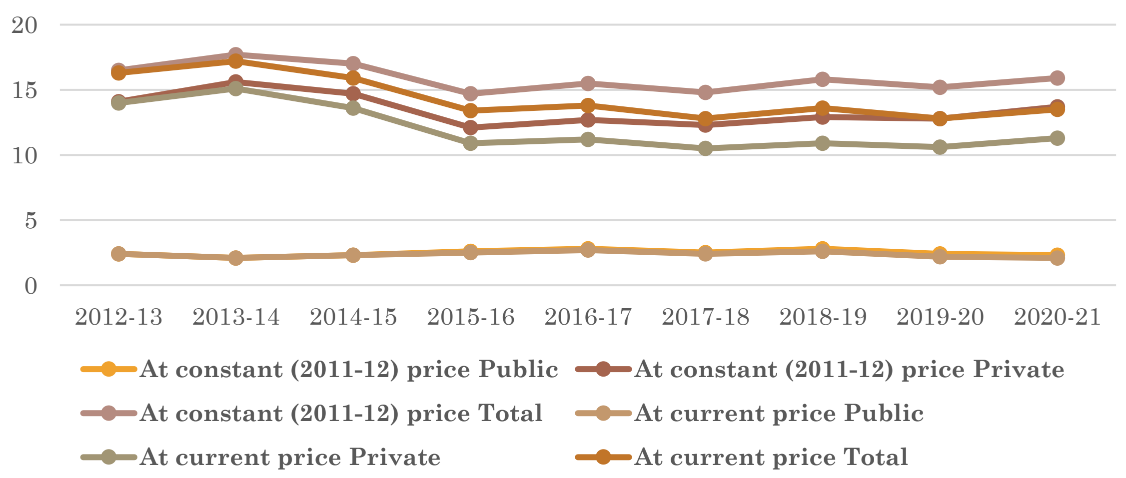
(Figure in %)

Year	At constant (2012-13) price			At current price		
	Public	Private	Total	Public	Private	Total
2012-13	2.4	14.1	16.5	2.4	14.0	16.3
2013-14	2.1	15.6	17.7	2.1	15.1	17.2
2014-15	2.3	14.7	17.0	2.3	13.6	15.9
2015-16	2.6	12.1	14.7	2.5	10.9	13.4
2016-17	2.8	12.7	15.5	2.7	11.2	13.8
2017-18	2.5	12.3	14.8	2.4	10.5	12.8
2018-19	2.9	13.1	15.8	2.6	10.9	13.6
2019-20	-	-	15.2	-	-	12.8
2020-21	-	-	16.9	-	-	14.2
2021-22	-	-	16.4	-	-	13.7

Source: Table 1.9, Page 22, Agricultural Statistics at a Glance, 2022 Bifurcation of years 2019-20, 2020-21 and 2021-22 not available – Total figures for those years are estimates

https://agricoop.gov.in/Documents/CWWGDATA/Agricultural_Statistics_at_a_Glance_2022_0.pdf

Figure 1.1:Share (%) GCF to GVA – Agriculture and Allied Sector



Annexure 10

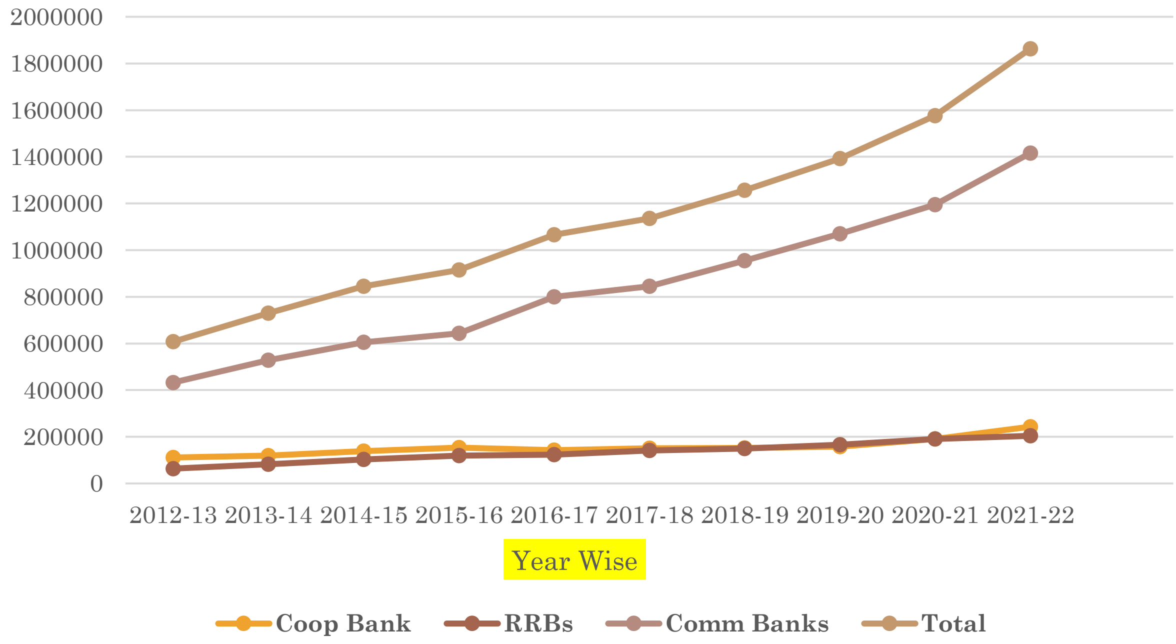
Details of Agency wise Ground Level Credit Flow for Agriculture in the Last 10 Year (2012-13 to 2021-22)

(₹ Crore)

Total				
Year	Coop. Banks	RRBs	Comm.Banks	Total
2012-13	1,11,203	63,681	4,32,490	6,07,375
2013-14	1,19,964	82,653	5,27,506	7,30,123
2014-15	1,38,469	1,02,483	6,04,376	8,45,328
2015-16	1,53,295	1,19,261	6,42,954	9,15,510
2016-17	1,42,758	1,23,216	7,99,781	10,65,756
2017-18	1,50,321	1,41,216	8,44,527	11,36,064
2018-19	1,52,340	1,49,667	9,54,823	12,56,830
2019-20	1,57,367	1,65,326	10,70,036	13,92,729
2020-21	1,90,682	1,90,012	11,94,704	15,75,398
2021-22	2,43,220	2,04,180	14,15,964	18,63,363
CAGR (%)	**8.14**	**12.36**	**12.59**	**11.86**

(Source: NABARD Ensure)

Figure 1.1: Agency wise Ground Level Credit Flow for Agriculture in the Last 10 Years (2012-13 to 2021-22)



Annexure 11

Details of Agency wise Ground Level Credit Flow ST and MT/LT Loans under Agriculture in the Last 10 Years (2012-13 to 2021-22)

(₹ Crore)

	Short-Term (ST) Credit				Medium Term/Long Term (MT/LT) Credit			
Year	Coop. Banks	RRBs	Comm. Banks	Total	Coop. banks	RRBs	Comm. Banks	Total
2012-13	1,025,92	55,957	3,14,950	4,73,500	8,611	7,724	1,17,540	1,33,875
2013-14	1,13,574	70,697	3,64,164	5,48,435	6,390	11,956	1,63,342	1,81,687
2014-15	1,30,350	89,326	4,15,736	6,35,412	8,119	13,157	1,88,640	2,09,916
2015-16	1,43,803	1,01,579	4,19,931	6,65,313	9,492	17,681	2,23,024	2,50,197
2016-17	1,31,880	1,05,001	4,52,576	6,89,457	10,878	18,215	3,47,205	3,76,298
2017-18	1,36,102	1,19,790	4,97,322	7,53,214	14,219	21,426	3,47,205	3,82,850
2018-19	1,42,750	1,25,654	4,83,805	7,52,209	9,591	24,013	4,710,17	5,04,620
2019-20	1,48,287	1,38,069	5,38,795	8,25,151	9,080	27,257	5,31,241	5,67,579
2020-21	1,79,267	1,56,369	5,58,121	8,93,757	11,415	33,643	6,36,583	6,81,641
2021-22	2,29,093	1,66,782	7,03,804	10,99,679	14,127	37,398	7,12,160	7,63,685
CAGR (%)	**8.37**	**11.54**	**8.37**	**8.79**	**5.07**	**17.08**	**19.74**	**19.02**

(Source: NABARD Ensure)

Figure 1.2: Agency wise Ground Level Credit Flow ST Loans for Agriculture in the Last 10 Years (2012-13 to 2021-22)

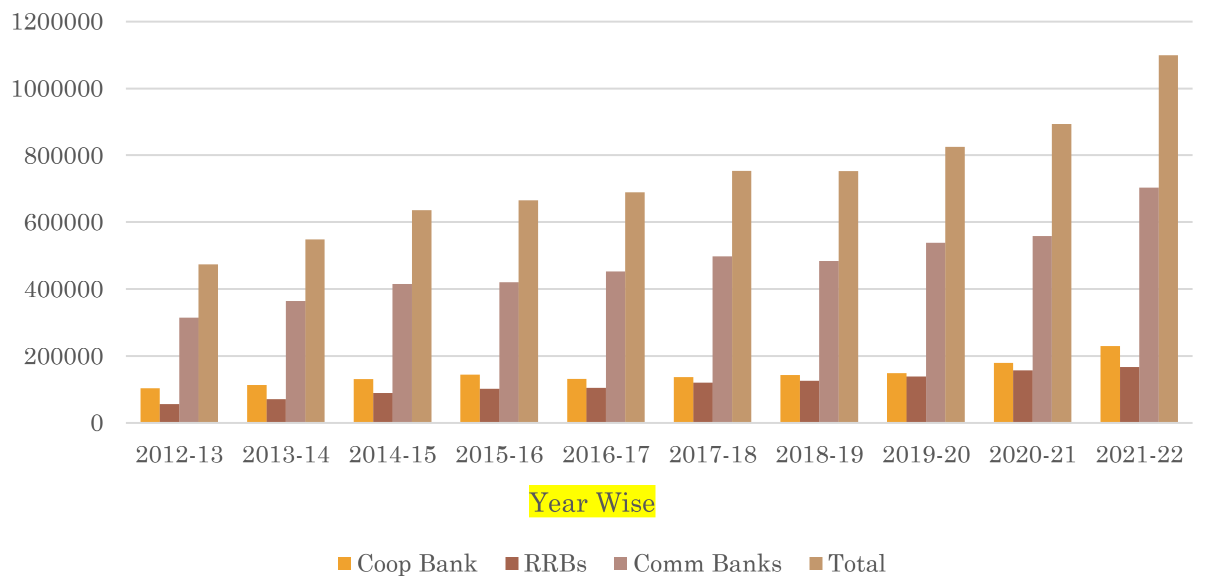
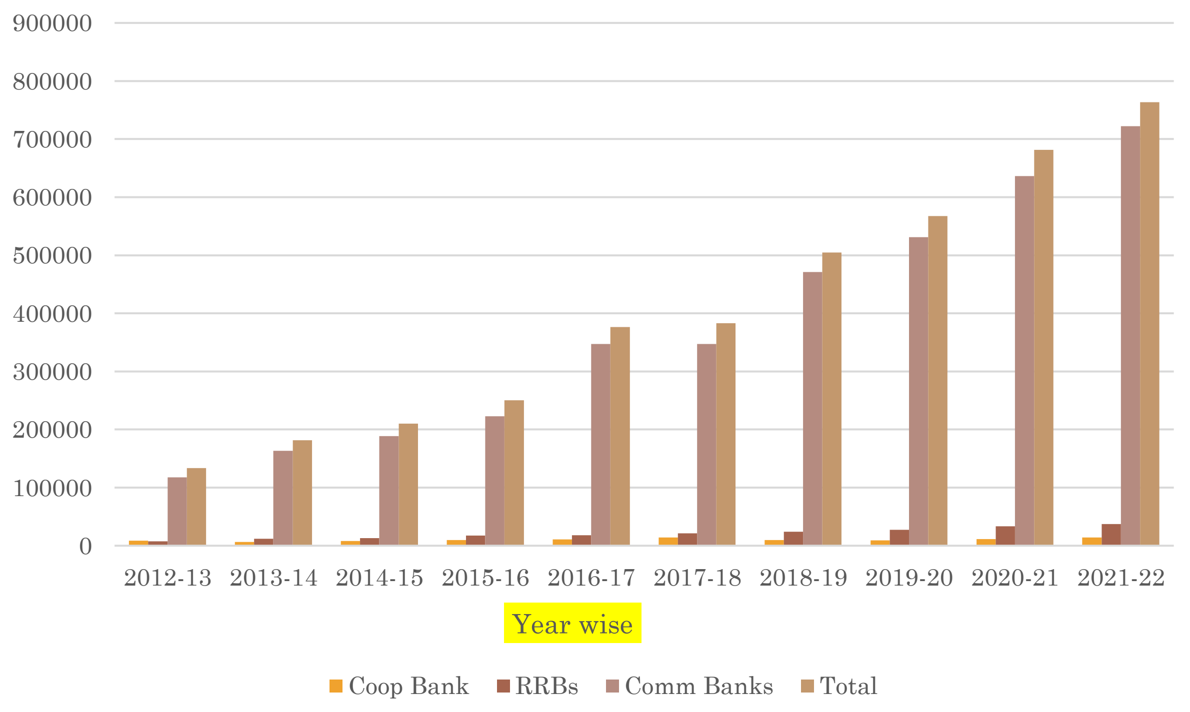
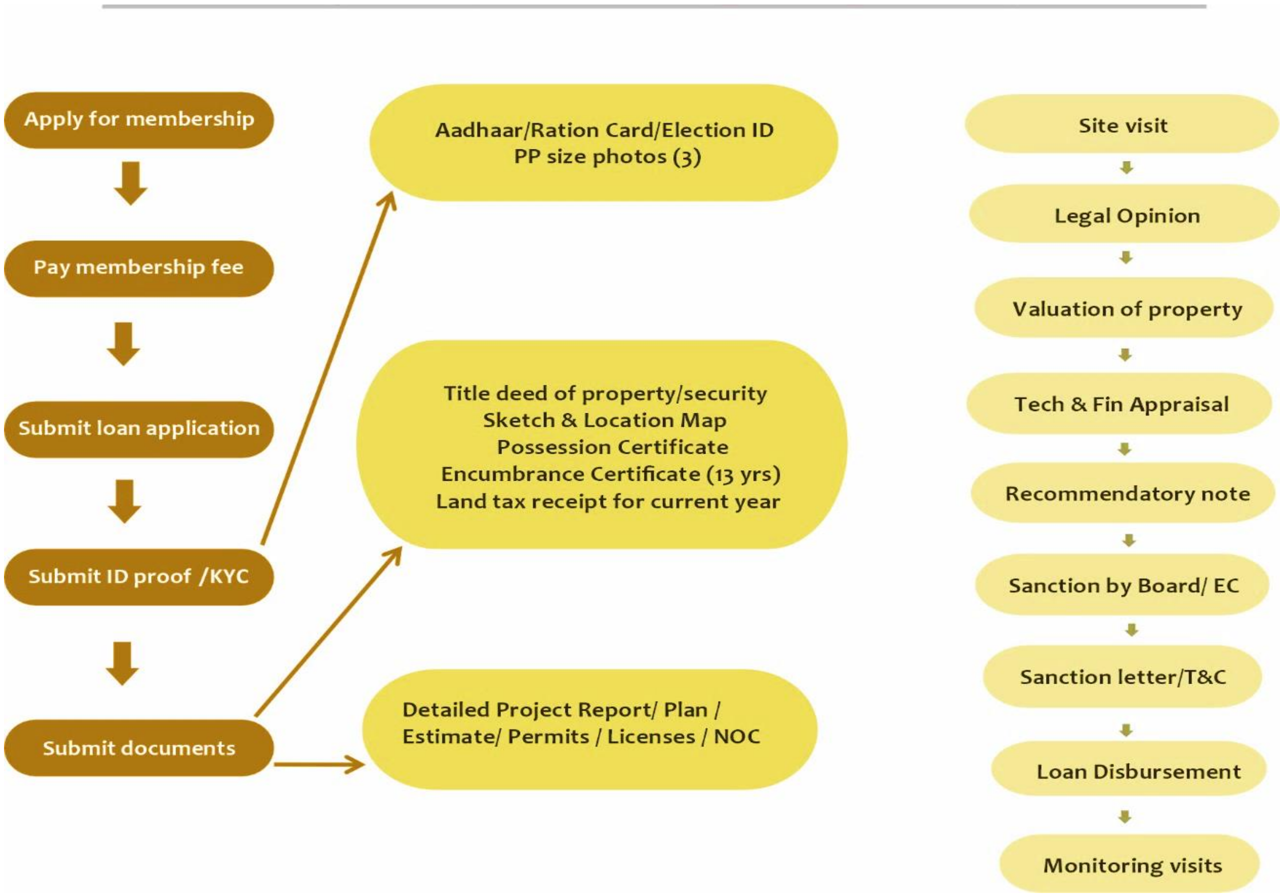


Figure 1.3: Agency wise Ground Level Credit Flow MT/LT Loans for Agriculture in the Last 10 Years (2012-13 to 2021-22)



Annexure 12

Diagrammatic Representation of Suggested Stages in loaning



Annexure 13

Loans Outstanding at SCARDB Level (2017 t0 2022)

(₹ Crore)

		Year Wise					
		2017	2018	2019	2020	2021	2022
Farm Sector	Long Term	11,707.67	11,696.00	9,183.15	11,745.49	11,940.83	12,262.69
	Short Term	93.58	391.07	51.80	54.07	161.73	269.37
Rural Housing (NHB / NABARD etc.)		4,975.08	5,010.69	4,881.95	5,061.83	5,048.57	5,136.29
Non-Farm Sector (L. T.)		1,889.14	1,899.14	1,749.18	1,775.77	1,668.77	1,687.65
Other Non-Agril. Purposes	Long Term	221.24	767.26	2,785.33	496.03	615.82	498.67
	Short Term	1,457.16	841.55	824.60	1450.19	1337.86	1155.62
Total Loans Outstanding		**20,343.87**	**20,605.73**	**19,476.01**	**20,583.39**	**20,773.61**	**21,010.32**

(Source: Table 11-ii, Statistical Bulletin, NCARDBF)

Annexure 14

Sector wise loans disbursed at SCARDB Level (2017-2022)

(₹ Crore)

		Year Wise				
		2017-18	2018-19	2019-2020	2020-2021	2021-22
Farm Sector	Long Term	1,723.33	1,394.89	1,488.5	2,041.62	1,978.54
	Short Term	108.29	55.65	59.26	200.54	459.99
Rural Housing (NHB / NABARD etc.)		446.65	998.64	970.54	950.46	1,094.73
Non-Farm Sector (L. T.)		1,020.66	375.91	358.94	336.06	410.75
Other Non-Agril. Purposes	Long Term	273.84	257.31	10.76	17.42	78.3
	Short Term	852.12	905.44	1,327.61	1,439.59	1,064.23
Total Loans Disbursed		**4,424.89**	**3,987.82**	**4,215.61**	**4,985.69**	**5,086.54**

(Source: Table 11-i, Statistical Bulletin, NCARDBF)

Annexure 15

SCARDB-wise Sources of borrowing for the Last 3 Years

(₹ Crore)

Name of the SCARDB	2019-20			2020-21			2021-22		
	NABARD	Other including Govt	Total	NABARD	Borrowing from Other including Govt	Total	NABARD	Borrowing from Other including Govt	Total
Gujarat	100.00	0.00	100.00	60.00	0.00	60.00	0.00	0.00	0.00
Haryana	0.00	366.58	366.58	0.00	290.73	290.73	0.00	269.40	269.40
Himachal Pradesh	38.51	0.00	38.51	75.17	0.00	75.17	80.95	0.00	80.95
J & K	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Karnataka	169.08	10.00	179.08	315.60	10.00	325.60	350.00	10.00	360.00
Kerala	1,507.23	4,683.33	6,190.6	1,266	4,565.99	5,831.99	1,450.00	2,287.74	3,737.74
Puducherry	0.00	6.08	6.08	0.00	1.08	1.08	0.00	6.94	6.94
Punjab	35.63	530.33	565.96	535.58	568.56	1,104.14	85.81	504.52	590.33
Rajasthan	114.20	100.00	214.20	314.00	143.50	457.50	314.00	143.50	457.50
Tamil Nadu	0.00	0.32	0.32	0 .00	5.75	5.75	0.00	0.23	0.23
Uttar Pradesh	70.11	32.00	102.11	109.2	0.00	109.20	153.62	70.99	224.61
West Bengal	0.00	0.00	0.00	300	0.00	300.00	306.72	0.00	306.72
Total	2,034.76	5,728.64	7,763.4	2,975.55	5,585.61	8,561.16	2,741.1	3,293.32	6,034.42
% to total Borrowing	26.20	73.80	0.00	34.75	65.25	0.00	45.42	54.58	0.00

(Source: NCARDBF)

Annexure 16

SCARDB-wise Status of Board of Directors

Sl.No.	State	Status
1	Assam	Board Superseded
2	Bihar	Elected Board of Directors
3	Orissa	Board Superseded
4	Gujarat	Elected Board of Directors
5	Haryana	Elected Board of Directors
6	Himachal Pradesh	Elected Board of Directors
7	Jammu & Kashmir	Board Superseded
8	Karnataka	Elected Board of Directors
9	Kerala	Board Superseded
10	Puducherry	Board Superseded
11	Punjab	Elected Board of Directors
12	Rajasthan	Board Superseded
13	Tamil Nadu	Elected Board of Directors
14	Tripura	Elected Board of Directors
15	Uttar Pradesh	Elected Board of Directors
16	West Bengal	Board Superseded

Annexure 17

SCARDB wise Status of CEO / MD

Sl. No.	Name of SCARDB	Background of CEO
1	Assam	Senior officer from Coop. Dept. of State Govt.
2	Bihar	Retired IAS Officer
3	Orissa	State Govt. official
4	Gujarat	Retired IAS Officer
5	Haryana	Senior officer from Coop. Dept. of State Govt.
6	Himachal Pradesh	Serving HAS Officer
7	Jammu & Kashmir	Senior officer from Coop. Dept. of State Govt.
8	Karnataka	Senior officer from Coop. Dept. of State Govt.
9	Kerala	Senior officer from Coop. Dept. of State Govt.
10	Puducherry	Senior officer from Coop. Dept. of State Govt.
11	Punjab	Serving IAS Officer
12	Rajasthan	Senior officer from Coop. Dept. of State Govt
13	Tamil Nadu	Senior officer from Coop. Dept. of State Govt
14	Tripura	Retd. Officer from Cooperation Dept.
15	Uttar Pradesh	Serving IAS Officer
16	West Bengal	Senior officer from Coop. Dept. of State Govt

Annexure 18

A. Cadre wise Staff Strength in SCARDBs as on 31.03.2022

(In Number)

S.No.	Name of SCARDB	CEO & Sr. Executives			Officers & Other Staff					
		Own Staff	On deputation	Total	Officers (Gen)	Officers (technical)	Field Supervisor	Clerical	Sub Staff	Grand Total
1.	Gujarat	13	0	13	42	0	90	210	134	489
2.	Uttar Pradesh	0	1	1	348	2	825	1249	222	2647
3.	Tripura *	0	1	1	7	0	0	9	4	21
4.	Puducherry	0	1	1	10	0	6	4	8	29
5.	Jammu & Kashmir	2	0	2	29	0	34	32	106	203
6.	Haryana	0	0	0	9	0	8	18	18	53
7.	Himachal Pradesh	0	1	1	65	0	0	65	30	161
8.	Karnataka	0	1	1	46	3	13	176	20	259
9.	Kerala	2	5	7	78	6	0	5	53	149
10.	Punjab	0	3	3	67	12	0	47	23	152
11.	Rajasthan *	0	3	3	30	0	0	7	13	53
12.	Tamil Nadu	0	1	1	2	2	0	109	7	121
13.	West Bengal	0	3	3	31	0	39	0	10	83
TOTAL (1 to 13)		17	20	37	764	25	1,015	1,931	648	4,420

** Data for 2020-21 repeated for review.*

B. Cadre wise Staff Strength in PCARDBs as on 31.03.2022.

(In Number)

Sr. No.	Name of SCARDB	CEO & Sr. Executives			Officers & Other Staff					
		Own Staff	On deputation	Total	Officers (Gen)	Officers (technical)	Field Supervisor	Clerical	Sub Staff	Grand Total
1	Haryana	10	0	10	12	0	184	243	173	**622**
2	Himachal Pradesh	1	0	1	28	0	14	0	77	**120**
3	Karnataka	0	1	1	21	35	118	126	135	**436**
4	Kerala	76	0	76	222	48	197	349	410	**1302**
5	Punjab	0	0	0	199	0	0	285	113	**597**
6	Rajasthan *	0	28	28	19	0	48	52	87	**234**
7	Tamil Nadu *	146	0	146	0	0	250	0	51	**447**
8	West Bengal (Only Grand Total)	NR	NR	NR	NR	NR	NR	NR	NR	**620**
	TOTAL (1 to 8)	**233**	29	**262**	**501**	**83**	**811**	**1,055**	**1,046**	**4,378**

*West Bengal has not reported the breakup of staff and * Data for 2020-21 repeated for review.*

Source of data: NCARDBF

Annexure 19

Purpose wise loans disbursed at PCARDB level during five year period from 2017-18 to 2021-22.

(₹ Crore)

		Year				
FARM SECTOR ADVANCES		**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
AGRICULTURE SECTOR	Minor Irrigation	109.30	64.92	79.31	60.50	74.69
	Farm Mechanisation	106.81	136.40	132.67	149.33	114.16
	Plantation & Horticulture	413.57	374.39	175.55	401.24	521.71
	Land Development	218.65	180.03	150.05	235.27	525.29
	Purchase of Land	15.92	04.01	4.00	6.33	4.29
	Others	0.00	0.00	1.01	0.00	0.05
ALLIED SECTOR - Animal Husbandry & Fisheries	Dairy	209.22	203.03	98.23	98.40	318.49
	Poultry	71.04	85.35	40.89	67.32	176.6
	Others	118.69	172.48	94.57	213.7	212.56
	Total A.H.	398.96	458.16	233.69	379.42	707.66`
	Fisheries	62.41	31.67	37.17	42.28	43.75
	Total Allied Sector	461.36	489.83	270.86	421.70	751.41
(I) Total Farm Sector Advances		**1,325.61**	**1,249.81**	**813.90**	**1,274.36**	**1,991.6**

NON-FARM SECTOR ADVANCES	Rural Housing	1063.32	1028.36	957.19	947.41	1094.80
	SRTO	21.51	17.87	28.11	14.08	19.31
	Rural Godowns / Storage	18.33	29.54	23.05	3.29	0.79
	Other Non-Agril. Adv.	619.57	497.41	409.84	427.55	496.03
(II) Total Non-farm Sector Advances		1,722.74	1,573.17	1,418.19	1,392.32	1,610.92
SHORT TERM ADVANCES	Short Term Agril. Loans	114.34	90.43	68.49	228.35	468.99
	Short Term Non-Agril. Loans	641.08	1,753.66	2,084.59	2,498.15	1,954.08
(III) Total Short Term Advances		755.42	1,844.09	2,153.08	2,726.50	2,423.07
GRAND TOTAL (I+II+III)		3,803.77	4,667.07	4,385.17	5,393.18	6,025.59

(Source: Table 13, Statistical Bulletin, NCARDBF)

Annexure 20

Sector wise loans outstanding at PCARDB (2017-2022)

(₹ Crore)

		Year					
		2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Farm Sector	Long Term	10,362.20	10,249.86	7,760.13	10,411.9	10,643.2	11,008
	Short Term	105.61	378.38	48.16	40.81	114.91	310.16
Rural Housing (NHB / NABARD etc.)		4,591.62	4,520.85	4,561.29	4,721.99	4,543.29	4,664.00
Non-Farm Sector (L. T.)		1,842.93	1,776.02	1,696.07	1,747.93	1,638.71	1,665.10
Other Non-Agril. Purposes	Long Term	998.49	1,300.16	3,188.36	808.75	519.98	335.29
	Short Term	1,282.67	910.21	826.86	1,488.55	1,263.3	1,449.20
Total Loans Outstanding		19,182.49	19,134.48	18,080.88	19,231.22	18,734.69	19,441.00

(Source: Table 12-ii, Statistical Bulletin, NCARDBF)

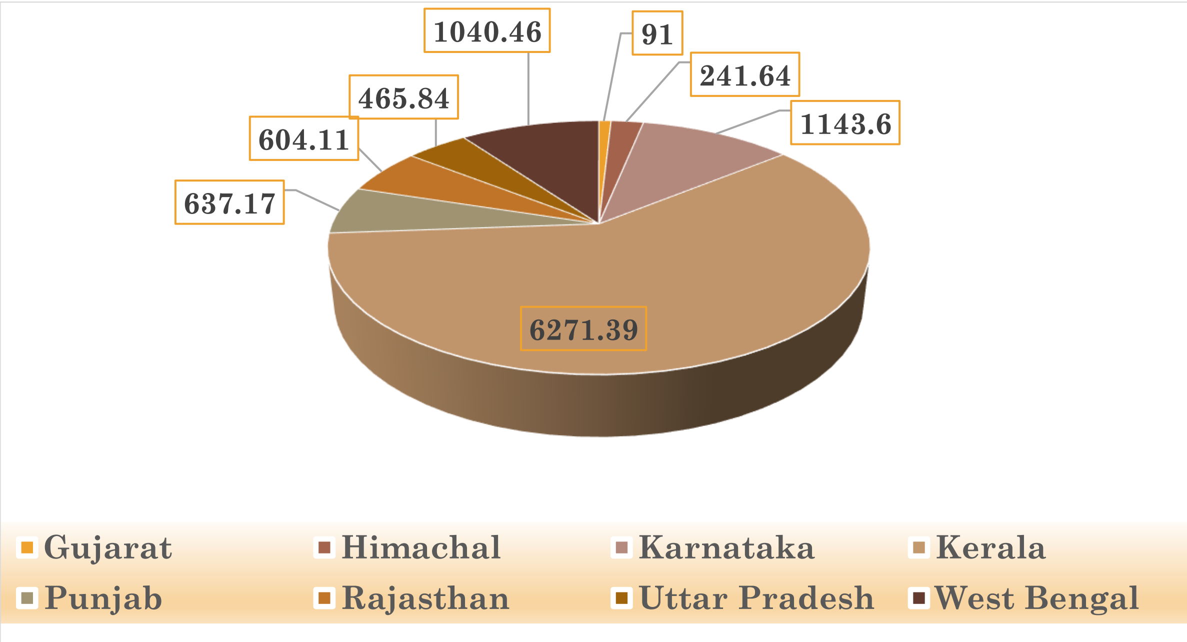
Annexure 21

SCARDB wise Refinance Outstanding As on 31.03.23

(₹ Crore)

Name of SCARDB	Outstanding (Principal)
Gujarat	91.00
Himachal	241.64
Karnataka	1,143.60
Kerala	6,271.39
Punjab	637.17
Rajasthan	604.11
Uttar Pradesh	465.84
West Bengal	1,040.46
Grand Total	**10,495.22**

SCARDB wise Refinance Outstanding Figure (₹ Crore)



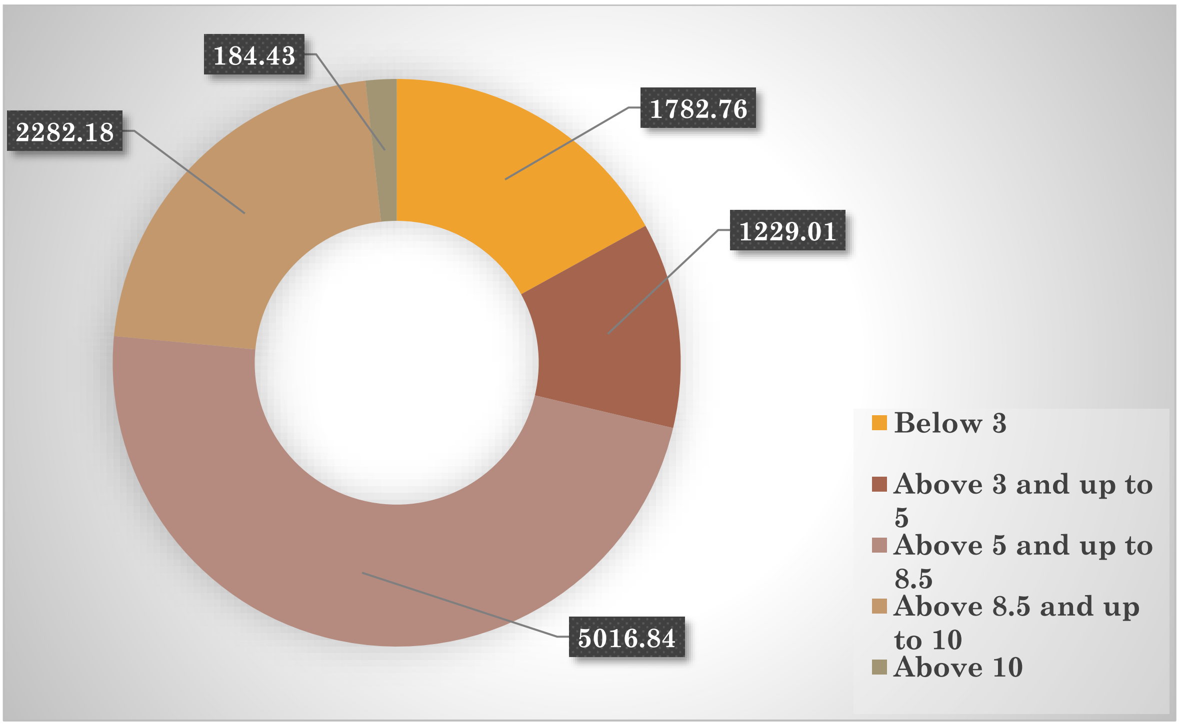
Annexure 22

Interest rate wise refinance amount outstanding

(₹ crore)

Interest rate (%)	Outstanding (Principal)
Below 3	1,782.76
Above 3 and up to 5	1,229.01
Above 5 and up to 8.5	5,016.84
Above 8.5 and up to 10	2,282.18
Above 10	184.43
Grand Total	**10,495.22**

Figure: Interest rate wise refinance outstanding (₹ crore)



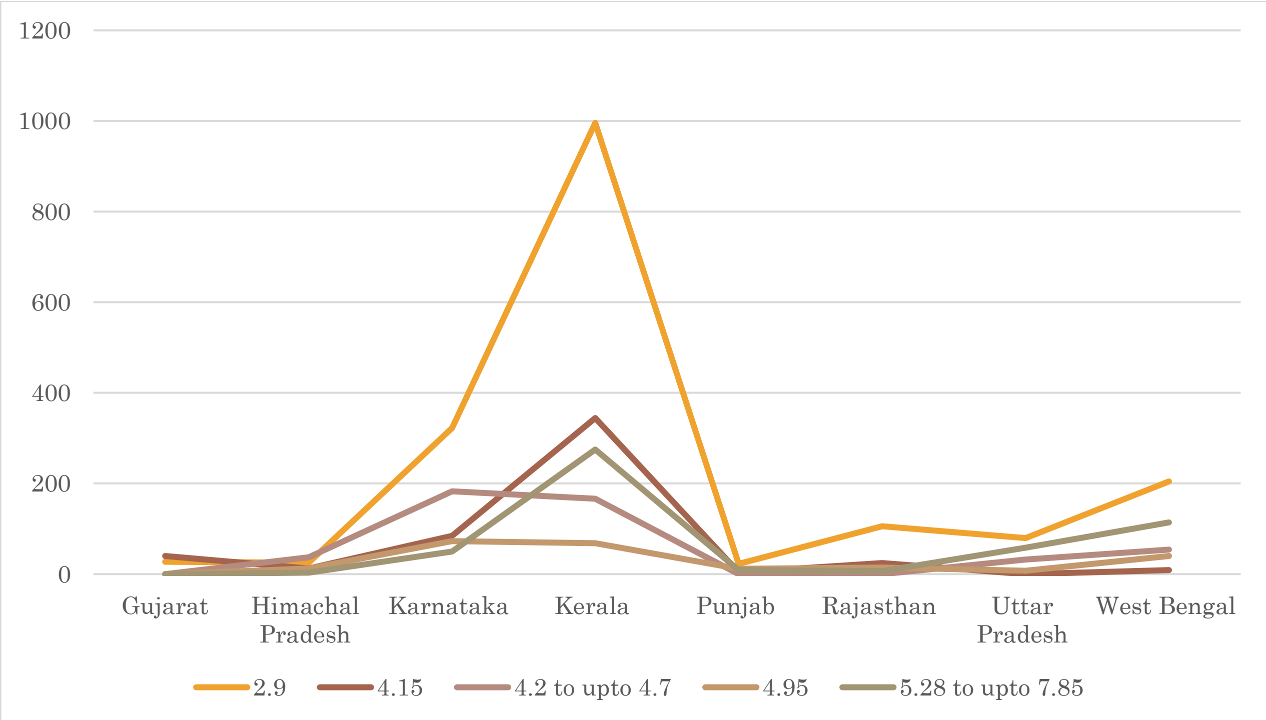
Annexure 23

SCARDB wise Interest rate/range wise LTRCF outstanding refinance

(₹ Crore)

		Interest Rate/Range (% per annum)					
S.No	SCARDB Name	2.9	4.15	4.2 to up to 4.7	4.95	5.28 to upto 7.85	Total
1	Gujarat	27.00	40.00	0.00	0.00	0.00	**67.00**
3	Himachal Pradesh	25.33	12.45	36.92	12.44	3.57	**90.72**
5	Karnataka	322.38	84.54	182.83	72.86	50.11	**688.61**
6	Kerala	995.76	344.48	166.66	68.029	275.00	**1,849.94**
7	Punjab	22.72	4.15	0.00	12.04	8.66	**47.58**
8	Rajasthan	105.65	24.48	0.00	14.64	6.91	**151.68**
9	Uttar Pradesh	79.41	0.00	32.30	7.47	58.44	**177.63**
10	West Bengal	204.5	9.00	54.00	39.6773	114.38	**421.56**
	Total	**1,782.76**	**519.11**	**472.73**	**227.17**	**5,17.07**	**3,494.73**

Figure : LTRCF - Interest rate/range



Annexure 24

Model ARDB Act

1. The Study Team recommends enactment of a Model ARDB Act as part of the reform process to bring greater relevance of the LTCCS in the context of changing rural credit scenario and at the same time put in place an enhanced regulatory framework for the entire structure.
2. The Model ARDB Act may remove restrictions of lending to clients and activities. Keeping in view the changing economic scenario of the rural areas, various activities and purposes may be included as eligible items for lending by SCARDBs/ PCARDBs. An illustrative list of such activities is enclosed. The Act should have enabling provisions for the Board to include new activities in future. The membership may be expanded so as to cover all the individuals pursuing any economic activity in the field of agriculture and rural development, irrespective of their land ownership. This should also include formal/ informal groups of such members like SHGs, JLGs, FPOs , etc. The nature of security to be obtained for loan (other than land) and non-fund business to be undertaken should be left to the discretion of Board of Directors.
3. The Board of Directors would restrict their role to policy making and provide direction. In order to bring greater professionalism in the functioning of the Board, there is a need to provide for co-option / inclusion of three to five non official professional directors in the Board. These directors would be without any voting rights. The number of three to five is suggested with a view that these directors would ultimate constitute the Board of Management in future.
4. There should be a Board of Management consisting of 3 to 5 professionals. This would be below the Board of Directors and implement the policies framed by the Board.
5. Chief Executive Officer/ MD of SCARDB / PCARDB require professional qualifications and experience to effectively perform their role in a financial institution like ARDBs and such criteria for selection of CEO / MD is necessary due to growing complexity of the operation of ARDBs. As such they should be recruited through open advertisement and preferably through professional recruitment agencies like IBPS.
6. In view of the need to ensure public confidence in the business and operational aspects of the functioning of LTCCS, the State Govt. would like to be guided by the professional expertise of NABARD in this field. As such, NABARD would be the sole authority to issue guidelines / instructions to the SCARDBs in relation to deposits, advances, investment and non-fund business.
7. The Act should provide for introduction of common accounting system and disclosure in statement of annual accounts. NABARD's instructions on accounting, maintenance of books of accounts and other related matter in this regard would be acted upon.
8. The LTCCS would be guided by the checks and balances and the system of internal control prescribed by NABARD would be acted upon.
9. NABARD would be entrusted the responsibility of conducting inspection of SCARDBs.
10. There should be express provision to empower SCARDBs to supervise the functioning of PCARDB, in the Federal Structure, to help SCARDB exercise effective control over PCARDBs.
11. The Act should have a provision that the audit of ARDBs may be conducted by qualified and professional personnel on the basis of a detailed Audit Manual, prepared in consultation with NABARD.
12. The State Govt. would act upon the recommendation of NABARD, if any, relating to supersession of the Board of Directors of the LTCCS

Enclosure
LIST OF ELIGIBLE ACTIVITIES

a) land improvement including permanent improvement of land for agricultural purpose;
b) Construction / reconstruction and repair of wells (surface wells, dug-cum-bore wells, tube wells and filter points), tanks and other works for the exploitation of surface and ground water and storage, supply or distribution of water for the purposes of agriculture, or for the use of cattle employed in agriculture and all types of irrigation
c) preparation of land for irrigation;
d) drainage and protection from floods or from erosion or other damage by water, of land used for agricultural purposes or waste land which is cultivable.
e) bunding, leveling, terracing and similar improvements;
f) reclamation, clearance and enclosure or permanent improvement of land for agricultural purposes;
g) horticulture and plantations, including forest plantations;
h) purchase of oil engines, pumping sets and electric motors for agriculture and rural development purposes;
i) purchase of tractors and other agricultural machinery, Kisan drones,etc.
j) purchase of draught animals and bullock carts and other carts;
k) increase of the productive capacity of land by any additional measure
l) construction or repair of permanent farm houses, cattle sheds and sheds for processing of agricultural produce at any stage; productive purposes by a special or general order;
m) development of dairy, poultry, piggery, sheep, goat and other livestock and inland and marine fisheries;
n) procurement of fishery requisites like fishing boats, mechanized or non-mechanised, fishing nets, twine, ropes, and marine paint;
o) production of animal and poultry feed;
p) procurement and installation of equipment and machinery for processing, marketing and transportation of all agricultural products including products of animal origin like milk, meat, fish, eggs and manure and construction of buildings for any such purpose;
q) installation of gobar gas plants;
r) redemption of prior debts;
s) payment of purchase price by tenants for purchase of the right, title and interest of landlords
t) Financing individual artisans, craftsmen, handi-craftsmen and small entrepreneurs who are engaged in or propose to undertake any industrial or other activities in connection with the handicrafts or other crafts.
u) construction of new houses
v) repairs to existing houses
w) purchase of ready built houses together with land
x) purchase of land and construction of houses
y) acquisition of rural dwelling house
z) construction of stone-fence, barbed wire fence or any other kind of fence for protection of land including earthen wall
aa) purchase of land for consolidation of holdings
bb) solar power source and solar power driven equipment
cc) Education of member or member's children
dd) Loan against gold ornaments
ee) SHGs, JLGs ,FPOs Groups of farmers/ artisans/handi-craftsmen, etc.
ff) Any other purpose conducive to agriculture/rural development, as decided the Board

Note : The above list contains many of the activities prescribed in Kerala SCS Act.

Annexure 25

Extension of coverage under DICGC to ARDBs

1. The country saw serious banking crisis in West Bengal and Punjab immediately after independence. By 1951, more than half of the banks which existed in the year 1940 had collapsed. The failure of Nath Bank in Bengal in 1950, followed by similar fate of Laxmi Bank, Akola and Palai Central Bank in Travancore in 1960, tarnished the image of banks and shattered public confidence in them. Though some efforts were made for merger of failed banks with other leading banks, attention was also directed towards institutional arrangement for ensuring provision of relief to depositors of these failed banks. (RBI History, volume 2, Crisis, Consolidation and Growth). This resulted in the establishment of Deposit Insurance Corporation through an Act of Parliament in 1961 and covered all banking institutions. As the Cooperative Banks were brought within the purview of Banking Companies Act in the year 1966, the Deposit Insurance Corporation Act was amended to bring them within its ambit. Deposit Insurance Corporation has since been renamed as Deposit Insurance and Credit Guarantee Corporation (DICGC). The Act provides for registration of all the banks with the Corporation, payment of insurance premium by banks and coverage of deposit of the select customers. An Amendment to the Act in the year 2021 has increased the amount of ceiling for coverage of deposits up to ₹ 5 lakhs. The claim is now payable even during the period when a particular bank has been brought under All-inclusive Direction of RBI, which restrict free withdrawals from the deposit accounts. The depositors of Urban Cooperative Banks have benefited immensely from the DICGC, as these banks have seen most of the failures in the last many years.
2. The Study Group on Mobilisation of Deposits by ARDBs, constituted by NABARD (Dr.Bhandari Committee) had sought the views of the SCARDBs to protect the interest of depositors. There was no unanimity in the response on the issue and the views of the SCARDBs varied from extension of DICGC Scheme for depositors of SCARDBs to a special guarantee scheme by GoI / State Govt. and even a scheme of guarantee through their Federation (Annexure VII - Response of SCARDBs, Part A, Item 10).
3. The National Conference of NCARDB Federation in the year 2022, had made a recommendation that the provisions of DICGC Act should be enlarged to provide coverage of deposits of ARDBs. (Item 3 (v) - Policy support from Central and State Govts. and RBI). This also formed an item of agenda for discussion between NCARDB Federation and NABARD in August 2022 with the Federation reiterating its demand on the issue.
4. There is no doubt that the insurance of deposit with the banking system has helped improve the stability of the financial system and secured public confidence, the insurance of deposits cannot be the most dominant criterion for banks to mobilise deposits . The Core Principle (No. 8) of International Association of Deposit Insurers, lays down that the coverage should be limited, credible and cover the large majority of depositors but leave a substantial number of deposits exposed to market discipline. (IADI Core Principles for Effective Deposit Insurance Systems, 2014, Page 27. https://www.iadi.org/en/assets/File/Core%20Principles/cprevised2014nov.pdf). The discussions in the document also highlighted the moral hazard involved with unsafe and unsound bank practices, which can lead to greater risk taking than might otherwise be the case. (Ibid, Page 11)
5. An analysis of the performance of DICGC indicates that it has improved its coverage over the years. With a coverage of only 476 banks and insured deposit of ₹ 4,700 crore over half a century ago at the end of year 1972, it had improved its coverage for the 2040 banks with an insured deposit of ₹ 81.10 lakh crore as the end of year 2021-22. With an assessable deposit of ₹ 165.50 lakh crore with the banking system, it may be observed that the insured deposit is only 49% of such deposit. However, the Cooperative Banks had insured deposit of ₹ 6.87 lakh crore forming approximately 67% of their deposits. The Cooperative Banks contributed only 6% of the total insurance premium collected by the Corporation during the year 2021-22.
6. The Corporation had an outstanding Deposit Insurance Fund of ₹ 1.47 lakh crore only, ie., a Reserve Ratio of less than 2% to provide for insurance. It collects premium at a modest rate of only ₹ 0.12 per ₹ 100

and the same is paid by banks half-yearly in advance. However, the assessment of calculation of insurance premium and payment to the Corporation, is an important aspect of regular inspection of banks by Reserve Bank of India and NABARD. In its existence of over six decades, the Corporation has settled claims in respect of 34 Commercial Banks (includes Foreign Banks and Local Area Banks) and 374 Cooperative Banks. There is a provision for repayment of amount settled by Corporation from the proceeds of the liquidated/wound up / reconstructed banks. However, the Corporation has not been able to recover more than ₹ 6.83 lakh crore from the Cooperative Banks vis-a-vis a very small amount in respect of Commercial Banks so far, and a large amount may have to be written off. Further, the Cooperative Banks have failed regularly over the years while a Commercial Banks, which last failed requiring settlement of claim was more than two decades ago. (Benares State Bank, 2002). The cancellation of license of Shubhadra Local Area Bank is sub judice. (Source: DICGC, Annual Report, 2021-22).

7. It is a fact that there is insurance of deposits of cooperatives (better known as Credit Unions in many countries) in countries like USA, Canada, Japan by the authorities insuring bank deposits or a separate arrangement exist for the same as in the case of Germany. But in our country, the SCARDBs are not the only institution accepting deposits and that too in the cooperative sector. There are a number of deposits taking institutions (other than banks) including cooperative societies and have mobilized deposits far in excess of those available with the ARDB structure. It is also a fact that the ARDB structure is not closely supervised, regulated and has remained out of focus for so long.
8. In this background, it is very difficult to secure the nod of the policy makers and regulatory authorities to secure coverage of deposits of a cooperative society and that too of the SCARDB. An effort to provide guarantee cover to the deposits of cooperative societies in the State of Kerala requires a mention. The state has been implementing a Scheme of guarantee since the year 2000. The Scheme was revamped in the year 2012. A new Scheme named Kerala Co-operative Deposit Guarantee Scheme, 2018 is in operation since September 2018 (Govt. Notification G.O (P) No. 116/2018/Co-oP dated 22 September 2018). The Scheme provides for coverage of deposits of ARDB, along with other cooperatives. The cooperative societies are required to maintain fluid resources as provided under the Rules of the Kerala Cooperative Societies Act. The corpus of the fund is augmented by contributions from member societies. The societies are also required to transfer balances of all accounts remaining unclaimed for more than a decade. The corpus is to be invested by way of bank deposits. The ARDB structure in the State is contributing to the Fund.
9. The Study Team has come to a conclusion that there is not enough merit in the demand of the Federation to provide the coverage under DICGC in their present form, particularly in the light of the fact that it would open the floodgates for similar requests from other non-banking deposit taking institutions. The Study Team is of the opinion that the demands of the structure may be better met by a Scheme implemented through the Federation with contributions from ARDB structure and some initial grant support from Govt. of India, etc. Alternatively, efforts may be made for pursuing the matter with the State Govt., particularly in the states having substantial deposit in the cooperative sector viz. Karnataka, Tamil Nadu, Himachal Pradesh, Punjab, etc. for a State specific Scheme with ARDBs being considered eligible for inclusion in the same. Needless to add, in case a SCARDB is able to secure a banking license, the same would automatically entitle it to seek registration with DICGC and its depositors would get automatically covered under DICGC.

Annexure 26

Banking License

I. SCARDBs are state wide credit institutions largely providing long term finance. Since their, borrowings have remained the largest source of their resources for their operations. The need for diversification of sources for funds led to RBI formulating a Scheme for mobilisation of deposits, more than half a century ago (year 1971). The issue of deposit mobilisation by the SCARDBs was later on examined by Dr. Bhandari Committee, 1996. NABARD had issued instructions in the year 1997 providing guidelines for mobilisation of term deposits by the SCARDBs.

II. The LTCCS has faced serious resource crunch in recent years because of its dependence on borrowings. This is largely attributed to strings attached to the lending by NABARD, the biggest resource provider. The failure of borrowing SCARDBs to comply with the conditions laid by NABARD to enforce financial discipline, has resulted in a massive decline of resources from this source. The inability of SCARDBs to raise funds from alternative sources has made it difficult for the structure to carry out its operations as usual.

III. Another important avenue of resource for SCARDBs is the deposit mobilised by them. SCARDBs are allowed to mobilise term deposits of 1-3 years from public to the extent of their net worth, as per extant instructions of NABARD. They have also been accepting deposits from their members for more than a decade. The existing deposits of the SCARDBs is largely concentrated in select states. The three southern states viz., Karnataka, Kerala and Tamil Nadu together accounted for about 46 % of the total deposits of ₹ 2,348 crore (March 2022). Punjab, Himachal Pradesh, Gujarat and West Bengal also had deposits of about ₹ 250 crore each and together accounted for another 42% of deposits. In fact, the pattern of deposit mobilisation has shown stagnant / declining trend in last 5 years.

IV. In the background of resource constraint and the Cooperatives regaining focus after formation of new Ministry of Cooperation, there is no surprise that the conversion of ARDBs into full-fledged banks was one of the major recommendations of the National Conference of the NCARDB Federation in July 2022 (Item 3 (x) - Policy support from Central and State Govts. and RBI). The demand has gained further momentum with the Federation pursuing this issue vigorously with Govt. of India, RBI and NABARD. The issue of banking license was also raised before the Study Team, both in its meeting with the Federation on 3 March 2023 as also during the course of their interactions in different States.

V. The issue of banking license to ARDBs is in public debate for long and the same was examined by the Task Force on Revival / Restructuring Package for Cooperative Banks, appointed by the Govt. of India under the Chairmanship of Shri Jagdish Capoor, Deputy Governor, RBI more than two decades ago (year 1999). Though the Task Force was in agreement with conversion of the SCARDBs into full-fledged banks, it highlighted the need of adequate financial strength to withstand regulatory prescriptions as an important requirement. The Task Force also stressed upon the need of preparation for development of manpower, infrastructure, etc. (Report of the Task Force, Para 2-35)

VI. A case for banking license was also made before the Prof. Vaidyanathan Committee which considered the capacity to mobilise resources more efficiently as key to the future role of SCARDB (Executive Summary - Key recommendations- para 21). However, the Committee did not agree with the suggestion, primarily because of the inexperience of the structure with 'banking' . The Committee left the issue to the wisdom of Banking Regulator. It suggested that RBI may examine the issue on merits, if any of the SCARDBs fulfil the stipulated conditions (Chapter IV- Para 4.08).

VII. It may be noted that the Banking Regulation Act, 1949, which provides for licensing of banks by Reserve Bank of India, does not apply to some cooperative societies since 1966, when the Act, ibid, was made applicable for cooperative banks. Section 3 of the Act, ibid specifically indicated that the Act would not be applicable to a Cooperative Land Mortgage Bank, as SCARDBs were then known. Hence, they have not been considered for banking license in the past. The recent amendment in the

Act, ibid, in the year 2020, has substituted this provision. The law at present provides that the Act is not applicable to a co-operative society whose primary object and principal business is providing of long-term finance for agricultural development. There are some riders like nomenclature of such societies and their acting as drawer of cheques. The LTCCS structure generally fits into this criterion even after the amendment in the Act, ibid, in the year 2020 and hence is outside the purview of the B.R. Act,1949.

VIII. RBI has in the past considered companies and cooperative societies as eligible entities for banking license. At present, there are three kinds of licensed cooperative banks viz. Primary Cooperative Banks, Central Cooperative Banks and State Cooperative Banks working in the country. The Primary Cooperative Banks are generally known as Urban Cooperative Banks. The number of such banks in the country is around 1,950 and many of the State Cooperative Banks and the Urban Cooperative Banks (UCBs) enjoy the status of a Scheduled Bank. The area of operation of some of the UCBs extend beyond a particular state.

IX. The 'Primary Cooperative Bank' as defined in the Banking Regulation Act, 1949 (Section 5 (ccv) read with Part V) requires the bye laws of these banks to restrict admission of any other cooperative society as a member. It may be recalled that the SCARDBs in many states have a Federal Structure and have Primary Cooperative Agriculture and Rural Development Banks, a cooperative society, as its member. As such, they rule themselves out as eligible entities, in their present form, within the ambit of the definition of 'Primary Cooperative Bank'.

X. The other form of Cooperatives which have received banking license are Central Cooperative Banks and the State Cooperative Banks. The terms have been defined in The National Bank for Agriculture and Rural Development (NABARD) Act, 1981 (Section 2 (d) and Section 2 (u) respectively). The NABARD Act defines a ' Central Co-operative Bank' as the principal co-operative society in a district in a State, the primary object of which is the financing of other co-operative societies in that district. A 'State Cooperative Bank' is defined in the Act,1981 as the principal co-operative society in a State, the primary object of which is the financing of other co-operative societies in the State. The B R Act, 1949 assigns the meaning of 'Central cooperative bank' and the 'State Cooperative Bank' as provided in The NABARD Act, 1981.

XI. The Long-Term Cooperative Credit Structure consists of SCARDBs and PCARDBs in the Federal Structure. A PCARDB is an independent unit affiliated to the SCARDB. The area of operation of a PCARDB generally extends to a Block / Taluka and to the entire district in some states. The SCARDBs in the Unitary Structure function only through their branches. The area of operation of a SCARDB, registered under the State Cooperative Societies Act, extends to the whole of State / Union Territory.

XII. At present, there are in existence 'Central Cooperative Banks' and the 'State Cooperative Banks' enjoying the status of the 'principal cooperative society' for a district / state and functioning as a part of the STCCS. These banks have been nurtured and supported by all the stakeholders over a very long period of time to come to their present stage. These CCBs and the StCB (with very few exceptions) have now secured license from RBI. So far, no State/ Union Territory has accorded the status of CCB or StCB to more than one cooperative society in a district (except for historical reasons in case of a district) / state, working in the field of agriculture and rural development in the country. In view of this, It is very difficult to envisage a scenario where the State Govt. would take away the privilege of such a status from an existing StCB / CCB or bestow the same to an additional or another cooperative society viz., SCARDB and PCARDB (having such limited resources), as the principal society for financing of other cooperatives in the state.

XIII. It may be noted that RBI has announced guidelines for 'on tap' licensing of Universal Banks and the Small Finance Banks in private sector. These guidelines provide, inter-alia, for eligible promoters to apply for these licenses. As per these guidelines, even individuals have been considered as eligible for license, but the 'cooperatives' do not find themselves in the list of eligible entities.

XIV. The issues of licensing to the institutions in LTCCS requires examination in this backdrop. As regards licensing to PCARDBs, in this age of modern banking and competitive environment in the field of banking business, the viability of a bank, having area of operation limited to a block / tehsil or even a district, is extremely doubtful. It may be further added that RBI has not granted license to any new Primary Cooperative Bank (many of which has similar area of operation) for about two decades, which emanates from RBI efforts to ensure financial sector viability. In fact, license of many such entities has been canceled in recent years.

XV. It may be recalled that the SCARDBs in the federal structure operate through the affiliated PCARDBs, an independent primary society. Since the Primary Cooperative Bank cannot admit other primary cooperatives as its members, the SCARDBs in federal structure are ineligible for such licensing in terms of present provisions of law. Incidentally, some of the SCARDBs in Federal Structure have also commenced business through their branches.

XVI. The above discussion leads us to the conclusion that the SCARDBs in the Unitary Structure only fit into the existing arrangement for licensing of cooperatives and that too only as a Primary Cooperative Bank.

XVII. Notwithstanding the fact that present RBI guidelines for Small Finance Banks and the Universal Banks do not consider cooperative societies as eligible entities, such entities had made an application to RBI seeking banking license. Though the reasons for rejection of their application is not in public domain, the application for banking license by cooperative societies viz. The Repatriates Cooperative Finance and Development Bank Limited (for a Universal Bank) and Calicut City Service Co-operative Bank Limited (for a Small Finance Bank) has been rejected in recent past. It is but natural to expect that the issue of license to cooperative entities as Small Finance Banks/Universal Banks has engaged the attention of RBI.

XVIII. SCARDB is a credit institution in the field of agriculture and rural development and serving particularly the disadvantaged sections of society. The institution is primarily engaged in provision of term lending and there is hardly any institution providing ground level credit with such focused mandate. The institution has gained experience in deposit mobilsation since RBI itself had mooted such an idea for the SCARDBs more than half a century ago. The SCARDBs have continued their efforts for deposit mobilsation adhering to guidelines issued by NABARD later on.

XIX. In view of above, it may not be desirable to exclude an institution like SCARDB from the list of eligible entities for banking license as Small Finance Bank/ Universal Bank. The Team is in agreement with the demand of SCARDBs in this regard and feels that the RBI should favourably consider their inclusion in the list of entities eligible for banking license. However, suitable parameters are required to be developed for consideration of their application for this purpose. The financial strength, technology, robust systems and procedure as also the skilled manpower may be considered as basic pre-requisites in this regard. The Study Team expects that the RBI guidelines to be formulated in this regard would put more emphasis on adoption of sound cooperative principles by the structure in its operation.

Annexure 27

Kerala Cooperative Risk Fund Scheme

The Kerala Cooperative Risk Fund Scheme is aimed at providing relief to the family of deceased / chronically ill borrowers in respect of their loan liability up to the specified limit. The Scheme, introduced by Govt. of Kerala, with effect from 01 April 2008, is administered by Kerala Cooperative Development Welfare Fund Board (KCDWFB). The salient features of the Scheme are given below.

a) The borrowing members of a Cooperative Credit Society, who avail a loan from the Society for agri or non-agri purposes are covered under the Scheme.
b) The loans against the security of gold or deposits are outside the purview of the Scheme.
c) Members who avail a loan, but default in repaying the dues continuously for more than six months are not eligible.
d) In the event of the unfortunate death of the borrower, the outstanding loan up to ₹ 3.00 lakh, plus interest thereon, is paid out of the Risk Fund.
e) Those afflicted with specified chronic ailments, within six months of availing the loan, are also covered under the Scheme, subject to a ceiling of ₹ 1.25 lakh and interest thereon. The benefit is also provided to such persons who die within 90 days from the date of closure of the loan account, subject to certain norms.
f) The Scheme covers even loans availed jointly with co-obligants, in which case the eligible amount of assistance will be restricted to the loan amount outstanding in respect of the deceased member on the date of demise, subject the ceilings mentioned above.
g) The borrowing member is required to pay a one-time premium of 0.50 per cent of the loan amount subject to a minimum and maximum of ₹100 and ₹1,000 respectively, at the time of availing the loan.
h) The corpus of the Risk Fund consists of member's contribution and contributions / grant received from State Govt. / other institutions.
i) The Fund can also be utilized for rehabilitation of eligible cooperative societies, which are members of the Scheme.
j) The administration of the Fund is subject to usual precautions and norms.
k) PCARDBs in Kerala are actively participating in the Scheme and their experience suggests that the claims are released within a period of 3 to 4 months, which helps in improving the recovery.
l) The Scheme has some similarity with credit guarantee schemes in operation in the country. The Scheme can be examined for its replication with suitable improvements.

Annexure 28

Credit Information Companies - Membership of SCARDBs

1. The lending activity of credit institutions is always fraught with risk of default and as such they are always interested in disbursing their loans who are "worthy" of such action. With this end in view, they generally attempt a credit analysis for those approaching them for new credit facilities. In their effort, these institutions are supported by the services of Credit Information Companies(CICs). These companies, act as a third party independent agency , and collect data relating to financial history of the individuals and assign a credit score based on various parameters. This score is shared with their members, generally credit institutions, on the payment of fee. The credit institutions use the data (score) to evaluate the potential risk .
2. In India, the working of CICs is governed by the provisions of Credit Information Companies (Regulation) Act, 2005. It is mandatory for these companies to obtain Registration Certificate from Reserve Bank of India. The 'credit information' collected by these companies include information relating to the amount and the nature of loans or advances, amount outstanding, the nature of security taken as also the guarantee

or non-fund based facility provided to a borrower. As such, the information collected help in assessing the credit worthiness of a borrower.

3. The Credit Information Bureau India Ltd. (CIBIL) was the first CIC in India. It launched its services in the year 2004. It introduced the generic risk scoring model in the country as early as in the year 2007. It made available scores to individuals from the year 2011.With acquisition of its large share by Trans Union, the company is now known as Trans union CIBIL. The company has become almost synonym to the credit rating in the country. Over a period of time, some more companies have come into the business. The banks in the country rely upon the reports of the CICs for their credit decision to a great extent.
4. RBI guidelines require banks to become members and share the data with all the Credit Information Companies. RBI has developed a data format for the same to ensure uniformity. RBI has also strengthened the system through Credit Information Companies Regulation, 2006. The Regulations provide for collection of information in the format approved by RBI, permissible use of information, charge to be levied from members, etc. RBI has also directed these companies to have Internal Ombudsman for settlement of grievances
5. The Credit Information Companies (Regulation) Act, 2005 defines 'credit institutions' for the purpose of membership of the CICs. The 'credit Institutions]' include not only banks and non-banking finance companies but also public financial institutions (as per Companies Act) and State Financial Corporations. RBI has been empowered to include any institution for the purpose of the Act (Section 2 (f)(vii) of the Act). There is a provision of 'specified user' to be identified by RBI for the use of information from CICs. RBI has amended the Credit Information Companies Regulation, 2006 in the year 2021 so as to include even an entity engaged in the processing of information, for the support or benefit of credit institutions, subject to their satisfying the criteria laid down by it. The Press Release of RBI dated 5 January 2022 has brought into public domain the eligibility criteria for such specified user. The criteria requires net worth of ₹ 2.00 crore and certification from CISA auditor. However, only Companies and Statutory Corporations are considered eligible.
6. The NCARDB Federation in its Annual Conference for the year 2022 has made a recommendation for membership of Trans Union CIBIL. It views that securing credit rating scores of the borrowers and inclusion of their information in the database would help the structure to improve the quality of loans. These sentiments were also echoed by individual SCARDBs during the interaction in the states.
7. The Study Team found merit in the argument advanced in this regard as LTCCS came across not so good quality of borrowers in their fold across the country. Further, there appears to be no reason to deny such an opportunity to an State level registered cooperative society, when the same is available to entities engaged in the processing of information for the support or benefit of credit institutions. The facility has also been made available to all the Cooperative Banks, including Primary (Urban) Cooperative Banks and the Central Cooperative Banks. There is a need to recognise the credit functions of the LTCCS and permitting them the membership would only enhance the credit discipline in the country. The Study Team recommends that the SCARDBs, a cooperative credit institution and the Federation (providing support to SCARDBs) should be considered eligible for normal membership and / or as a 'Specified user' like any other Companies, subject to compliance with the conditions laid down in this regard by RBI. This would help carry forward the theme of Good Financial Behaviour, 'Your Saviour' and also act as an important step in creation of complete database of individual borrowers in the country. It is left to the discretion of Govt. of India to examine the extension of this facility to other registered credit institutions like micro finance institutions, etc. outside the Company fold.

Annexure 29

Credit Guarantee Schemes - SCARDB Membership

The economic activity is a risky business and public financial institutions are wary of providing credit for such purposes in view of the likely default. The institutions generally take recourse to collateral in order to secure their lending. However, the rapid development of our economy requires setting up of economic enterprises by large number of individuals. Most of these individuals cannot provide collateral to the satisfaction of credit institutions and hence are deprived of the credit.

Credit Guarantee Fund Trust Scheme for Micro and Small Enterprises

1. In order to address this issue, Govt. of India launched a Scheme to strengthen the credit delivery and facilitate flow of credit to the small industries sector. The Scheme, launched as Credit Guarantee Fund Scheme for Small Industries (CGFSI) in the year 2000, is serviced by Small Industries Development Bank of India (SIDBI). The Scheme has been since renamed and managed by the Credit Guarantee Fund Trust Scheme for Micro and Small Enterprises, after the enactment of Micro, Small And Medium Enterprises Development Act, 2006 (MSMED, Act 2006). Some important features of the Scheme are as under :

    a) The Scheme provides guarantee up to ₹ 2 crores (irrespective of the unit activity) per borrower based on the outstanding credit facilities. Both term loans and working capital limits are covered under the Scheme and includes Trading (Retail / Wholesale Trade) activities.
    b) The loans covered under the Scheme are those provided by the lending institutions without any collateral security and / or third-party guarantees. However, the Trust has recently introduced a 'Hybrid / Partial Collateral Security' product allowing guarantee cover on credit facilities having collateral security, for the unsecured portion of credit facility.
    c) The lending institutions eligible under the Scheme are Banks and Microfinance Institutions as may be specified by the Trust from time to time.

2. The Trust is also managing guarantee for the loans provided under PM Svanidhi Scheme to the street vendors.

Increased focus on Credit Guarantee

1. The Union Budget 2012-13 put a lot of emphasis on provision of credit guarantee for improving flow of institutional credit to various sectors of the economy. GoI decided to set up a separate Credit Guarantee Fund for Housing Loans, Education Loans and Skill Development to facilitate youth in acquiring market-oriented skills (Paras 65, 104 and 115 respectively of the Budget Speech).
2. The credit guarantee in respect of housing is provided by Credit Risk Guarantee Fund Trust for Low Income Housing. The Trust is serviced by National Housing Bank. Besides banks and non-bank finance companies, MFIs, the Apex Cooperative Housing Finance Societies registered under the State Cooperative Societies Act, are also eligible for coverage under the Scheme (Govt. of India, Ministry of Housing & Urban Poverty Alleviation, Notification No. O/17034/122/2009/H dated 21 June 2012). The Scheme provides coverage of housing loans provided for houses of size and loan ceilings specified in this regard. The eligible borrowers are those belonging to Economically Weaker Sections/ Low Income Groups. Needless to add, the lending is without any collateral.

National Credit Guarantee Trustee Company Ltd (NCTGC)

1. The budget announcements for various guarantee fund led to establishment of a common trustee company named "National Credit Guarantee Trustee Company Ltd (NCTGC). The Ministry of Finance, Government of India towards the end of Financial Year 2013-14, set it up. The company acts as a common trustee to manage and operate various credit guarantee trust funds. The Funds, managed by NCTGC relate to Skill Development, Education Loans, Factoring, Stand Up India, Start Up and Micro Units. Some Funds have also been created for providing relief in the aftermath of pandemic as well.
2. The eligibility of lending institutions for coverage under the Schemes managed by NCTGC is limited to the Scheduled Commercial Banks (Stand Up and Start Up Schemes) and member banks of Indian Banks Association (Skill Development and Factoring). These loans (except skill development) are for higher amount and require specialised activity. It is but expected that the membership of such schemes would be permitted to a select few.
3. NCTGC is also managing guarantee for Education Loans and Micro Units. The eligible lending institutions for Education Loans provide for inclusion of Cooperative Banks as a Member Lending Institution. The experience suggests that public sector Commercial Banks provide about 90% of the education loans in the country and are sitting on a very high percentage of Non-Performing Assets. In this backdrop, the Study Team feels that the SCARDBs may not be inclined to enter into this business on a very meaningful scale in the near future. Hence, the need for credit guarantee support is not visualised in case of SCARDBs at this stage.
4. An important scheme managed by NCTGC is in respect of loans provided for Micro Units. The loans provided to new or existing micro units / enterprises as defined in the MSMED Act, 2006 up to the specified limit (currently ₹ 10 lakh) is covered under the Scheme. It may be recalled that MUDRA Ltd. has termed its intervention as Shishu, Kishor and Tarun, which signify the stage of development and funding needs of the micro unit / entrepreneur, the maximum amount being ₹ 10 lakhs. Overdraft loan amount of ₹10,000 sanctioned under PMJDY accounts is also covered under the Scheme
5. The Banks, NBFCs as also MFIs are eligible entities for coverage under the scheme. In case of MFIs, the Scheme provides for levy of guarantee fee on the basis of risk rating.

Farmers Producers Organisation Fund

NABARD has created a Credit Guarantee Fund for Farmers Producer's Organisations (FPOs) through NABSankarshan Trustee Pvt. Ltd., a subsidiary of NABARD. The 'credit facility' extended by the lending institutions to the FPOs is guaranteed by the Fund. The maximum guarantee cover provided is ₹ 1.50 crore. The eligible institutions include banks but do not include the SCARDBs at present.

Credit Guarantee Scheme for Animal Husbandry and Dairying under Animal Husbandry Infrastructure Development Fund (AHIDF) (Revised 2.0)

The Scheme is applicable to Scheduled Banks and is being implemented through NABSanrakshan. The new / existing MSME satisfying the eligibility under AHIDF are covered under the Scheme. A maximum loan of ₹ 100 crore is eligible for support with credit guarantee limited to 25% of loan. The guarantee coverage is subject to the recommendation of Project Sanctioning Committee.

SCARDB and Credit Guarantee

1. During the course of the Study, the NCARDB Federation and the individuals SCARDBs raised the issue of guarantee cover in respect of loans provided by them. The Study Team recognises that the SCARDBs are an important state level financing institution in the cooperative fold. They are catering to the needs

of disadvantaged sections of the society who can ill afford furnishing collateral / third party guarantee to secure their loans. The suggestions have been made in this Report elsewhere for provision of loans without collateral by the SCARDBs.

2. The SCARDBs cater well to the micro and small enterprises and many ARDBs have provided credit to the sector. The loans for micro units, in particular, can be a major avenue for business diversification for ARDBs. The loans to these enterprises can increase substantially with the provision of credit guarantee, as it would dispense with the need of collateral, presently insisted by them. Further, there is immense need of housing sector loans for low-income groups/ economically weaker sections and many such housing schemes are being implemented across states. The major client of the ARDB structure are people belonging to this group. This Report also suggests financing of FPOs by the SCARDBs as a viable business proposition.
3. The SCARDBs are audited regularly and rated about their performance. NABARD is also conducting voluntary inspection of selected SCARDBs and assigns ratings. These ratings can form the basis of eligibility of the SCARDBs.
4. Various suggestions have also been made in the Report to improve the performance of ARDBs. The Study Team is optimistic of implementation of many of these suggestions in a short span of time. In this backdrop, there is a case for provision of membership of select credit guarantee schemes relating to Micro and Small Enterprise (CGTMSE), Housing (NHB) Micro Units (NCTGC) and FPOs (NABSankarshan Trustee Pvt. Ltd) for the SCARDBs.

Annexure 30

Model Recovery policy

Loan recovery helps to recycle funds, to generate returns for the institution. The recovery policy should take cognizance of issues relating to policy and processes in sanction of loans, appreciate the risk in agriculture financing, understand the vulnerability of the unique class of the borrowers of the institution and provide various risk mitigation measures. The Bank should view recovery as an essential part of credit cycle and not just as an independent/ final step. The early detection of problem of loans is important in the recovery process because if the amount of arrears surges beyond the capacity of the borrower to pay in the normal course, it would create a lot of difficulty for both the ARDB and the borrowers. Some points suggested for inclusion in the Recovery Policy are as under:

Nature of Economic Activity: A large amount of loan is for agriculture purposes which is prone to specific risks such as climate risk, production risk and price risks. There should be an endeavour to make the clients aware of the importance of these risks and these risks must be taken into account in the loan design and appropriate risk proofing measures suggested in this regard.

Client : The low level of financial literacy among farmers and other rural borrowers is an important challenge in loan recovery. The LTCCS should strive to make borrowers aware of the importance of same. A detailed interaction at the time of disbursal of loan must be held to communicate the important terms and conditions, due date of repayment and impress upon the importance of aggregation of savings for loan repayment on due date.

Involvement of all Staff

i. The recovery of loan is the duty of all the staff members and not only that of the field officer / loan officer. The field officer / loan officer is the pivot but suitable role has to be assigned to all staff members to secure their involvement.

ii. The senior officers in controlling office viz., Regional Office and Head Office has to be assigned some role in direct follow up with the borrowers, in addition to monitoring and supervision of field officials. They are required to lead by example than merely reviewing the performance at the ground level.

Borrower Contact

1. The follow up and monitoring has to be planned in a manner that there can be no situation that the bank officials have not contacted the borrower physically at his work place / residence before the due date. Such contacts have to be increased manifold in case of recovery.
2. The focus has to be more on timely recovery and so all efforts have to be made to ensure the same. This would require periodic contact during the grace period, if any, as also during the period preceding the due date of repayment.
3. A system must be evolved at branch / PCARDB level for effective pre-due date follow-up through SMS, telephone calls and personal contacts.

Incentive

1. Those who have repaid their dues in time need to be treated differently to incentivise such behaviour. They may be provided with concession in charges / interest on fresh loans and such incentive must be brought to their attention repeatedly.
2. The borrowers making timely repayment may be felicitated in a function.
3. In case of loan being repaid by the successors of the borrower, the release of land documents must be publicised.

Risk Mitigation

A provision shall be included in agricultural term loans for rescheduling the instalments fallen due in a bad crop year either partly or wholly, depending on the extent of losses as well as the impact of such losses on overall repaying capacity of the client.

i. All grievances in respect of repayment / accounting raised by the borrower must be addressed in writing.
ii. The process in case of use of legal methods must be scrupulously followed.

The Bank's Recovery Policy should aim to achieve a particular level of recovery within a definite period depending upon the present level of recovery.

Annexure 31

Sharing of experience on 'Good Practices'

Even in the midst of host of adversities through which LTCCS are passing through at present, the Study Team came across some good initiatives / practices followed by SCARDBs and PCARDBs in the country. Such efforts provide a ray of hope for improvement in their state of affairs. An attempt is made to present a gist of such good practices in the LTCCS, as input for policymaking and consideration of their replication with suitable modification by others in the country.

1. Gujarat

a) **Krishi Vikas Loan** : 'Krishi Vikas Loan' was introduced by Gujarat SCARDB to provide support to their existing borrowers for financing their other credit requirements. This is a purpose neutral loan product of up to ₹ 3 lakh, providing fresh credit to the extent of instalment/s repaid during the tenure of the existing term loan availed by the borrower. The loan is repayable in six half yearly installments within a period of three years. This has helped the existing borrowers to avail credit from one source and improved bank's loan disbursement and recovery.

b) **Accident Insurance Scheme** : Gujarat SCARDB has launched an accident insurance scheme for the benefit of its borrowers with a cover of ₹ 2.00 lakh. In case of unfortunate death of the borrower, the proceeds of the insurance claim serve the purpose of clearing the dues of the borrower.

c) **Interest Rebate** : In order to encourage borrowers for timely repayment of dues, the bank provides an interest rebate of 2% on interest receivable. The concession acts as a recognition of borrower's effort in the progress of the bank.

d) **Representation to depositors on the Board** : With a view to protect the interests of the depositors, the bank has proposed to bring out amendment in its bye-laws to provide for representation to its depositors.

e) **OTS Scheme** : The SCARDBs in the country are having old loan outstanding, where interest receivable works out to exorbitant sum. The massive liability created on the borrowers on this account is an important reason for OTS Scheme being not so successful. In order to address this issue, Gujarat SCARDB, under its recently implemented OTS Scheme, has restricted the interest to be charged to a maximum of 12% per annum. This has helped the bank to recover about ₹ 57 crore.

2. Kerala

a) **Financing of Joint Liability Groups (JLG)** : There has been very little progress made in the country to provide loans against social collateral by the LTCCS. However, enabling provisions made in the relevant State Act in Kerala have helped the financing of Joint Liability Groups on the basis of inter-se agreements executed among their members. These JLGs are primarily formed by rural women and the PCARDBs have taken lead in financing the same. An amount of ₹ 2,443.58 lakhs was disbursed to as many as 7,475 JLGs (a JLG covers 4 to 10 families) during the year 2021-22. The substantial amount of disbursements made to JLGs and the popularity of the scheme prove that taking 'land as security' is not necessary to increase the loan business in the LTCCS.

b) **'Good Pay Master'** - Incentive for prompt repayment : Kerala SCARDB has introduced an innovative scheme titled 'Good Pay Master' to provide cash back incentive to the ultimate borrowers who repay their loan installments and interest promptly i.e. on or before the due date. Under this scheme, an incentive of 12% on the principal amount, subject to a ceiling of ₹ 270 on monthly, ₹ 810 on quarterly, ₹1,625 on half yearly and ₹ 3,250 on yearly installments, is credited to the loan account of the borrower. The amount is shared between SCARDB and PCARDBs in a defined proportion. This has provided the much needed relief to the good borrowers of the cooperatives who rued higher interest burden vis-a -vis other credit agencies. The scheme has become very popular benefiting both the borrowers and the banks (with better recovery).

3. Punjab

a) **CIBIL Score :** In order to ensure sanction of loan to individuals with credit worthiness, the LTCCS has introduced the minimum CIBIL score of 650 as compulsory benchmark for new loan applicants. This is likely to reduce the impact of default in such cases.

b) **Mobile App** : Punjab SCARDB has launched a mobile App to facilitate information about status of the loan and details of loan products provided by the bank. This has helped in dissemination of its schemes and improved borrowers' confidence in the accounting at the PCARDB level.
c) **Recovery portal :** SCARDB has introduced a recovery portal for getting up to date information and sending SMS to all borrowers during the recovery season.
d) Additional loans to members : SCARDB has amended its bye laws for providing additional loan to the same borrower, subject to satisfying Individual Member Borrowing Power (IMBP).

4. Tamil Nadu

a) **TNeGA** : e-Sevai Centres : The Govt. of Tamil Nadu has launched 'e-Sevai' which provides access to e-Services of its govt. departments through a common platform to its citizens. Out of 180 PCARDBs in the state, 157 have set up e-Sevai Centres called TNeGA, in their premises. The general public can avail the Govt. services by paying the requisite fee. It offers the PCARDBs an opportunity to earn a net income of approximately ₹ 0.30 lakh per month and the increased footfalls also help them expand their business.
b) **Risk Management Initiative:** The risk management initiatives are generally uncommon with the LTCCS in the country. However, Ponneri PCARDB located in Thiruvallur district of Tamil Nadu, has acknowledged the need for addressing such concerns as it is engaged largely in gold loan business and providing safe deposit locker facilities to its members. It has installed a closed-circuit camera surveillance system in its premises for this purpose. As an added security measure, an access control/attendance system is also introduced in its premises.

5. Uttar Pradesh

a) **Adoption of Technology:** UPSGVB has adopted Technology based applications viz., Employee Attendance Tracking App (EATA) and Letter Tracking Management System (LTMS). The EATA helps to ensure timely presence of staff members in the branch as it allows marking of attendance only if the staff member is present in the premises. The requirement to record their exit time only through this application, ensures their day long presence in the branch. The LTMS helps in timely disposal of the references received in the institution so as to ensure accountability. Besides, a Management Information System (MIS) portal provides information relating to transaction in the individual loan account on real time basis. This helps in better monitoring of loan accounts and management of funds.
b) **Loans to under privileged sections of society:** UPSGVB has taken a major initiative to enter into a MoU with National Scheduled Castes Finance and Development Corporation (NSFDC). The MoU has resulted in SCARDB receiving funds on concessional rate from the agency and charging of lesser interest on loans from the borrowers belonging to disadvantaged sections of the society. There was an outstanding of ₹ 38.17 crore in respect of such loans as on March 2022. Similar arrangement has been made with the National Backward Classes Finance and Development Corporation (NBCFDC) also.

6. West Bengal

c) **Recovery through bank accounts:** The loanees of the WBSCARDB and affiliated PCARDBs are maintaining their deposit accounts with banks which provide Electronic Clearance Service (ECS) / National Automated Clearing House (NACH) facilities. The LTCCS is using these services for recovery of loan installments through bank accounts of loanees on the basis of their authorization.
d) **Financing of SHGs:** SHGs financed by the LTCCS are considered eligible for interest subsidy under the scheme implemented by the State Rural Livelihood Mission.

Annexure 32

Alathur PCARDB - A Case of Business with Social Purpose

Alathur PCARDB, established in the year 1989, operates in Alathur taluk of Palakkad district of Kerala. Besides Head Office, it has three branches at Alathur, Kuzhalmannam and Vadakkancherry. All the offices are housed in own well-designed modern buildings. The ambience and semblance of the premises and the warmth in their welcome are enough to give you the feeling of comfort of being in a right place.

As on 31 March 2022, the PCARDB had a membership of 65,086, out of which 54.35% were borrowing members. During 2021-22, the PCARDB disbursed a loan of ₹117.24 crore and had a loan outstanding of ₹ 226.89 crore as on 31.03.2023. The recovery percentage was at a very high level of 82.39 %, compared to the average of 56.18 % for the PCARDBs in the state. The PCARDB was in profit continuously for the past 12 years, which was to the tune of ₹ 103.41 lakhs for the year 2021-22. It had shared its profit with members as dividend @ 10% each year in the last decade except during 2020-21, the year of Covid Pandemic. The deposit mobilisation efforts had also yielded results as it had mobilised term deposit of ₹ 7.39 crore, on behalf of the Kerala SCARDB, to which it was affiliated. However, it was not the business parameters alone which made it successful, but its concern for the community as evidenced through various social interventions, which has left an indelible imprint on the minds of public at large for this cooperative society.

What makes it distinct from others is the array of social interventions that it undertakes for the benefit of the public at large. **A few significant initiatives are listed below:**

1. **Leveraging outreach**: The PCARDB has leveraged its outreach to ensure door step delivery of the old aged pension released by the State Govt. The timely disbursal of monthly entitlement to the super senior beneficiaries located in 95 Village Panchayats of its area of operation has earned a lot of goodwill from public as also modest commission from the State Govt.

2. **Deepening credit:** The PCARDB has made efforts to deepen the credit to rural women devoid of physical collateral for security of loan. It has not only organised more than 2,000 families in JLGs but also provided them credit exceeding ₹12.50 crore to secure supplementary source of income through setting up of micro enterprises. It has also helped them to inculcate thrift habits.

3. **Comprehensive approach to recovery:** The PCARDB has adopted a comprehensive approach of counselling, contact, facilitation and concession to recovery. The borrowers are made aware of the importance of timely repayment at the time of disbursement of loan and the Director of the respective

area keep a regular touch with them to reinforce the same. In order to save time and financial cost involved in repayment, the PCARDB has facilitated recovery through Google Pay, crediting borrower's account on the same day. An upfront incentive of 12% is provided under '*Good Pay Master Scheme'* introduced by Kerala SCARDB on the interest amount for prompt repayment. During 2021-22, an amount of ₹66.24 lakh was provided as incentive.

4. **Support for concessional health care*:*** Recognising the need of supporting health care at concessional rate, it has joined the initiative of Kerala State Co-operatives Consumers' Federation Ltd. (ConsumerFed), the apex cooperative body of Consumer Cooperatives for establishing a ***Neethi Medical Store*** in its premises *at* Vadakancheri branch. The scheme, supported by the State Govt., provides for dispensing of medicines at concessional rate to the public at large. The outlet recorded a total business of ₹ 97 lakhs and a net profit of ₹ 7 lakhs during 2022-23. The store also serves as a publicity for the activities of the cooperative.
5. **Other initiatives:** Alathur PCARDB has also implemented the Cooperative Risk Fund Scheme of State Govt. Besides support various socially relevant activities like recognition of good performers in different occupations, planting of trees and arranging training to farmers under the aegis of Farmers Club promoted by it, the PCARDB has also popularised promotion of alternative source of energy by installing roof top solar panels in its Kuzhalmannam branch.

Annexure 33

Augmentation of RBI's contribution to National Rural Credit - Long Term Operations (NRC- LTO) Fund of NABARD

On establishment of NABARD in 1982, the entire resources of the National Agricultural Credit (Long Term Operations) Fund of RBI to the tune of ₹1,025 crore was transferred to NABARD and National Rural Credit (Long Term Operations) fund was established in NABARD in terms of section 18 and section 42 of NABARD Act 1981 with enabling provision under section 17(4AA) read with section 46(A) of RBI Act 1934. The annual contribution by RBI to the Fund continued during 1981-82 to 1990-91. RBI stopped its contribution to NRC (LTO) Fund in 1991-92 and thereafter RBI has been making token annual contributions of ₹ 1.00 crore to this Fund since 1992-93. The balance in NRC (LTO) fund stood at ₹ 14,499 crore as on 31 March 2022.

Capital formation in agriculture is most crucial to enhance farmers' incomes and to ensure sustained development of agriculture and the rural sector. Long-term credit to agriculture and allied sectors is critical for capital formation in agriculture. However, the share of long term investment credit in agriculture is declining over the years, thereby hampering the asset creation in agriculture activities besides having an adverse effect on productivity in agriculture.

The SCARDBs through their branches (in Unitary Structure) and PCARDBs (in Federal Structure) and other Cooperative Banks and RRBs have a significant presence in interior rural areas and are closer to their rural clientele. However, despite their out reach, their share in investment credit for agriculture is very low. Considering the strength of their out reach, these entities are more suitable for providing long-term agriculture loans to farmers. These institutions have limited resources and are not in a position to meet the credit requirement of farmers. NABARD meets their funds requirement through refinance and institutional development measures such as policy support, capacity building, grants, etc. At present, much of the refinance provided by NABARD to SCARDBs is sourced by NABARD through costlier market borrowings and hence it is not in a position to provide concessional refinance.

Considering the changing nature of capital formation in agriculture with requirement of enhanced investment in post- harvest infrastructure for value addition and marketing the role of SCARDB in provision of credit has to undergo both qualitative and quantitative change. The flagship programmes of Govt. of India like Agri Infrastructure Fund (AIF), Farmers Producers Organisations, Agri Marketing Infrastructure Scheme, Agri Clinic and Agri Business Centre (ACABC), etc. are credit linked programmes and require long term credit support by SCARDBs and other rural cooperatives / RRBs to the rural farmers. Allocation of concessional refinance by NABARD to them will allow them to become competitive and also provide affordable credit to farmers for successfully undertaking agro-processing and marketing activities.

In view of the aforesaid reasons, the Study Team that GoI recommends it / RBI may consider augmentation of the annual contribution of RBI to NRC (LTO) fund of NABARD. This will enable NABARD to blend high cost market borrowings with NRC (LTO) funds and ensure provision of refinance at concessional rates to entities coming under Long Term Cooperative Credit Structure (LTCCS) enabling them to be competitive and enhance their share in LT credit in agriculture and allied sectors.

Appendix I

Study team's Discussion Pointers with SCARDBs

1. Important provisions of Bye laws, Rules or Act – Major Enabling and Restrictive provisions - Bye laws of SCARDB to be obtained:
    a. Activities for which loans can be given – Any restriction on financing NFS, Rural housing, etc.
    b. Whether provision for financing JLGs, FPOs, cooperative societies exist ?
    c. Borrowing – whether only from Cooperatives or can borrow from other institutions?
    d. Restriction on enrolling new members before elections?
    e. Avenues of investment – Any restriction
    f. Provisions for recovery – Power of distraint, etc.
2. Management - Board – Composition, Professionalism, Meetings, Committees of Board – Risk Management, Audit Committee – effectiveness
3. Major Decisions of bank in past 2-3 years
4. CEO of SCARDB – Qualification - Appointment – Own staff / Cooperation Deptt., Appointing authority – Board, State government - Tenure- - Relationship with Board
5. CEO of PCARDBs - Appointing authority -Cadre system, if any
6. Supervising Units – Staffing Pattern and Role
7. Internal Control System – Management Information System – Details of returns to be received from PCARDBs/ Branches – System of Processing - Decision-making based on these returns.
8. Audit and Inspection – SCARDB HO, Supervising Units, Branches/ PCARDB - Auditors – Departmental/ Chartered accountant - Manual - Checklist for Auditor - Periodicity - Arrears in audit/inspection, Major findings – corrective action initiated
9. Loans Policy - Loan Schemes — System of sanction – Committee - Delegation of powers
10. Documentation – Process and cost
11. Disbursement of loan - First and subsequent instalments- System - Issues – Mode of disbursement – Direct / Supplier- End use verification, etc
12. System of Recovery – Strategy - System of follow – up, use of services of field supervisors if any,
13. Details of one time settlement Scheme/ Compromise/ waiver
14. Procedure in case of Default- Issues - Difficulty in enforcing security of agricultural land
15. Status of Computerization- Items digitized- MIS Generation- Major returns- IRAC- Trial Balance generation
16. Asset – Liability Management - System – Planning for repayment of borrowing
17. Investment portfolio – System of decision making – Avenues other than Bank FD like G- Sec. , etc.
18. Vision for future
19. Collection of Data

a. Position at the end of last 3 years

i. Deposits mobilised by SCARDBs/ PCARDBs from members / nominal members / public – Period wise

ii. Borrowing outstanding (Agency wise - other than NABARD) - Amount and cost

iii. Imbalances between SCARDB and PCARDB

iv. Branch Adjustment – Period wise Classification

b. Details of Staff - SCARDBs- Head Office, Supervisory Units, Branches/PCARDBs-Category-wise/Age-wise

Appendix II

Format for Study on Reforms, Restructuring and Innovations in SCARDBs (LTCCS)

(Format / questionnaire for eliciting the views of State Govt.)

Name of the State / UT		
Name and Designation of the State Govt. Official/Representative		
Nature of structure		
Sl No	Subject	
1	Schemes implemented for/ through Cooperative Sector, inclusion/ role of LDB in such schemes	
2	Does the State Govt. has any special scheme/s or policy to increase capital formation in agriculture? If yes, whether LTCCS is an active partner in such an initiative?	
3	Present role played by LT Cooperative Credit Structure- Suggestions for Viability and long term sustainability – Single Window Approach – Vision on support for cleansing of balance sheet	
4	Important provisions of Cooperative Societies Act or SCARDB Act, Rules and Bye- laws, Enabling provisions for resource mobilization, investment and recovery, Restrictive provisions regarding acceptance of deposits, investment avenues, etc, - Need for amendment, if any	
5	Government guarantee for NABARD refinance, guarantee fee, Suggestion for alternate system, if any	
6	Banking license to SCARDBs, Conversion of SCARDBs into MSC - Views	
7	Support for recovery of loans- Enforcement of security of land – Issues, Need for Institution on the lines of ARC for Commercial Banks	

<table>
<tr><td>8</td><td>Financial support in the recent past – Share Capital contribution, Repayment to NABARD, and other purposes</td><td></td></tr>
<tr><td>9</td><td>Governance and Management – Representation in Board, Appointment of CEO and senior officials- role of state government, Role in recruitment, Suggestions for improvement in Governance, Management and Human Resources and Development</td><td></td></tr>
<tr><td>10</td><td>Departmental Audit – Pendency, Quality of reports, Availability of man power, Corrective action</td><td></td></tr>
<tr><td>11</td><td>Role in fixation of interest rate on loans and advances</td><td></td></tr>
<tr><td>12</td><td>OTS and loan waiver scheme implemented during last 10 years, impact, any dues payable to SCARDB</td><td></td></tr>
<tr><td>13</td><td>Acceptance of deposits, Deposit insurance and any other confidence building measure</td><td></td></tr>
<tr><td>14</td><td>Interest subvention/ rebate, if any for loans by Cooperative Banks, Present applicability to LDB, Can it be made applicable in future to LDB?</td><td></td></tr>
<tr><td>15</td><td>Diversification of business- Credit and Non- credit – suggestions,</td><td></td></tr>
<tr><td>16</td><td>LDBs and agri value chain financing</td><td></td></tr>
<tr><td>17</td><td>State Government's role in computerization and technology adoption by cooperatives</td><td></td></tr>
<tr><td>18</td><td>Data on financial support, if any - Share Capital contribution, Repayment to NABARD and otherpurposes</td><td><table>
<tr><td></td><td colspan="3">Yes/No</td></tr>
<tr><td></td><td colspan="3">Amt. (Rs. Lakhs)</td></tr>
<tr><td>Year</td><td>Purpose</td><td>SCARDB</td><td>PCARDBs</td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
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