

Assessment of Functions and Future Potentials of NAFCARD

By

Institute of Rural Management Anand (IRMA)



Report Submitted to

**National Cooperative Agriculture & Rural Development Banks
Federation Ltd (NAFCARD)**



September 2025

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Chapter 1

Introduction

Background

National Cooperative Agriculture & Rural Development Banks Federation Ltd (NAFCARD) is an apex body and federation 16 State Co-operative Agriculture and Rural Development Banks (SCARDBs) and a Multi-State Co-operative Credit Society. It is responsible for the promotion of the interest of its members and the establishment of synergy between government and government organizations, banks, and federations. It looks after securing facilities or assistance and financial aid from the government and other organizations, developing infrastructure, maintaining records and databases, appointing and training staffs, etc. The stated objectives of NAFCARD are the following:

- i. To promote the interests of all its Members and assist them in attaining organisational and business goals.
- ii. To promote mutual understanding among members and provide them a common forum for interactions on legal, policy, and operational issues and to channelise efforts to resolve such issues

Institute of Rural Management Anand (IRMA) is a national-level premier educational and research organization established by Dr. Verghese Kurian, the father of the milk revolution. IRMA's vision is to transform rural India through policy-oriented research. The organization is devoted to promoting sustainable, ecologically friendly, and equitable socio-economic development of rural people through professional management.

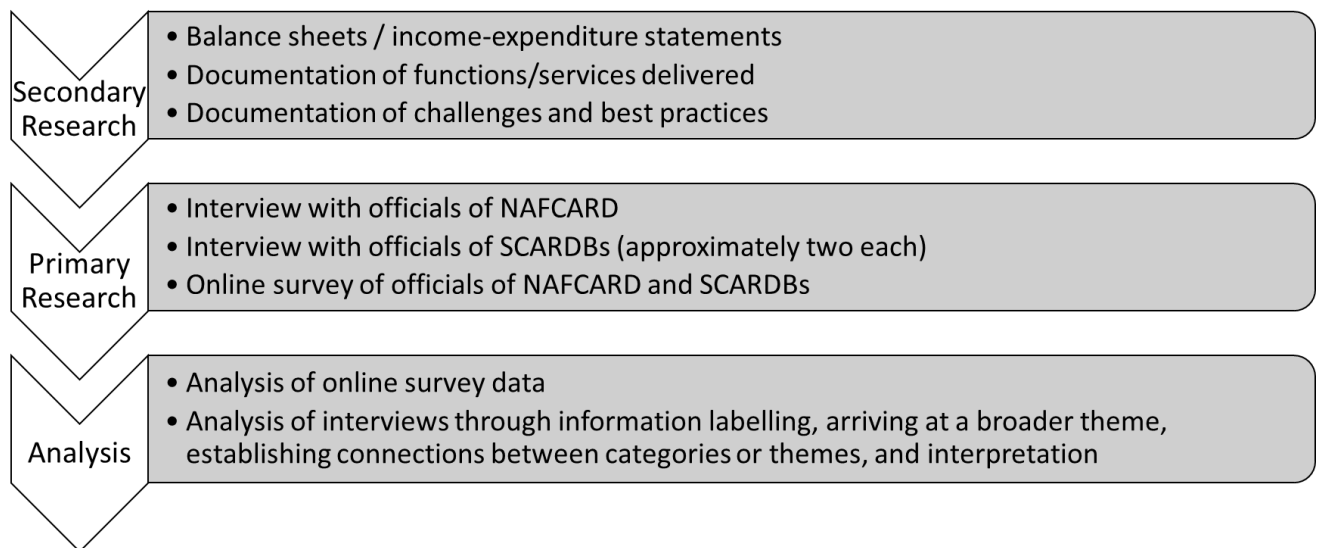
Objectives of the Study

IRMA proposes to assess the functions and potential of NAFCARD with the following objectives:

Analysis of Functions	<ul style="list-style-type: none">• Assessment of listed functions or services of the NAFCARD• Potential functions of federation /diversification of functions• Good practices of members regarding service delivery• Identifying member support needs• Potential functions based on member needs and expectations• Identifying areas of conflict/overlapping of functions/ gap in communication and possible strategies to address these issues• Compliance of functions defined under section 24 of Multi State Cooperative Societies Act 2002• Diversification of functions including scope for converting itself into an economic entity
Analysis of Finances	<ul style="list-style-type: none">• Assessment of existing sources of income and expenditures of NAFCARDS• Potential revenue sources and expenditures of NAFCARDS
Strategies for Future Actions	<ul style="list-style-type: none">• Find pathways for more synergies with the government and other organizations• Suggest better and diversified services for the members• Communication and outreach through social media platforms

Research Methodology

The study would be conducted through data or information collected from both secondary and primary sources. NAFCARD has to help IRMA to access secondary sources such as balance sheets, income-expenditure statements, and other documents and reports. IRMA would conduct interviews and online surveys with key functionaries of NAFCARD and SCARDBs. NAFCARD has to help IRMA and facilitate interviews and surveys. The information collected would be analysed as per data reduction techniques of qualitative research.



The dates of the visits to the SCARDBs for primary data collection are the following:

No	SCARDB	Date
1	The Gujarat State Cooperative Agriculture & Rural Development Bank Ltd.	13-May-24
2	The Telangana State Cooperative Apex Bank Ltd.	21-May-24
3	The Karnataka State Cooperative Agriculture & Rural Development Bank Ltd.	21-May-24
4	The Uttar Pradesh Sahakari Gram Vikas Bank Ltd.	24-May-24
5	The Rajasthan Rajya Sahakari Bhoomi Vikas Bank Ltd.	29-May-24
6	The Jammu & Kashmir State Cooperative Agriculture & Rural Development Bank Ltd	6-June-24
7	The West Bengal State Cooperative Agriculture & Rural Development Bank Ltd.	10-Jun-24
8	The Tripura Cooperative Agriculture & Rural Development Bank Ltd.	13-Jun-24
9	The Punjab State Cooperative Agricultural Development Bank Ltd.	12-Jun-24
10	The Haryana State Cooperative Agriculture & Rural Development Bank Ltd.	13-Jun-24
11	The Pondicherry Cooperative Central Land Development Bank Ltd.	18-Jun-24
12	The Tamil Nadu Cooperative State Agriculture & Rural Development Bank Ltd.	19-Jun-24
13	The Himachal Pradesh State Cooperative Agriculture & Rural Development Bank Ltd.	24-Jun-24
14	The Kerala State Cooperative Agricultural & Rural Development Bank Ltd.	24-Jun-24

The distribution of the employees of SCARDBs of 13 states who participated in survey are given below:

Table 1.1: Number of Employee Respondents

State	No of Respondents
Gujarat	27
Haryana	18
Himachal Pradesh	20
Jammu & Kashmir	13
Karnataka	30
Kerala	13
Pondicherry	14
Punjab	28
Rajasthan	16
Tamil Nadu	17
Telangana	0
Tripura	8
Uttar Pradesh	62
West Bengal	16
Total	282

Outcome

IRMA would provide a report containing the following:

- i. Assessment of existing functions, services, and processes
- ii. Need-gap analysis divulging the unmet needs of members from NAFCARD
- iii. Strategy to meet the needs of members and the agricultural sector of the country

Chapter 2

Cooperative Credit Institutions and NAFCARD

Introduction

Despite the dynamic economic landscape, cooperatives remain significant as productive and ideal institutions, as participation and inclusion are central to poverty reduction (Khanna & Ramesh, 2017). It is widely acknowledged that cooperative organisations played a potential role in resilience during global crises in many countries, including developing countries, highlighting their role in macroeconomic and financial stability. In developing countries like India, cooperatives were established primarily to provide farmers with low-cost financing and address rural indebtedness and poverty (Raju, 2018). The rural credit delivery system recognises the exceptional growth in cooperatives' outreach, giving them a distinctive position (Vaidyanathan, 2013). India introduced cooperatives act in 1904 to assist farmers in obtaining credit and now, these cooperatives are operated by their members and focused on empowering them (Mishra, 2006).

Cooperative institutions, particularly cooperative banks, hold significant importance in the Indian Financial System (Pathak, 2011). Compared to other commercial banks, co-operative banking in India operates with a vast network. For example, India's rural cooperative banking structure has the world's largest outreach in rural credit delivery, with over 120 million customers (Gaurav & Krishnan, 2017). Despite impressive gains made by cooperatives in terms of their rural outreach and coverage of small and marginal farmers, their financial health has been a matter of concern (Mishra, 2006). The financial performance of the Indian cooperative banks is below satisfactory, particularly in the last few years (Gaurav & Krishnan, 2017).

Cooperative banks have played a crucial role in agricultural and non-agricultural firms for a couple of decades. However, post-LPG (Liberalisation, Privatisation, and Globalisation), the Indian economy has experienced a major transition as competition increased in various economic sectors. As a result, the market posed several threats to agricultural and non-agricultural sectors, forced to reduce their labourers and production capacity, resulting in higher participation in the casual and uncertain workforce. The Indian cooperative banks are not exceptional, particularly after LPG, rural and urban cooperative banks experienced significant

threats, including higher NPAs (Gaurav & Krishnan, 2017). The performance of co-operative banks in India deteriorated in terms of efficiency, equity, and performance. According to Sabibbaraj & Singh (2023), increasing competition forced cooperative banks to compromise with their performance and, as a result, could not avoid non-performing assets. Moreover, it is widely accepted that LPG affected cooperative banks' performance and adversely impacted their allied entities (Kantharia & Biradar, 2023; Rezvanian et al., 2008).

There are increasing worries about the low rate of recovery for defaulted loans. This issue has gained significant attention and now takes centre stage in policy discussions, particularly in an environment of fragile economic growth, financial market volatility, and weak balance sheets. The decline in loan recovery not only results in higher provisions and reduced profitability, but it also limits banks' ability to lend, which can have a negative impact on the economy (Mishra & Verma, 2016). In other words, in today's fast-changing financial service industry, it is crucial to evaluate the efficiency of financial institutions, in terms of both cost and revenue. If these institutions become more efficient, we can expect better profitability, increased funds intermediation, improved quality of service and pricing for consumers, and greater safety and soundness, especially if some of the savings are applied toward improving the capital buffers that absorb risk (Berger et al., 1993, p.221).

Definition of cooperatives

The International Cooperative Alliance (ICA)¹ has identified cooperatives as people-centred enterprises. In other words, cooperatives are autonomous associations of individuals who voluntarily come together to meet their common economic, social, and cultural needs and aspirations. They do this by jointly owning and democratically controlling an enterprise that operates based on their group principles.

These principles are grouped into three categories. The first group of principles is centred around membership. For instance, a farmer who grows agricultural produce and wants to sell it can become a member of a marketing cooperative society. The second group of principles is

¹ <https://ica.coop/en/cooperatives/what-is-a-cooperative#:~:text=A%20cooperative%20is%20defined%20in,owned%20and%20democratically%20controlled%20enterprise.>

to provide services through self-help and mutual help, especially to the weak, such as marginal farmers, to eliminate their exploitation. The third and last group of principles is centred around democracy, a cardinal principle of cooperation. Every member is equal to every other member, and every member is the owner of the cooperative enterprise. Overall, cooperatives are called the shield of the weak and not the sword of the strong (Dubhashi, 2005).

Similarly, a cooperative bank is a financial institution (Cuevas & Fischer, 2006) that is owned by its members (Kaur and Brar, 2023). It must be a friend, a philosopher and a guide for the entire cooperative structure (Gupta, 2017). According to Kaur and Brar (2023), cooperative banks are established to support economically underprivileged groups' social uplift and protect them from predatory lenders. These banks adhere to the principles of cooperation, mutual aid, democratic decision-making, and open membership. Cooperative banks in India have a crucial role to play in rural finance by financing areas covering agriculture, livestock, milk, personal financing, independent jobs, and the establishment of small-scale units (Mathad & Hiremath, 2021).

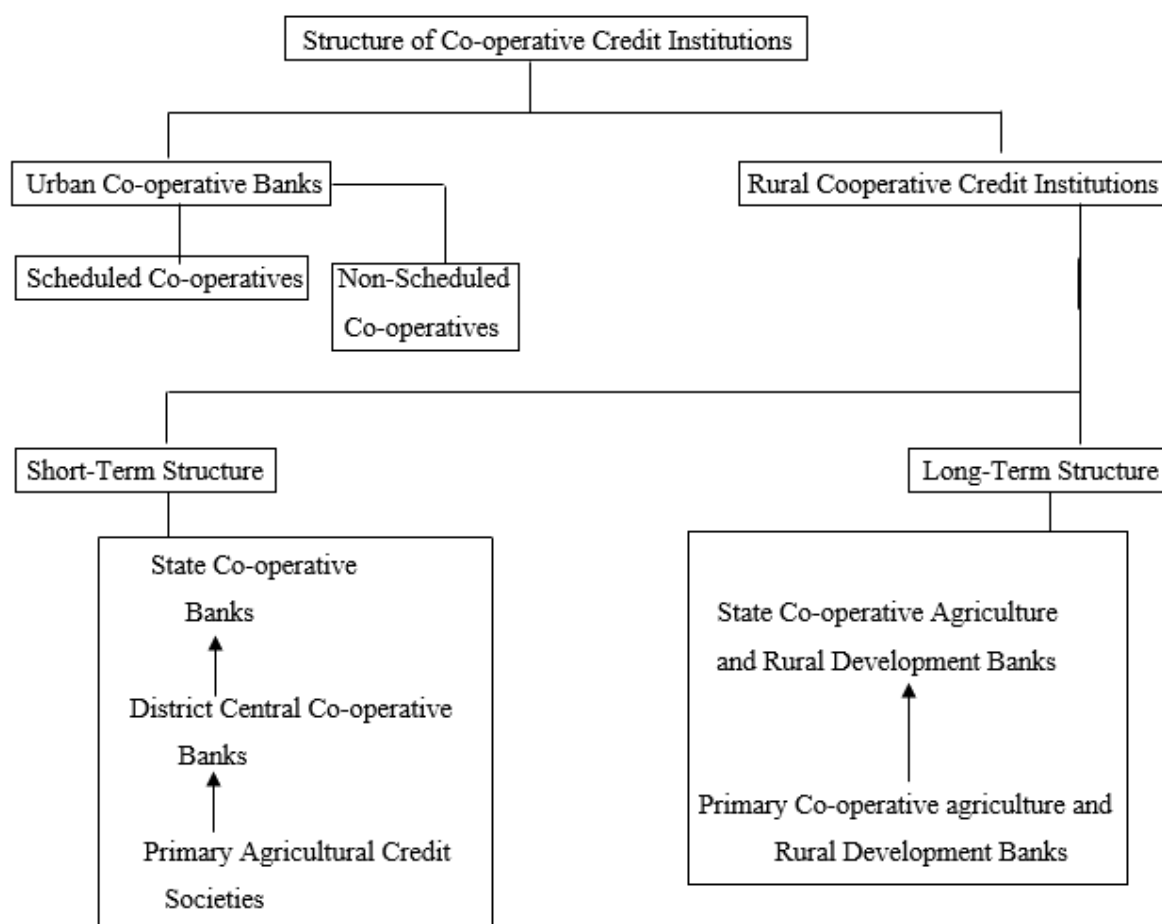
As far as The National Co-operative Agricultural and Rural Development Banks' Federation Ltd (NCARDBF albeit NAFCARD) is concerned, the federation is mostly coordinated with its member banks at the national level. NAFCARD was established in 1960 and has played a significant role in the development of the agriculture and rural development banking sector. The federation plays a crucial role in coordinating with member banks, central and state governments, SCARDB financing agencies, and NABARD to promote understanding and effective liaison among them.

Structure of the Co-operative Credit Sector and Importance of NAFCARD

Cooperative banking in India has existed for more than a century. It was started with the ambition to aid economic development and replace non-institutional credit sources with institutional credit. Presently, cooperative credit structure comprises two broader categories: Urban cooperatives and Rural cooperatives. Urban cooperatives exist as either scheduled or non-scheduled based on whether they come under the purview of the second schedule of the Reserve Bank of India Act, 1934. The share of urban cooperatives in the total distribution of cooperative credit is around 31%. Hence, the majority of the credit through cooperatives is provided by rural cooperatives which amounts to 69%. However, out of the 69%, 66% is

serviced by short-term credit cooperatives leaving merely 3% to the long-term cooperative banks (RBI, 2023, p.93).

Figure 2.1: Structure of Cooperative Credit Institutions



The cooperative credit structure mostly focused on agricultural and non-agricultural firms located in rural and urban areas. According to Paramashiaviah (2019), the cooperative agriculture credit structure consists of two credit systems: short-term and long-term. State Co-operative Banks (SCBs), District Credit Cooperative Banks (DCCBs), and PACS (Primary Agricultural Credit Societies) offered short-term credits. State Cooperative Agriculture and Rural Development Banks (SCARDBs) and Primary Cooperative Agricultural & Rural Development (PCARDBs) provided long-term credits to agricultural and non-agricultural firms. Additionally, a recent RBI report (2021-22)² showed that cooperative banks operated in rural and urban areas. Regarding rural cooperative banks, data suggest that SCBS, DCCBs and PACS offer short-term credits, whereas only SCARDBs and PCARDBs deal with long-term

² <https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/ORTP20212225730A6FC708454BB270AC1705CCF178.PDF>

credit. Similarly, Scheduled UCBs and Non-Scheduled UCBs offer short-term and long-term credits, respectively, by Urban Cooperative Banks.

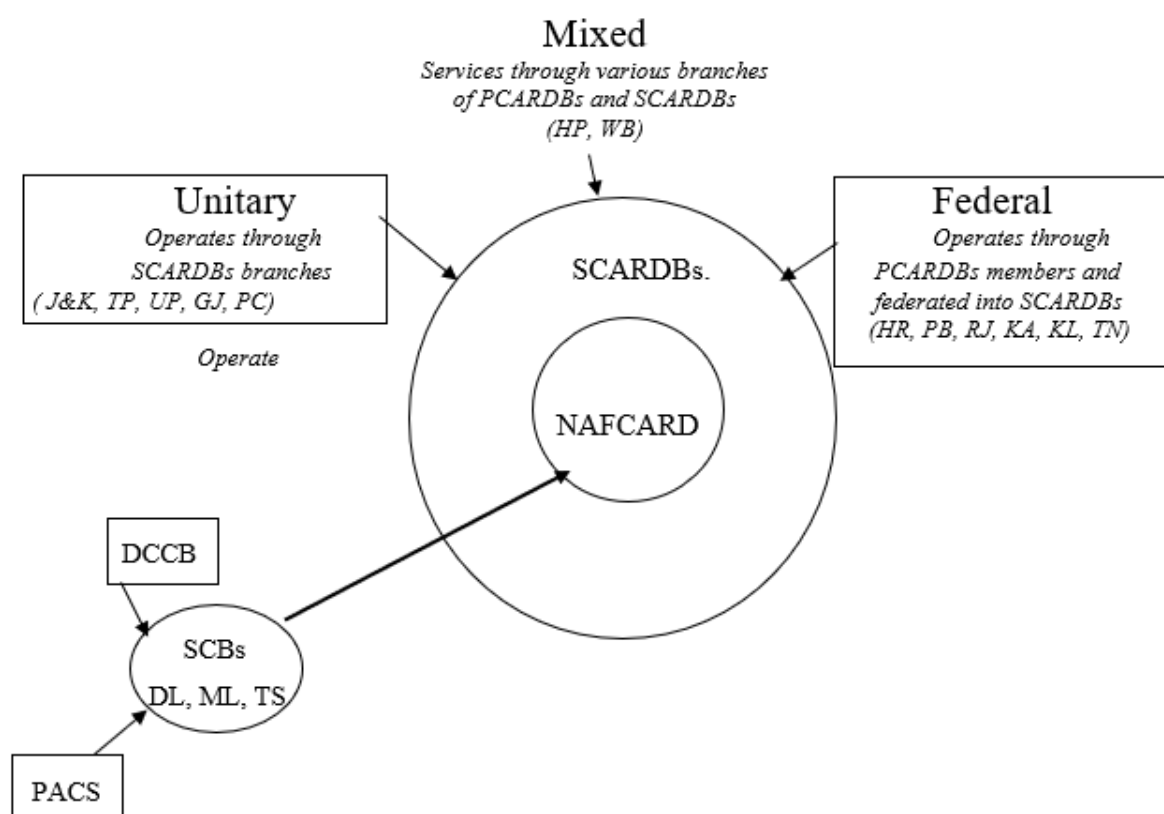
The LTCCS began with the establishment of land mortgage banks, which later developed into land development banks (Vaidyanathan Committee, 2006). These were further converted to Agriculture Rural Development Banks (ARDBs). The idea of establishing LTCCS in rural areas was to provide funds for investment in agriculture — including land development, farm mechanisation and minor irrigation — rural industries and housing. Additionally, the LTCCS structure was set up with the aim of providing long term credit for investment and capital formation in agriculture and other rural sectors. However, there are two types of ARDBs: SCARDBs which are the apex level institutions in long-term cooperative banks and PCARDBs that exist at the tehsil/taluka level. It is worth mentioning that PCARDBs play a crucial role along with SCARDBs at state level and SCARDBs are members of NAFCARD at the national level.

Furthermore, the structure of NAFCARD is not homogenous. States like Jammu and Kashmir, Tripura, Uttar Pradesh, Gujarat and Puducherry follow a unitary structure, i.e., SCARDBs operate through their own branches with no separate PCARDBs. On the other hand, states like Haryana, Punjab, Rajasthan, Karnataka, Kerala, and Tamil Nadu follow a federal structure wherein SCARDBs lend through PCARDBs. In two states viz. Himachal Pradesh and West Bengal, SCARDBs operate through PCARDBs as well as through their own branches (Deshpande et al.)³. Furthermore, SCBs operate through StCBs, DCCBs, and PACs and offer STCCS to their members. Presently, there are three SCBs who are members of NAFCARD (i.e. Delhi, Meghalaya and Telangana).

Primary Co-operative Agriculture & Rural Development Banks manage their affairs at the district/taluk level, whereas, the State Co-operative Agriculture & Rural Development Banks function at the state level. In the long-term rural co-operative sector, SCARDBs act as the apex institution providing finance and coordinating the functions of PCARDBs and their branches. Presently, 16 SCARDBs are operational under the banner of NAFCARD, and a total of 13 SCARDBs are fully functioning.

³ <https://vamnicom.gov.in/uploads/b1cb6e18a3f1c4bd25b9148119eeb764.pdf>

Figure 2.2: Structure of NAFCARD



DCCB: District Central Co-operative Banks

DL: Delhi

GJ: Gujarat

HR: Haryana

HP: Himachal Pradesh

J&K: Jammu and Kashmir

KA: Karnataka

KL: Kerala

LTCCS: Long-Term Co-operative Credit Structure

ML: Meghalaya

NCARDBF: National Cooperative Agriculture & Rural Development Banks' Federation

PACS: Primary Agricultural Credit Societies

PB: Punjab

PC: Pondicherry

PCARDBs: Primary Cooperative Agricultural & Rural Development Bank

RJ: Rajasthan

SCARDBs: State Cooperative Agriculture and Rural Development Banks

SCBs: State Cooperative Banks

STCCS: Short-Term Credit Co-operative Structure

TN: Tamil Nadu

TP: Tripura

TS: Telangana

UP: Uttar Pradesh

WB: West Bengal

Cooperative bank reforms and regulations

The origin of the cooperative movement can be traced to England after the Industrial Revolution. The pioneers of the movement Hermann Schulze and Friedrich Wilhelm Raiffesen's initiative to provide financing to small enterprises and underprivileged sections of society. Later on, the movement permeated different countries, including India. According to Kaur & Brar (2023), British India introduced and institutionalised cooperatives by passing the Co-operative Credit Societies Act of 1904 to address various issues related to rural debt and farmers. Though this act encouraged the registration of credit societies, it did not provide any safeguard to federal societies and non-credit organisations. To fill this gap, a more extensive legislation, the Cooperative Societies Act of 1912, was introduced to acknowledge the creation and structure of cooperative federations as well as non-credit societies.

Cooperative banks in India are governed by a range of legal and regulatory frameworks, including the Banking Regulations Act of 1949 and the Banking Laws (Co-operative Societies) Act of 1966 (Sapovadia & Shah, 2007; Gupta & Bhatia, 2015; Gananasekaran, 2012). These banks are customer-owned entities, with democratic member control and a focus on financial inclusion. The government plays a significant role in monitoring and controlling their activities, and they are required to comply with specific obligations (Sapovadia, 2007). Cooperative banks have a strong presence in rural financing and have seen significant growth in urban areas (Gnanasekaran & Anbalgan, 2012), offering short-term and long-term credit facilities.

In order to understand reforms and regulation of Indian cooperative banks, it is important to discuss about three Acts, namely the Banking Regulation Act, 1949, the Cooperative Societies

Act, 1966 and the Multi-State Cooperative Societies Act, 2002. The Banking Regulation Act, 1949⁴, a foundational legislation in India's banking sector, holds particular significance for cooperative banks. The Act lays down provisions regarding the formation, functioning, and regulation of cooperative banks related to their governance structure, management, capital adequacy, lending practices, and liquidity management. Another law, i.e. the Banking Laws (Co-operative Societies) Act, 1966⁵, holds specific relevance for cooperative banks, providing a legal framework tailored to their unique operations, including their governance, membership, powers, functions, and dissolution. Also the act outlined rules regarding the composition of the board of directors, membership eligibility, and the rights and responsibilities of members.

The Multi-State Cooperative Societies Act of 2002⁶ is a crucial legislative measure that governs and facilitates the functioning of cooperative societies across multiple states in India, with a focus on cooperation and coordination among members for mutual benefit. The Act defines the processes for forming, registering, and governing these societies, and establishes the Central Registrar of Cooperative Societies to monitor their registration and supervision. The Act also sets membership guidelines, governance structures, auditing requirements, and provisions for dissolution and liquidation to promote efficient, viable, and accountable functioning of these societies. By providing a strong legal framework, the Act promotes the orderly growth and development of cooperative societies operating on a multi-state basis, encouraging cooperation and synergy across different regions.

However, there are various classes of co-operative banks, like 'urban', 'rural', 'district', 'schedule' and so on and so forth, to whom separate sets of obligations and compliance apply (Sapovadia & Shah, 2007). The multiplication of regulatory bodies complicates the discourse of cooperative banking systems. For example, Urban cooperative banks are regulated by the Reserve Bank of India and the state government through the registrar of cooperatives. State and district-level apex cooperative banks are regulated by the National Bank for Agriculture and Rural Development, apart from by the RBI and the state government. Primary credit cooperatives in the rural areas are answerable to the state government (*Weak Link and Systemic*

⁴ <https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/BANKI15122014.pdf>

⁵ [https://thc.nic.in/Central%20Governmental%20Rules/Banking%20Regulations%20\(Co-Operative%20Societies\)%20Rules,%201966.pdf](https://thc.nic.in/Central%20Governmental%20Rules/Banking%20Regulations%20(Co-Operative%20Societies)%20Rules,%201966.pdf)

⁶ <https://mscs.dac.gov.in/Guidelines/GuidelineAct2002.pdf>

Danger, 2002). Therefore, the cooperative banking sector in India does not have an effective regulator (*Cooperative Banks Scam Unlearnt Lessons* , 2002).

To address the gap, RBI had proposed a single regulatory body to oversee the functions of cooperative banks. However, it could not be implemented due to political pressure and different rural scenarios (Vaidyanathan Committee report, 2006). Since state politicians play a major role in cooperative banks, it can be assumed that not only weakening in implementing laws but also hampered the recovery process. (ibid). For instance, the Vaidyanathan Task Force Report on STCCS was not fully implemented, whereas the recommendation on LTCCS was ignored and not implemented at all (NAFCARD annual report, 2022-23, p.14). According to the task force, it has been observed that one of the main reasons for the poor recovery is that coercive steps are not taken for recovery under the provisions of law due to political interference/verbal instructions. Moreover, because of the peculiar social situation in rural areas, when the property is bought for auction there are no takers, which ultimately hinders the recovery process (Vaidyanathan Committee, 2006, p.61). As a result, the performance of cooperative banks has deteriorated significantly in every aspect. Therefore, it is pertinent to understand the present conditions and measure the efficiency of cooperative banks.

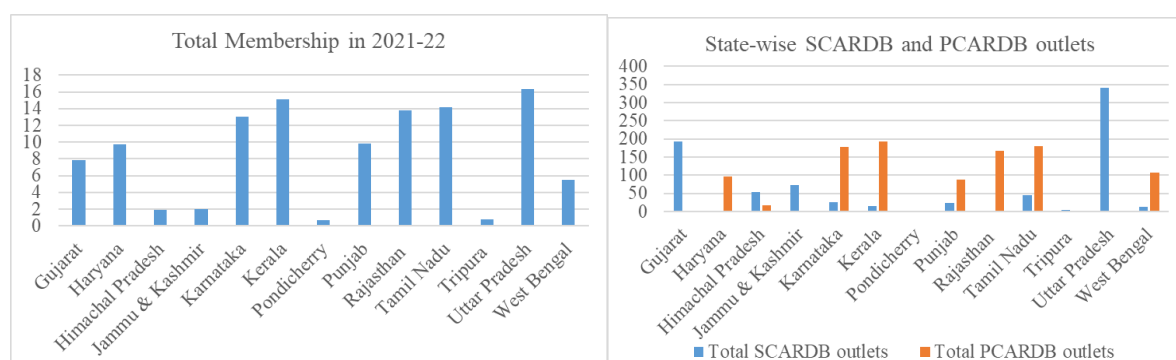
Overall Landscape: The efficiency of NAFCARD and its Members

Cooperative banking in India has existed for more than a century. It was started with the ambition to aid economic development and replace non-institutional credit sources with institutional credit. This section provides an overview of existing long-term credit co-operatives and their financial performances from 2012-13 to 2021-22.

SCARDBs - Current Scenario

The LTCCS in rural India consists of SCARDBs and PCARBDs. In 2021-22, the total membership of all fully functioning SCARDBs combined was 105.86 lakhs, with 39.54 lakhs borrowing members and 66.32 lakhs non-borrowing members (NAFCARD Statistical Bulletin, 2021-22). As shown in Figure 2.3, Uttar Pradesh, Kerala, Tamil Nadu are among the states with the highest total membership. Whereas, states like Pondicherry and Tripura, each with members below 1 lakh, are among the smallest in membership size.

Figure 2.3: State-wise SCARDBs and PCARDBs outlets and membership



Source: Authors' estimates based on NAFCARD statistical bulletin

The total operational units for long-term credit cooperatives in 2021-22 were 1894, including all SCARDB branches, PCARDB branches and other supervisory units (NAFCARD Statistical Bulletin, 2021-22). Due to the differences in organisation structure, the proportion of SCARDB and PCARDB units varies across the states. Some states like Uttar Pradesh, Gujarat, etc that follow a unitary banking structure, have higher SCARDB outlets compared to states like Kerala, Karnataka and Tamil Nadu that rely more on PCARDB outlets given their federal banking structure.

According to the recent statistical bulletin, purpose-wise loan advances were the highest for the farm sector (37.57%), followed by short-term advances (32.14 %) and non-farm sector advances (30.29 %). These proportions vary at the state level. In terms of profitability, SCARDBs were in a better position than PCARDBs (NAFCARD Statistical Bulletin, 2021-22, p.15).

Performance of individual SCARDBs over the last 10 years

There are various methods in assessing efficiency of cooperative banks in India (Gaurav and Krishnan, 2017). The study uses several performance indicators like deposits, borrowings, share capital and reserve funds being considered as inputs for the bank and investment as well as loan advances taken as outputs (ibid). The profitability of a bank depends on its performance in managing its cost of funds and the productive utilisation of those funds.

Table 2.1: State-wise performance of SCARDBs

States	Average deposits per member (Rs.)	Average borrowings per member (Rs.)	Average Loan Advances per member (Rs.)	Average Investments per member (Rs.)	Average deposits per outlet (Rs. Lakhs)	Average borrowings per outlet (Rs. Lakhs)	Average Loan Advances per outlet (Rs. Lakhs)	Average Investments per outlet (Rs. Lakhs)
Gujarat	3042.9	1689.9	2264.7	5273.5	107.7	59.8	80.1	186.6
Haryana	13.4	5443.1	1077.5	235.9	-	-	-	-
Himachal Pradesh	1703.5	6949.9	8291.5	7488.5	30.5	124.5	148.5	134.1
Jammu & Kashmir	6265.1	-	908.3	-	110.2	0.0	16.0	75.8
Karnataka	1776.5	2915.9	2652.0	1852.6	850.4	1395.8	1269.5	886.8
Kerala	2038.1	33461.9	15768.0	8102.4	1899.2	31181.4	14693.3	7550.2
Pondicherry	5575.0	1827.7	8161.5	1111.8	1591.4	521.7	2329.7	317.4
Punjab	2393.5	5970.4	3574.0	3441.6	1341.9	3347.2	2003.7	1929.5
Rajasthan	20.9	2275.2	1571.9	1193.5	37.3	4074.9	2815.2	2137.5
Tamil Nadu	1868.3	533.7	6132.2	1335.8	871.4	248.9	2860.1	623.0
Uttar Pradesh	89.3	916.4	972.3	1467.6	7.0	71.6	76.0	114.6

Note: The table consists of state-wise averages for several indicators from 2012-13 to 2021-22, Tripura and West Bengal were dropped due to missing data. ‘-’ means data not reported.

Source: Authors’ estimates based on NAFCARD statistical bulletin

Table 2.1 presents 10-year average values for each state’s SCARDB. As we already discussed, certain SCARDBs are significantly bigger in membership and number of outlets. To facilitate

appropriate comparison, the values for all performance indicators are given either per member or per SCARDB outlet.

Kerala is observed to have the highest average borrowings of Rs. 33,461.9 per member, highest loan advances of Rs. 15,768 per member, and highest Rs. 8,102.4 investments per member as well. It is leading in the same performance indicators measured per SCARDB outlet too.

Kerala state's SCARDB significantly outperformed other state SCARDBs with its average borrowings being approximately 4 times that of the average borrowings per member of Himachal Pradesh which had the second highest average borrowings of Rs 6949.9. Similarly, Kerala SCARDB's loan advances per member over the decade were approximately twice as high as that of the Himachal Pradesh SCARDB's which had the second highest average loan advances per member of Rs. 8291.5. It also has the highest average deposits per outlet but comparatively lower average deposits per member. Gujarat has the second most SCARDB outlets, however in terms of average borrowings, loans advances and investments per SCARDB outlet it is among the lowest. It performs favourably with one of the highest average deposits of Rs. 3042.9 and highest average investments per member of Rs. 5273.5. UP, while being biggest in both membership size and number of outlets, is performing poorly in average deposits, borrowings, and loan advances per member and per outlet too. Although Himachal Pradesh has had one of the lowest average deposits, borrowings and investments on a per SCARDB outlet basis, it is leading in average borrowings, loan advances and investments per member. Haryana is among the states with the lowest average deposits, advances and investments per member.

Table 2.1: State-wise performance of SCARDBs (continued...)

States	Cost of management per employee* (Rs. lakhs)	Non-performing assets (NPA) to total outstanding loan* (%)	Loan Recovery * (%)	Accumulated losses per member (Rs.)	Profit/loss per member (Rs.)
Gujarat	8.0	51.7	37.4	0	335.8
Haryana	23.4	69.6	20.5	3248.9	-487.6
Himachal Pradesh	7.7	33.6	41.0	939.6	263.1
Jammu & Kashmir	4.3	24.8	40.0	6513.7	-922.7
Karnataka	7.0	26.4	39.8	166.6	30.5
Kerala	34.8	2.4	95.6	0	181.6
Pondicherry	6.4	6.4	92.9	1229.3	-103.5
Punjab	15.1	13.3	62.3	0	152.6
Rajasthan	19.2	42.8	33.1	0	62.9
Tamil Nadu	16.4	17.8	76.7	0	131.2
Uttar Pradesh	5.7	60.6	33.7	169.9	59.3

Source: Authors' estimates based on NAFCARD statistical bulletin

Note: The table consists of state-wise averages for several indicators from 2012-13 to 2021-22, '*' averaged over 10 years but not per member or per outlet.

Surprisingly, Kerala performs the worst in average cost of management per employee which is about Rs. 34.8 lakhs per employee, followed by Haryana and Rajasthan with average cost of

management per employee of Rs. 23.4 lakhs and Rs. 19.2 lakhs. Uttar Pradesh SCARDB, which performed poorly in most of the performance indicators, has showcased the lowest average cost of management per employee of Rs. 5.7 lakhs. Kerala SCARDB, again, was found to outperform other SCARDBs with the lowest average proportion of non-performing assets (NPA) in the total outstanding of 2.4 % and the highest average proportion of loan recovery of 95.6 %. Pondicherry has the second lowest average proportion of NPA in total outstanding of 6.4 % and the highest average proportion of loan recovery of 92.9 %. After Kerala and Pondicherry, Punjab is the best performer with the lowest average proportion of NPAs in total outstanding of 13.3 % and Tamil Nadu with the highest average proportion of loan recovery 76.7 %. Haryana and UP were among the worst-performing states with one of the highest average proportions of NPA to total outstanding of 69.6 % and 60.6 % respectively. The same states also had extremely low average proportions of loan recovery of 20.5 % and 33.7 % respectively. Gujarat shows a significantly high average proportion of NPA to total outstanding of 51.7 % and Rajasthan has a very weak average loan recovery of 33.1 %. Further, Karnataka had low average loan recovery whereas Punjab and Tamil Nadu showed significantly better loan recovery rates. Therefore, except certain SCARDBs from Kerala, Pondicherry, Tamil Nadu and Punjab, rest of the states have very poor loan recovery rates as all of them had their average loan recovery rates below 45%.

In case of average profits, Gujarat excels with the highest average profits per member of Rs. 335.8 over the decade followed by Himachal Pradesh and Kerala which had an average profit per member of Rs. 263.1 and Rs. 181.6 respectively. Jammu & Kashmir and Pondicherry were among the states with the most average losses per member. Jammu & Kashmir also had the highest average accumulated losses per member of Rs. 6513.7 and the most average losses per member of Rs. 922.7. Another state with high average accumulated losses per member of Rs. 3248.9 is Haryana.

Figure 2.4: Financial performance of best and worst performing SCARDBs from 2012-13 to 2021-22



Source: Authors' estimates based on NAFCARD statistical bulletin

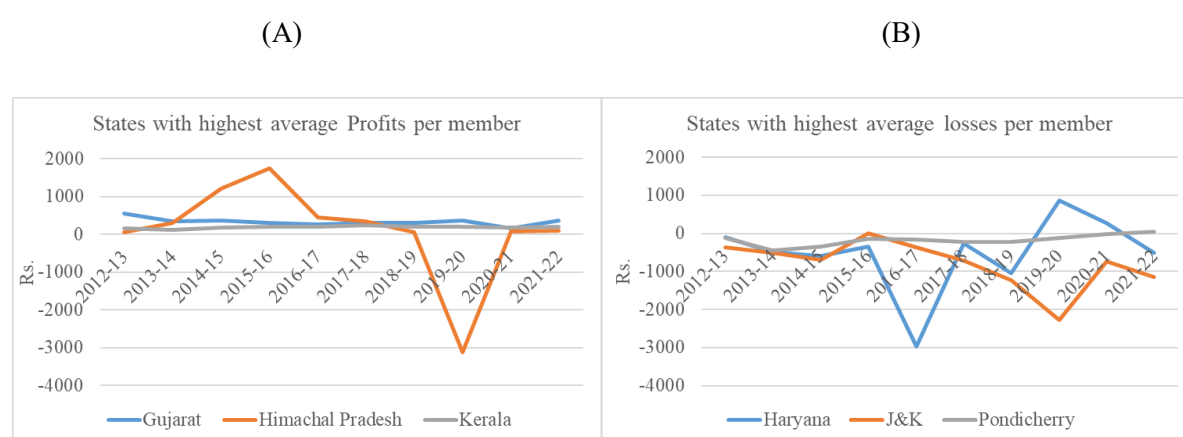
Figure 2.4 (A-F) represents trends or patterns in the performances of various SCARDBs over the last 10 years. Certain states have recorded higher deposits per member, borrowings per member, and advances per member as shown in figures 2.4A, 2.4C and 2.4E respectively and

some states that experienced the lowest values for the same indicators are shown in figures 2.4B, 2.4D and 2.4F respectively.

Figure 2.4A and 2.4B indicate that both the best and worst-performing states in average deposits per member have shown a declining trend in recent years. This suggests that the deposits haven't kept pace with the increase in membership. Similarly, as shown in figures 2.4C and 2.4D, borrowings per member of the top borrowers slightly rose till 2015-16 but since then there seems to be a decline. The lowest borrowing states have stagnated till 2020-21 after which there was a small increase.

Furthermore, figure 2.4E and 2.4F Suggest that loan advances per member by the top lending states too faced a sharp decline in lending around 2017-18 and have stagnated since. All the states with the lowest lending per member have had a steep decline in their loan advances since 2015-16.

Figure 2.5: Profit/ loss for the best and worst performing states from 2012-13 to 2021-22



Source: Authors' estimates based on NAFCARD statistical bulletin

Profit/loss per member has been stagnant for Gujarat and Kerala while Himachal Pradesh has experienced some heavy losses in recent years (Figure 2.5A). Among states with the lowest profits or most losses per member, there has been some improvement since 2018-19 but they are still struggling to create profits (Figure 2.5B).

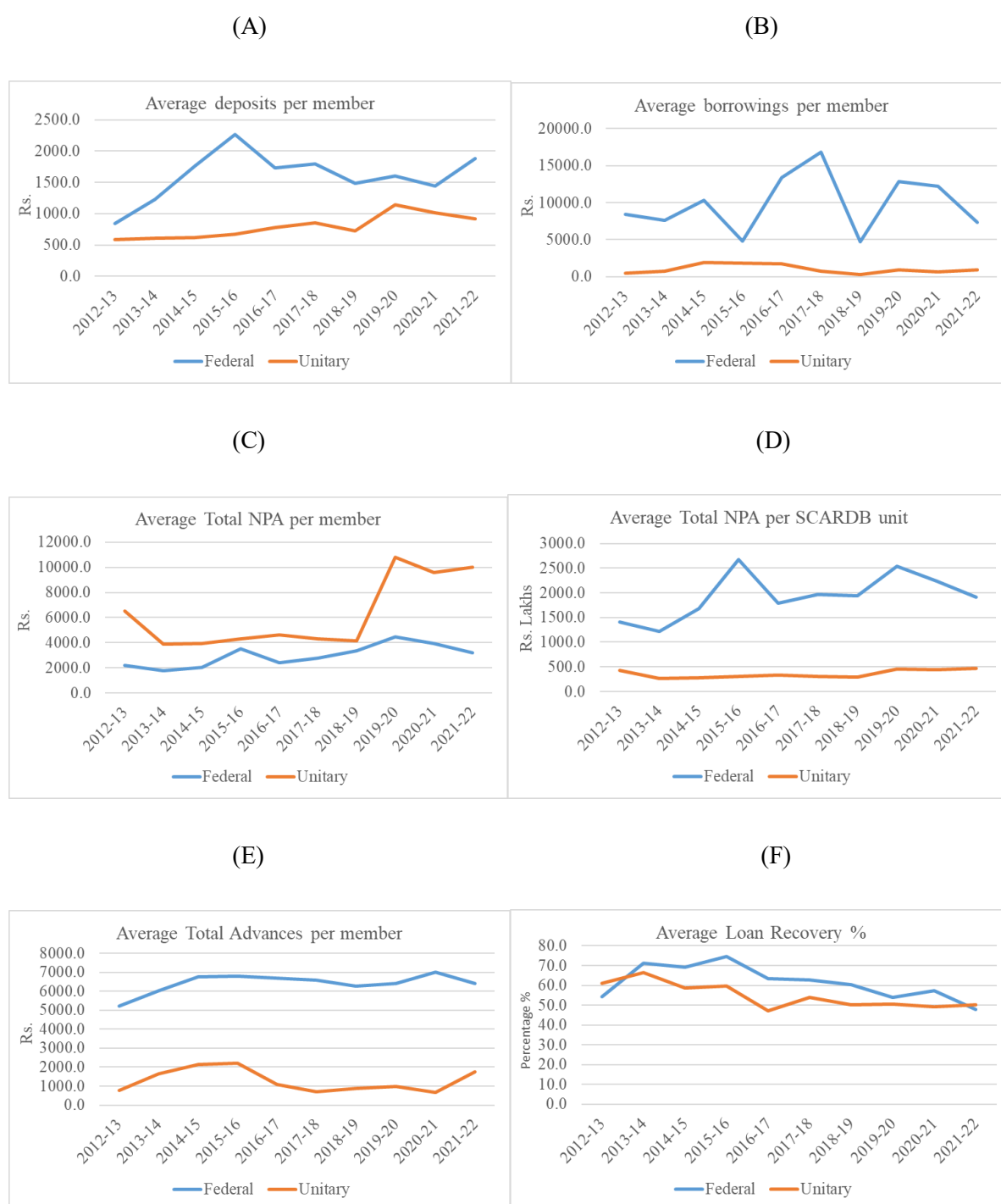
Structure-wise performance of SCARDBs

As discussed earlier, the long-term rural credit cooperatives do not follow a uniform organisational structure throughout the nation. This section focuses on the differences in the

financial performance of SCADBs based on their organizational structure. It is important to note that due to the paucity of data on Mixed organizational structure, particularly from West Bengal, the study discusses the structure-wise performance of unitary and federal structure SCADBs.

As Figure 2.6 suggests, SCADBs with a federal structure have higher average deposits per member than SCADBs with a unitary structure. However, the average deposits for SCADBs with Federal structure fell in 2015-16 and stagnated till showing a slight increase in 2020-21.

Figure 2.6: Structure-wise financial performance of SCARDBs



Source: Authors' estimates based on NAFCARD statistical bulletin

Similarly, SCARDBs with federal structure have consistently shown higher average total borrowings per member compared to SCARDBs with unitary structure. The average loan advances for SCARDBs with federal structure has been significantly larger than the advances made by SCARDBs with unitary structure over the entire decade. However, for banks with

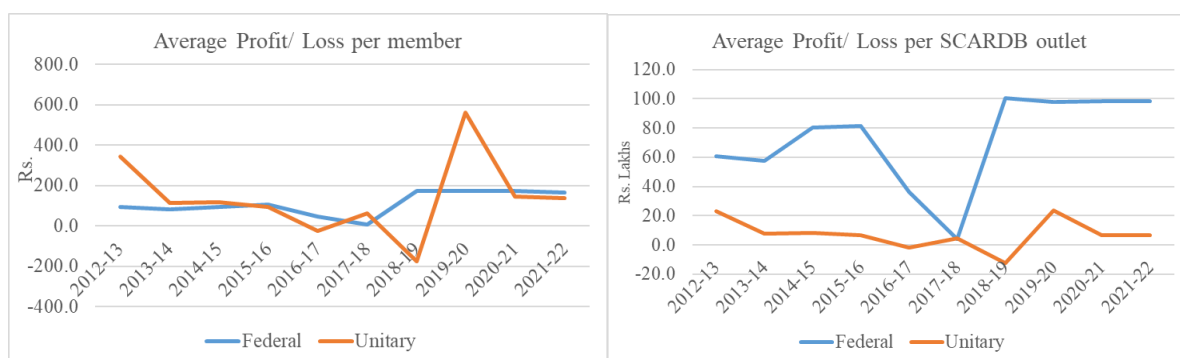
both kinds of structure the average loan advances have been stagnating. In terms of total investments per member, Federal SCARDBs were performing better than unitary SCARDBs until 2019-20 when the unitary overtook it. The investments by the Federal SCARDBs have been declining in recent years. Additionally, the SCARDBs with unitary structure saw a fall in average membership across states revealing that since 2018-19 SCARDBs with federal structure have had higher average membership till 2021-22. These findings suggest that SCARDBs with federal structure on average are engaged with more members and are managing higher deposits, borrowings and giving out more loans per member.

Apart from higher investments per member, SCARDBs with unitary structure perform better in achieving lower cost of management per employee. Not only do SCARDBs with federal structure have higher cost of management per employee but the cost seems to be rising.

Furthermore, as shown in figures 2.4C and 2.4D, NPA per member are lower for the SCARDBs with federal structure. However, if measured per SCARDB outlet, the NPAs are higher for the SCARDBs with federal structure compared to the SCARDBs with unitary structure. The results also echoed with the Vaidyanathan Committee report (2006), where the SCARDBs with unitary structure had higher NPA to total outstanding ratio (p.32).

As per Figure 2.6F, in case of the average loan recovery rates, initially SCARDBs with federal structure were superior to those with unitary structure. Over the years, both federal and unitary SCARDBs have seen continuous decline in their recovery rates. In 2021-22, the average recovery rate of federal SCARDBs went slightly below that of unitary SCARDBs.

Figure 2.7: Structure-wise profit/ loss performance of SCARDBs per member and per outlet



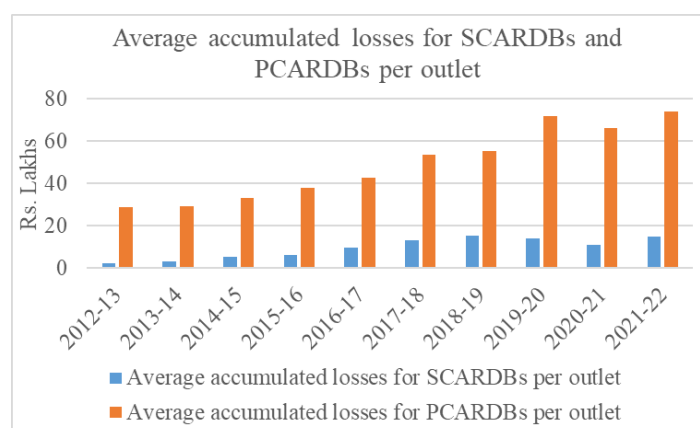
Source: Authors' estimates based on NAFCARD statistical bulletin

Finally, Figure 2.7 indicates that in terms of profitability per member, SCARDBs with both federal and unitary structure seem to be stagnating. However, when profits are measured per outlet, federal SCARDBs showed considerably higher average profits per SCARDB outlet in recent years.

PCARDBs in comparison with SCARDBs

The financial performance of PCARDBs, in the last decade, has deteriorated in comparison to SCARDBs. As observed in Figure 2.8, accumulated losses for PCARDBs per outlet averaged across states have risen faster than average accumulated losses for the SCARDBs.

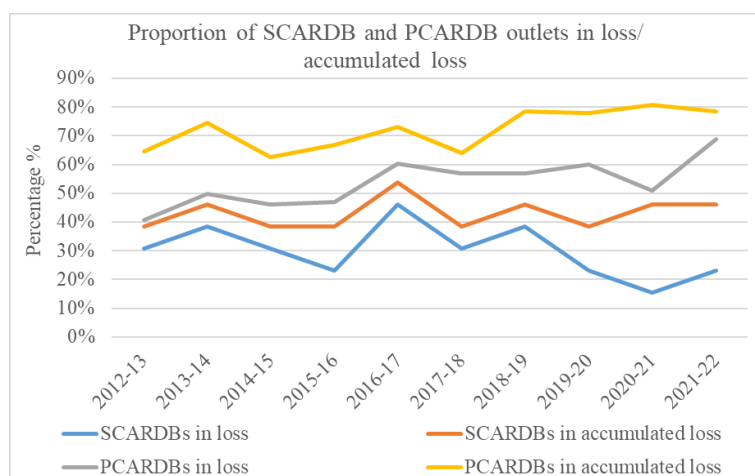
Figure 2.8: Average accumulated losses for SCARDBs and PCARDBs per outlet



Source: Authors' estimates based on NAFCARD statistical bulletin

As per NAFCARD's latest statistical bulletin, out of the 13 fully functioning SCARDBs, ten were in profit. In the same period, only 210 out of the total 603 PCARDBs were in profit. SCARDBs in only five states continued to have accumulated losses, whereas PCARDBs, which exist in a total eight states, showed accumulated losses in all the eight states. Figure 2.8 suggests that although the proportion of loss making SCARDBs has seen some decline, the proportion of loss making PCARDBs has kept rising and is now around 80%. The Vaidyanathan Committee had observed similar results. The committee has warned that as PCARDBs rely heavily on their respective SCARDBs for funds, failing PCARDBs would eventually affect the SCARDBs too (2006, p.37). As PCARDBs and SCARDBs are a part of the same structure, more attention needs to be given to the poor financial performance of PCARDBs.

Figure 2.9: Proportion of outlets in losses/ accumulated losses for SCARDBs and PCARDBs



Source: Authors' estimates based on NAFCARD statistical bulletin

Another disparity between SCARDBs and PCARDBs comes from their sources of borrowings. Historically, a major source of borrowings for SCARDBs has been NABARD. However, in recent years, SCARDBs have diversified their borrowings. In 2021-22, more than half of their borrowings came from sources other than NABARD and the government (NAFCARD Statistical Bulletin, 2021-22, p.7). These sources include NCDC, other StCBs, and commercial banks. PCARDBs, on the other hand, are still majorly reliant on SCARDBs for their borrowings. In 2021-22, PCARDBs from only Tamil Nadu had borrowings from sources other than their respective state SCARDBs (ibid. p.9). This restriction on PCARDBs to only borrow from SCARDBs may be seen as a structural deficiency in the LTCCS system (Vaidyanathan Committee, 2006, p.57).

SCARDBs- deficiencies and good practices

Comparison of short-term and long-term rural cooperatives statistics from 2021-22 showed that short-term cooperatives outperformed their counterparts with lower deposit to liabilities ratio, lower borrowings to liabilities ratio and lower proportion of NPAs in total loans and advances (RBI, 2023, p.104). RBI (2023) suggests that loans with longer terms may encounter higher risks due to changing social and political environments. This along with frequent government debt waivers might be affecting the long-term co-operative banks' performance. Although long-term rural cooperatives account for only approx. 4 % of the co-operative credit, they still suffer from higher NPAs and lower recovery of loans. A recent study on NPA management of different co-operative banks in India revealed that the UCBs and StCBs performed much better than PACS, SCARDBs and PCARDBs whose NPAs have reached critical levels (Susmitha and Nagaraja, 2020). PCARDBs are also the highest loss-making rural cooperatives followed by PACS, SCARDBs, DCCBs and StCBs respectively (RBI, 2023, p.104).

The literature revealed certain good practices as well as certain deficiencies in the current state of co-operative banking in India. Optimal management was among the key qualities recommended for sustenance of PACS (Panda et al., 2023). Additionally, social and technical competencies, as well as adaptation of modern technology in a bank's day-to-day functioning, can improve cooperative banks' performance (Shanujas and Ramanan, 2023). Hoda and Teraway (2015) studied the effect of generalised debt waivers and argued against such interventions. Such debt waivers impair the credit recovery process and build expectations for such waivers in the future and disincentive farmers to repay their loans. Rising government's share in PACS was also found to be detrimental to the PACS recovery performance (Misra, 2006). The study argues frequent government interventions and its negative effect on the bank's functioning might explain the results. The study further found that increasing member size also had a negative relationship with recovery performance of PACS. A study on problems faced by borrowers of cooperative banks in Nagaland suggested that cooperative banks had lesser outlets compared to other types of banks operating in rural India (Shuya & Sharma, 2018). This could make follow-ups on loans, supervision and communication of necessary information to farmers more challenging.

Financial Inclusion

The rural cooperative credit system consists of a large network of cooperative banks across the country whose primary goal is to assist rural development by providing credit services for agriculture and other activities. In that, cooperative banks play a critical role in reaching the weaker and marginalised sections of society towards financial inclusion and rural development. For example, a recent study suggests that by accessing various facilities from cooperative banks, minorities experienced significant changes in their socio-economic conditions as they found positive growth in income level, expenditure level, savings and assets or property (Panakaje et al., 2023). Moreover, Gujarat SCARDB from six different districts showed that farmers with larger land holdings were more aware of the workings of GSCARDB. Among farmers with large farm holdings, 69.6% reported high satisfaction with the GSCARDB services, while among farmers with marginal land holdings, only 45.3 % reported the same (Chaudhary and Farmer, 2021). Conversely, a study (Lal, 2019) argued that as far as financial inclusion and rural development are concerned, marginalised people were less satisfied with the rural development initiatives of cooperative banks, whereas, income-wise analysis of responses showed that the respondents from the lowest income category i.e., up to Rs 5000 monthly income were less satisfied compared to other higher income group respondents. Even female borrowers were found less satisfied with the rural development initiatives of cooperative banks compared to males. Despite the significant opportunities provided by cooperative banks, there is a huge scope to improve their reach to the weaker and marginalized sections of rural society to promote inclusive rural development.

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Chapter 3

Gujarat State Co-operative Agricultural and Rural Development Bank Ltd.

Background

The Gujarat State Co-operative Agricultural and Rural Development Bank (GSCARDB), also known as Kheti Bank, was established in 1920 as a land mortgage bank. Later on, other states got LDBs. The bank was started after independence as Saurashtra Land Mortgage Bank in 1951. The region had around 222 *Ryotias*, and a majority of the tenants did not have land rights. To help the tenants, institutions like the Saurashtra Land Mortgage Bank were sponsored by the government. In those times, the bank helped nearly 56,000 tenants gain land rights by giving them loans. The loans were given to the tenants to pay the landlords for official land rights. Over the years, the bank has started shifting towards other developmental projects. A few examples could be restoring old wells, financing farm mechanization, etc.

In 1960, two separate states, Gujarat and Maharashtra, were formed. Therefore, the jurisdiction of the bank was changed to the entire state of Gujarat. Around this time, major lending was done for minor irrigation projects, as irrigation was a major issue at that time. The bank's name was changed to Gujarat Land Mortgage Bank in 1965, and it was renamed Gujarat Agriculture and Rural Development Bank in 1982 after the creation of NABARD. Afterwards, the banks started lending to different farm and non-farm sectors.

GSCRDB has a unitary structure with no PCARDBs. It is a single bank with branches spread across the states. All branches are centrally controlled. Currently, GSCRDB has 177 branches. Previously, there were 182 branches in total. However, six were merged, making it 176. Including another branch that was recently opened, the total number of fully operating branches is 177. Apart from the branches, 17 district offices work as supervisory units for the branches in their respective regions. Earlier, the head office was located in Rajkot. The current head office in Ahmedabad was only an additional office. Around 2005-06, the Rajkot office was

closed due to a shortage of staff. For work convenience, all its operations were shifted to Ahmedabad.

The Gross NPA (accumulated) of GSCARDB is around 29%, and the Net NPA has been zero for the last three years.

Governance Structure

GSCRDB has elected a board of directors. As per GSCRDB's bylaws, the board should consist of 21 directors. Among them, 17 are delegates from each district supervisory unit acting as a representative of the shareholders. Further, three directors are nominated by the state government as the government provides a guarantee for refinancing. They used to hold share capital earlier. Currently, the government has no share capital in Gujarat SCARDB. Among the three directors appointed by the state government, one is the registrar of co-operatives. Additionally, there is one director from the Gujarat State Co-operative Bank.

The government-nominated directors have voting rights. The board of directors appoints a managing director with consent from the state government/ registrar of co-operatives.

Lending

Previously, as a land development bank, they financed the tenants to get their land holdings. Later, as the bank focused on agricultural and rural development, they started lending to improve farm productivity by giving loans for irrigation or farm mechanization. Then, there were no players in long-term rural finance. After nationalization, many other banks came into the picture, and long-term credit was provided by multiple agencies. As the other banks can give both crop loans and long-term loans, even GSCARDB had to provide crop loans to stay competitive. GSCARDB made amendments in its bylaws to provide crop loans along with long-term loans for farmers.

As per the NABARD's definitions, any loan with a tenure of less than 18 months is categorized as a short-term loan. These are the types of loans majorly handled by short-term co-operative banks. Loans with tenure between 18 months and five years come under medium-term loans. Any loans beyond five years are considered long-term loans. The maximum length of the long-term loans can go up to 20 years. However, loans with very long tenures generally have a high incidence of defaults; hence, GSCARDB refrains from providing very long-term loans.

The purpose-wise differentiation lies in the impact of the loan on a farmer's productivity. Long-term loans act as an investment credit, whereas crop loans serve a farmer's production requirements. Investment credit is crucial in increasing productivity, while loans for production barely maintain productivity. ARDBs are relevant in increasing farm productivity as GSCARDB is mainly focused on long-term loans. Some of the common purposes for GSCARDB's long-term lending comprise tractor loans, the dairy sector, the purchase of cattle, irrigation works, pipelines, the Agricultural Produce Market Committee (APMC), etc.

GSCARDB's main loan product is the Krishi Vikas loan, which is used for seeds, fertilizer, small farming appliances, the purchase of cattle for farmers, etc. The duration of the Krishi Vikas loan is three years, thereby making it a medium-term loan. GSCARDB have purposefully reduced the tenure of the loan to avoid defaults. This loan has half-yearly instalments.

GSCARDB have reduced the tenure for some of the long-term loans. For example, earlier, GSCARDB used to give tractor loans for 9 years, but now, GSCARDB is giving them a tenure of only seven years. The same goes for farm mechanization loans. No loans are given for 20 years. The majority of the loans GSCARDB disburse have a tenure of around five years. Loans are provided for various other purposes like rural housing, vehicle loans, etc. GSCARDB also provides a gold loan for the short term (one year).

GSCARDB is unable to make short-term advances as the short-term loans generally have an interest rate of around 7% per annum, whereas GSCARDB gets the NABARD to refinance at

higher interest rates of 8-8.5%. Therefore, they would need more time to give short-term loans using NABARD refinance. Roughly 70% of GSCRDB's loans are medium-term, and 30% are long-term loans.

GSCARDB reserves the right to sanction loans at the district level only. However, ARDBs in different states follow different practices in this aspect. Certain banks in other states follow a similar unitary organizational structure but have been given the authority to sanction loans at the branch level as well. However, GSCARDB feels that the staff at the branch level has limited competence for certain kinds of loans. Also, for lending, the funds need to be available. That can only be known from the upper tier. Apart from that, if there is a big loan, for example, an infrastructural loan, then it would even come to the head office before it is sanctioned.

GSCARDB have given several infrastructural loans. Some of the recent examples include the warehousing loan GSCARDB financed in Kheda district and loans given to APMCs in Ahmedabad, Valsad district, and Jamnagar district. The overall experience in previous infrastructural loans was not good. GSCARDB had financed an agri-processing unit called Reva Sugar as well. However, GSCARDB is still struggling to recover that loan. The reason for the poor performance of APMCs may be that they have elections every three years, and the new committees usually do not take responsibility for the previous loans. Also, when APMCs miss their dues, a penalty is added, and over time, these penalties increase the dues even further. Only a few APMCs pay instalments on time. However, recovery is still happening due to the efforts of GSCARDB.

Sources of Funds

NABARD refinance is the main source of funds for GSCARDB. However, NABARD refinance is time-consuming, as per the response of the GSCARDB officials. The other sources of funding are public deposits or owned funds. As per the NABARD 1997 circular with guidelines prepared in consultation with RBI, ARDBs are allowed to get term deposits from individuals or institutions for a duration of 1-3 years up to the limit of their net worth. The Banning of Unregulated Deposit Schemes (BUDS) Act also mentions the deposits taken by co-operative banks from their members under the regulated deposits. Currently, ARDBs can take

any deposits from their members and only term deposits from the general public. Apart from these, NAFCARD had encouraged the SCARDBs to take thrift deposits as well. However, NABARD instructed them not to take any deposit with a duration of less than one year. This is due to the maturity profile of the advances which are meant to finance long term loans and may cause asset-liability mis-match

The quantum of the loans from NABARD depends on the last year's recovery and advances. For example, during 2024-25, GSCRDB was eligible to draw around 200 crores. In general, the NABARD's refinance is costly. Recently, around 40% of the refinance given to them by NABARD had an interest rate of 8.5%, while the rest of the 60% came at a slightly lower rate of interest of 7%. The average can come to roughly 7.5%. This proportion is not definite and can change with time. Apart from that, NABARD has another line of funding called the Long-term Rural Credit Fund (LTRCF). It's a channel of funds from NABARD to fill the gap in rural finance and is given to banks at a lower interest rate. Currently, the ARDBs are getting only a small portion of this fund. Other banks, including the short-term co-operatives, claim this fund in a larger proportion.

NAFCARD's Opinion on Loan Guarantee

The provisions for refinance of long-term co-operatives are mentioned in section 20 of the NABARD Act. As per this section, long-term co-operatives need a guarantee because they are not resource-based institutions. Other banks coming under the Banking Regulations Act, including Short-term co-operatives, commercial banks, and regional rural banks, are considered resource-based institutions. So, they do not need a government guarantee. The guarantee is a stipulation made under the provisions of the NABARD Act. The federation believes that some of the banks may not be eligible for refinance without a govt guarantee or based on some qualitative norms. They are fragile. SCARDBs in states like Haryana and Rajasthan have very little net worth. NAFCARD is trying to convince NABARD to introduce another refinance product that doesn't need a guarantee, and banks can become eligible for this based on some qualitative criteria. Simultaneously, the federation is trying to get a banking licence for ARDBs for the ones that are performing well. RBI is working on coming up with some norms regarding this. Once that is done, these issues will be over.

Apart from deposits, a major resource is investment income. Frequently, GSCARDB has surplus funds. GSCARDB invests these surpluses in other co-operative banks, national banks or government securities. GSCARDB earn interest from these investments.

GSCARDB earns some income from GSCRDB's locker service fees, recovery fee of Rs 100 per year charged to all defaulters, 2% per annum additional interest charged to defaulters, Rs 50 fees for issuing no-due certificates, fees for issuing land charge-free certificates, etc. However, this makes up only a negligible portion of GSCRDB's income. The major sources of income are interest from loans and investment mobilization.

GSCARDB has started third-party payer (TPP) insurance, general insurance, medical claims, life insurance, etc. GSCARDB has already tied up with Nippon. However, insurance penetration in rural areas is difficult and time-consuming.

Other Sources of Funds and Credit Rating of Co-operative Banks

There is a provision in the Multi-state Co-operative Societies (MSCS) Act about investments of funds. As per the MSCS, multi-state co-operatives can invest funds in nationalized banks, state co-operative banks, regional rural banks, and even SCARDBs. However, the concern is the provision for such initiatives under the State Co-operative Act. If SCARDBs have an acceptable credit rating, then there is enormous scope for getting funds from various sources. The funds can be acquired through bonds, loans, deposits, etc. The other concern is that many SCARDB may not be able to get a good credit rating. Kerala SCARDB's performance is better than many others, but it received a credit rating BB+.

NAFCARD's Interaction with SCARDB

NAFCARD's guidelines have been very useful to the GSCARDB. It has found NAFCARD's model recovery policy useful. GSCARDB found it very helpful. The federation made several recommendations after consulting many different SCARDBs. NAFCARD has also issued a

circular about enhancing the share of ARDBs in rural credit. In the last few years, GSCARDB has seen an increase in GSCRDB's loan portfolio. Another example of the recent guidelines is the ones issued for taking thrift deposits. Based on these guidelines, GSCARDB started taking thrift deposits, but due to NABARD's objection, GSCARDB had to stop. It is a good alternative source of funds compared to NABARD refinance.

Human Resource

GSCRDB's current staff strength, including all 177 branches, is 600. As per GSCARDB's norms, the approved staff strength of 730, including clerical or managerial roles. The staff for the branches are recruited centrally. GSCARDB give an advertisement in the leading newspapers. Then, an agency is appointed to conduct the exam. Based on the merit and qualifications of the applicants, they are recruited. The last recruitment was done in 2022. After the new chairman took over, he recruited across different layers, including the middle and senior levels.

GSCARDB have 177 branches. Each branch has been computerized. GSCARDB usually go for the checker-maker framework, i.e., one employee is the maker of the loan, and another one is the checker. Hence, even for the smallest branch, GSCARDB requires a minimum of two-person clerical staff. As the branch size increases, the minimum clerical staff requirement increases. GSCARDB has also proposed four regional offices that can coordinate with their respective region's district and branch offices.

The bank has recently introduced ICT in the branches, but that may not have a downward pressure on staff strength as they are required in the field for loan inspection, *Panchnama*, and loan recovery. GSCARDB is using ICT infrastructure to ensure smooth loan disbursement. Earlier branches used to give cheques to farmers that farmers then had to encash from district-level banks. The district-level bank used to charge some commission for this. However, now GSCARDB is directly disbursing loan amounts from the head office through RTGS or NEFT.

Training

GSCARDB officials claimed at the time of the survey that they regularly send employees to different institutions for training. Recent examples include training programmes conducted by National Institute of Rural Banking (six of GSCRDB's employees did online training), VAMNICOM Pune, and NICA Gandhinagar. However, GSCARDB has not sent employees for many training programmes during the last few years due to their computerization programme. GSCRDB's ICT team went to all district offices and trained the staff regarding the new system. Soon, GSCARDB will be publishing a manual for that, too. But there is still a need for more training and improvement.

Earlier, GSCARDB had its own training centre, but it could not be continued. Presently, GSCARDB is thinking of reviving it. There are many areas of GSCRDB's work that need specialized skills that GSCARDB don't have. Hence, GSCARDB can benefit from training programmes for that.

NAFCARD's Opinion on Own Training Centre

In the present scenario, the bank is sending a select few of its employees for training with some organization. But there is no systematic training. For systematic training, NAFCARD can introduce certain training camps suitable for specific categories of staff. Ideally, every staff member should get at least one orientation course every year. This can be only possible if GSCARDB has its own training centre. Also, funding from NABARD is required for such training programs. As per the current arrangements, NABARD's assistance for training programmes to Co-operative Training Institutes though substantial can only be supplementary to the banks own programme.

As per GSCRDB's experience of conducting training programs, it is advantageous to conduct the training within the state. It reduces travel costs and allows more employees to participate instead of a select few. Another alternative could be for the federation to prepare training

modules for different categories of staff, such as technical staff, field staff, etc. These modules could be made available to all training centres. These training centres will mainly work to upskill the junior staff. The federation can organize such programmes for the training of middle- or senior-level staff.

Interestingly, NAFCARD has not provided any training to GSCARDB to date. However, NAFCARD has received feedback about the need for training for GSCARDB staff. Until now, NAFCARD has conducted two training programmes- one in Punjab and another in Karnataka. GSCARDB participated in the program with all the bank managers and PCARDB secretaries. It was a three-day residential program where GSCARDB tried to cover everything. In NAFCARD's opinion, this method is more productive because calling only a few people and training them doesn't effectively impart knowledge. This kind of program would be done for all the state SCARDBs. The training programme covers areas like loan appraisal, recovery appraisal, etc.

Compliance and Conflicts

The following are the GSCARDB's position with respect to compliance with other related laws and regulations.

- a. ensure compliance with the co-operative principles:

The federation can prepare model byelaws and circulate them among the member banks. However, SCARDBs will have to implement them according to the process mentioned in their state's co-operative act. It may conflict with the State Co-operative laws during implementation.

- b. make model bye-laws and policies for consideration of its member co-operative:

There might not be any conflicts with the state co-operative act for this provision.

- c. provide specialized training, education and database information:

There might not be any conflicts with the state co-operative act for this provision.

- d. undertake research, evaluation and assist in the preparation of perspective development plans for its member co-operative:

There might not be any conflicts with the state co-operative act for this provision.

- e. promote harmonious relations amongst member co-operatives:

There might not be any conflicts with the state co-operative act for this provision.

- f. help member co-operatives settle disputes among themselves

There might not be any conflicts with the state co-operative act for this provision. Because the jurisdiction of the banks is limited to their own states, and there is no overlapping. \

- g. undertake business services on behalf of its member co-operative, if specifically required by or under the resolution of the general body or the board, or bye-laws of a member of the co-operative

There are possibilities for developing business services, but they may open areas of conflict. For example, the SCARDBs have surplus funds for investment. Mostly, these investments are made in fixed deposits and other government securities or banks. However, there are other alternatives that could give higher returns. The federation could make a centralized arrangement at the federation level where everyone will voluntarily put their funds into it, and this bulk amount will be invested in certain financial products using the best expertise available. Every bank will benefit from that. Also, the decisions will be taken by the representatives of all the SCARDBs together.

Another example of a business is creating an umbrella organization like the one made for the urban co-operative banks. Such an umbrella organization is a common agency that provides services to all the member co-operative banks. Apart from that, the federation can also undertake consultancy services and fee-based services on behalf of its members. The only concern is whether the banks will be allowed to participate as per the state co-operative acts to invest in such an arrangement.

- h. provide management development services to a member co-operative

There might not be any conflicts with the state co-operative act for this provision.

- i. Evolve code of conduct for observance by a member co-operative

The code of conduct comprises what the bank's directors, staff, and even members can and cannot do. Some of the provisions regarding this are already in all state co-operative acts and bye-laws. The federation can add inputs to the code of conduct based on common best practices. However, the concern is again whether the banks can implement the codes of conduct prepared by the federation.

- j. evolve viability norms for a member co-operative

There might not be any conflicts with the state co-operative act for this provision.

- k. provide legal aid and advice to a member co-operative

There might not be any conflicts with the state co-operative act for this provision.

- l. assist member co-operative in organizing self-help

Maybe all the ARDBs come together and arrange a fund from their profits. A common fund for emergency liquidity support can be created. The state co-operative acts might be restrictive in some states.

- m. develop market information system logo brand promotion, quality control and technology upgradation.

There might not be any conflicts with the state co-operative act for this provision.

Good Practices

The following are found to be good practices of GSCARDB

- i. **Introducing a revolving block guarantee to dodge the requirement of a government guarantee**

As getting a government guarantee is time-consuming, GSCARDB has been trying to get a revolving block guarantee for a period of 5 years. For a few years, GSCARDB used an alternative method to raise funds. As GSCARDB had many owned funds in the form of fixed deposits, GSCARDB pledged them to NABARD and received a refinance against them. However, this process has its own limitations due to the paucity of fixed deposits.

- ii. **Rewarding good customers**

GSCARDB rewards farmers who pay regularly and on time by giving them a 2 % per annum interest rebate.

- iii. **Extending the NABARD loan time to match SCARDB's credit cycle**

The NABARD refinance generally comes with a tenure of five years. The loans that GSCARDB gives to borrowers have a tenure of three to five years. NAFCARD has

requested NABARD to give them an extension of two years in certain refinance to make the tenure seven years instead of five.

iv. Unitary Structure and ICT for Good Credit Rating

GSCARDB has the advantage of a unitary structure for a good credit rating. It has to invest in information communication technology (ICT) infrastructure. A credit rating agency will examine how much the whole loan process and recovery process is centralized. With a good ICT the bank can evaluate the loan proposals and check the recovery status of all branches from the headquarters more efficiently. It will reduce the loan sanctioning and loan disbursement processing time. The more centralized the control, the better it is. With a federal structure, it is more difficult. A unitary structure combined with good computerization where all branches are connected through software can become more efficient and cost-effective. Once that cost is reduced at all levels, the bank will become internally more efficient. With a good credit rating, funds can be acquired through bonds, loans, deposits, etc.

Challenges

The following are the key challenges of GSCARDB:

i. SCARDB cannot avail of the government's interest subvention for short-term loans

Although ARDBs are now allowed to provide crop loans, they are not eligible for government subsidies on the crop loans. An example is the government's crop loan interest subvention scheme. As per this scheme, banks are able to advance crop loans at a 7% per annum interest rate. If the cost of loans for a particular bank is over 7% per annum, then they will receive further interest subvention. Also, timely repayment enables farmers to gain an additional 3% per annum subvention from the government. Thus, the effective interest rate is reduced to 4% per annum. As ARDBs are not covered under this scheme, it is harder for them to compete.

ii. The process of getting government guarantee is time-consuming

GSCARDB depends on NABARD's refinance and hence has to abide by the NABARD refinance rules and norms. Every time for refinancing, the GSCARDB needs a government guarantee, which becomes cumbersome and time-consuming. The procedure for getting a government guarantee is lengthy and may take up to three months. Sometimes, by the time GSCARDB gets a guarantee, the low-cost refinance offers from NABARD have already expired, or other banks claim them.

iii. Process and duration of loan sanctioning lengthy

GSCARDB's loan sanctioning process can sometimes be lengthy. To sanction loans, GSCARDB has branch committees at every branch. The branch committee members are elected from that branch's shareholders. The branch committee is presented with all the loan proposals, which, once approved, go to the district committee at the district offices for further scrutiny. This process takes around 15-20 days.

iv. Recovery through auction difficult

The recovery of resources through auction is very difficult. If the state government approves auctioning the land, then, in general, no one will show up for such auctions. In such cases, a special recovery officer can transfer the land to the government, and the government can pay the bank. However, for the last 30 years, the government has not approved the auctioning of land. The number of recovery agents is also very limited. The bank had only one. Ideally, every district should have one such officer.

v. Difficult to loan as per credit profile of members

It is difficult for co-operative banks to conduct credit profiling of borrowers and lend accordingly. The co-operative banks are managed by loanee farmers themselves. In such a case, it will be difficult to differentiate between farmers. Also, in a rural setting, everyone knows everyone else in the village. It is not possible to offer a differentiated interest rate to the framers.

vi. Difficult to loan to FPOs, SHGs and JLGs

GSCARDB is not giving loans to FPOs as it contradicts its lending objectives, which are mentioned in section 116 of the State Co-operative Act. NABARD had recommended that GSCARDB finance SLGs and JLGs, too. GSCARDB is not financing other groups like the SLGs and JLGs for the same reason as the restriction in the State Co-operative Act. Financing such groups is crucial as they give farmers an opportunity to set up processing units that are important for value addition.

Suggestions and Recommendations

The following are the recommendations to NABARD, the state government and GSCARDB

i. NABARD should drop guarantee requirement on the basis of loans outstanding and assets

GSCARDB has always paid NABARD on time. GSCARDB believes there should be a provision in the NABARD act to provide refinance based on GSCARDB's outstanding loan or against their mortgages. Also, GSCARDB has mortgages valued at around 900 crores that can be used as security. NABARD can consider this security to give refinance without govt security.

ii. Amendment of State Co-operative Act for lending to FPOs

An amendment to the State Co-operative Act can help the bank lend to the FPOs. GSCARDB has solved the problem of gold loans through the amendment of the State Co-operative Act.

iii. Staff Specialization

GSCARDB should consider different staff for different schemes at the level of head office. The head office could have a technical sales head for all major areas of lending, such as farm sector lending, non-farm sector lending, etc.

iv. Training requirements in specialized areas

GSCARDB staff needs more training in improving documentation or record keeping, recovery, audit inspections, managing NPAs, loan appraisal, and share capital.

v. On-time and Single Audit

GSCARDB have to undergo multiple inspections. The registrar of co-operative societies conducts concurrent audits. Apart from these, GSCARDB does its separate internal inspection of the head office and the district offices. Many of the things are repeated, and these inspections are very costly. Annually, GSCARDB spends around one crore on that. GSCARDB has proposed that the registrar of co-operative societies waive their inspection as it has been done by a panel approved by NABARD and the registrar. Also, time delay in conducting these audits is a concern. In 2024, the registrar of co-operative made inspections for the year 2023. If the audit is finished in the same year, whatever mistakes or issues are found can be corrected and worked upon in the next year.

vi. NAFCARD's Potential Areas of Engagement

The SCARDBs can avail of paid services provided by NAFCARD. But SCARDBs always have a resource crunch and don't have much funds to invest. In many of the schemes, many SCARDBs would not be able to contribute. Hence, financial support to avail NAFCARD's services such as training can be helpful. NAFCARD can also provide legal help to SCARDBs, and this is not prevented by GSCARDB's acts or bylaws. In fact, GSCARDB has approached NAFCARD for legal aid many times. GSCARDB has consulted NAFCARD for legal opinions on various issues. For example, for queries regarding the gold loan amendment, GSCARDB went to NAFCARD for suggestions. SCARDBs can also consider following the NAFCARD-prepared model code of conduct for staff.

Chapter 4

The Haryana State Cooperative Agriculture & Rural Development Bank Ltd

Introduction

The Haryana State Cooperative Agriculture and Rural Development Bank Ltd. (Haryana SCARDB) was set up on 1st November 1966, after the bifurcation of the state of Punjab. Earlier, it was registered on 17th October 1966 under the Punjab Cooperative Societies Act 1961, which was later replaced by Haryana State Cooperative Societies Act 1984. At the time of the establishment of this bank, there were only 7 PCARDBs in Haryana. This number had risen to 89 PCARDBs. Later, the PCARDBs were amalgamated into 19 District Primary Cooperative Agricultural and Rural Development Banks (DPCARDBs) in 2008. Now, there are 19 DPCARDBs operate with their 70 branches at Tehsil and sub-tehsil levels in the state.

The apex bank performed well from 1999 to 2006, when the balance between advancement and recovery was maintained. During this period, the bank had advanced approximately Rs 250 crores to Rs. 400 crores annually. The bank was also availing regular refinance from NABARD. The bank used to make annual recovery ranging from Rs 270 crores to Rs 900 crores.

The downfall of the bank started with two consecutive OTS schemes in 2006-07 and 2007-08, one by the central and another by the state government, respectively. Another setback occurred in 2007 with the change and dilution in Section 75 and the deletion of the relevant clause of Section 104 of the Cooperative Societies Act regarding the recovery of loans through land auctions. At present, the bank's recovery is at the lowest level. In 2018, the state government decided to discontinue the arrangement of availing refinance from NABARD. The liabilities of NABARD were paid by the state government. Presently, the bank is making loan advancements from the recovery proceeds of borrowers. The amount of loan disbursement is very low. The bank is struggling to meet the long-term financial requirements of farmers.

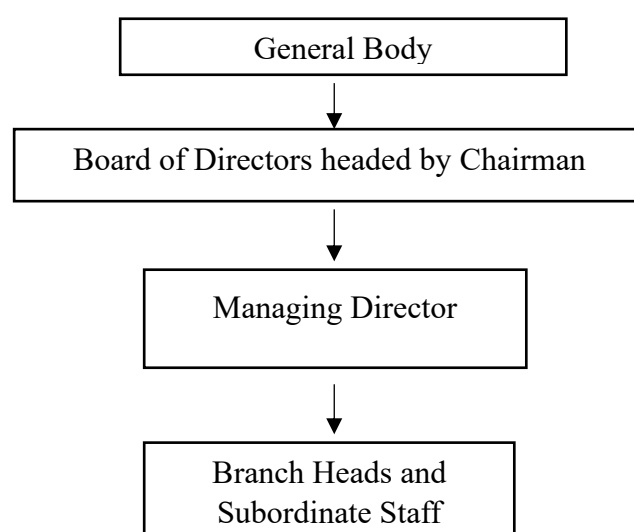
The silver lining is that the recovery rate against loans advanced after 2018 is high at 78%. The bank is using persuasive means to recover the fresh loans.

Governance Structure

The bank follows a two-tier federal structure where the Haryana SCARDB is the apex bank and oversees the PCARDBs at the district level. There are 19 District PCARDBs with 70 branches working under them.

The four levels in the organization are as follows (Figure 4.1)

Figure 4.1: Organization Structure



There are eight sections at the SCARDB that includes administration, administration of PCARDBs (AOP), inspection and audit, general section, loan and refinance section, law section, accounts section and development section.

Lending

The apex bank offers loan schemes for minor irrigation, farm mechanization, horticulture/ plantations, land development, animal husbandry, and other non-farm sector loans. The bank's loans start from a tenure of a minimum of five years. Loans for different purposes are given for different tenures. The existing tenures include 7-year, 9-year and even up to 15-year loans (housing loans). The bank also provides loans to its employees. The total loan outstanding to the farm sector is 77%, rural housing is 16%, and the non-farm sector is 7%. In recent years, the bank lending to allied activities (animal husbandry and fisheries) has been around 13%. In the non-farm sector, a majority (80%) of the loans are provided by the Small Road Transport Operators (SRTTO). The bank lends only for long-term loans.

NAFCARD opinion on Short-Term Lending

The bank can provide the short-term loans and other services (such as insurance) to the disciplined borrowers. This would help the bank to retain the existing borrowers fulfilling their short-term credit requirements. Otherwise, the borrowers will approach to other banks for their short-term credit needs.

Further, the bank can start providing gold loans. These loans are secured and meet short-term loan requirements. There is no risk to the bank, and the bank can also charge less interest to attract borrowers.

The government can give preferences to cooperative banks for KCC loans where up to three lakh amount is obtained at only 4%. This can be used for many purposes like dairy or other agriculture allied activities. Currently under priority sector lending, majority of the KCC loans are provided by the commercial banks.

In the case of FPO lending, the bank's bylaws do not permit lending to FPOs or other such organizations. Also, the bank is in shortage of refinances from NABARD to give loans to FPOs. The bank is not financially able to provide loans to its members. So, when the refinance becomes available, and the problem of shortage of funds is resolved, the bank will attempt to make the necessary amendments in its bylaws to permit FPO loans. The bank can offer loans for warehouses, go-downs, goat farms, dairy farms, fisheries, solar pumps, etc from NABARD. However, the current availability of NABARD refinance is insufficient to meet the increasing credit demand of the farmers. Earlier, the bank used to provide loans for warehouses, and the loan performances were also good; however, as the refinance reduced over the years, the bank is no longer in a condition to disburse these loans. The SCARDB officials claimed NABARD officials put an additional condition that the loanees should showcase that NABARD financed the loans, although NABARD has no such official policy. This made the borrowers think the loan was from NABARD and not from the SCARDB. It impacts the visibility and outreach of bank loans.

Apart from the refinance problem due to high non-performing assets, the bank faces several operational challenges that hinder its functioning in effectively serving its members. One, lack of adequate technological infrastructure in the bank. It affects the smooth functioning of the bank. Without necessary digital/technological tools, loan processing becomes slow and takes longer. As a result, the borrowers switch to other commercial banks. Two, the bank employees

at the branch level lack the professional skills. Loans are issued without proper scrutiny, contributing to the problem of loan repayments and loan defaults. Third, a lack of proper risk management system is necessary for assessing the creditworthiness of its borrowers. The bank is not integrated with credit assessment tools like CIBIL score, impacting the bank's selection of borrowers. It also limits the bank to reflect the borrower records in the CIBIL score, which could otherwise incentivize timely repayments.

Recently, the bank undertook certain initiatives to improve the functioning of the loan process. Earlier, the bank used to provide bearer checks to its borrowers for loan distribution. These checks are misused by during the disbursement process. The bank now directly transfers the loan amount to the borrowers' accounts. The bank regularly contacts the borrowing farmers and guarantors to resist bribery (if any). Also, at the ground level, the brokers played an active role in the loan distribution, and farmers only got loans through them. Now, the bank has given strict instructions to the loan officers and office staff to completely end the interference of brokers in the banking operations. To make this system more streamlined, the bank has started the process of online loan application. Furthermore, the bank has mandated the potential borrower to register and deposit share money before loan disbursement. Guidelines regarding multiple lending to the same borrowers have been circulated to all the branches and District PCARDBs. The bank is considering starting programs like Bank Sakhi to make it more convenient for borrowers to take out loans.

The bank is also thinking about Common Service Centres (CSC) to educate farmers regarding financial literacy. The farmers would be educated on topics such as the loan eligibility criteria, the loaning process, necessary documents, how interest and instalments are decided, etc. The CSC camps would serve as a conduit for spreading awareness, removing misconceptions, and building a sense of trust among the farmers. During such camps or campaigns, the bank officials would directly interact with the farmers or inform them about the loaning process, eligibility criteria, and necessary documents. The camps can be organized especially in areas having a high number of leads regarding potential borrowers. The bank will seek funds from NABARD to organize such loan melas.

Sources of Funds

As per Statistical Bulletin 2022, the bank has paid up capital of Rs. 4361.02 lakhs (Government -1315 lakhs, PCARDBS/Societies/Individuals – 3046.02 lakhs) and reserves of Rs. 47644.89 lakhs. The total borrowings stand at Rs. 11,8108.33 lakhs. The major source of borrowing to the bank is the government (85%), followed by NABARD (13%) and rest is from other sources, including NCDC. The NABARD refinance is a major source of funds for the bank. The refinance is provided to the bank against the state government guarantee. The bank has 1000 crore of government guarantee till 2029. Still, the NABARD refinance is shrinking because of the bank's high NPAs. Presently, the bank is experimenting with fixed deposits in six districts. The purpose is to mobilize public resources to support lending activities. The bank has also borrowed funds on a short-term basis from various organizations, including the National Cooperative Development Corporation (NCDC), to manage liquidity requirements.

Recovery

Currently, the bank's NPA at the PCARDB level is 83%, whereas its NPA at the SCARDB level is 88%. The majority of the loan recovery is happening through the One Time Settlement (OTS) scheme. Under the OTS scheme, 50% interest and 100% penal interest are waived. The borrower has to pay only the principal and 50% interest. For deceased loanees or widowed loanees, 100% interest and penal interest are waived. Under this OTS scheme the bank recovered Rs. 74 crores of old outstanding loans out of the total Rs. 2096 crores. The bank has a total of around 70,000 loanees. But almost 40,000 loanees have loans outstanding of only up to Rs. 1 lakh. The principal amounts are Rs. 182 crores, with an additional Rs. 558 crores of interest. These loans are very old loans, and their recovery rate is very low. The bank cannot waive off these loans, as a large number of loanees may also expect a waiver for them and will not repay their loans.

The bank has introduced several measures to improve its recovery. The bank is planning to introduce system-generated calls and text messages to have a recovery follow-up with the borrowers. These follow-ups will occur both before and after the loan instalment due date. The bank has formed teams at the head office level to monitor regional offices. A weekly virtual meeting is also being held to issue necessary guidelines to the officers and employees engaged

at the field level. Under the ongoing recovery campaign Rabi-2024, a team of senior officers/employees has been formed at the headquarters level, which conducted surprise inspections at the district level and branches. This team has submitted the field visit report to the headquarters. The headquarters staff has been informing farmers about the OTS scheme and encouraging them to repay their loans via telephone conversation. The bank is planning to create an online portal to make the loan process more transparent and convenient. The bank has started taking compulsory receipts of acknowledgement of loan recovery notices from the borrowers. For some old loans, these notice receipts were missing, which is why the bank sometimes faces difficulties in cases pending in court. Since 2018, the bank has been allowed to take five blank cheques. The bank can use it under the Negotiable Instrument Act and get its recovery through court.

Human Resource

The bank has a total of 479 employees as of 31st May 2024. It is only 34% of the total staff positions. So, the bank is experiencing a staff shortage. The shortage of staff affects bank operations such as loan processing, monitoring, auditing, recovery, etc. Whenever the cooperative department conducts the audit, the audits get delayed as there is a shortage of staff. The employees comprise workmen, such as assistant managers, field officers, clerks, land valuation officers, and peons. Additionally, there are six supervisory staffs, including a managing director, a secretary, an additional secretary, two assistant secretaries, and a district manager. There are three administrative/ managing staff members on the field: an assistant secretary, a district manager, and a manager.

The bank has a federal structure where the Apex bank controls the cadre-based staffs. The organization's recent human resource-related activity comprises rationalization of staff and online transfer policy. The board and the registrar approve the policy. The online transfer policy was implemented in 2022-23 and 2023-24. The scheme categorizes employees into four categories: assistant manager, field officer, clerks, and valuation officer. Under the policy, the staff can be kept on rotation to deter rent-seeking and political influence.

Training

The bank has taken certain steps to develop employee capabilities. The bank keeps conducting training programs for the capacity building of the employees. Last year, 70 employees were trained in-house and 20 were sent to other organizations for training.

The bank has a training centre; earlier, the NABARD used to sponsor the training. However, it is closed now after the funding from NABARD is reduced. The institute has facilities for classrooms and labs. It is to be noted that NABARD's support to training is based on rating of the Cooperative Training Institute, and such funding is only supplementary.

Computerization

At the apex bank, all the operations are computerized. Hence, all the reports, P&L, Balance sheet, etc, are being generated through Core Banking Solution (CBS) software. The computerization of the DPCARDBs and their branches is proposed under the centrally sponsored project of "Strengthening of cooperatives through IT initiatives". The guidelines of the project have been circulated with the DPCARDBs for necessary compliance. The state government has yet to schedule a meeting with the State Level Monitoring and Implementing Committee (SLIMC) to procure the hardware necessary for the bank's computerization.

Compliance and Conflicts

The state cooperative bylaws are conducive to operating the bank. There is flexibility with the bank in amending the bylaws. The registrar has the power to amend the bylaws. The bank did not experience any issues in the past.

Good Practices

Follow up on the recoveries

The bank is planning to introduce system-generated calls and text messages for recovery follow-up with the borrowers. These follow-ups will occur both before and after the loan instalment due date.

Common Service Centre

The bank is planning to open Common Service Centres (CSC) to develop financial literacy among the farmers. The farmers would be educated on topics such as the loan eligibility criteria, the loaning process, necessary documents, how interest and instalments are decided, etc. The CSC camps would serve an important conduit for spreading awareness, removing misconceptions, and building trust with the farmers.

Employee Transfer Policy

The bank has started the staff transfer policy. Under the policy, the staff can be rotated to contain malpractices and avert political influences.

Digitalization of land records and integration with bank loan

Land digitization has been completed by the state government, but the integration of land records with bank loans is still pending. An integrated land records system is beneficial for banks to avert multiple mortgages of the same asset as the mortgage status can be updated by the bank.

Challenges

Lack of CIBIL Membership

The bank lacks CIBIL membership, which poses a challenge as it is unable to upload borrower records to the CIBIL platform. As a result, defaulters can avoid any negative impact on their CIBIL scores. Since land auctions are not a feasible solution for the bank, CIBIL could effectively encourage borrowers to avoid defaults.

Problems in loan recoveries

A majority (57%) of the outstanding loans are below Rs. 1,00,000. These outstanding loans affect the bank borrowings from NABARD. The bank faces challenges in recovery of these outstanding loans as the loans are secured through land mortgages. With land serving as collateral, it becomes difficult for the bank to take legal action through land auctions.

Suggestions

- i. NAFCARD can help the SCARDBs raise the issue of CIBIL registration with RBI to allow ARDBs to become licensed banks and avail of the CIBIL membership at the same time.
- ii. The state government can waive off the outstanding loans of Rs. 1,00,000 below. A majority of the bank's outstanding loans are below Rs. 1,00,000. It will help the bank lower the NPA figures in account books and can help enhance its borrowing from other financial institutions.
- iii. Capacity Building of Staff: Continuous training programs for employees to improve their skills in risk management, customer service, and digital banking.

Chapter 5

The Himachal Pradesh State Cooperative Agriculture and Rural Development Bank Ltd

Introduction

The HP SCARDB was established on 6th of February, 1961 as Himachal Pradesh Central Land Mortgage Bank. It was registered as a Cooperative Society under the provisions of Himachal Pradesh Cooperative Societies Act., 1956. As a land mortgage bank, the focus was to advance loans to farmers for redemption of their land and to save them from the clutches of money-lenders and land lords. Later on, bank started providing long-term credit/loans for developmental activities. The name of the bank changed to “Land Development Bank” through an amendment in the bank Act. Later the bank diversified and has started lending for purposes like dairy development, beekeeping, floriculture, irrigation etc. Bank also started lending for non-farm sector activities including dhaba, hotels and small scale industries. The bank got its current name in the year 1987. Today, the bank is offering credit facilities to agriculturist, horticulturist, artisans of the state for purpose like Land Development, irrigation, dairy and poultry development, farm mechanization, orchard plantation etc. The Bank has also started advancing loan for construction/ repairs of houses under Rural Housing Scheme.

The mission of HPSCARDB Ltd. is to create value by consistently delivering the thrift industry’s top financial performance, and by providing those who live and work in Rural areas of Himachal Pradesh with easy access to the full range of financial products and services they seek.

Governance

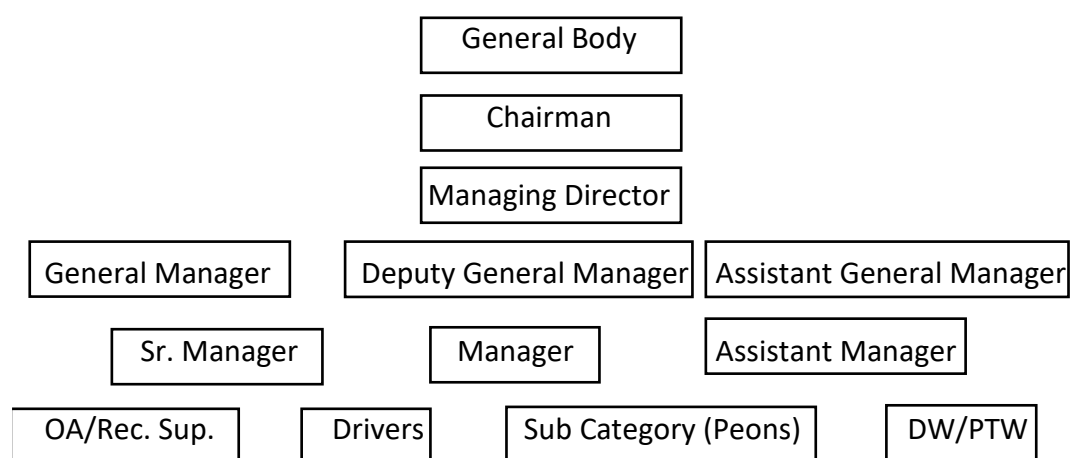
The Himachal Pradesh State Cooperative Agriculture and Rural Development Bank (HPSCARDB) works in unitary structure in 9 out of 12 districts in Himachal Pradesh and works as a primary bank (PCARDB) in 3 districts. At the zonal level, out of 50 branches in nine districts, 15 branches come under the Theog zone, 16 branches in the Solan zone and 19

branches in Mandi zone. The apex bank have 50 branches in total in 9 districts and 114000 members.

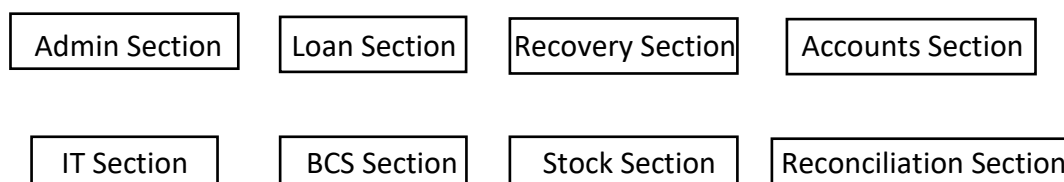
The bank is driven by the Board of Directors with a government nominated Chairman as its head. There are 16 members constituting the BoG including the Managing Director and Chairman. The rest of the members are representing different election zone of the state. The operation of the Bank is supervised by the Managing Director who in turn is received reporting from General Manager (GM). The AGMs report to GM and the rest of the hierarchies are as follows - Senior Manager, Manager, Assistant Manager, Office Assistant, Recovery Supervisor, Driver, all categories, daily wagers, part-time employees. The head office is organized under different sections like Loan section, Reconciliation section, Account section, Administration Section, Recovery Section, IT section, Branch Control Section and Stock Section. In the Branch Control Section, one dedicated team work for deposit and internal audit, coordination of inspection visits by NABARD etc.

Figure 10: Organization Structure SCARDB Himachal Pradesh

.. Organisational Structure



Sections at Head Office



The apex bank has two assistant managers at the SCARDB level and two assistant managers at the PCARDB level. As far as by-laws are concerned, there is no conflict between the

SCARDB and PCARDB branches. The lending and recovery functions of PCARDB are conducted as per the SCARDB acts. This means there are no issues with operational policies and, therefore, no issues with the functioning of the banking system. In other words, all the power is held by the SCARDB, whereas the PCARDB is a managing committee. The loan manual is the same for all branches and thus helps in standardization of routine activities. PCARDBs have their own management committee to look after the daily operations. The Branch Control Section controls 9 districts of the HPSCARDB, and 3 districts have their own management committees and they have separate Branch Control Section.

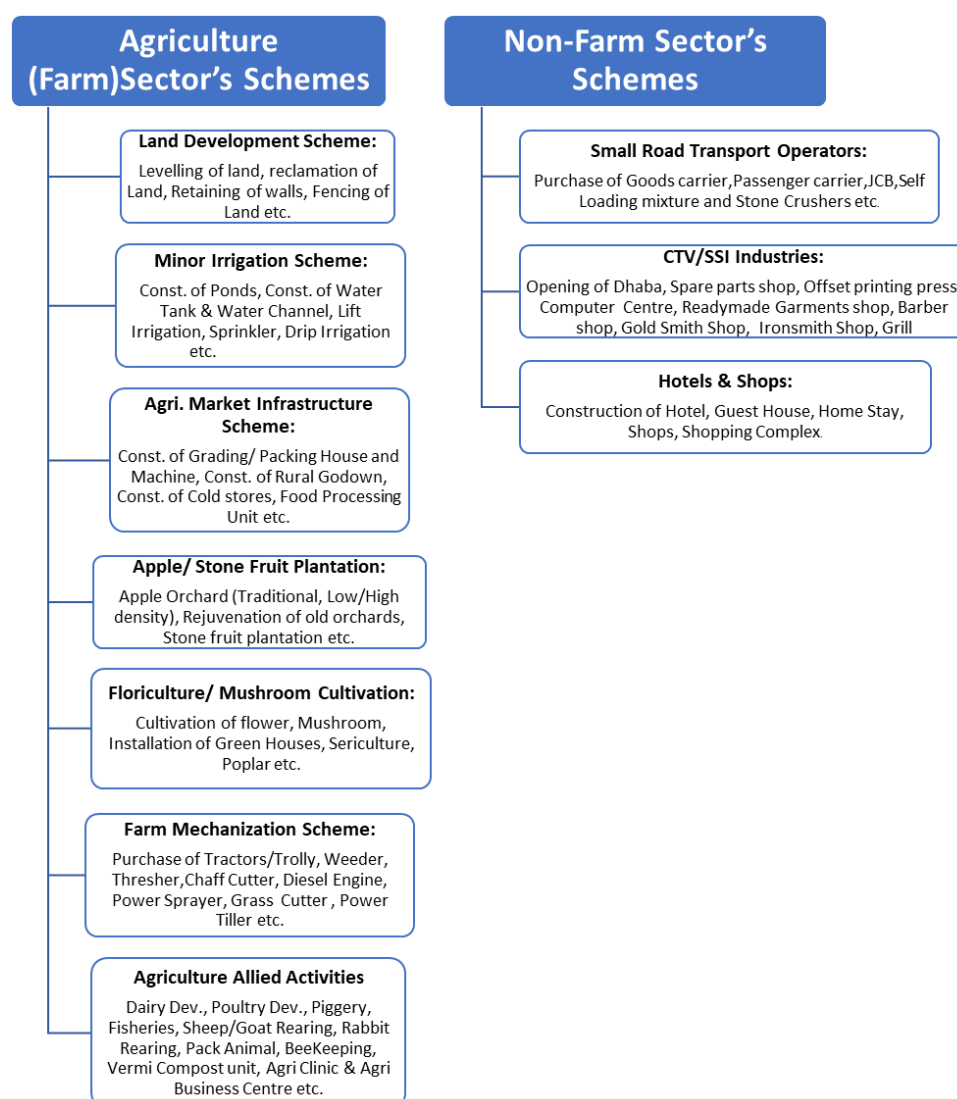
The bank has a mixed structure – unitary and federal. There is one PCARDB, Kangra Cooperative Primary Agricultural and Rural Primary Bank, that is operating in three districts through its 30 branches (15 in Kangra, 7 in Hamirpur and 8 in Unna district). Currently, the branch has 52 crores outstanding, but they are repaying them regularly. The PCARDB follows all the schemes prepared for SCARDB branches. The daily operation of the PCARDB is management by a senior manager from SCARDB. PCARDB is following all the policies adopted by SCARDB and thereby ensuring a smooth coordination. Most of the decisions taken by the governing body of SCARDB are often adopted by the PCARDB's branches. All the branches follow board-approved policies, loan manuals, acts, and rules irrespective of branch structure. The PCARDB has different by-laws, but similar to the apex bank's by-laws. The PCARDB has a managing committee and led by a Chairman.

Lending

The bank has multiple agricultural loan schemes for farm and non-farm activities. The loan products include purposes like land levelling, irrigation, agriculture and allied activities, rural housing, hotel and small businesses, agricultural marketing infrastructure schemes (grading machines, packing machines, rural godown or storage) etc. Himachal Pradesh is known for fruit production (Apple, cherry, etc), so the bank has loan schemes for apple plantations and store plants. Apart from that, the bank has a separate scheme for land development, focusing on levelling and related activities. Because the state is located in a mountain area so, levelling of lands requires substantial capital and thus this has turn out to be an important product for farmers.

The bank offers long-term and medium-term loans, no short-term loans due to restrictions under the state act. However, the bank has prepared a proposal to implement short-term loans but the final decision is yet to come from the state government. Under the current existing loan schemes, the bank is offering loans for water tanks as well.

Figure 11: Lending Schemes of the Bank



Poultry development is also offered under medium-term loans for five years as NABARD refinances for the same period. Additionally, under SRTTO (Small Road Transportation Operation, i.e. passenger and goods carriers) schemes, the bank provides loans for three-wheelers (like Mahindra pickups trucks) and JCBs for a duration of five years. Under the non-

farm sector, the bank has a provision to offer loans to shopping complex for ten years under half yearly instalment repayment scheme.

Earlier, loan for apple plantation was offered for a duration of 15 years. But now this has been reduced to 10 years. Earlier, in apple plantation, the tree used to grow for seven to eight years and after that it started giving fruits. Now, with the new species, a high-density plantation starts giving fruits in 4 years only. Therefore, the duration of loan repayment was reduced. For other schemes, such as rural housing, the bank offer loans for 15 years. Particularly for this scheme, the bank gives a loan of Rs. 15 lakh for a period of 10 years. But, it has become very difficult to build a house in 15 lakh rupees even in rural areas. So, the apex bank requested NABARD to increase the loan amount to 25 lakhs and repayment period of 20 years.

While the market for housing loan is growing, SCARDB is unable to face the competition with private players. Because NABARD offers refinance for 15 lakhs with a 10-year repayment scheme, whereas commercial banks provide better offers than SCARDB. From the perspective of NABARD, the refinance is only a supplemental source and the SCARDB is expected to raise cheaper resources. Hence, though there is a demand for housing loans but the apex bank cannot compete with commercial banks. Even employees of the bank take house loans from other commercial banks. It has been almost 20 years when NABARD circulated the guideline; there is no revision made on the guidelines. Members of the SCARDB took up this issue with NABARD team and even highlighted with the NABARD study team once. Now, it is in under consideration and the bank is positively looking forward to having a updated circular.

Land development is one of the important products of the bank. The bank almost covers all the irrigation schemes for lending. Additionally, agricultural allied activities, such as dairy, poultry, goat, etc., are offered by the apex bank. Most of the above-mentioned schemes are popular in lower Himachal Pradesh compared to upper Himachal Pradesh due to the cold climate. Recently, the bank has decided that 60% to 70% of loans should be allocated for agriculture and allied sectors, including firm mechanisation and 30% for non-agricultural loans including for housing.

CIBIL Rating for SCARDB

Currently HSCARDB is not looking at the CIBIL rating of their customers. As a result, their KYC is not very effective. Currently the bank is not aware of any credit history of their client with other institutions. As a result, they often run the risk of being exposed to defaulters. While the Bank officials have not given a consideration to adopting CIBIL scores till now, during the discussion with study team, it has come to their notice. The officials are convinced of the utility of the CIBIL score; however, they would require to examine the pros and cons of such adoption in term of attraction and retention of their customers

Sources of Funds

NABARD refinance is a major source of fund for HPSCARDB. As per the NABARD guidelines, the banks are rated as high, moderate, and low risk based on their performance. Currently, the HPSCARDB is rated under moderate risk and receives refinances regularly. The bank provides loan for agricultural and non- agricultural purposes and charges interest on the same. Interest charged on agricultural loan is slightly lower than non-agricultural loan. For agriculture, the bank asks for 11.5% - 12.5% simple rate of interest because the bank receives refinances from NABARD at the rate of 8.5% to 9.5% rate of interest. Thus, the bank gets a margin of 3% to 4% to arrange for administrative costs, risk management etc.

The bank's one-time membership fee is 100 rupees, and the member needs to purchase their share. For example, if someone takes one lakh rupees, then he/she should buy five per cent or 5000 rupees share, and this amount will be refunded once the person repays the entire loan. The bank has a deposit scheme whereby the members can deposit their money with the bank. There is a provision in the by-laws of the bank and the Registrar of Cooperative Societies allowed the bank to take deposits. It is important to note that this is one of the SCARDB's good practices. Other deposit schemes are fixed deposits, daily deposits and recurring deposits.

Currently, the bank has 144 crore rupees as deposit flow from members of the nine districts. Out of that total, 10 to 12 crores come from savings. Employees of the SCARDB and its

branches are also members of the bank, and normally, in other banks, employees get higher rates of interest, but there are no such differences in the SCARDB. For the term deposit, the banks offer 7%- 7.5%, and 4% for daily deposit schemes. This is also a good thing for the bank as the bank has 24 to 25 crore rupees under savings and daily deposit schemes. Other banks offer 2% to 2.5% but SCARDB bank offer more than this, as a result member of the bank prefer to deposit in the SCARDB.

Each branch has an agent for the daily deposits. For example, the agent goes to the members and collects the money, so, every day, 12 branches collect money, which varies from Rs. 10,000 to Rs.65,000. There is very little chance of financial mismanagement because the bank has an SLR (Statutory Liquidity Ratio) of 15% to 20%. If there is no SLR, then the bank might face huge challenges in its functioning. The banks also follow RBI guidelines for reserves (i.e. 15%). So, the bank always reserves 20 to 25 crore rupees for any kind of emergency to ensure the smooth functioning of the bank. Regarding the percentage of SLR, the bank frequently receives advice from NABARD and RCS about how much percentage the SCARDB can keep as SLR.

The bank has a well-defined investment policy approved by the Board. As per the policy, the bank has invested 60% of its funds in public sector banks as a short-term investment, including cooperative banks and the remaining 40% kept in private sector banks. The bank avoided putting all their money in one bank to avoid risk. The investment policy is prepared with some suggestions and instructions from NABARD. At present, the bank invested 80-85 crores as a short-term investment. Additionally, the bank formed a committee with three members for making investment decisions. The committee will examine different interest rates and will recommend a bank that offers a higher interest rate for one year. As a result, the SCARDB earns 15% to 16% as interest rate on their investment resulting in profit of 4 to 5 crores rupees.

Table 5.1: Financial Performance

PARTICULARS	2020-21	2021-22	2022-23
MEMBERSHIP	95655	95872	96122
DEPOSITS	11745.90	12710.17	14447.29
LOAN & ADVANCES	45979.94	47976.81	47316.43

PARTICULARS	2020-21	2021-22	2022-23
RECOVERY	11208.17	10761.77	11696.10
NET NPA %	34.19	31.70	27.04
PROFIT & LOSS	101.23	184.93	-164.83
BORROWINGS	23969.98	24630.01	24816.78
WORKING CAPITAL	53110.19	55270.68	57721.23
NET WORTH	3239.37	3738.64	3686.93

Bank Loan and Loan weaver

The bank has a 473-crore loan, and every three years, the bank recovers 120 crores to 130 crores in cash. Overall, the bank is experiencing cumulative losses due to some provisions; the bank experienced losses in the year 2019-20. Last year, there were some liabilities in the bank due to paying for legal cases and arrears for pay scale; there are still liabilities of seven to eight crore rupees. Therefore, the bank is at a loss. Otherwise, the bank would be in profit.

As far as loan recovery is concerned, the bank significantly increased its recovery rate in the last five years. The bank frequently conducts seminars with the borrowers and tries to understand the reasons for not paying loans. If someone fails to repay on time, the bank applies One Time Settlement (OTS) scheme or else, it auctions the land. Despite last year's natural calamity, the bank experienced positive outcomes by using OTS as it helped to reduce its NPAs.

Unlike in many other states, the loan weaving is not very common for Himachal SCARDB. During UPA I, there was a debt waiver scheme in 2008; at that time, some long-term loans had been waived off. The bank has a higher rate of recovery and since refinances the bank with a government guarantee, the SCARDB never required any loan waiver. However, there were some incidents where borrowers refused to repay the loan as other banks gave loan waivers. But those loans were short-term loan and not long-term. The loan weaver schemes also create problems for the bank because they faced 10% - 15% loan defaulters after implementing loan weaver provisions for short-term loans. Further, some of the borrowers filed cases against the SCARDB citing discrimination.

Human Resource

The employee strength at SCARDB is not very promising. There are 333 posts sanctioned, but the bank is currently operating with 171 employees. There was a recruitment drive that happened in 2017, and the last happened in 2022. The SCARDB has proposed a new recruitment drive in the next year. It is important to note that the apex bank recruited twice in the last 20 years. The bank has 42 vacancies for the position of peon and there is also requirement of assistant managers. In 2017, they had recruited 90 office assistants, out of which 72 had joined and now maybe 60 or 61 are there, and the rest left. In 2022, there was posting of one IT manager and seven assistant manager or recovery supervisor. On February, 2024 the board has passed a resolution that the bank will appoint 15 recovery supervisors and 8 assistant managers. In 2022, the bank appointed all the employees through the Institute of Banking Personnel Selection (IBPS) examination.

Like in any other SCARDBs, there is not much focus on training and capacity building of employees. During the conversation, it was revealed that there is a need for upgradation of skills. Some of the employees have attended training programs organized by the Agriculture Co-operative Staff Training Institute (ACSTI), Shimla in recent years. Some selected employees attended Executive development Program (EDP) at BIRD Lucknow. Another training they received was through an MDP (Management Development Programme) in Bangalore, where they learned about roles and responsibilities at the branch level. However, there has not been any customized training developed and conducted for the employees of HSCARDB. The bank expects NAFCARD to play an active role in offering training services to the employees.

New employees keep getting trained, and the apex bank organize exclusive programs for their training, which includes how to make someone member of the bank, how to manage loan recovery, how to manage data etc. The new recruits are trained within 10 to 15 days of their joining. These training are conducted by branch managers as resource person who shares organizational practices and cultural values.

The bank has employees from different age group with different years of experiences. For example, there are employees with more than 20 years of experience, and there are others with 3-5 years of experience. Many of these old timers are good with staff management, loan recovery and customer handling, but they do not know the data management system. On the

contrary, the new set of employees do not know staff management and customer handling, but understand data management relatively better.

There are not much of conflict among employees. Occasionally there would be disagreements on issues related to allocation of duty, and promotions. The relationship between the apex bank and their branches are cordial and the bank gets required support from their branch personnel.

Training for SCARDB

During the discussion on training needs, the following areas were identified-

1. Lending and Recovery processes, credit appraisal and recent trends in banking industry.
2. Leadership qualities and conflict management
3. IT system related and data management.
4. Customer handling

The study team made some suggestions to make the training efforts more fruitful. There should be a separate and dedicated budget for capacity building. A dedicated budget will make training a priority within the organization. Also explore the training facilities at national level institutes like IIBM, BIRD and IRMA and scan their training calendar. Accordingly, identify people inside the Bank who are shortlisted to attend these trainings. The SCARDB should draft a policy on training and capacity building and execute the same.

Interaction with NAFCARD

The SCARDB maintains a productive working relationship with NAFCARD. NAFCARD offers guidance on functioning of the bank and also shares information about other banks who are performing well. NAFCARD is working towards computerization of these banks and have been able to convince many of these state banks to participate in this process. It was the recommendation of NAFCARD to start the services of saving deposits for the members of the

bank. The SCARDB expects NAFCARD to advocate for offering short-term loans and also help in designing new products for expansion of services. Besides this, there is an expectation that NAFCARD would help in professional development of people working in state bank through organizing regular workshop, and knowledge platforms.

Challenges

The following are the key challenges of HSCARDB-

1. Limitations in offering short term loan

Short term loans are popular product among the members of SCARDB. However, because of regulatory restrictions, these banks can't offer such loans. Earlier, other banks only offered short-term loans, and the SCARDB offered long-term loans, but now, those banks offer short-term as well as long-term loans, whereas the apex bank deals with only long-term loans. As a result, the bank is facing stiff competition in the market. For example, if someone wants to set up printing machines enterprise and for that, the person needs term loans. If the apex bank gives a long-term loan, but for the machinery, the person needs a short-term loan. In this case, the SCARDB cannot give short term loan. On the other hand, other banks in market can offer both short-term and long-term loans. This becomes a much attractive proposition for the customers.

2. Loan against the agriculture:

There is another drawback in the state act that, the loan process can only be done against the land mortgage. Since SCARDB offers only long-term loans for 10-15 years, borrowers cannot go to any other banks for loans during this time. As a result, the majority of borrowers prefer short-term loans; borrowers only come to the bank when they fail to get loans from other banks. Eventually, the number of members also proportionally decreases every year except for the members who deposit their money in the SCARDB and its branches.

3. Limited products

While there is growing market for banking services, the SCARDB is unable to cater to the needs of their customers. Besides regulatory prohibitions, there is also the issue of capacity to design new products. The bank does not have any dedicated department or manpower to assess

customer requirement, conduct market research and then design product. The lack of a dedicated product team created a challenge in expansion of businesses.

4. Lack of expert manpower

There is a shortage of manpower with expertise in specific areas like marketing, law and information technology. The bank highlighted on the need for a legal cell and a full-time legal officer to manage the routine operations of the bank. Currently, the apex bank appoints legal advisors from outside for any kind of legal issues. Considering the future prospects, there is a need to on-board people with specific new set of business skills.

5. No Computerization

The bank heavily depends on manual operation and there is very limited usage of computers. This has resulted in slowing down of operation leading to inefficiency.

Good Practices

1. Land Mortgage:

It helps the apex bank create assets. When borrowers come for a loan, the first condition for the borrower is a loan against the land mortgage.

2. Awareness campaign for giving loans:

The apex bank does not have enough capital to invest in advertisement, brand promotion, etc. As a result, they find it difficult to attract customers. As a part of the promotional strategy, the bank had put up stalls in various *Jan Mancha* programmes organized by state government to promote different loan schemes.

3. Mentoring of new employees

Although there is a lack of formal induction process, the leadership at the bank makes it a point to train the young staff by attaching them to some senior executives. The leadership is committed towards inducting the new recruits towards the cooperative values of the banking services.

4. Expansion of agricultural related services

Although the bank has been focusing on agricultural related services; they have been able to successfully diversify to different types of products catering to the market requirements. There are loan products are suitable not only for farmers but also for agri-based enterprises.

5. Well-functioning Board

The SCARDB has a well-functioning Board with a full time MD taking care of the operation.

Suggestions and Recommendations

The following are the recommendations for HSCARDB

1. Amendment of State Co-operative Act for short-term lending.

Since the short-term lending has a potential and can help the bank to sustain itself, an amendment in the state act can help the bank to grow.

2. Specialized Training

The bank employees should be given training on modern banking practices including new product development and risk evaluation. Apart from the functional training, there is a need to focus on managerial skill enhancement as well.

3. Manpower hiring

The bank should be allowed to recruit people in new position like that of a business development office, legal officer, and product managers. The business development manager can assess the market competition to help the bank to remain attractive and profitable. Product manager can be hired to work on new financial product and developing product bundling.

4. NAFCARD's area of engagement

NAFCARD can play a vital role in connecting bank to different stakeholders including policy makers, investors and customers. Beside developing linkage, the other significant role for NAFCARD is professionalizing the banks through automation and capacity building.

Chapter 6

Jammu and Kashmir State Cooperative Agriculture and Rural Development Bank Ltd.

Introduction

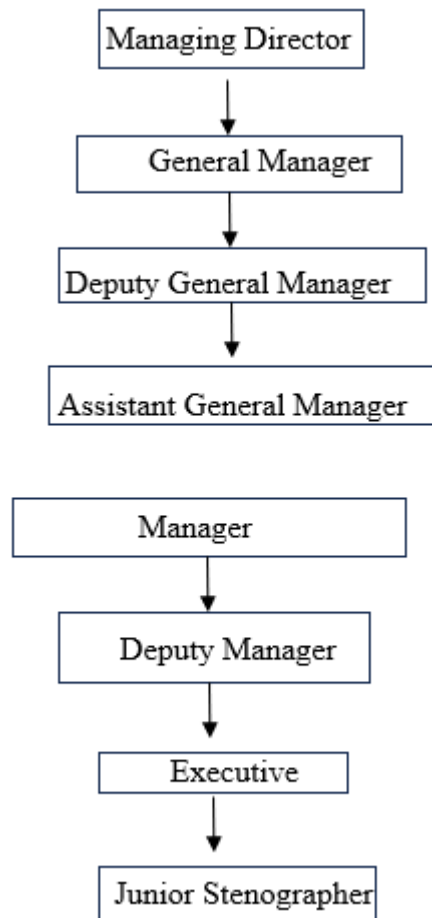
The Jammu and Kashmir State Cooperative Agriculture and Rural Development Bank Ltd. (formerly known as the Central Land Development Bank) was established on October 4, 1962, under the Jammu and Kashmir Cooperative Societies Act 1960 as a Land Mortgage Bank. Initially, the bank's primary objective was to offer loans to farmers for land redemption, land reclamation, debt clearance from moneylenders, and land levelling. The bank aimed to protect the state's farmers from the high interest rates imposed by moneylenders and large landowners. Over time, the bank adapted its lending policies to meet the evolving needs of farmers and began offering long-term and medium-term loans to support their socio-economic development.

Currently, the bank operates through a network of 73 branches across all 22 districts of Jammu and Kashmir, with its head office in Srinagar and two regional offices in Srinagar and Jammu. The bank serves over 99,293 members (Borrowing members - 90538, Non-Borrowing members – 8,755).

Governance

The bank operates in a unitary structure, where the apex bank head office oversees a network of 73 branches that are primarily operating at the *Tehsil* level. The bank branches are managed by Chief Manager/Branch Manager. Additionally, the bank has established two regional offices, one overseeing operations of Jammu division and other overseeing operations of Kashmir division. These regional offices are managed by General Manager (GM). The bank used to have a Board of Governance till 2019. Afterward there was no elected board. The operations are looked after by the Managing Director. The organizational structure of the bank as follows (Figure 6.1):

Figure 6.1: Organization Structure



Sources of Fund

As per Statistical Bulletin 2022, the bank has paid up capital of Rs. 2956.10 lakhs (Government -2637.40 lakhs, Institutions/Members – 318.70 lakhs) and reserves of Rs. 237.63 lakhs. The total borrowings stand at Rs. 616 lakhs. The entire borrowing was taken from the state government. In general, the bank is heavily dependent on the government funds. The bank also has the funds through deposits. The amount of deposit outstanding stands at Rs. 16465.20 lakhs.

Lending

In the beginning, the bank started loaning to farmers for land redemption, land reclamation, debt clearance from moneylenders, and land levelling. Based on recommendations from the National Bank for Agriculture and Rural Development (NABARD), the bank expanded its offerings to include loans for farm mechanization, dairy development, horticulture, minor irrigation, beekeeping, and land development. As agriculture evolved and farmers' credit needs grew, the bank introduced additional lending options, such as loans for transporting agricultural produce from farms to markets. The bank has played a crucial role in advancing horticulture in Jammu & Kashmir and has been recognized nationally for its efforts. Recently, the bank introduced a Rural Housing Scheme, which secured against agricultural land. It has plans to offer loans for transport, tourism and human capital development (education and health).

The bank offers mid-term and long-term loans. The loan tenures vary from five years to fifteen years. Housing loans have a longer tenure of up to 15 years.

Within the bank's loan portfolio, the farm sector accounts for 63 %, the non-farmer sector 19%, and the rural housing 18%. In the non-farm sector, load carriers, trucks, dozers, earth excavators, rice and flour mills are given loans. The credit disbursed to the non-farm sector is constrained as the bank chooses to lend to the farmers instead of a single large client such as warehousing. In the case of the former, the benefits and risks are more distributed than the latter. Overall, the farming loans are performing well compared to the non-farming loans.

Over the years, bank lending has declined for several reasons. First, the bank has not received a refinance from NABARD since 2003. New government schemes cannot be implemented without adequate funds, and fresh loans are not being issued. In addition, the bank cannot use its deposits for lending, as this would create an asset-liability mismatch due to different repayment timelines for the two instruments. Second, recoveries on old loans have been poor for the bank, as these loans are secured against agricultural land, which is difficult to auction, especially due to political resistance. Third, the bank faces tough competition from commercial banks and cooperative banks, which are more technologically advanced. To date, the bank does not have a CBS system. Only the head office and regional branches are computerized, and all the branches are operating without computers. At the branch level, staff members primarily focus on documentation, verification, and recovery, with loan documents being sent to the head office for processing, leading to a lengthy loan approval process that dissuades clients and

prompts them to switch to other banks. Fourth, the absence of a CIBIL score facility has resulted in poor borrower selection, causing repayment issues and defaults. The bank is now utilizing the CIBIL score obtained from other commercial banks for new loans. Lastly, the absence of a board of directors in the bank has negatively impacted the bank's operations and lending. A board would bring diverse backgrounds and experience, enabling better lending decisions and speeding up the loan approval process.

Recovery

For banks, a major portion of the NPAs are from old loans. The total NPA for the bank stands at 2191.26 lakhs, which is 45.89% of the total loan outstanding. There are various reasons for accumulating NPA over time. One, the long-standing insurgency in the state led to severe economic disruption. Regular curfews, shutdowns, and militant activities crippled businesses, including agriculture and rural livelihoods, leaving borrowers unable to generate enough income to repay their loans. Farmers, who were the main loan recipients, often abandoned their lands due to violence and displacements. They could not continue agricultural activities, leading to high loan defaults. Second, political protests led economic activities to come to a standstill. The region's economic activities, tourism, and trade came to a standstill, causing repayment problems due to loss of income sources.

The bank as recorded a collection rate of 32.41% in 2022-23. The bank is recovering the loans through OTS and normal recovery. Under OTS, 50% of interests and 100% of penal interests are waived. The borrower had to pay only the principal and 50% interest. At times when OTS is not available, the borrowers settle debts through negotiation. The bank issues legal notices to the borrowers for recovery. The borrowers respond to these notices and negotiate with the bank to settle the outstanding loans. A substantial share of the bank recoveries comes from borrowers who choose to repay their loans voluntarily in order to release the mortgage on their land. These borrowers repay loans for reverse mortgaging land for sales to take advantage of the increasing land values or use the land as collateral for new loans.

Human Resource

The bank is currently facing a staff shortage. Across its 73 branches, there are only 201 employees, of which 168 are male and 33 are female. At tehsil-level branches, only two or three employees generally conduct documentation, verification, and recovery tasks. Due to the

lack of sufficient staff, loan documents are sent to the head office for processing, resulting in delayed loan approvals prompting clients to seek loans from other banks. In addition, branch-level employees lack the necessary loan processing skills, causing loan applications to be forwarded to the head office without proper scrutiny. The bank has not hired any technical staff during the last five years.

Training

For the past 30 years, bank employees have not undergone any training. There is a significant need to develop their professional skills. Training should focus on areas such as risk management, fraud prevention, regulatory compliance, operational efficiency, technology adoption, and customer service.

Compliance and Conflicts

The state cooperative bylaws are conducive to operating the bank. There is flexibility with the bank in amending the bylaws. The registrar has the power to amend the bylaws. The bank did not experience any issues in the past. From time to time, the bank was able to make all the required amendments to the bylaws.

Good Practices

Unitary Structure

The bank operates under a unitary structure, and the Apex Bank oversees staff management. It has the authority to transfer employees between branches, which helps in controlling corruption or bribery at the branch level. With the implementation of computerization and CBS (Core Banking System), the bank's operations will become more robust, efficient, and cost-effective. The bank has requested the registrar to proceed with computerizing its branches.

Use of CIBIL score

The bank has started using CIBIL to scrutinize all loans, which has improved the borrower selection and resulted in better repayment rates for new loans compared to previous ones. However, the bank does not have its own CIBIL membership and instead obtains CIBIL scores for borrowers from other commercial banks.

Challenges

Lengthy loan sanctioning process

Due to inadequate staffing and the absence of computerization in bank branches, loan applications are being processed at the head office, leading to delays in approval and causing inconvenience for borrowers. As a result, the bank is losing reputation and customers.

Absence of elected board

The absence of an elected board has negatively impacted the bank's operations and lending. A board would bring diverse backgrounds and experience, enabling better lending decisions and speeding up the loan approval process.

Non-availability of CIBIL facility

Like other state SCARDBs, the bank lacks CIBIL membership. Since land auctions are not a feasible option for the bank to make recoveries, the CIBIL score can serve as a tool to select creditworthy borrowers.

Suggestions

Training of staff

The bank needs to recruit more professional staff and train existing employees. The training should be focused on risk management, fraud prevention, regulatory compliance, operational efficiency, technology adoption, and customer service.

Presence of an elected Board

The bank requires an elected board to ensure the efficient management of its operations. With an elected board facilitates quicker decision-making and engages in more effective negotiations with the government.

Managing Director's Opinion on SCARDBs

The SCARDBs are registered under the state cooperative act. They lack the regulations of the RBI, which are strict regulations and ensure efficient operations and long-term sustainability of the banks. Had SCARDBs been regulated by the RBI, like cooperative banks, poor financial conditions and inefficient management of SCARDBs could have been avoided.

Chapter 7

Karnataka State Cooperative and Rural Development Bank

Introduction

The Karnataka State Cooperative Agriculture and Rural Development Bank (KSCARDB) was formed in 1929 to help farmers avoid being taken advantage of by private lenders. Originally named the Mysore State Cooperative Land Mortgage Bank Ltd, its primary goal was to offer farmers long-term loans to pay off debts from existing money lenders (loan sharks) that kept them under perennial indebtedness. It was also a time of relative prosperity of agriculture in the State of Mysore, and it was estimated that if the farmers (usually the then large landowning class) could be freed from the clutches of the local money lenders who charged usurious amounts, the agriculture production would benefit. It was a coincidence that the formation of the land mortgage development bank in Mysore State also coincided with the great economic depression in the United States of America, which had a ripple effect worldwide. There was a greater need for cash flow to keep up the production process, and the Bank met with favourable support from the State of Mysore (Hukh 1940). The second reason for creating the Land Mortgage Bank was to improve the conditions of the agricultural fields, improve the conditions of the land, and bring more areas under cultivation, which needed substantial financial resources. Thus, a long-term, farmer-owned lending institution was created to fill the appropriate credit gap in the rural sector. By adopting the cooperative form of organization, the farmers could keep the loan sharks and other profit-seeking organizations out of the bay and securely transact in an institution controlled by them. By 1930-31, the Bank expanded rapidly, and 2,213 societies were established with a membership totalling 1.38 lakhs and a working capital of Rs. 1.89 Cr. (Hukh 1940).

Mobilizing funds for long-term loans to farmers has always been a challenge. There was a wide gap as most farmers reeled under the pressure of money lenders who charged exorbitant interest for loans provided by local money lenders. Thus, the cooperative Bank, with an avid objective of providing long-term loans to farmers to free them from the clutches of the money lenders, came into existence. The cooperative form attracted farmers, helped the nascent organization mobilize financial resources from the members, and encouraged thrift among rural people.

According to Akkad (1959), the Land Mortgage Bank of Mysore was doing reasonably well, along with a few other Banks. He cites that out of 15 land development apex banks in the country, only six were doing fine. The size of operations of all these banks was relatively small, with outstanding loans of all banks put together stood at Rs. 11.51 Crore till the end of 1956-57. One of the primary reasons was that during the initial days of the banks, the finances were raised through the sale of debentures, but this route to finance their activities dried down over a while (Akkad 1959).

The Bank underwent an inevitable transformation after the creation of the Agricultural Refinance and Development Corporation (ARDC) in 1963. Eventually, it changed its name to the Cooperative Land Development Bank Ltd. In 1982, NABARD was created, which merged the agricultural credit department of the Reserve Bank of India (RBI) and ARDC's operations to support farming and rural development credit activities. With the expansion of its mandate, the Bank was renamed the Karnataka State Cooperative Agriculture and Rural Development Bank (KSCARDB) Ltd. Presently, the bank functions within a federal structure, which means that it operates as a network of independent but interconnected entities. The Primary Cooperative Agriculture and Rural Development Banks (PCARDBs) are individual autonomous bodies and are members of the KSCARDBs. However, there are 183 taluka-level PCARDBs across 175 talukas in the State, with two PCARDBs currently under liquidation. The KSACRDB has 25 branch offices at the district level, responsible for overseeing the activities of the PCARDBs within their jurisdiction.

Agriculture: A brief overview of Karnataka

To appreciate the role and function of the Bank in the State of Karnataka, we must understand the State's agricultural credit climate. The 10th Agriculture Census Report (2015-16) of the State shows that it has very healthy access to credit despite variations at a local level. The landholdings are more skewed to marginal farmers having less than 1 hectare of land (see Table 7.1). The Government of Karnataka has brought in special programmes for the cultivation of millets with a subsidy of Rs. 10,000/- per hectare. It is difficult for marginal farmers, who constitute more than 50% of all landholders, to shift as the shift may directly affect their food security. However, many new-age farming, processing, and agriculture startups are possible by involving medium to large farmers, which can be showcased later for others. It would also open

up a strategic sector for long-term mortgage loans for the Bank. Similarly, farmers' groups in cooperatives and FPOs can be promoted to create value-added products from alternative grains like Millet, etc. In this case, the Bank has to move away from the long-term land mortgage system to a relatively short-term Agri enterprise development mode.

Table 7.1: Distribution of several Operational Holdings and Areas operated, according to ownership status, by major size groups for all Social Groups in the State, 2015-16.

Sl. No.	Category of holdings with size groups (Area in ha)	Total No of holdings(wholly owned & self operated) (Number in 000's)		Total operated area (wholly owned & self-operated area) (Area in 000's ha)	
		2015-16	2010-11	2015-16	2010-11
1	2	3	4	5	6
1	Marginal (0.01 - 0.99)	4767 (54.91)	3848 (49.14)	2080 (17.62)	1851 (15.22)
2	Small (1.00 - 1.99)	2214 (25.50)	2138 (27.30)	3107 (26.32)	3020 (24.83)
3	Semi-Medium (2.00-3.99)	1193 (13.74)	1267 (16.18)	3188 (27.01)	3393 (27.90)
4	Medium (4.00-9.99)	451 (5.20)	511 (6.52)	2569 (21.76)	2903 (23.87)
5	Large (10.00 and above)	56 (0.65)	67 (0.86)	861 (7.29)	994 (8.17)
Total (All Categories)		8681	7832	11805	12161
		(100.00)	(100.00)	(100.00)	(100.00)

Note : 1) Figures within the bracket indicate percentage of holdings

2) Area & holdings other than wholly owned & self operated in all categories is Negligible

Source: Government of Karnataka Report on Census Of Agricultural Holdings In Karnataka 2015-16.

<https://des.karnataka.gov.in/storage/pdf-files/ARC/All%20Part-II%20Report.pdf>

Governance Structure

The Bank's governance structure involves a board of PCARDB directors, who elect a Chairman and form the core leadership team. This structure operates under the Karnataka State Cooperative Act. KSCARDB operates as a federal structure, which means it operates through PCARDB branches. Additionally, the branches of KSCARDB and PCARDBs are managed by

their respective board of management, which consists of elected directors, government nominees, and ex-officio directors. Given the federal structure, the KSCARDB has no direct control over the decisions of the Board of PCARDBs. The lack of direct control also raises several issues in monitoring and oversight. Secondly, each PCARDB Board often makes decisions based on their immediate challenges that lack the strategic perspective that the state-level Bank would have particularly relevant for the state and centre-level policy environment. Given the decentralized structure and relatively less flexibility in raising funds through the sale of debentures or attracting deposits, the Bank has the problem of access to capital to expand its operations. It largely depends on refinancing from NABARD, which has associated challenges.

Lending

Regarding land mortgaging, for example, when a farmer mortgages agricultural land and cannot repay the loan, the apex bank follows the government guidelines. Sometimes, enforcing government guidelines is very difficult, resulting in the Bank experiencing overdue payments. Also, the Bank has limited options for recovering the loan. For instance, some people take advantage of this issue and become wilful defaulters despite needing more money to repay the loan. As per the existing provision, the apex body has full authority to auction the land, and anyone can buy the land, including non-farmers. A couple of years back, the apex body echoed the system followed by the apex banks of Gujarat and Maharashtra as far as the land auction was concerned, where only farmers could buy the auctioned land. Still, recently, a law has been amended in the State, allowing non-farmers to purchase agricultural land. However, it becomes challenging to auction the land to recover the dues as farmers from other areas are often reluctant to participate in the auction for fear of facing resistance in the villages. The local farmers may be unwilling to take control of another person's land. This fact is also well known to the borrower farmers, so they usually default on the loan. However, one major challenge that the farmer faces is the need for more availability of future loans from any source, as the land in question is already mortgaged. The farmers take the initiative to repay when they are pressured to borrow money the next time.

Regarding long-term lending, the KSCARDB offers different schemes; the minimum is five years, and the maximum is 14 years. For example, loans for firms are for 14 years, tractors for

five years, and it depends on the other schemes. Due to government restrictions, KSCARDB cannot offer crop and short-term loans to farmers. Exceptionally, for plantation loans, farmers need to wait a few years for revenue and repay the loan. In this case, the Bank offers a moratorium period for those who take plantation loans. Under this period, farmers are supposed to pay only the interest portion after the EMI starts. Further, it also mentions that the apex body does not do direct lending despite being a financing bank; lending occurs between branches and farmers.

Regarding short-term lending, the apex body highlights that under the Kisan Credit Card (KCC), farmers can take up to five lakhs loan at a lower interest rate. As a result, farmers' short-term fund requirements are easily met, and farmers need not apply for any other loans. This is one of the problems faced by the KSCARDB. At the field level, money fungibility in long-term loans is possible. For example, if a farmer takes ten lakhs rupees as a crop loan, in the first year, he receives half of the amount, and in the second year, he will receive the remaining amount, which is not adjusted against his first instalment. Later, he will borrow from somebody else if he wants more money. However, there is a provision in the Bank that if any farmer becomes a defaulter, the loan facility will not be available for them.

Contradictorily, there are fewer defaulters in short-term loans or crop loans. For example, farmers receive up to five lakh rupees with low interest under KCC, which is sufficient for a farmer to manage his agricultural expenses. There is no point in taking a long-term loan against the land mortgage. However, short-term lending is unavailable for the KSCARDB and its members, and the default rate would be higher for long-term loans. Consequently, the SCARDB is experiencing a 30% loan default rate. Additionally, the Bank has a provision that if a farmer cannot pay the first payment cycle, they will be considered a defaulter.

When it comes to decisions regarding Non-Performing Assets (NPAs), the apex body makes these decisions based on NABARD's guidelines, with members of PCARDBs playing a crucial role due to the federal structure. Loans are disbursed at the PCARDBs level, and NPA calculations occur at both the PCARDBs and the SCARDBs levels. Notably, the SCARDB focuses on calculating NPAs at the PCARDB level rather than assessing each farmer. This approach allows the SCARDB to identify PCARDBs that are financially in good or evil positions.

NAFCARD's opinion on lending and recovery

The Karnataka State Cooperative Agriculture and Rural Development Bank (KSCARDB) had a higher recovery rate for loans issued during the previous decade. The default rose subsequently as the borrowers did not repay most of the time for two primary reasons: a) the spent the surpluses generated from the produce in the operations and b) meeting consumption needs at the household level. The reasons mentioned above were further fuelled by the farmers' expectations about loan waiver schemes. The expectations were not often unfounded, as the government would often announce loan waiver schemes. They also partially banked on the perceived inability of the Bank to take possession of their land. As a result, the demand for repayments accumulated, and the collections decreased locally. Recently, thanks to the efforts of the Bank, the government introduced a new scheme where farmers with overdue loans only need to pay back the principal amount. A loan is considered overdue the next day after its due date, whereas a loan is labelled as an NPA only after defaulting for three months. This new policy aims to alleviate the financial strain on borrowers by simplifying the repayment process.

Among 183 PCARDBs, 44 are classified as green banks, achieving a 100% loan repayment rate, and 15 are considered chronic banks with a repayment rate below 30% of total loans. Geographically, the high-performing PCARDBs are located in North Karnataka. Still, coastal regions and some parts of Southern Karnataka also show reasonable recovery rates due to their agricultural development.

The apex bank has provided specific reasons for the decrease in chronic banks. For instance, a PCARDB in Belagavi was involved in a scheme named 'Priyadarshini', which provided loans for lift irrigation through society. This PCARDB faced a challenge because the government needed to support the subsidy for these programs, as the loans were extended to institutions, not individuals or farmers directly. However, following government norms, loans are extended to societies with a ten per cent security provision. The reduction in chronic defaulters is attributed to these government norms and the systematic recovery efforts by PCARDBs.

Regarding consumption loans, the SCARDB offers long-term schemes, but currently, PCARDBs do not issue consumption loans (such as for cold storage, warehouses, etc.) due to

a lack of demand. In the past, a few PCARDBs provided warehousing loans under a NABARD scheme, which saw a 100 per cent recovery rate in those loans. The Bank could never directly act against the PCARDB's overdue loans and non-performing assets as a federation.

Before offering a loan, the Bank carefully checks if a loan is feasible and if the person requesting the loan meets the requirements. When it comes to loans for plantations, the Bank only offers them for a period between five to seven years. According to their rules, the Bank does not give out loans lasting less than five years. The District Cooperative Central Bank (DCCB) provides options for people needing loans for a shorter time.

Referring to short-term loans, except crop loans, the Bank highlighted that it cannot offer consumer durable loans or other short-term loans. The DCCBs offer both medium- and short-term loans. Most of their loans, about 70% to 80%, are short-term, meaning they last for less than a year, and they offer loans for up to a maximum of three years. The apex bank provides long-term loans at a 12% interest rate without subsidy, which is quite attractive.

Apex Bank's opinion on loan to FPOs

Loans are sanctioned through PLDBs after being assessed at the PCARDB level. The rules state that the Bank cannot give loans directly to a group of farmers or Farmer Producer Organizations (FPOs) because there needs to be a single farmer or a member of the PCARDB who puts their land as collateral at the PCARDB. For instance, if an FPO requires a loan for cold storage and has enough land to serve as collateral, the Bank cannot issue the loan directly because the process involves an individual's land. Therefore, they advise the FPO to seek a loan from NABARD. When financing an FPO, it is also understood that the liability extends to the individual properties of the partners as well. Suppose ten people establish an FPO as a company, with their personal properties as collateral; the Bank cannot offer a loan directly to the FPO. This situation encounters the issue of limited liability, meaning the partners' liability is restricted to the share they own in the entity, and it cannot exceed that. The FPO's underlying asset value is often insufficient to cover the loan amount. The apex bank previously discussed this concern: any entity registered under limited liability prevents the branch from seizing anything beyond its shares. Although NABARD sometimes encourages banks to offer loans to FPOs, the banks require time to process these loans, especially for long-term credit and infrastructure projects.

Lending Process

Regarding the existing loan process, the qualitative information corroborates that there is no unified loan assessment process, a system of verification and disbursement across different PCARDBs. First, the paper verification happens at the branch or district level. In some instances, individual farmers might receive direct visits for physical verification, primarily by the district manager, followed by the branch manager, who then mobilizes a supervisor for a field survey. They emphasize that loans are sanctioned based on specific schemes, and once approved, the loan application is forwarded to a PCARDB. They note that this procedure is primarily for housing or mortgages rather than short-term loans. According to the Bank, the loan process requires considerable time as it goes through several steps. Since the loan process occurs at the PCARDB level, a PCARDB office receives 10-12 applications daily from 10-12 different areas, of which 4 or 5 eligible farmers are selected by the supervisor for loans.

In the next round of the loan process, the Bank would ask beneficiaries to bring some documents. So, the overall process can be completed at the PCARDB level, and the Bank would receive five to six applications from particular areas by conducting two to three meetings with the members desiring loans. The second important thing could benefit the supervisor's follow-up visits of all loans, including recovery, which would be completed in a day. The apex bank argues that the problem with PCARDBs is that one supervisor or two supervisors are assigned at one PCARDB and cover a vast area, which makes it very difficult to process loan applications and recover.

Sources of funds

Regarding sources of funds, NABARD (95%) and Fixed Deposit (5%) are the only sources, and the Bank has never defaulted to NABARD. The Bank has a Rs. 700 crore rupee fixed deposit, which is used for lending purposes only.

NAFCARD's Interaction with KSCARDB

NAFCARD regularly interacts with the Karnataka SCARDB, assisting with various banking-related issues. For instance, the federation conducts a national seminar annually to discuss the problems facing its member banks and explore their future potential. Board members of the SCARDB almost always attend these seminars.

Human Resource

The loan process is verified at the Apex Bank, where legal and technical officers review applications. There are only 232 employees at the Bank, which is against the total sanctioned staff strength of 485, which states that the Bank is seriously understaffed, which implies that the staff must work twice as hard to achieve the desired results. At the recovery section of the head office, there are only four staff members. Thus, these officers are available at the apex level. However, there is a need for these officers at the branch level, too. The apex bank and its member banks are experiencing a shortage of human resources across various departments, leading to slow recovery processes at the branch level. A cursory glance at the staffing situation at the Bank draws a dismal picture. Recovery, one of the most important aspects of a healthy banking service, has the lowest number of employees in place (04). Most of the senior positions of DGMs and GMs are lying vacant, which may lead to a lack of direction and proper monitoring of the Bank's functioning.

Training

The Bank receives technical training from NAFCARD, the Bankers Institute of Rural Development (BIRD), and the National Institute of Rural Development and Panchayati Raj (NIRDPR). Bank employees participated in a NAFCARD training program in Belgaum, Karnataka, a few years back. Moreover, the Bank has sought training in lending and recovery processes from NAFCARD. During FY 2023-24, the Bank had about 193 employees trained by NIRB Bangalore. The training programmes included business development, project appraisal, fraud prevention, internal checks, recovery management, etc. The topics covered are crucial for the management of the apex bank.

Compliance and conflicts

Currently, the Bank is facing no compliance-related conflicts with the State. Routine inspections are conducted annually by the Bank to ensure regulatory standards. The primary challenge is related to non-payment, which remains a significant issue. In terms of legislative adherence, the Bank does not violate any of the bye-laws of the State Cooperative Act.

Good Practices

Loan diversification: The Bank offers diverse loan portfolios under state acts, such as under-integrated land development schemes, farm mechanization, fencing, bundling, levelling, land development, etc. The Bank also offers loans for tractors, cold storage, warehouses, and FPOs, and they experience a 90% recovery rate. Under the crop loan schemes, the Bank gives grapes, coconut, and coffee loans for a five to seven-year moratorium period.

High Recovery Rates: The Apex Bank is experiencing higher recovery rates in the Coastal and Southern Karnataka regions.

Robust verification process: Branch and technical officers conduct field visits regularly and verify before loan sanctioning.

Digitizing Land Records: The Apex Bank and its member banks used the Bhumi App and Cauvery software for land record verifications.

Challenges

Inefficiency in loan processing system: The Apex Bank needs more marketing counselling and supervision. For example, the supervisor has to visit ten villages to process loans for ten applications. Once the loan is sanctioned, the supervisor must follow up daily on one loan. Many processes can be automated at the branch and head office levels for concurrent monitoring and customer service management.

Changes to loan offerings due to restrictions and fund limitations: In the past, there were three types of loans offered by the Bank- short-term, medium-term, and long-term, without any limits. However, due to state acts, the Bank cannot issue short-term loans anymore. Additionally, from 2015 onwards, KSCRADB stopped short-term loans. Also, due to a shortage of funds, they could not start this, and there was also a fund limitation from NABARD. In the case of organizations like NCDC funding KSCARDB, the Bank cannot offer short-term loans due to government restrictions.

Limited control over branch activities: Loans were disbursed through PCARDBs to farmers, and sometimes PCARDBs were not interested in recovery. Despite funds disbursement from SCARDBs to PCARDBs, they cannot interfere with PCARDBs operations as they were autonomous bodies.

Suggestions and Recommendations

Human resource shortages in loan processing need to be addressed: The loan process is verified at the Apex Bank, where legal and technical officers review applications. Thus, these officers are available at the apex level. However, there is a need for these officers at the branch level, too. The apex bank and its member banks need more human resources across various departments. The lack of human resources leads to subdued recovery processes at the branch level.

Must bring a strategy for implementing commercial bank tactics in central banking to enhance loan outreach: The Apex bank must implement a loan processing mechanism used in commercial banks and field officers doing at commercial banks. For instance, they conduct loan seminars because this is a potential area where the village office or panchayat office makes some advertisements on Saturday or Sunday. Further, they distribute pamphlets and explain various schemes and subsidies available in the Bank, including the loan process and procedure. It can be anticipated that if some 20-25 people assemble there, maybe 10 or 15 people would show interest, and they would be given applications, which would be collected initially.

Oversight and Recovery: The Apex Bank should monitor PCARDBs closely, especially those with low recoveries.

Branding and Advertising: Enhance visibility and trust through advertising and branding efforts.

Conduct Training Programs: Conduct training programmes on lending and recovery processes for staff with the support of NAFCARD.

CIBIL Score Integration: Apply CIBIL score mechanisms for loan evaluations with the help of geotagging. Use AADHAR-PAN mapping for geotagging during loan processing. This mechanism will help the KSCRADB to monitor farmer's loan activities.

Staff Recruitment: Increase staff at branch levels to improve operations, as recruitment has not occurred since 2018.

Chapter 8

Kerala State Co-operative Agricultural and Rural Development Bank Ltd.

Introduction

The first land mortgage bank (LMB) in India was established in Punjab in 1920. Soon similar land mortgage banks were started all over the country. The first Travancore state LMB began in 1931. Similarly, in 1935 Cochin central LMB (CCLMB) began in central Kerala. Later in 1938, three LMBs were formed in the Malabar areas: Kozhikode, Palakkad and Thallassery. These were affiliated with the Madras Central LMB in Malabar province. Travancore Credit Bank formed as a joint stock company in 1938. The All-India Rural Credit Survey Committee report was published in 1954. The committee recommended reorganisation of the cooperative credit structure in India. Based on the committee's recommendations, the Kerala Central Cooperative Land Mortgage Bank (KCCLMB) was formed on 4th October 1956 and resumed its functions from 25th October 1956 with Rs. 26.53 lakhs share capital fully contributed by the government. The first president of KCCLMB was Sri K R Elangath. KCCLMB was registered under Kerala Cooperative Societies Act – 1969. A new act called KSCARD Banks Act was enacted on 30th July 1984 exclusively for ARDBs in Kerala. Simultaneously, the KCCLMB was converted to Kerala state cooperative agricultural development bank (KSCADB). Furthermore, the act was emended in 1990 and KSCADB was changed to Kerala State Cooperative Agricultural and Rural Development Bank Ltd (KSCARDB).

Important Milestones

The KSCARDB started giving loans for rural development including non-farm sector loans and rural housing loans in 1990. The bank introduced Development Action Plan in 1996 and computerisation was started soon in 1998. Some other notable milestones include introduction of good pay master scheme in 1998, introduction of gold loans in 2003, introduction of short-term loans with NCDC funds in 2004, introduction of traders loan in 2005, introduction of new logo for the bank in 2006, educational, consumer and marriage assistance loans started in 2007 and in 2012 the bank started mobilization of deposits (both fixed deposits and savings deposits). The government of Kerala approved a scheme for allowing fixed deposit mobilization by PCARDBs via monthly savings schemes or recurring deposit scheme in 2022.

Further, in 2023, as per Section 80(p)(2)(a)(i) of the Income Tax Act, Hon. Supreme Court gave exemption to KSCARDB from payment of Income Tax since the bank does not come within the meaning of Sec.5(b) of BR Act, 1949. Accordingly, the income of KSCARDB is eligible for deduction under Sec.80(P). This helped the bank avoid the payment of a significant amount as income tax from 2007-08 onwards and the judgment obtained in favour of KSCARDB is a remarkable achievement for all ARDBs. KSCARDB has been one of the top performing SCARDBs and bagged the award for Outstanding Performance from the NAFCARD on 16th June 2022.

The bank preforms 3 types of operations and activities :

1. Resource Mobilization
2. Credit delivery
3. Promotional activities

Governance Structure

Management

An elected board of directors governs the bank. The new board with 18 elected directors took charge on 4th September 2023 after the election on 15th May 2023. Additionally, two technical experts and two government nominees were also co-opted. The current President is Adv. C.K. Shaji Mohan and the Managing Director is Sri. Shaji. V Nair IAS. Every 5 years there is an election. The members of the PCARDBs elect board for their board of governance. Each PCARDB sends a delegate to the chairman's office. The board for the SCARDB is elected from these delegates.

KSCARDB performs audits three times. The cooperative department conducts an audit. NABARD and Chartered accountants also prepare their own separate audits.

Organisation Structure

The KSCARDB follows a two-tiered federal structure. The SCARDB (Apex level) head office is located in Thiruvananthapuram. There are 14 regional offices in each district. Furthermore, there are two inspection wings: the north zone at Kannur and the south zone at Thiruvananthapuram. The Institute for Training and Management (ITM) is situated in Kochi.

There are in total 77 Primary Level banks (PCARDBs) at the taluk level. This total was 63 in 2012, rose to 75 by 2015 and currently it is at 77.

Membership

As per the bylaws, the KSCARDB's membership is open to the state government, all primary banks in state of Kerala, Kerala State Electricity Board, and any other corporate if such body is approved by the government.

Lending

The KSCARDB offers two different lines of lending: short-term and long-term loans.

The **Long-term loans** comprise of the following:

1. Ordinary long-term loan
2. Agriculture Rural Finance (ARF) scheme loan
3. Non-farm sector loan
4. NABARD housing loan
5. Joint Liability Groups (JLG) loans

The long-term ARF scheme loans are given for the following purposes:

- a. Minor irrigation
- b. Land development
- c. Purchase of agricultural land
- d. Farm mechanisation
- e. Plantation & horticulture
- f. Dairy
- g. Poultry
- h. Other agriculture loans
- i. Sheep, Goat, Piggery (SGP)
- j. Bio-gas
- k. Fisheries

All loans disbursed for agricultural purposes have a maximum loan amount limit of Rs. 100 lakhs. The bank's margin is between 5 -15 %. The agricultural purpose loans have a repayment period of up to 15 years with a grace period of up to 7 years. The repayment period of any loan is decided based on the economic life of project.

The bank also provides following types of long-term non-farm sector loans:

- a. Enterprise loan scheme
- b. Educational loans
- c. Small water and road transport operators
- d. Swarojgar credit card
- e. JLG loans

The bank provides long-term rural housing loans under its NABARD rural housing scheme for purposes like construction of new house, purchase of ready built house / flat, and repair / renovation of existing house.

The **Short-term loans** include the following:

1. Gold loan
2. Consumer durables loan
3. Second hand vehicle
4. Trader's loan
5. Cash credit
6. Jewel purchase loan
7. marriage assistance
8. Rubber slaughter tapping

Among these short-term loans there are further two types of loans that are disbursed by mobilizing deposits -

- a. Personal Loan Scheme
- b. Pilgrimage / Tourism Loan

All the loans are secured loans. The PCARDBs accept following types of securities from the borrowers:

- a. Land as security
- b. Assets created out of loans
- c. Salary certificate - for loans up to 2.5 lakhs
- d. Movable or immovable property

Loan sanctioning process

KSCARDB has deputed agricultural graduates in each PCARDB. These are properly trained to appraise the loans when they make field visit. Another set of officers from the office of registrar of co-operatives deputed by the government visit the farm sites and measure appropriate valuation for the loans. Hence, the loans are appraised by agricultural officers with specialised knowledge of the field and the loan amount is based on the valuation suggested by the valuation officers. Finally, the loans are sanctioned by the bank's board based on the appraisal recommendations received from the agricultural officers and the valuation officers.

Loans up to a certain amount can be sanctioned by a PCARDB itself at their level. However, there are multiple slabs allotted to different PCARDBs based on their previous recovery performance and NPA levels. Any SCARDB with the highest slab can disburse loans of up to 55 lakhs. The slabs decided by the KSCARDB are 10, 15, 25, 35 and 55 lakhs. Based on a PCARDB's performance it is allocated a slab which determines the maximum loan amount it can disburse. Similarly, the regional offices can sanction loans up to 75 lakhs. Finally, loans above 75 lakhs are approved by the Kerala SCARDB. Such loans are very rare and are primarily from the non-farm sector.

The minimum duration for loans is 5 years and the maximum duration is about 15 years. Dairy loans are given for about 5 years. For plantation projects, the loans are given for a longer term of 15 years as the income generation happens after an initial 4-5 years. The loans for farm mechanisation such as tractor loans or loans for other equipment are given between 5-9 years.

The agricultural loans by KSACRDB have been slightly more difficult to recover. In case of short-term loans, the KSCARDB is giving jewel loans at 9% and other short-run loans also have interest rates that are slightly higher compared to other banks. All loans disbursed by the bank are secured. Unfortunately, KSCARDB does not receive benefits under any of the interest subvention schemes. In spite of high interest rates borrowers have continued to take loans from KSCARDB because of convenience, familiarity and trust. The bank has ensured loans are accessible easily to even the poorest section. For example, the commercial banks sometimes may ask borrowers for CIBIL score. The farmers or rural people from the poorer section do not get loans from commercial banks in such instances, however, they can still avail loan against a security from the cooperative banks. The bank has no plans to start using of CIBIL score to assess borrowers. Such practice may discourage the farmers and they might skip the bank if the bank insists for that. The KSCARDB has obtained a BB+ credit rating. It is the only

SCARDB to have obtained a credit rating. The bank officials believed the credit rating may help KSCARDB seek financial assistance from institutions or agencies beyond NABARD.

The KSCARDB has been lending to JLGs but has not been able to lend to SHGs. The bank is allowed to lend to SHGs but it cannot provide other banking services like the facility to open banks accounts. The SHGs need bank accounts. However, if the bank had the permission to provide bank account facility, the KSACRDB's interest rate still remains uncompetitive. Without interest subvention schemes KSCARDB interest are very high. JLG loans have shown good response for certain primaries. These JLG loans are given for both agricultural and non-agricultural activities.

In case, KSCARDB is looking into expanding its lending to a new segment, its bylaws allow the bank to introduce new schemes. The bank is willing to finance FPOs in the future. Previously, the bank had given loans to some FPOs but later these loans were discontinued. However, the bank feels there is scope in lending to FPOs as well. The government has not yet approved the permission to KSCARDB for financing of FPOs. The two organisations approved to give loans to FPOs by the registrar of cooperative are the Kerala State Cooperative Bank and Kerala State Cooperative Marketing Federation. KSACRDB is also currently not allowed to lend to APMCs as per its bylaws. The KSCARDB has sent a proposal to NABARD for allowing KCC loans as well.

The sector wise lending proportion indicates that Rural housing loans has the highest share of 34.18% in 2023-24. The other major sectors were farm sector loans and gold loan with a share of 27.33% and 18.21% respectively. The non-farm sector had a share of 9.67% and the remaining 10.61% comprised of other short-term loans.

1. Promotional Activities

- Best Farmer awards in every five years
- Recovery performance awards for best performing PCARDB
- Imparting Organisational Development Initiative Training Programmes in PCARDBs
- On-site training programmes for weak PCARDBs

Sources of Funds

The common sources of funds for KSACRDB:

- Share capital
- Deposits
- Loans/refinance from other financial institutions such as NABARD, NCDC, NHB etc.
- Loans from other banks (SBI, Kerala Bank, Federal bank, etc.)
- Loans from the state government
- Other borrowings and fees

NABARD refinance has been the main source of funds for KSCARDB. It comprises of around 90% of the total funds. Till 2011-12, the funds from NABARD were availed by floating debentures. After 2012, NABARD started to give direct loans. KSCARDB is involved in short-term lending. For the short-term loans the bank uses both NABARD funds and its owned funds. The average annual refinance from NABARD during the last five years is Rs. 1325 crores whereas the average lending is Rs 2400 Crores. The additional lending was managed through owned funds.

Although the bank takes deposits, they hold very small proportion of the total funds available to KSCARDB. In recent years the bank has not taken loans from other banks like SBI, Federal bank or the Kerala State Cooperative Bank. It has the provision to borrow from these institutions as well. The bank has completely repaid the government share capital.

As it is apparent, the KSCARDB is majorly dependent on the refinance received from NABARD. However, the bank officials complained about the high interest rate and high commission for government guarantee. Currently, KSCARDB is receiving refinance from NABARD at 8.35%. In addition, the government guarantee also requires a hefty fee of 0.75% making loans costly and uncompetitive. Hence, for the borrower the interest goes to around 11%. In comparison, interest subvention schemes are available for Public Sector Banks, Regional Rural Banks and Co-operative Banks for short term credit up to Rs. 3 lakhs ⁷. Furthermore, short-term credit up to Rs. 3 lakhs through Kisan Credit Card is made available

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<https://www.nabard.org/content1.aspx?id=602&catid=23&mid=23#:~:text=The%20Gol%20has%20extended%20the,New%20Agricultural%20Marketing%20Infrastructure>

at 4%, owing to interest subvention and prompt repayment⁸. Therefore, the interest rate offered by KSACRDB does not remain competitive. Also, all NABARD refinance requires a government guarantee. The government charges a hefty commission on these guarantees. Currently, the guarantee commission is fixed at the rate of 0.75% of the loan outstanding and additional interest as of 31st March.

The KSCARDB has not had any issues in availing the government guarantee or receiving refinance from NABARD. The government has always given the guarantee on time and the bank has been able to get NABARD refinance without any hassle.

Recovery

The KSCARDB undertakes many activities as a part of its recovery action plan. The KSACRDB head office conducts review meetings with PCARDBs from all districts. The review meetings are attended by all the secretaries, branch managers, recovery officers, president and selected board members. The bank has identified best practices such as following a recovery calendar, setting targets for employees and strictly monitoring recovery progress in the review meetings. The KSCARDB head office conducts online review meetings every month. The section heads at the head office have online meetings with regional managers every week and offline meeting every quarter. The performance of regional managers is carefully scrutinized. Further, PCARDBs are categorized in three zones: green, yellow and red. The green, yellow and red zones signify overdue below 20%, between 20%-40% and above 40% respectively. According to the zone allocated to a particular PCARDB, the maximum lending for them is determined. The banks in the red zone are given special organizational development intervention trainings at the KSCARDB training centre. The KSCARDB encourages PCARDBs, especially in the red zone, to undertake training for recovery management and NPA. The KSCARDB also organises special board meetings with the PCARDBs in red and yellow zones to discuss their recovery progress and challenges. The regional managers have to compulsorily attend these meetings.

The KSCARDB receives support from sale officers throughout the year. Sale officers are officers from the cooperative department appointed by the government. These officers help in

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<https://www.pib.gov.in/PressReleasePage.aspx?PRID=2131989#:~:text=Additionally%2C%20farmers%20repaying%20loans%20promptly,on%20KCC%20loans%20to%204%25.&text=For%20loans%20taken%20exclusively%20for,2%20lakh.>

the recovery process. They foreclose the loans and conduct the sale proceedings of lands that are to be auctioned. The bank pays a certain amount as fees for their assistance. Auctioning any land is a lengthy procedure. But the bank has been able to, with the help of sale officers, auction lands to recover loans. As sale officers are government officers it helps in issuing notices and conducting the auction.

Additionally, KSCARDB provides special revival package to PCARDBs. KSCARDBs gives such package PCARDBs that are in a financially weaker position. The KSCARDB board discusses the matter and decides whether to provide a revival package or not. If a PCARDB has high imbalances or is experiencing net loss then they could be considered for such revival packages. Under the revival package reschedule their demand outstanding towards KSCARDB. This scheme is used rarely. Until now, KSCRADB has given such packages to only 2-3 SCARDBs.

NAFCARD's Interaction with SCARDB

As per the KSACRDB officials, NAFCARD acts as a representative of the ARDBs to the central government and NABARD. NAFCARD helps the SCARDB effectively coordinate with the Ministry of cooperative and NABARD. However, NAFCARD does not have owned funds to help SCARDBs financially. The guidelines issued by NAFCARD were helpful but they were general for all SCARDBs spread across different states in India. The KSACRDB employees have experienced difficulty attending NAFCARD trainings programs as they have to take prior permission from their state government. This permission sometimes takes time or is even denied due to some reasons. The areas that KSCARDB is interested to gain input on in the form of training programs from NAFCARD is how to attract young borrowers. The majority of the bank's current borrowers are old. Also, KSCARDB mentioned their official visits to Gujarat and Rajasthan SCARDB and how these visits provide an opportunity to learn and exchange knowledge. NAFCARD can facilitate such interactions between SCARDBs from different states. KSACRDB officials also mentioned how deposit mobilisation was encouraged by NAFCARD in 2012 and the guidelines they had issued on the same topic. The bank praised NAFCARD's role in the KSACRDB's income tax exemption case that went to the supreme court. KSACRDB could avail NAFCARD's guidance on legal matters. The income tax

exemption helped the bank save 250 crores every year. NAFCARD also provided with the official logo for KSACRDB.

Human Resource

The sanctioned staff strength for KSCARDB is 509. Presently, the staff strength of KSCARDB is 211. Among these 17 are in the administrative/ managerial cadre, 51 in supervisory cadre and 143 are workmen employees.

Training

KSCARDB Bank institute for training and management (ITM) is a training institute for cooperatives and it is the only training centre in the long-term cooperative credit structure in Kerala. The ITM was formerly known as Staff training Centre (STC) of KSCARDB which started its functioning in 1975. The institute is accredited by Centre for Professional Excellence in Cooperatives (C-PEC), an initiative by BIRD-Lucknow.

ITM has been working in the areas of building competency, knowledge and skill development, attitude orientation and inculcating professionalism among the staff and board of directors of cooperatives. The training institute is also conducting on location, on-site, ODI programmes and undertake project consultancy/ mentoring work as per client organisation's needs.

In the year 2023-24, the institute's academic calendar comprises of 56 scheduled programmes, one computer programme, three exposure visits to successful cooperatives and two paid programmes for other cooperatives including one national level programme.

The programmes range from topics like STP for supervisory cadre, special programmes such as turnaround strategy for weak PCARDBs, self-sustenance through improved governance and management of resources, empowering women directors for decision making, programmes on business operations, loaning operations, audit/ inspections, computer programmes to improve efficiency, financial reports, programmes on human resource management, programmes on banking laws, etc. Additionally, the training centre organises exposure visits, paid programmes, and hybrid mode programmes as well.

ITM is situated in Kochi city. It is well equipped with A/C classrooms, computer lab, conference hall, library, a/c accommodations, etc.

Apart from its own training centre, KSACRDB employees have visited other training centres in the country such as BIRD, NIRM, VAMNICOM. But in the last year, the bank was not been able to send employees for training anywhere.

Concerns shared by KSCARDB chairman and other officials

The KSCARDB officials emphasised the following concerns and requested that NAFCARD or the Ministry of Cooperation could help with these via some interventions.

- i. To survive in the competitive credit market against commercial banks and other cooperative banks, it is necessary that KSACRDB is able to arrange low-cost funds.
- ii. The commercial banks receive funds at lower costs due to various interest subvention schemes for which the KSCARDB is not eligible. This makes the KSCARDB's interest rates less competitive.
- iii. Earlier KSCARDB was able to avail subsidy schemes like the dairy development scheme, venture capitalists' scheme for poultry and piggery farmers, etc. These schemes have been discontinued for the last 3-4 years. These could be revived for the bank.
- iv. The government guarantee commission could be waived. The bank could save 0.75% as all of the bank's loans are secured loans and there is very low risk.
- v. Government had assured us of giving a debt relief but the amount is yet to be received by the bank. This is a big overdue to the PCARDBs.
- vi. The ARDBs in Kerala are currently not giving KCC loans. The KSCARDB has sent a proposal to NABARD regarding this.

Good Practices

- i. Developing new schemes for customers, especially youths
- ii. Sale Officer from Department of Cooperation, Government of Kerala assist in sale of the land mortgage in case of default
- iii. State guarantee for NABARD loans is obtained without hassle and delays
- iv. Approval of loans mostly by PCARDBs
- v. Loans to Joint Liability Groups
- vi. Own training facility
- vii. Providing gold loans
- viii. Discount in interest rate for prompt repayment of loans
- ix. Grass root level presence and intimate knowledge of villages and villagers.
- x. Professionally qualified work force for loan appraisal.

- xi. Easily accessible by low- and middle-income customers.

Challenges

- i. NABARD interest rate is high
- ii. State government charge high rate of commission for loan guarantee
- iii. Overdependence on financial institutions like NABARD for funds
- iv. Lack of full-fledged CBS: The KSCARDB had started its basic computerisation in 1998. By 2012 they had the window XP system. From 2014, the bank started implementing CBS system on its own, but the implementation could not be completed due to some reasons. Now, the recently announced national computerisation schemes is for all ARDBs including PCARDBs. Under this scheme, every PCARDB will get the CBS system developed by NABARD. The KSACRDB is waiting for approval from the state government to start the scheme's implementation.
- v. Inability to attract young customers
- vi. Non availability of low-cost funds like KCC
- vii. Deteriorating recovery climate, especially in agricultural loans, due to government policies
- viii. Competition from other banks
- ix. Lack of other banking facilities adversely affecting ability to garner low-cost funds from Current Account and Savings Account (CASA) deposits
- x. Non-recovery of loans from ecologically fragile lands

Suggestions and Recommendations

- i. NABARD should drop guarantee requirement based on repayment, loans outstanding and assets
- ii. Scope of developing into a full-fledged bank under the purview of Banking Regulation Act of Reserve Bank of India
- iii. Vast scope for financing farm tourism schemes
- iv. Financing for post-harvest/ processing units through FPOs

Chapter 9

Pondicherry Cooperative Central Land Development Bank Ltd

Introduction

The Pondicherry Cooperative Central Land Development Bank Ltd (PCCLDB) was registered as a cooperative society on 1st April 1960 and started functioning on 7th May 1960. The bank's head office is located at Colas Nagar, Puducherry and its only branch is located at Bharathiyar Road, Karaikal. In its initial years between 1984 to 2002, the bank received many awards. The awards include Dattatreya Memorial trophy for appreciation award in 1984-85, for outstanding performance in 1993-94 and best recovery performance in 1997-98. Similarly, Melon Narayanan Nambiar Memorial Trophy for best lending performance in 1985-86, 1999-2000 and 2001-02. However, the bank has deviated from its original goal of long-term lending to agriculture sector and is now only advancing jewel and consumer loans for short and medium term. The bank has managed to become financially stable and has experienced profits in the last 3 financial years.

Governance Structure

The management of the bank vests with the board of directors consisting of 15 members. Out of them, 12 are elected. Two are nominated, one registrar or a nominee on behalf of the cooperative department, one Director of Agriculture or a nominee on their behalf and one Managing Director of the bank together form the board of directors. However, due to some issues the elections have not been conducted for many years and the bank currently does not have a governing body. Since 1st July 2011, the bank is governed by the Managing Director appointed by the state cooperative department who acts as the administrator. The bank does not have a chairman.

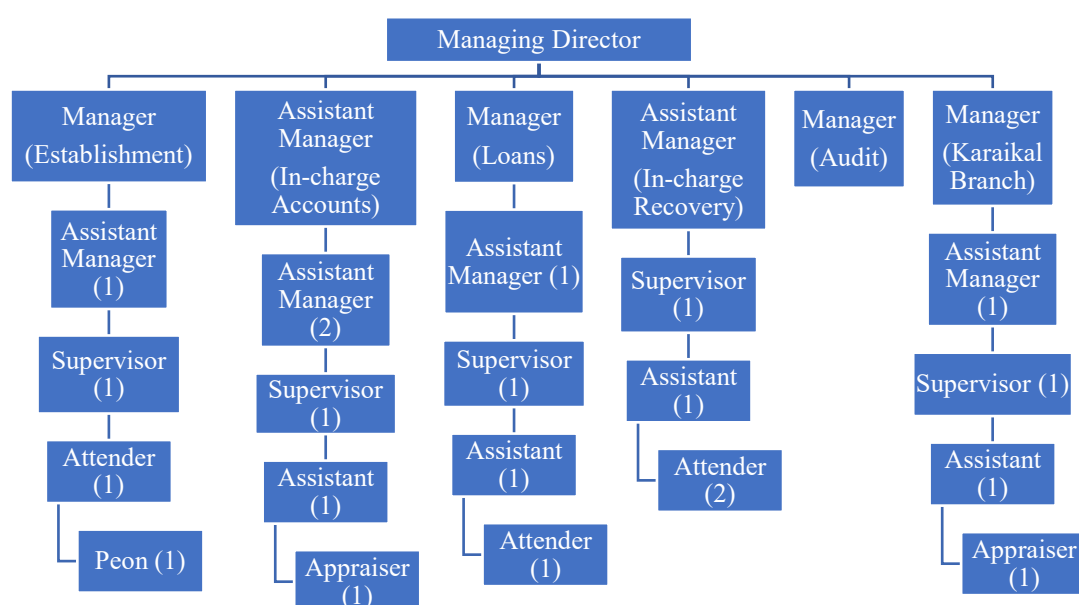
Thiru S. Murali is the current administrator of the bank and is also the deputy registrar at the cooperative department. Thiru C. Saravanane is the Managing Director of the bank and is also an officer in the cooperative department.

The Pondicherry CCLDB head office has five departments: Establishment, Accounts, Loans, Recovery and Internal Auditor. The bank has only 1 branch at Karaikal except the head office.

All the functions of the bank are carried out by the division in-charge. The organization structure of the bank is presented in figure 9.1.

The government of Puducherry is admitted as an ‘A’ class member. Individuals over 18 years of age and those who own agricultural land in the area of operation of the bank or are engaged in agricultural activities or residing in the area of operation are eligible for admission as ‘B’ class members. The borrowers that avail of jewel loans and consumer loans are admitted as ‘C’ class members but have no right to vote or contest in the election to the board of management.

Figure 9.1: Organization Chart



Lending

As the bank is using deposits or its owned funds for lending, it only focuses on loans that are secured. The bank is currently disbursing only jewel loans and consumer loans to government employees. The farmers are avoided due to their poor repayment. The bank officials claimed that loans to farmers lead to poor repayments due the famers’ expectation of waivers. Because the bank is dependent on deposits to fund these, there are no loans currently being disbursed for agricultural purposes as such loans are considered to be risky. The bank officials are unwilling to provide agricultural loans as they suspect poor repayments and rising NPAs. The jewel loans provide security in the form of mortgaged jewels whereas loans given to government employees can be recovered through the intervention of their respective

government department in the case of default. The bank gets a credit note from the employee's respective government department specifying that the loan repayment will happen through the salary.

Since the year 2001, the bank has not received refinance from NABARD. This is the primary reason the bank is not lending to farmers. The bank's high NPAs and loan outstanding caused the government to stop issuing guarantee. However, the bank claimed the government waiver led to deterioration in the loan recoveries. The bank made attempts to approach the government and request refinance support but has not succeeded. In absence of the government guarantee the bank stopped receiving NABARD refinance that was crucial for lending to agricultural sector. The bank had to stop long-term loans and in order to survive it started short-term jewel loans or medium-term consumer loans.

In its initial years, the bank's lending portfolio was much diverse. The types of loan comprised of farm-sector loans, farm mechanisation loans, agriculture allied activities loans, fisheries loans and non-farm sector loans.

Products Offered by the Bank

1. Jewel Loans: These loans are short-term loans given against the security of jewels, generally gold. These loans have a tenure of 1-2 years and are given for a maximum amount of 10 lakhs. The majority of loans are given for an amount between 5 to 6 lakhs. The common purposes for availing these loans are education, home construction, urgent financial problems, etc.
2. Consumer loans: The consumer loans can also be called personal loans. These are medium-term loans given up to 5 years. The maximum amount for consumer loans varies as it is based on the loanees salary income.
3. Fixed Deposits: Fixed deposits are the major source of funds for the bank's current lending activities.
4. Locker service: The bank has 180 lockers available at its head office branch.

The average monthly jewel loans for the bank have reached around Rs. 1.5 crores and the average monthly consumer loans have reached around 2 crores. The short-term loan borrowers are admitted as members of the bank. Membership fees for the borrowers is decided depending on the type of loan. For short-term loan borrowers, membership is Rs 200. For medium term loan the fees are Rs 500 + 3% of the total loan amount.

Table 9.1: Tenure-wise lending proportion

Type of loans	Loan accounts	Amount (In Rs.)
Short-term loans (Jewel loans)	886	65,05,82,300/-
Medium-term loans (Consumer loans)	162	65,07,95,000/-

The bank's original role was to provide long-term credit to farmers. However, the farmer's credit requirements are being met by the commercial banks or other co-operative banks as they have better resource availability. To survive against such competition, Pondicherry CCLDB had to introduce jewel loans and consumer loans to survive. Although these are not their primary lending goals.

Unavailability of NABARD refinance is the main issue for the Pondicherry CCLDB to discontinue long-term lending. The NABARD refuses to give refinance in absence of government guarantee. The bank officials mentioned that farmers loans in general are reducing in the Pondicherry state as land is increasingly being converted to residential area. For existing farmers, the commercial banks provide loans at lower interest rates. These banks are financially sound and get interest subvention schemes so they can attract customers.

Sources of Funds

Earlier the primary source of finance was raising funds through floating special development debentures with the support of NABARD's refinance. The government gave a guarantee for such refinance only up to 1995-96. But later the government insisted the bank to pay guarantee fees. The bank complied and paid the guarantee fees however, the government stopped refinance in 2001 regardless stating concerns about the bank's low recovery and increasing overdue loans. Hence, the bank could not float any debentures and avail NABARD refinance since FY 1999-2000.

Despite the efforts taken by the bank, the NABARD has failed to extend credit support to the bank due to unavailability of the government guarantee due to high NPA and poor recovery. In order to survive the bank had to deviate from its original objective of long-term lending. In the absence of NABARD finance, Pondicherry CCLDB started lending from its own funds and deposits. Currently the bank is primarily dealing with medium-term consumer loans and short-term jewel loans from its deposits received from members and non-members.

Currently the major source of funds for the bank is fixed deposits. It makes up to roughly 70% of the total funds used for lending. Apart from deposit mobilisation, the bank sometimes avails loans from PACS. Recently, the bank procured loans from PACS at 6% interest rate. Further, this amount was used for jewel loans and consumer loans lent at 9% and 12.5% interest rates respectively. The other funds with the bank include some investments kept as fixed deposits with other cooperative banks and revenue earned from locker service. The bank has developed a locker facility with up to 180 lockers. Their performance is better in comparison to other banks.

Table 9.2: Authorised vs Paid-up share capital

Authorised share capital		Paid-up share capital	
'A' class (Rs.1000*90,000 shares)	Rs. 9 Crores	'A' class (Rs.1000*36,490 shares)	Rs. 3,64,90,000
'B' class (Rs.500*2,00,000 shares)	Rs. 10 Crores	'B' class (Rs.500*9.070 shares)	Rs. 48,35,000
'C' class (Rs.50*6,00,000 shares)	Rs. 3 Crores	'C' class (Rs.50*3,33,687 shares)	Rs. 1,66,84,350

Human Resource

The current strength of the employees at the bank is 27. The employee composition is as follows: workmen employees of 7, supervisory staff of 9, administrative/ managerial staff of 11. The total approved staff for the bank is 32.

The last recruitment happened in 2017. Earlier there was no proper system for recruitment. In 2020, the bank was instructed to make a recruitment board. But the bank officials feel it may not be practical to make a recruitment board in such a small state.

The bank officials feel they have sufficient staff for their current limited lending activity. Earlier when the bank was disbursing agricultural loans, it needed more staff for field work. Now the activities are limited. However, in case the bank was to revive its long-term lending it might need to recruit new staff and train them with the specific skills.

Training

The bank employees have not attended any training programmes in recent years. In 2022, few members of the bank went for a training in Bengaluru. This is an area where NAFCARD could help the bank by organising trainings. The bank officials showed interest in learning about topics such as effective financial management, effective investment, necessary skills for the new computerisation system and software and training to revive long-term loans. The current employees are not familiar with the long-term loaning process which is completely different compared to the process for jewel loans.

Computerisation

Computerisation process is partly completed. The bank is in the process of buying systems and get system integration that is required for computerisation. Computerisation is likely to help in smooth functioning.

Good practices

1. Instant loan disbursal for jewel loans: Jewel loans are disbursed within 15-20 mins given the necessary documents are in order. Other commercial banks take at least a few hours.
2. Swift consumer loan process: The bank focusing on government employees for disbursing consumer (personal) loans. These loans are comparatively low risk and hence the bank usually is able to sanction them within a week. If all the papers are in order the loan can even be sanctioned next day.
3. Locker facility has better service quality compared to other banks: The bank's locker facility is operating successfully. The bank is offering additional perks such as longer visiting hours and higher frequency of visits are allowed compared to other banks.

Challenges

1. NABARD refinance unavailable in the absence of the government guarantee
2. Farmer loans are being given by commercial banks at a lower interest rate.

Suggestions and Recommendations

1. Need to explore ways to get funds availability for long-term loan finance.
2. NAFCARD's potential areas of engagement : a) Training for staff in different areas: investment management, managing customer interaction, usage of the new software, training regarding long-term lending, etc. b) Model code of conduct for governing body

Chapter 10

Punjab State Cooperative Agriculture and Rural Development Bank

Introduction

Punjab State Cooperative Agriculture and Rural Development Bank (Punjab SCARDB) Ltd. was established in 1958 as a Land Mortgage Bank to provide long-term credit to farmers for agricultural and land development purposes. The bank operates on a two-tier structure with Primary Cooperative Agriculture and Rural Development Banks (PCARDBs) at the grassroots level. These PCARDBs act as intermediaries between the SCARDB and the farmers, disbursing loans and handling repayments. All PCARDBs are autonomous governed by own boards. Besides providing credit for agricultural, the bank also finances projects like rural housing, infrastructure development, and small-scale industries. The bank lending in the farm sector stands at around 62%, rural housing at 36 %, and the rest for non-farm and agricultural allied activities.

Governance

The bank operates in a two-tier structure, where the apex bank oversees a network of 89 PCARDBs, primarily based at the Taluka level. The bank also has district offices that function as branches, each managed by an Assistant General Manager (AGM) or a District Manager. Additionally, the bank has established three regional offices, each overseeing operations across five to six districts. These regional offices are managed by a Deputy General Manager (DGM) from the apex bank. The Board of Governance of the bank consists of 21 directors. Out of these, 13 directors are elected representatives from the PCARDBs, with one director representing roughly every seven PCARDBs. In addition to these elected directors, the board includes:

- A Managing Director
- The Ex-officio Registrar of Cooperative Societies
- A nominee from the National Bank for Agriculture and Rural Development (NABARD)

- The Finance Commissioner
- Three government nominees

The board is required to meet at least four times a year, with meetings generally held quarterly.

Sources of Fund

The apex bank (Punjab SCARDB) heavily relies on NABARD refinance as a major funding source. All refinance from NABARD is 100% backed by a state government guarantee, ensuring the security of these funds. These funds are used for long-term lending. Besides, the other sources of funds are government borrowings, banks' own funds, current deposits, fixed deposits, and short-term borrowings from other organizations, including NCDC. In terms of current deposits, the bank is not currently accepting new deposits. The bank has paused accepting new deposits because it cannot make fresh lending. The bank previously held deposits of around ₹150 crores, but this has been significantly reduced to ₹15 crores. Previously, the bank maintained fixed deposits totalling around ₹300-₹400 crores. After 2016, this amount has dwindled to ₹30-₹40 crores, which are currently invested in cooperative banks as fixed deposits. The bank is not permitted to invest in mutual funds.

The funds the bank borrowed in the short term from government were primarily used to repay NABARD refinance loans and, hence, could not be used for fresh lending. The banks have small amounts of their own funds, making lending further difficult from own sources. During the COVID-19 pandemic, when refinance options were limited, the bank utilized a substantial portion of its owned funds to support long-term loans. However, later, these loans converted into NPAs.

Lending

The bank offers long-term loans primarily. The loan tenures vary from five years to nine years. Housing loans have a longer tenure, extending up to 15 years, constituting around 36% of the bank's total loans. The bank's yearly lending figures between 2019-20 and 2022-23 were ₹30 crores, ₹59 crores, ₹92 crores, and ₹5 crores, respectively. Bank's lending has decreased over the years due to high NPAs since 2016.

First, the demonetization and withdrawal of high-denomination currency notes left the Kharif (Padi) farmers without the necessary cash in hand to repay their loans, especially as cash is a

major transaction mode in rural. The inability of these farmers to repay their loans resulted in a substantial financial loss of approximately ₹200 crores for the bank. Second, after demonetization, the state assembly elections approached, the political parties promised loan waivers for farmers. These announcements led many farmers to withhold loan repayments, expecting their debts to be written off after the elections. The promise of loan waivers led to an additional loss of ₹250 crores in loans related to wheat crops. This brought the total loss for the bank to around ₹450 crores. Third, the farmers' agitation further complicated recovery efforts, as the government pressurized the bank to refrain from actions like land auction.

Further, the bank, like other state SCARDBs, did not have a CIBIL membership, preventing the bank from uploading borrower records to the CIBIL platform. This makes the repayment of SCARDB loan inconsequential as far as CIBIL score is concerned. If the borrower's repayment behaviour impacted CIBIL score, it could incentivize timely repayments. However, since 2019, the bank has been using CIBIL reports from other commercial banks to scrutinize all loan applications. It has improved recovery rates to 60%-70%.

The bank disburses loans to the farmers through the PCARDBs. They rely on apex bank for funds and generally do not lend money raised through deposits or their own funds. At the time of the survey, both SCARDB and PCARDBs had stopped lending. They were sustaining operations through loan recoveries. They are focusing more on managing existing deposits rather than expanding their lending portfolio. Although the bank has modified its bylaws for short-term lending, the lack of sufficient funds again constrains the bank from disbursing such loans. Earlier, the bank also had a staff loan scheme for housing, car, and personal loans. Although these loans had been discontinued, the bank considered restarting the scheme.

Recovery

As the bank operates under a two-tier structure, the NPAs are calculated at both the PCARDBs and SCARDB levels. The NPAs at the PCARDB level are extremely high, around 85%. SCARDB has an NPA of 65-70%. The disparity between the NPA at the PCARDB and SCARDB is due to the fact that PCARDBs deal directly with end borrowers, while Punjab SCARDB lends 89 PCARDBs. The bank's total lending portfolio stands at ₹3000 crores, with ₹1500 crores as principal and ₹1500 crores as interest. The bank managed to recover approximately ₹300 crores annually, which is about 10% of the total outstanding amount. A major problem in recovery is that all the loans are land mortgage loans, with land serving as

the security. It is very difficult for the bank to take action against borrowers through land auctions, making recoveries heavily dependent on borrowers' voluntary repayment.

Issuing legal notices is typically a mechanism to make the recoveries. Some borrowers respond to these notices, while others remain unbothered, knowing that auctions are rare. This makes the issue of wilful defaulters a real concern. While many farmers face genuine difficulties, many are deliberate in their defaults. The bank lacks legal recourse to act against wilful defaulters. It has proposed the state government classify farmers based on the size of their landholdings and suggested allowing legal action against wealthier defaulters with large landholdings. However, this proposal was rejected by the state government.

Nevertheless, many borrowers clear their debt to free their land to sell, develop, or take fresh loans from the extant mortgage. Around 100-200 borrowers voluntarily repay loans each year, contributing to approximately 60% of the bank's total recovery.

Human Resources

The bank follows a federal structure. However, all the staff is recruited and controlled at the apex bank level. The bank deploys the staff to all PCARDBs as well as at its own branches. Further, the bank follows a common cadre system where the apex bank employees can be transferred to PCARDBs and vice versa. Currently, the total staff of bank is around 700.

Training

The bank has a training cell of its own and is managed by DGM. This training cell conducts programs for the bank staff. The training centre receives funding from NABARD. Last year, it conducted 35 training sessions with a total of 821 participants. The bank has made accommodation arrangements at nearby hotels at concessional rates for training.

Compliance and Conflicts

The state cooperative bylaws are found to be commensurate with the bank's operation. In general, the amendment of the bylaw has not been a major issue with the bank due to the registrar's support. The bank was able to make all the required amendments to provide short-term loans and deposits.

Good Practices

Computerization of all branches

The bank has been fully computerized. All operations including loan application are conducted online. As a result, the day-to-day operations involve almost no physical files and increases efficiency.

Digitalization of land records and integration with bank loan

Land digitization has been completed by the state government, but the integration of land records with bank loans is still pending. Integrated land records are beneficial for bank as an updated mortgage status inform all financial institutions about asset encumbrance.

CIBIL based scrutinization of loans

The bank has initiated use of CIBIL score to scrutinize all loans. It helps in avoiding adverse selection problem.

Mixing of funds

NABARD provides Long Term Rural Credit Fund (LTRCF) at concessional rates (5 %) to the bank. This fund is available by limited amount and hence provided to bank to disburse concessional loans on a first come first serve basis. However, instead of disbursing loans fully on the basis of LTRCF the bank mixes it with their own funds. The interest charged from the customers is based on a weighted average of interest rate of LTRCF and other funds. Thus the it provides benefits both to the bank and customers. The bank plans to use the surplus generated for additional interest subvention for prompt loan repayors.

Training of co-operative staff

The bank is considering developing a good training program which they plan to market to other cooperative organizations in the state. The bank received funds from NABARD for these training. These efforts would increase their revenue of the bank.

Challenges

Non-availability of CIBIL facility

The bank like other states' SCARDBs does not have the CIBIL membership. This becomes an issue as the bank cannot upload the borrower's records on the CIBIL platform. Hence, borrowers can get away without affecting their CIBIL score even if they were defaulters. As land auctions is not a feasible option for the bank, CIBIL can become a tool for the bank to incentivize borrowers to not default.

Shortage of fund

Due to the lack of NABARD refinance, bank is facing the problem of shortage of funds. from the funds from other commercial banks, cooperative banks, and NCDC are available at high interest rates. The fresh lending is shrinking due to the shortage of funds. Also, as there is no short-term refinance from the NABARD, bank cannot provide short-term loans.

Problem in loan recoveries

Bank face problem in recovery of the outstanding loans. A major problem in recovery is that all the loans are land mortgage loans, with land serving as the security. It is very difficult for the bank to take action against borrowers through land auctions, making recoveries heavily dependent on borrowers voluntarily loan repayment.

Suggestions

CIBIL Membership

NAFCARD can help raising the issue of CIBIL registration of SCARDBs to RBI to allow ARDBs to become licensed banks and avail the CIBIL membership.

Incentivise timely repayment

Bank can encourage the borrowers to make timely repayments by providing interest discount. Bank also can consider providing additional credit facility/limit without any additional security in case of prompt repayment. The additional credit facility could be a percentage of the existing loan and could be made available on a revolving basis. In such schemes, there will be a minimum risk as the bank would be lending to the good borrowers only.

Optimize use of available funds

Bank may optimize the funds in disposal by mixing the zero cost funds (recovered loans/grants) with other sources of funds (deposits). The funds can be used for new products like gold loans, short-term loans to good existing borrowers, staff loans etc.

Chapter 11

Rajasthan Cooperative Agriculture & Rural Development Bank Ltd.

Introduction

The Rajasthan Rajya Sahakari Bhoomi Vikas Bank Ltd was established in 1957 and is headquartered in Jaipur. The bank operates with a two-tier federal structure to disburse loans. It has two regional supervisory units in Jaipur and Jodhpur, overseeing 36 PCARDBs at the district level. Each regional office manages 18 PCARDBs. Additionally, there are 124 PCARDBs branches at the tehsil level. Out of 36 PCARDBs, 15 are in profits, 21 are in losses, and 27 are in accumulated losses. The bank faces a significant staff shortage, with only 188 out of 946 sanctioned posts filled. The prime cause of the staff shortage in the bank is the shortage of funds due to the bank's poor recoveries and limited lending. Furthermore, due to such staff shortage, the PCARDBs, having fewer staff at their tehsil offices, had to shift their staff to the head office at the district level. All branches still exist independently.

Sources of Fund

The major source of funds for the bank is NABARD refinance, though the refinance has been shrinking as NABARD is concerned about the bank's poor financial position and NPA levels. Other major sources of funds for the bank are the state government, State Cooperative Bank, and the National Cooperative Development Cooperation (NCDC). The state government has stopped providing funds recently. The bank has availed Rs. 286 crores from the State Cooperative Bank, while the limit is Rs. 300 crores. NCDC has also provided Rs. 60 crores of loans to the bank but at a considerably higher interest rate of 10.02%. The total available limit for NCDC loans is Rs. 400 crores. Further, the bank is not barred from borrowing from other commercial banks.

The challenge that the bank is facing is the shortage of funds. It caused non-operationalization of the lending facilities to the farmers, leading to low loan outstanding/loan portfolio in the market and causing shrinking of refinance by the NABARD. To increase lending, the bank is presently disbursing loans through interest subvention schemes sponsored by the state government. Apart, efforts have been made to generate the funds through deposits, although it may create an asset-liability mismatch. The borrowings through deposits are of short durations,

while the lending is for a long tenure. Also, there were not many good outcomes of the deposits as there was a staff shortage in the bank.

Lending

The bank lends the borrowers only through the PCARDBs, and rarely is any loan processed at the SCARDB level. In terms of lending, the majority 90% of the loans are agricultural loans with an average tenure of eight to nine years. Though the tenure of the loan varies with the purpose of the loan, the dairy loans have a tenure of five years, and the land development loans can have a tenure of 15 years. Long-term loans have a short instalment size, making it easy for farmers to repay. The loans disbursed during the last four to five years have been performing well; however, the bank is facing a problem with the accumulated losses/NPA. Due to time-to-time announcements of loan waivers, the old loans turned into NPAs. Again, the recoveries are difficult as the loans are provided against the agricultural land, which is difficult to auction due to political resistance. The effect of NPAs spills over to NABARD's refinancing. Because of the past bad loans, NABARD has shrunken refinancing, making it difficult for the bank to provide fresh lending. The current lending is funded through old loan recoveries. Besides, the bank also disburses the loans of interest subvention schemes sponsored by the state government. A 5 % interest subvention facility exists if the farmer makes regular repayments. The loans provided under the interest subvention are cheaper, affordable and have good repayments. Further, the bank provides majorly agricultural long-term loans. NABARD does not provide the short-term refinance. A few financially better-off PCARDBs provide short-term loans from their owned funds on a small scale. The repayment records are good in case of short-term lending. The bank offers short-term loans only to borrowers who make timely and regular repayments.

Non-farm loans are also being disbursed for housing, although this is not the major aim of the bank. The repayment records are good for such loans. The loans are distributed based on a borrower's CIBIL profile. The bank does not have access to CIBIL score; however, the CIBIL score is collected from other banks), making the loan less risky. The bank is currently not providing any loans to the FPOs or other collective loans, as it is constrained by the bylaws. The unavailability of sufficient funds is also another reason for not providing the loans.

Recovery

The loans that are disbursed in the last four to five years are performing well in terms of repayments. However, the repayment problem persists with old loans. For Rajasthan SCARDB, the total outstanding amount at the SCARDB level is Rs. 1540 crores; at the PACRDB level, it is Rs. 900 crores. Among the Rs. 900 crores, approximately Rs. 640 crores are old loans.

There are various reasons for the accumulated NPAs, the prime one being the loan waiver schemes of the state government. Though these schemes are for small and marginal farmers, looking at the waivers provided by the government to small farmers, the big farmers, who are the main borrowers of the bank, refuse to repay them. In such instances, the bank is not able to recover loans even from the farmers who can repay. In the 2008 loan waiver scheme, the farmers with bigger land holdings had to pay 75% of the loan, and the state government would pay the remaining 25%. Hence, for big farmers, the waiver scheme was just a debt relief, not a full waiver. Another challenge for the state farmers is their possession of large land holdings. The land is infertile, does not contribute much to agriculture production, and has fewer financial benefits. However, the farmers are considered big farmers, not falling in the small and marginal category, and are unable to avail themselves of the benefits of loan waiver schemes.

The bank has exercised the one-time settlement scheme (OTS) for the recoveries of past loans. Under the scheme, 50% interest, other penal interest, and the recovery charges were waived. The scheme has helped the bank recover loans. Considering the same, the bank has proposed a new OTS scheme to the state government under which 100% interest would be waived for farmers, and the government will cover the amount. The farmer borrower only has to pay the 100% principal amount. The scheme is aimed at clearing old outstanding loans. A similar scheme was successfully implemented in Karnataka, where the Karnataka SCARDB was able to clear around 65% of its outstanding loans.

NAFCARD opinion on Short-Term Lending

Short-term deposits of bank can be accompanied with short-term lending programs. The gold loans can be used as short-run loans where the gold is used as a collateral. Deposits can be used to offer short-term loans. Gold loan is also relatively safe and has good recovery. The bank could experiment with it on a small scale. If the bank provides gold loans from its deposits, it does not need permission from NABARD. Also, if appropriate advertising about the deposits scheme is done, then people will keep deposits. In case some amendment is necessary in the bylaws, then the federation could help the bank. These gold loans can also help the bank provide additional credit facility for the existing long-term borrowers for their short-term credit requirements. Additionally, the timely and regular repayors can be give them additional credit limit. In such case the chances of default will be less.

Governance

The bank operates in a two-tier federal structure. The apex bank is headquartered in Jaipur, and has two regional offices in Jaipur and Jodhpur. Each regional office supervises head offices of 18 PCARDBs. Currently, the bank does not have an elected board, with an administrator (managing director) as the highest authority to oversee the bank operations. The PCARDBs are autonomous bodies, with only 21 out of 36 holding elections, leaving 15 still awaiting elections, eventually enabling them to form a governing board. The apex bank conducts weekly and monthly progress review meetings at the PCARDBs level. The managing director or other apex bank officials attend the meetings. The apex bank conducts annual inspections of member PCARDBs. Additionally, there are periodic review meetings with the registrar of cooperatives, the secretary, and the state cooperation minister.

Human Resource & Training

The bank has sent a proposal to fill 84 vacancies to the cooperation service selection board for staff recruitment. The State Cooperative Act has a provision for conducting recruitments through the cooperation service selection board only.

For the skill and capacity building of the staff, the bank has a training institute, “Rajasthan Institute of Cooperative Education and Management (RICEM)”, located in Jaipur. The staff of both apex bank and member PCARDBs undergo training at the training centre. In certain instances, the bank organises special training programs on specific topics like training sessions on Section 138 of State’s Cooperative Act, functioning under its provision, and loan recovery, etc. These training sessions are organised as per the requirement.

Compliance and Conflicts

The bylaws of the PCARDBs have a provision that any scheme or provision made by the apex bank would also apply to them. So once an issue is settled at the state bylaw level, it’s applicable to primary banks, too.

Good Practices

Quarterly Loan Instalments

The bank has started taking the quarterly instalments on the long-term loans, replacing the earlier loan yearly instalments. This has the potential for more regular and timely repayment by enhancing borrowers’ seriousness in serving loan obligations.

Introduction of CIBIL

Similar to commercial banks, banks started considering the borrowers’ CIBIL scores when lending. Though the bank itself cannot generate the CIBIL in the branches/head offices, the borrowers’ CIBIL score is taken from the other commercial bank branches. Using CIBIL scores for lending has helped banks reduce the credit risk and the risk of bad loans.

Continuation of Lending Operation

The bank is facing a shortage of funds, so the lending is low. However, the bank is actively participating in lending the state government's credit scheme with interest subvention. This helps the bank to enhance its visibility in the financial market.

Consolidation of PCARDBs branches

Earlier, there were branches in each tehsil; however, the branches faced problems with a shortage of staff and low banking operations. The branches were closed to reduce the cost and optimise the use of staff. The operations, including staff, were transferred to the district-level head office of PCARDBs.

Challenges

Non-availability of the CIBIL facility

The bank does not have the approval from the RBI to access the CIBIL score of the borrowers. The CIBIL score helps reduce the credit risk. The bank takes help from other commercial banks to access the borrowers' CIBIL score.

Shortage of Fund

Due to the lack of NABARD refinance, the bank is facing a shortage of funds. It borrows from other commercial banks, cooperative banks, and NCDC at high interest rates. The fresh lending is shrinking due to the shortage of funds. Also, there is no short-term refinance from the NABARD, so banks cannot go for short-term loans. Further, NABARD does not provide refinance without a government guarantee, which also constrains borrowings.

Shortage of Staff

Due to the shortage of funds, new staff are not being recruited. This problem has a cascading effect as the state government is not permitting the computerisation of branches where there is a staff shortage. The bank has permission to computerise 18 PCARDBs out of 36 PCARDBs.

The problem with loan waiver schemes

As many loan waiver schemes are for small and marginal farmers, the large farmers who are loanees of the bank are not getting the benefits of these schemes. In Rajasthan, though farmers

have large land size, the land is not fertile, and in such cases, these farmers cannot get the benefits of the loan waiver scheme. Seeing the waivers provided by the government to small farmers, the big farmers who are loanees of the bank refuse to repay as they expect a similar full waiver scheme for their loans.

No elected board

As the apex bank and a significant number of PCARDBs (15) do not have an elected board, there is difficulty in making decisions and running the branches' operations smoothly.

Lack of expertise among the staff

A significant number of staff members do not possess the required expertise in banking operations, leading to low bank efficiency.

Suggestions

Restart deposit schemes

The bank can restart the deposit schemes for the members and nominal members. The short-term deposits can be linked with short term lending. Thus bank can meet the short-term credit requirements of the existing long-term borrowers. The existing borrower need not to go to other bank for the short-term loans. In this way, the bank can build good and long-term relationship with borrowers.

One time settlement

Bank can consider for one time settlement scheme with the support of state government. This would enable the bank to avail NABARD refinance and make fresh lending.

CIBIL Membership

NAFCARD can raise the CIBIL issue with RBI, allowing the SCARDBs to link their loans with the CIBIL score. The linkage with CIBIL will help in restraining borrowing from other banks even after defaulting SCARDB loans. This would improve repayment behaviour of customers.

Chapter 12

Tamil Nadu State Co-operative Agriculture and Rural Development Bank

Introduction

The Tamil Nadu Co-operative State Agricultural and Rural Development Bank was registered on 12th December 1929 as Central Land Mortgage Bank Ltd. and started its functions on 13th December 1929. In 1969, the bank was renamed as Tamil Nadu State Land Development Bank. In 1999, the bank's nomenclature was again changed to Tamil Nadu State Co-operative Agricultural and Rural Development Bank. Currently the bank operates through its 22 Regional Offices and provides refinance to 180 PCARDBs.

In its initial years, the bank catered to credit needs of farmers by giving loans for following purposes: discharge of prior debts, purchase of land, land reclamation, new well, deepening of well, purchase of oil engines, purchase of EMP sets, purchase of tractor/ trailer, purchase of power tiller, purchase of paddy thrasher, purchase of paddy harvester, etc. In 1992, with NABARD's guidance, the bank started providing loans to rural entrepreneurs that were not primarily related to farming business. These loans were called non-farm sector loans.

Till 2004, the bank disbursed both farm and non-farm sector loans to the rural population for a wide range of purposes. However, in 2005 NABARD insisted on a mandatory clause in the bank's MoU which was not agreed by the bank officials. Hence, NABARD refused to provide refinance to Tamil Nadu SCARDB. Further in 2006, the state government announced a loan waiver that had a detrimental impact on the bank's recovery. Since 2009, the bank has started issuing jewel loans as an alternative to keep the bank functioning. Presently, the jewel loans are disbursed through regional offices and 11 jewel loan extension centres. The bank has been experiencing profits for the last fourteen years.

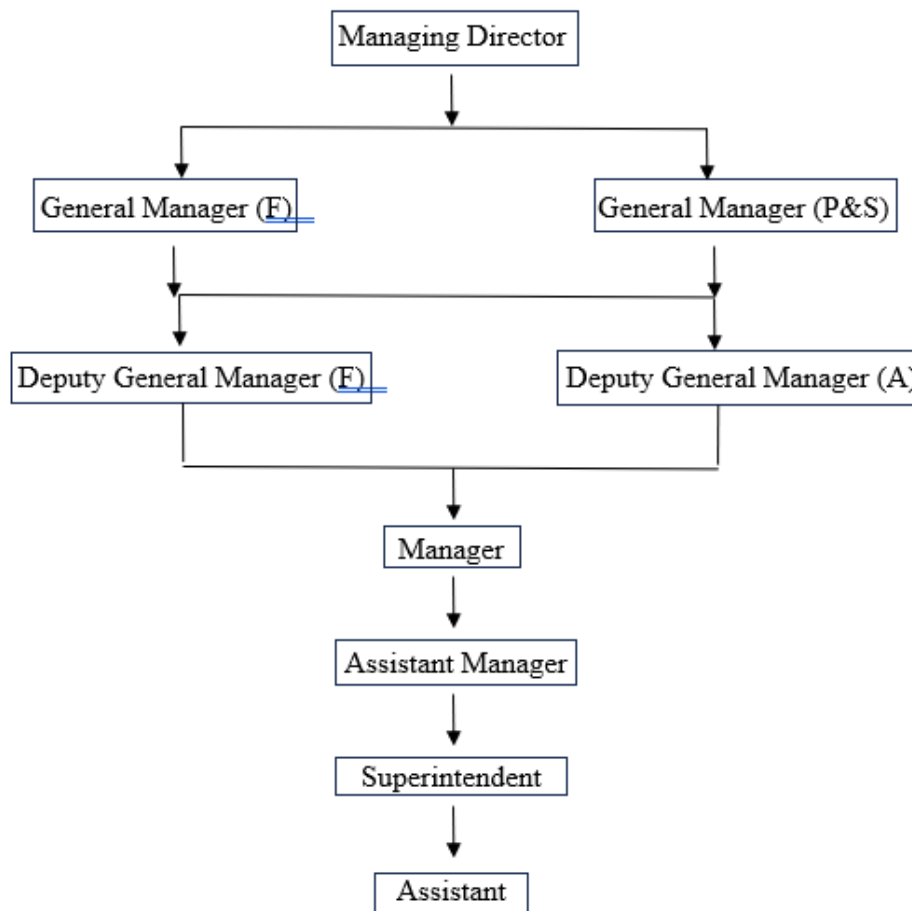
Governance

The bank follows a federal structure involving two tiers- the SCARDB and the PCARDBs. There are in total 180 PCARDBs with 22 regional offices to oversee them. In addition, there are 11 exclusive jewel loan centres. There is a need to strengthen the governance of the bank

as it does not have an elected board members for last one year. The bank is currently being supervised by the Registrar of Co-operative Society. Currently the Managing Director (MD) of the bank acts as the administrator and has all the powers of the board. According the bank officials, there are both advantages and disadvantages of having a board. The Chairman can lobby for the benefit of the bank and can help in generating more business. In the board meeting the chairman would give suggestions and discuss the issues. The chairman looks more into the policy matters or just oversees everything. But there are also occasions when the chairman showed little interest in the functioning of the bank.

The absence of a governing board did not deter the bank from running their regular business operation. The PCARDBs in Tamil Nadu are able to admit new members in absence of a board. But in some other states it is not possible for PCARDBs to admit new members without a governing board. In Tamil Nadu the managing director of the bank can take the approval from the administrator. So practically there is no difference in operations. The bank's organisational structure hierarchy involves a managing director, general managers, deputy general managers, managers, assistant managers, superintendents, and assistants. Figure 12.1 presents the organization structure of the bank.

Figure 12.1: Organization Structure



All the current borrowers of the bank are associate members. These members lack voting power required for the board elections. The voting powers lie with the members who got their membership after availing long-term loans. As the bank has stopped disbursing long-term loans, the new members primarily comprise of jewel loans borrowers.

Lending and Financial Performance

Currently the bank is offering only two types of products: Jewel loans and fixed deposits. The bank is not experiencing any challenges internally so far as delivery of services are concerned. The competition for agricultural loans is high and the bank does not get sufficient funds at low cost. The demand for agricultural loans is significant. The bank could disburse more loans if it had more funds at its disposal. In order to remain competitive in the market, the bank has tried to improve the efficiency of operations. They focused on quick processing of loan and stressed in interaction with customer to take their feedback. Currently, the bank takes around 20 minutes

to process a request from customers on loan. Since the bank is dealing with jewel loans, in order to enhance the quality of loan processing, a jewel appraiser is being appointed by the bank. The appraiser will work on a commission basis and will be available at the premise of the bank.

Table 12.1: Product Performance of the bank (Rs in crores)

Sr No.	Particulars	2020-21	2021-22	2022-23	2023-24
1	Fixed Deposits Collected	255.99	205.20	230.92	224.27
2	Jewel Loans Disbursed	443.39	291.88	439.82	525.58

In order to avail a jewel loan, the bank admits the borrower as an associate member. Further a loan application is created. Then the jewels are given to the appraiser. The appraiser will fix the loan eligibility depending on the jewel content. Then loan amount is disbursed. The jewel is stored in strong rooms within every PCARDBs. The instances of spurious jewels are very rare. The bank has insurance for custody of jewel loans as well. The bank completes the entire loaning process within 20 minutes. The bank claims that this speed differentiates them from the other banks.

Products Offered by the Bank

5. **Jewel Loans:** The Jewel loans are being issued through 22 regional offices and 11 extension counters throughout the state. The Tamil Nadu SCARDB is providing refinance to PCARDBs for issuing of jewel loans. These jewel loans are primarily short-term loans. Recently, the Tamil Nadu SCARDB has started giving its members medium-term loans against jewel security. The Registrar of Cooperative Societies has accorded permission to issue medium-term loans to the bank's members. The Bank has selected 74 viable PCARDBs to issue medium-term loans. Until now, 37 PCARDBs have issued medium-term loans of Rs.41.83 lakhs (42 borrowers) for 2023-24.
6. **Fixed Deposits:** The Tamil Nadu SCARDB offers fixed deposits to its members. The fixed deposits are mobilized from non-borrowing members such as cooperative societies and other institutions as well. The norms for eligibility of PCARDBs to collect deposits have been set by the registrar of cooperatives. Based on the current norms, 60 PCARDBs out of 180 can collect deposits from members.

For the long-term loan, the government is not willing to give guarantee. This has been the issue for availing NABARD refinance. But if the funds can be arranged from other sources, then government guarantee is not necessary. For example, West Bengal SCARDB borrowed from their short-run apex cooperative bank at 8.5% for 5 years. The West Bengal SACRDB is issuing loans for only those purposes that have a tenure of up to 5 years such as machinery loans, poultry loans, other non-farm activities. The repayment schedule is spread over 5 years. Hence, the short-run apex co-operative banks could become a source of funds for SCARDB given the interest rate availed is also similar to the NABARD rate.

The Bank has started medium-term lending. The bank is giving loans against jewels for the farm sector. The bank got the permission for medium-term loans from registrar of cooperatives. The bank is giving medium-term loans from its owned funds or the funds with PCARDBs.

These medium-term loans were started only 6 months ago. The total loan disbursement is merely 41 lakhs. The feedback from PCARDBs suggests they are hesitant to give such loans due to recovery fears.

If the bank is giving medium term loans and is able to recover them and earn money. This will help the bank approach the government to ask for government guarantee for longer term loans. Medium-term loans were recently introduced by the bank and are picking up slowly due to competition from other banks. These loans are given by PACS as well. PACS are big competitors in the medium-term loans. Similarly, loans for dairy, poultry, etc are given by NBFCs. They are able to get better recovery as they can engage recovery agencies. NBFCs force recovery through recovery agents. The cooperative banks are unable to force and do not engage recovery agents.

The recovery climate is poor especially in case of co-operative banks. Farmers do not repay their loans despite of being capable of repaying them due to expectations of future loan waivers. The recent government loan waiver announced by the government covered all types of loans including the jewel loans. Self-help groups' loans were also covered in the waiver. In contrast previously only agriculture loans used to be a part of the government waiver schemes. The bank officials raised their concerns for the next year's recovery. The state assembly elections for Tamil Nadu are to be held next year and recovery will be extremely difficult in such times. Table 12.2 gives a glimpse of the performance of the bank.

Table 12.2: Financial Performance of the Bank (Rs in crores)

Sr No.	Particulars	2020-21	2021-22	2022-23	2023-24
1	Share Capital	51.21	52.55	52.78	52.78
2	Free reserves	80.09	81.49	172.58	172.58
3	Owned Funds (Share capital + Reserves)	131.40	134.04	225.36	225.36
4	Working Capital	1247.17	1322.10	1372.56	1444.43
5	Net Profit	39.48	40.18	44.64	49.10
6	Loans Outstanding	1066.98	841.45	972.67	1152.22
7	% of NPA	11.9	22	11.5	9.8

Based on the previous year's achievement the registrar of co-operatives sets lending targets for the bank for the next year. The Bank work towards achieving these annual targets. These targets usually have a 20% increment compared to the previous year. However, this year the target set by the registrar is almost double of the previous year target.

Sources of Fund

The bank has two sources of funds currently - mobilization of deposits and some owned funds. Initially the bank could issue debentures as part of the funding from NABARD. But since the loan waiver, the entire scenario of funding and lending has changed. Alternative sources of funds are necessary from the point of sustainability and profitability of the bank. Currently the bank does avail loans from the other co-operative banks. If National Cooperative Development Corporation could provide loans at a reasonable rate of interest, then it would be helpful for the bank.

The bank does not receive any share capital from jewel loan borrowers. Only long-term loan borrowers contribute to the share capital. The bank has seen significant increase in its free reserves. This is due to the accumulation of profits over the last 4-5 years. The bank can make statutory investments with this fund. The bank is ideally not supposed to use the free reserves for lending. However, the bank does not have other sources of funds it does use it to disburse loans.

The Tamil Nadu SCARDB stopped receiving refinance from NABARD many years ago. The bank started the jewel loan business as a survival strategy. All the PACARDBs solely started giving the jewel loans and improved their financial position over time. Now, many of the PCARDBs which were earlier in losses have started earning profits. The Tamil Nadu SCARDB has also created a portfolio based on the jewel loans and is earning profits as well. As the bank has come to a financially stable position, it is the right time for it to diversify into medium-term and long-term lending. The bank has started medium-term loan which is a good start.

In the year 2021-22, the bank experienced high NPAs as during the time of the assembly elections as a loan waiver was announced. This announcement lowered the recovery. The government waivers affected the repayments while outstanding loans were rising. About 58

profit-making PCARDBs are eligible to take deposits. These PCARDBs can keep the deposits with the SCARDB or use it to refinance loans for their own borrowers. The Tamil Nadu SCARDB has 300 crores of deposits. The total borrowings of the bank have almost diminished. The only exception is the recent borrowing from the short-term apex cooperative bank. So, most of the bank's interest is its profits. That is why profits have accumulated.

Human Resources

The capacity of current human resources at the bank requires more support both in terms of number and skills. The current strength of employees for the bank is 107. The composition of employees is as follows: Workmen employees- 9; Supervisory staff- 72; Administrative/ Managerial staff- 26. The bank previously employed technical staff, field level staff, and legal officers to process the documents. But a majority of employees have retired. The new recruits are not familiar with the long-term loan process, the ways to assess the project reports and necessary legal aspects of the long-term loans. As a result, reviving longer-term loans would be challenging for them. The staff requires training to learn the skills and the process of long-term loans. These are some areas where NAFCARD could play a significant role for Tamil Nadu SCARDBs.

The bank has a loan scheme for its staff. Through this scheme employees can avail personal loans, education loans, advances for marriage, and conveyance advance. These loans are funded through the general funds.

There has been limited effort to provide training to employees. In 2021, NAFCARD organised a training program in National Institute of Rural Banking (NIRB) Bangalore where Tamil Nadu SCARDB's staff had participated. NAFCARD does not have a general training program for PCARDBs yet. NIRB announces programs and the bank employees can attend these programs. Similarly, there's another institution National Institute of Co-operative Management (NICM) that organises certain training programs.

Although the bank officials are aware of such programs, in recent years it has not been able to send the staff due to existing shortage of employees. If the bank deutes some of the employees for training the bank operations will suffer. After 2004, NABARD stopped grant assistance (provided based on rating of the training centre and their performance) for the training centre managed by the Tamil Nadu SCARDB. So, the training centre is closed since then. The

premises for the training centre are still existing. Currently, the bank has started a jewel loans extension counter at those premises. The premises are being renovated.

The bank officials agree that the training of employees is essential. The new bank employees need to be educated regarding the long-term loaning process to prepare them for the long-term loan revival. Also, the employees need to be updated regarding the changes happening in the banking scenario, and to improve the overall functioning of the bank.

Given an opportunity, the bank would want to participate in training programs on the following topics: Core banking, advancement in banking, auditing, necessary skills for computerisation, etc.

By-laws of SCARDB

The functioning of the SCARDB is guided by the by-laws and on many occasions such guidelines become restrictive for the functioning of the cooperative. For example, the interest rate of SCARDB is set by the registrar of cooperative. The bank does not have the flexibility to fix the interest rate as per the market rates. The bank is a professional agency functioning in a competitive space and such a provision sometime act as competitive disadvantage.

As per the by-laws, the bank cannot invest anywhere except co-operative banks. The norms for such investment are strictly mentioned in the act/bylaws. Any decisions regarding the investments are taken by the investment committee. However, this is done as per the norms given by the registrar of co-operatives. Surplus funds of the PCARDBs have to be deposited in the SCARDB only.

Deposits are only taken from members (associate members). As a result, the SCARDBs can't not provide even the basic banking services like banking to non-members. Thereby impacting its market share.

1. Initiation of e-Sevai:

The Tamil Nadu SCARDB has started e-Sevai centres in all the PCARDB branches. These centres provide government certificates and licenses and hence, attract people. PCARDBs have these centres and they earn income from it. Some PCARDBs are doing very well. No other SCARDB has been found to follow this practice. These centres do not require a lot of initial investment. Only the computer system and internet connection and staff are needed. Also need to apply for a license which can be easily availed from the collectorate.

2. PCARDBs assistance fund scheme:

Under this scheme the bank lends the struggling PCARDBs with a lower interest rate (4% less than usual). The normal interest rates for PCARDBs are around 9%. Struggling PCARDBs get refinance from the Tamil Nadu SCARDB at lower interest rate. Since the scheme was launched, 12 PCARDBs have availed such loans at lower interest rates. Under this scheme, an amount of 52.42 crores of loans has been disbursed at 5% interest rate. The support will continue until till the imbalance is over or the PCARDBs are in net profit. This support is very likely to help the PCARDBs because it increases their loans outstanding, and they get more returns. Over a period of time, it should help them come out of their imbalances.

3. Computerization of Operation:

The bank has initiated computerization of all the routine operations. The hardware is to be purchased by the bank and budget for the same is approved. One common software developed for all ARDBs (the same as the one developed for PACS). It is expected to reduce cost of operations and increase customer analytics.

4. Quick Processing of Loan

The bank has been able to improve the efficiency of lending process. The jewel loans are being processed within a duration of around 20 minutes. There are appraisers hired to make the process more reliable.

Challenges

1. Loan waiver

In 2006, the entire farm sector loans were waived, but the bank did not receive all the funds from the government. The bank has been following up with the officials to and the discussion is going positively. This amount is having an impact on the balance sheets. The entire loan outstanding of 1260 crores was waived but only 961 crores were received by the bank. The bank waived full amount for the borrowers but the government only provided the amount necessary to repay NABARD dues, and other organisations dues. There were certain amounts that the bank owed to the government. This amount was not compensated as part of the waiver. The amount comprises of 45 crores of debenture outstanding with additional interest amount. The bank is requesting the government to waive this amount as well.

The recovery climate is poor especially in case of co-operative banks. Farmers do not repay their loans despite of being capable of repaying them due to expectations of future loan waivers. The recent government loan waiver announced by the government covered all types of loans including the jewel loans. Self-help groups' loans were also covered in the waiver. In contrast previously only agriculture loans used to be a part of the government waiver schemes.

2. Diminishing relevance of long-term lending

Although the bank was established to facilitate long-term lending; there is overall decline in the demand for long-term lending. The long-term lending structure has lost its trust even at the government level. The main focus is given for the short-term lending structure i.e., to the PACS.

3. Lack of diverse products

Other commercial banks have several products/ activities whereas the SCARDB in Tamil Nadu is only dealing in jewel loans. The Tamil Nadu SACRDB faces competition from commercial banks, RRBs and other banks offering short-term loans. The interest rate among all the banks is more or less the same. Commercial banks have a better reach. The Tamil Nadu SCARDB struggles mainly because it doesn't have other banking activities.

4. Lack of Finance

The bank has the potential to expand its business. But the availability of necessary finance is a major issue. The bank cannot use 100 % of the deposit funds. If the bank could arrange more

funds, it is possible to expand the lending operations. The Tamil Nadu SCARDB availed a cash credit limit of 50 crores for direct lending at 8.5% interest rate and additional 50 crores cash credit limit at 9.5% to lend to the PCARDBs from the short-term apex co-operative bank. Tamil Nadu SCARDB did consider borrowing from NCDC (National Cooperative Development Corporation), but their current interest rates were about 9.75% to 10% which is significantly high.

Recommendations

1. Support from NCDC

The entire agricultural funding is going through NABARD and the long-term co-operative banks are getting a very small part of these funds as the commercial banks, RRBs and short-term cooperative banks end up taking the bulk of the funding. A part of these funds should be given to the NCDC. NCDC is a government organisation just like NABARD. It is fully owned by the government. It is financing only co-operatives and it's an appropriate financing body for the co-operatives.

2. Funding from Apex Co-operative banks

The SCARDB can explore funding avenues from other sources like the state co-operative banks. For example, West Bengal SCARDB borrowed from their state-run apex cooperative bank at 8.5% for 5 years. The West Bengal SACRDB is issuing loans for only those purposes that have a tenure of up to 5 years such as machinery loans, poultry loans, other non-farm activities. The repayment schedule is spread over 5 years. Hence, the state-run apex co-operative banks could become a source of funds for SCARDB given the interest rate availed is also similar to the NABARD rate. The Tamil Nadu SCARDB could verify how many of the PCARDBs are capable of giving such machinery, dairy, poultry loans for 5 years.

3. Capacity building of Staffs

The Tamil Nadu SCARDB should try to expand their activities by arranging more funds from other sources. It should give the staff orientation, training and guidance for longer term loans. Because currently, the bank is only doing jewel loans for the last few years. It is necessary to appropriately train the staff. This can be further expanded with cluster-based lending. The bank officials agreed that reviving longer-term loans would be challenging for them. The staff

requires training to learn the skills and the process of long-term loans. These are some areas where NAFCARD could play a significant role for Tamil Nadu SCARDBs.

A pilot training program with 10 selected good-performing PCARDBs can be conducted. Over the next few years, more trainings could be conducted to cover the rest of the PCARDBs and their employees.

4. Experiment with Cluster-based lending

The bank could start long-term loans on an experimental basis within limited areas that have potential borrowers. In such areas the bank can try cluster-based lending. That will help in supervision and recovery and it can also make it easy to cover the area with limited staff. The loans could be given for specific purposes like dairy, poultry, etc. However, such loans need regular supervision/ follow ups. That will be easy if the loans are concentrated in a limited geographical area.

5. Support through Interest Subvention Scheme

The government should support the SCARDB with interest subvention schemes. States like Kerala, Haryana, Karnataka, and Rajasthan have interest subvention schemes. Prompt payers in Haryana have to pay only 6% interest rate while the other 6% is paid by the government. Similarly, in Karnataka, the borrowers have to pay only 3% while the government pays 9% interest on the loans. Unless such subvention schemes are there, it's difficult for the farmers to repay high interest rates as the productivity in agriculture is not that high.

Chapter 13

Tripura Cooperative Agriculture & Rural Development Bank Ltd.

Introduction

Tripura Cooperative Agriculture & Rural Development Bank (TCARDB) Ltd. was established in 1960 to serve the credit needs of small and marginal farmers for agriculture and allied activities. The bank has also provided loans for non-farm activities like small transport, trading, and businesses in rural areas. Originally established as the First Land Mortgage Bank, it was later renamed the Land Development Bank before becoming the Cooperative Agriculture & Rural Development Bank. NABARD, the State Government and the Government of India have subscribed to debentures floated by TCARDB. It had a membership base of 22579 individuals, four societies and the government as of 2016-17.

Governance

TCARDB has a unitary structure with five branches and a head office in Agartala. It is governed by a six-member board comprising two government officials, two women, and two permanent employees of the bank. The board selects a General Manager for execution. Generally, new boards are formed every five years. However, at the time of the survey, the formation of a new board was pending. The previous chairman resigned in September 2023. The policy decisions and operations are currently hampered due to a lack of a board. The bank is unable to take decisions on legal actions needed for loan recovery.

The performance of TPSCARDB is audited by the Registrar of Cooperative (RCS). The dependence of the TPSCARDB on the state government constrains its operation. The organization requires experts on banking and finance as board members for better policy decisions.

Issues Raised by Registrar of Cooperative Society, Tripura

The bank, as it stands, operates without a managing body, leading to difficulty in operations. It is primarily funded by state government funds. In an effort to promote development, the state created the Rural Development Bank as a cooperative entity. However, this arrangement has made it difficult for the bank to operate independently, as decisions cannot be made without government intervention.

Despite Tripura's small size, the bank competes with other banks that have a higher recovery rate. The bank's governing body lacks qualifications compared to other banks, which tend to hire experts to foster growth. Thus, there's a pressing need for the bank's managing body to include members with banking experience.

While NAFCARD and the Ministry of Cooperation can't offer financial support, they have the ability to write off non-performing asset accounts, which is a vital function given the bank's limited recovery capability due to a small number of employees.

Lastly, regarding the potential for a state government guarantee in case of NABARD refinance, the decision is said to rest with the government's financial department.

Lending

Initially, it provided long-term credit for non-farm sectors, including buses, jewellery, garments, stationery, grocery, etc. Later, the bank offered long-term credit for a maximum period of five years, except for rubber plantations, for which loans can extend up to 14 years, and tractors, which used to have a maximum loan period of ten years. Later, loans for plantations were discontinued. At the time of the survey, the bank was not offering any loans due to a lack of refinancing from NABARD.

Before any loan is granted, the bank or its branch conducts a verification process to ensure all paperwork is in order. Once verified, the application is forwarded to the head office, which then directly disburses loans to farmers.

The bank's branches are yet to be computerized. With the help of NAFCARD, it is expected to be completed in the future.

Sources of Funds

There are two sources of funds for the SCARDB: State Government and NABARD. The state government once issued a one-time payment with a significant portion of these funds directed towards marginal farmers. NABARD has stopped refinancing as 90% of the previous loans and turned NPA. The bank does not mobilize deposits from members. The state cooperative law does not allow them to do so.

At the time of the survey, their state fund stood at one and a half crores with a Flexi deposit of three crores. Additionally, TCARDB had a market debt of seven crores. The salaries were being paid from the interest earned on fixed deposits.

The by-laws of TPSCARDB do not allow them to lend FPO (Farmer Producer Organization) and APMC (Agricultural Produce Market Committee).

Dealing with NPAs

Recovering past NPAs accumulated for a long time has been extremely challenging for bank officials. The principal amount sucked in NPA amounts to as high as 7.35 crores. Efforts are made to recover the principal amount through One Time Settlement (OTS). A two-pronged strategy was adopted for loan recovery: recovering approximately 40 percent of old loans through constant persuasion and the remaining 60 percent through OTS.

In general, the farmers are reluctant to clear their past debts. Despite these challenges, bank officials are making constant efforts to recover past debts. Recently, they have introduced an innovative method by approaching debtors through different unfamiliar officials from other branches outside their locality rather than pursuing them only by their known local branch official.

Innovation in Loan Recovery

Officials from other branches visited the loanees for recovery after officials from the local branch visited. As the debtors see new faces, they understand the importance of visits rather than ignoring officials contacting them to recover the loan. This process is showing encouraging results with recovery in some bad debts which were difficult to recover.

The debtors' relocation also creates challenges in recovery. The director of TCARDB suggested tracking debtors in case of relocation and taking punitive measures such as holding back rations through the public distribution system in coordination with the Panchayat.

The employees acknowledge that past mistakes in loan disbursement and recovery have taken them to such difficult situations. Fresh loans were issued before full repayment of past debts. Subsequent policies have become stricter, and agricultural lands are no longer being accepted as collateral. Homestead and commercial land documents are preferred over agricultural land. A single piece of land is being used as a mortgage for multiple loans. As a result, land auctioning was not possible. A future initiative involves collaborating with a Land Department Officer to mark mortgaged lands, thereby preventing the possibility of a single piece of land being mortgaged at multiple locations.

The Secretary of the Department of Finance informed that once there was a decision made to merge TPSCARDB with the State Cooperative Banks (SCBs). However, SCBs rejected the idea because of the high non-performing assets (NPAs) associated with SCARDB. At the time of the interview, there was no plan to provide state funds to TSSCARDB.

The constant efforts made by the officials have yielded encouraging results. While the loans outstanding were around 19.35 crores in 2016-17, they have come down to 7.35 crores at the time of the survey in June 2024. The employees hope that NABARD will resume refinancing after assessing their recent recovery performance.

Human Resources

The bank had 19 staff members employed at the time of the survey. The staff distribution includes four individuals at the Vishalgarh Bank branch, three at the Udaipur branch, two at the Kumargaon branch, and two full-timers at the head office. This number is inadequate for handling loan recovery efficiently. The bank recruits staff through government-conducted examinations. There has not been any fresh recruitment since 2010 despite staff retiring over the years.

The members are governed by a code of conduct. However, it needs revision, taking into account the present context. But that is also very old.

Training

The 19 staff members of TPSCARDB participated in two training programs, one in Delhi and another at BIRD, to enhance their skills and capabilities. There are very few resources available for them to attend any training programme. However, it was observed that officials are very enthusiastic about attending training programmes, especially on loan recovery. The staff members have not received any training from NAFCARD.

The members pointed out that due to a lack of expertise, they are unable to lend to Self-Help Groups (SHG) and Jointly Liabilities Groups (JLG). However, there are provisions in by-laws that provide credit to SHGs.

NAFCARD's Interaction with SCARDB

The interaction between NAFCARD and TPSCARDB was found to be very limited. The staff members have not taken any training from NAFCARD, although they get regular updates on training offered by NAFCARD. TPSCARDB staff members are also not aware of the model recovery policy. TPSCARDB envisages NABARD's role in the computerization exercise.

Good Practices

The following are the good practices of TPSCARDB

i. Two-pronged strategy for loan recovery

TPSCARDB attempted to recover approximately 40 per cent of old loans through constant persuasion and the remaining 60 per cent through OTS.

ii. Innovation in Loan Recovery

Officials from other branches visited the loanees for recovery after officials from local branch visited

iii. Choice of security

As agricultural land is difficult to auction, homestead and commercial land are preferred as security.

iv. Controlling use of encumbered assets

Marking of mortgaged assets with the help of the Land Department would control the use of the same asset as security in multiple loans.

Challenges

The challenges of TPSCARDB are the following:

i. No elected board

Due to not having an elected board, many important decisions, including decisions related to recovery, were not taken.

ii. Difficulty in recovery

The loans that have turned into bad debts are difficult to recover due to the unwillingness of loanees to repay. The agricultural land taken as security is difficult to auction. Some of the assets were used as mortgages in multiple loans and, hence not possible to auction

iii. Lack of sources of funds

Due to high NPA, NABARD has stopped refinancing. As a result, the bank does not have funds for fresh loans.

iv. Lack of expertise and training

TPSCARDB suffered due to the lack of expertise of the board members on financial matters. The staff members also lack training in financial matters. The bank officials are unable to attend necessary training programmes due to paucity of resources

v. Banks not computerized

Manual work in the branches makes operations inefficient

Suggestions

The suggestions for NAFCARD, Ministry of Cooperation, NABARD and TPSCARDB are the following:

i. NABARD to waive NPA and resume refinancing

NABARD should waive the NPAs as the bank has capacity constraints due to a very limited number of officials. NABARD should consider refinancing SCARDBs that are striving hard to recover past losses and reduce NPAs. NAFCARD and the Ministry of Cooperation should help NABARD in waiving off the NPAs

ii. State government to guarantee NABARD refinancing

The state government should consider guaranteeing NABARD refinancing. This may enable NABARD to resume refinancing TPSCARDB

iii. Greater association with NAFCARD and the Ministry of Cooperation

Both TPSCARDB and NAFCARD should try to associate with each other for more training and better practices. The Ministry of Cooperation should also provide guidance which may help TPSCARDB

iv. Election and formation of new board

Election and formation of a new board for governing TPSCARDB should be formed as soon as possible.

v. Induction of members with expertise in finance

There is a need to induce members on the board who have expertise in banking and finance.

vi. Training of staff members

The members should be sent for training in banking and finance

vii. Computerization of Branches

The branches of TPSCARDB should be computerized as soon as possible with the help of NAFCARD.

viii. Deposit mobilization

With the help of amendment of by-laws, the bank should consider deposit mobilization from members

Chapter 14

Uttar Pradesh Sahkari Gram Vikas Bank Ltd.

Introduction

Uttar Pradesh has been a late entrant in long-term lending for agriculture. While most Land Mortgage Banks in India started before independence, the Uttar Pradesh Sahkari Gram Vikas Bank Ltd. was established on 12 March 1959. It was established to liberate the State's farmers from moneylenders and provide them with long-term investment loan facilities, mainly in agriculture and allied activities, for economic upliftment. Therefore, the Bank is a specialized institution created to provide long-term investment credit to farmers in the State. Though the Bank was established in 1959, real growth and impact started with the World Bank project on minor irrigation in 1965. The Bank was the primary participant in financing minor irrigation projects and has seen significant growth in the number of branches and business quantum. The Bank witnessed its golden period between 1970 to 1990. In this period, State and central governments supported the Bank with uninterrupted refinance and almost monopoly in rural credit. During this period, the Bank was the primary institution in the State that extended government-sponsored schemes to the farmers.

Governance

The Bank is governed by the UP Sahkari Gram Vikas Bank Ltd. act "Adhiniyam – 1964" and UP Sahkari Samiti Adhiniyam – 1965. The government of UP is providing a government guarantee to avail refinances from NABARD. Presently, the Bank has 323 branches at almost every tehsil and some at the block level compared to four branches when it started operation.

Apart from that, every branch has a committee; the elected members are among the members within the revenue division. In other words, the branch committee member is elected among the loanee members. For example, there are 323 branches, which have been divided into 14 divisions or 14 constituencies and one director is elected from each of them. Together, they select the chairman and vice chairman.

Lending

In early 1960, the Bank started financing minor irrigation projects under the World Bank scheme, and significant financing was done in the scheme until early 1990. Financing minor irrigation projects provided impetus to the State's green revolution, which considerably improved the productivity and income of farmers. In the early 1990s, the Bank started diversifying its loan portfolio and financed dairy development, horticulture and plantation, animal husbandry, and numerous other activities. During the last decade, the non-farm sector and activities emerged as major loan schemes of the Bank. Thus, the Bank has significantly increased farm productivity, mechanization, and rural non-farm employment growth in the State.

Previously, the Bank offered short-term, medium-term and long-term loans. Recently, the Bank stopped offering short-term loans, whereas medium-term loans are for three years. The loan for three to five years is around 10%. The maximum period of a long-term loan is five years, and more than 70% of the loan portfolio falls within five years. Prabhakar et al. (2023) observed that Uttar Pradesh has a relatively lower rate of loans where land is used as a collateral (30%) as against states like Gujarat (53.5%) and Chattisgarh (60.3%). Thus, only about 10% of the Uttar Pradesh farmers have accessed long-term loans from UPSCARDB (Prabhakar et al., 2023). One of the primary reasons for low access to long-term borrowings based on land as collateral is the State's poor quality of land records. Secondly, most agricultural lands in rural areas have large numbers of joint landowners, which reduces the chances of farmers approaching the Bank for loans as it complicates the loan process.

Despite offering only long-term and medium-term loans, the number of farmers is significantly low for various reasons. For instance, there are some backward districts of Western UP where the agricultural loan is taken on a project basis or for three years for vegetable farming. For which 3 to 4 years are sufficient. The second reason is KCC (Kisan Credit Card), where farmers get loans quickly. In KCC, farmers get interest subvention in short-term lending from banks. UPSCARDB cannot give interest subvention as NABARD's policy does not include interest subvention. NABARD only channelizes interest subvention under Government of India schemes. UPSCARDB only refinances 40% of the loans, and the remaining 60% must be from the Bank's source.

Moreover, there are no bank deposits, so whatever lending happens in the Bank is done by taking refinance from NABARD. The Bank also does not have enough corpus to give 60% for short-term loans. For long-term refinance, 90 to 95% receive from NABARD.

Apart from that, the Bank does not have a credit rating system like other commercial banks. However, the Bank plans to apply for a credit rating for one year to understand how this facility will improve the banking system. If it succeeds, the Bank will implement the credit rating facility. However, it is essential to note that the Bank cannot function as a commercial bank. The Bank has been facing challenges due to the alternative funding sources available to the farmers in the form of the Kisan Credit Card (KCC) scheme, which has a compelling interest rate for farmers as low as 4%. Maybe a part of the Bank's clientele is moving towards such innovative schemes at highly subsidized rates.

Consequently, the Bank is experiencing a yearly reduction in farmers due to the loan available under the Kisan Credit Card (KCC) scheme. Since the Bank has sufficient staff, they can go to the field and approach farmers to reach out to and bring more farmers to the Bank. Even though the Bank had tried this method earlier, it was difficult to approach farmers because the KCC offers short-term loans with interest subsidies, and farmers are more interested in short-term loans than ARDB's long-term loans. In the KCC loan (interest rates ranging from 4% to 7%), farmers pay only a 3% interest rate. However, if there is a 7% interest rate and 4% interest subvention from the government. In this case, there will be a solution if KCC should be extended in the long-term loan with interest subvention.

NAFCARD's views on KCC and non-supported farmers

In India, 40% of farmers have not received any credit support from anybody. So, ARDBs should focus on those un-serviced or unbanked people because it will be challenging to bring farmers who are getting service from other banks.

Regarding the lending process and the possibility of innovation, the Bank depends on land records. The Bank has full access to land records as the state government has recently digitized most of the land details, which are available online. So, the bank staff scrutinize land details before disbursing any loan. It is essential to mention that once the loan amount is disbursed,

the farmers can approach other banks to borrow. In addition, the Bank does not face any legal challenges from the state government regarding lending diversification.

The Bank is also trying to bring various innovative lending methods. For example, in earlier days, the Bank only covered rural areas, but now it is spreading to urban areas, primarily due to rapid urbanization, and many rural areas are transforming into satellite towns of larger cities. Thus, the Bank mortgages the houses, shops, etc., in areas where their branches are located. So, the banks implement various schemes for the urban areas as well. There are no restrictions in by-laws for financing in urban areas. Therefore, the Bank is also considering expanding its businesses in urban areas as this is one of the essential segments it can look into. The Bank also offers loans to female beneficiaries at a 10% interest rate compared to the standard interest rate (11%).

NAFCARD's opinion on non-credit activities

Other SACRDBs follow several non-credit activities. For instance, Karnataka has two schemes. One is selling insurance products, whatever opportunities they generate in their lending process. In the case of IFFCO TOKIO, there is an arrangement: their people issue insurance, especially for factories, machinery, tractors, etc., and whatever premium is collected, 15% of the money goes back to the Bank.

Another scheme is e-stamping in the rural areas. Nowadays, stamp paper has stopped functioning, so most people use e-stamping. So, the Bank gets a licence and deposits some amount, and they can also do the e-stamping. The e-stamping is a good business. In this business, the Bank receives almost 8% Commission. Apart from that, wherever they have safe Buildings, they offer locker facilities because there is a considerable demand for them.

Sources of Funds

The Bank majorly depends on NABARD for sources of funds. NABARD refinances the Bank at the rate of 8.5% interest, and the Bank gives to the farmers at an 11% interest rate. The Bank does not get any interest subsidy from NABARD. First, the Bank has to spend and then obtain refinance from NABARD, and surplus funds are spent. As the Bank has very limited own funds, it cannot make any new scheme like the one pursued by the Kerala State Cooperative Agricultural and Rural Development Bank to expand its business. Therefore, the Bank can spend as much money as is available through NABARD refinances. It is essential to highlight that, despite government guarantee, the Bank is on the list of high-risk banks by NABARD. As a result, there is a lot of delay in obtaining refinance money from NABARD.

The Bank has also received funds from NBCFDC (National Backward Classes Finance & Development Corporation) and NCDC (National Cooperative Development Corporation) for the last two to three years. These two sources have given upfront money at a lower interest rate. Initially, they funded the Bank at an interest rate of 3%, and the Bank disbursed 6% to OBC and SC. But now, this year onwards, they have increased the rate of interest, which the Bank also offers more than 8% to the farmers.

Other sources of funds, such as deposits, have been completely stopped due to the Banning of Unregulated Deposit Schemes (BUDS) 2019. The members used to make deposits earlier, but presently, the members do not make deposits. Earlier, they used to get deposits from other places, too, but due to BUDS, that has stopped, too. The Bank has proposed to the state government to restart deposits, but no decision has come to fruition yet.

NAFCARD's opinion on deposit systems of SCARDBs and existing problems in deposit mobilization

Cooperatives can take deposits from members; there are no restrictions for that. However, if cooperatives need to accept deposits from institutions or non-members, they should get permission from the state government and the approval of RBI. However, some people or banks are using an earlier scheme in this case. For example, in 1997, the NABARD provisioned a deposit mobilization scheme from their members, and most banks implemented it with approvals from respective RCS and state governments. Some of the banks are still following this scheme.

Furthermore, it can be assumed that the state government is not approving SCARDBs for deposit mobilization because the state governments feel that deposit mobilization is for short-term lending. According to UPSCARDB, the state government is of the opinion that UPSCARDB should engage in business with the NABARD refinance and that there is no need to raise finances from other sources. However, NABARD refinance comes with many strings that do not allow the UPSCARDB to extend its business and grow.

Currently, SACRDBs have at least two issues. One is business expansion, and it is known that with the help of long-term credits, the business cannot be expanded because the funding for long-term resources is minimal. So, the Bank cannot perform well at the viable business level. Ultimately, the Bank cannot expand its business portfolio within the boundary of long-term lending perspectives.

The second problem is that farmers keep their land mortgaged, and all their loans are required both short-term and long-term. Working capital is also needed for non-farm activities. The Bank suffers from a lack of funds at a lower cost. Without sufficient funding, the Bank cannot expand its business, and thus, its profitability suffers.

Dealing with NPAs

There are certain areas where recovery is good. The Bank sees branch recovery, and it is mainly observed that some parts of UP are doing better in recovering loans. The Bank receives vast amounts of loan demands from several parts of Western UP, such as Saharanpur, and farmers

who are richer economically in Western UP. Additionally, their size of land holdings is much higher than that of other farmers from Eastern or Central Uttar Pradesh. It is observed that recovery rates are low. One of the primary reasons attributed is that the farmers take loans from various sources and are often burdened by pressure for repayment. In their assessment, the UPSCBARD will not take any drastic steps and thus delay the loan repayment. Apart from that, the farmers' union in Western UP is vital, so the Bank cannot act against them. Demand for the loan amount from Eastern UP is one to two lakhs per farmer member, while farmers have small land holdings, and the loan repayment is better.

Recently, the Bank has adopted a robust recovery strategy in the entire State, including areas with higher NPAs. For instance, earlier, the recovery drive was conducted from only April to June till the COVID period when the Bank experienced problems with repayment. To mitigate this issue, the Bank started a recovery drive throughout the year, which is still ongoing. The most effective one is to visit the farmers frequently and create moral pressure for repayment. For example, if any farmer requested the recovery employee to visit after two days, the employee after two days. This promptness in visits has paid dividends in many places. The visits often allow the farmer to think of repayment of the loan, and eventually, they pay back the loan amount in many cases.

In the last several years, auctions of the mortgaged land have been carried out in several villages, which had a demonstration effect, and other farmers have also making repayments. Now, they understand that if repayment is not done on time, their land will likely be auctioned. Apart from this, the Bank has also brought out many advertisements; it has been announced to the borrowers that if they fail to make payments on time, their mortgaged property will be auctioned. The action has been effective in regularizing the loan accounts and borrowers of overdue/NPA accounts repaying their loan amount. Secondly, regular monitoring of all loan accounts has benefited a lot. The Bank has witnessed a healthy recovery rate in recent times. Due to the Bank's proactive role in recovery, the Bank has recovered more than Rs. 500 crore in the last couple of months. Cash recovery has increased, and the outstanding amount of NABARD has also reduced substantially over the past couple of years.

Consequently, the Bank has been in profit since 2021. During the past two years, the Bank has witnessed a profit of around one hundred crore rupees annually. Meanwhile, 25% of the profits are ploughed back into the reserve fund, and the remaining amount is distributed to all the shareholders.

While the distribution of accumulative profits is concerned, the actual reserve amount is Rs. 230 crore, and Rs. 165 crore reserves have been made as security reserves. Last year, the Bank distributed 2.25% as a dividend. Apart from this, profit distribution occurs per the Uttar Pradesh Cooperative Societies Act 1965. For instance, 25% goes to statutory reserve, and after that, agriculture funding, training funding, education funding, etc.

Human Resources

Presently, operations related to human resources come under the Department of Administration. As far as training-related document maintenance is concerned, the Bank maintains the personal copies of each employee. So, the Bank knows which employees have received how much training and what capacities the employees build over the training programs. The Bank is well staffed with about 2500 employees.

Perhaps the Bank implemented various innovative HRD practices in different discourses. In the last couple of years, the Bank implemented an employee attendance and tracking app (EATA) to monitor employees' attendance and daily work. To maintain a database of employees, the Bank implemented the Personal Information System (PIS), which the Bank developed to keep up-to-date information on their posting and other details. Additionally, the Bank developed a Grievance Redressal Cell (GR Cell), an online cell created by the Bank for the timely redressal of the issues raised by the employees.

Technologically, the Bank is way behind its competitors in the State's commercial banking sector, NBFCs, and other cooperative banks. While the computerization process is in full swing at both the branch and head office levels, it will take longer to have a seamless operation that leverages modern information and communication technology (ICT). The Bank has to align its processes with changing technology. The Bank is expected to be ready for seamless operations leveraging ICT by 2026. It is also important to note that when SCBs and PACS could computerize their systems earlier, SCARDBs and PCARDBs still struggled to implement the computerization process to some extent. Due to various factors, such as the cost of operating systems and lack of consensus from different states, the importance of computerization was understood late in this process. However, NAFCARD and SCARDBs took up this issue;

presently, few SCARDBs are fully computerized. The long-term sector, particularly SCRADBs and their branches, has been experiencing drastic improvement in lending, recovery, and overseeing the banking system, with upgrades from manual systems to computerization. In some cases, some branches of the UPSCARDB follow manual processes for interest, recovery, and long-term calculation every six months.

Training

The Bank has conducted meetings regularly online and offline. Offline or physically, they conducted meetings twice or thrice a year, and online meetings through Zoom calls were organized almost every week. Most meetings focus on recovery, NPAs, lending, training, inspections, etc. In other words, most meetings were conducted based on multiple agendas.

Regarding training from NAFCARD, the Bank highlighted that it has not received any training from NAFCARD; however, it has a training institute. The Bank provides regular training to its employees at this training institute. Sometimes, employees also receive training from the Bankers Institute for Rural Development (BIRD), Lucknow and other training-related institutes. Last year, UPSCARDB provided training to 1560 employees and got a refinance for training from NABARD. NABARD financed a maximum of 80% of the expenditure. Apart from this, the Bank keeps providing computer-related training to all the employees, and there is a NABARD guideline for that, which states that all the employees should be given computer training under the Bank's provisions. Apart from this, there are professional courses, induction programs, and management courses related to employee training. Recently, the Bank started a course on cyber security as well, and it was a NABARD guideline that required training on this.

NAFCARD's opinion on cyber security and various trainings.

Three months before, there was a meeting in the Ministry of Corporation. The meeting was conducted among all the members of the cooperatives regarding training. So, according to them, currently, there are nearly 34 crore people associated with the cooperatives. It can be assumed that almost 50% of the people are actual members. The ministry plans to train around 17 crore people across all the cooperatives in the next five years. They are preparing a plan according to that. The Ministry of Corporation (MoC) has two things in mind: one is the general concern of the cooperatives. For example, the definition of cooperative principles, objectives, etc., was another concern related to sectoral functions. For example, if there is an agricultural sector, what is the importance of agriculture training, what are the schemes we are financing, and what can the members do to develop the industry? The meeting went half a day long, and the NAFCARD president suggested that as far as the budget is concerned, general meetings can be done at the branch level as well. Video conferencing is possible in that kind of meeting, and employees can interact with other employees regularly. Apart from that, two bank employees can also attend any meeting at the federation level. The employees can also help at their Bank by conducting training programs, awareness campaigns, and overall development. Because bringing all the employees to the training centre and giving them training is not always practical. Also, NAFCARD is planning to conduct a member education program. NCUI also have this kind of program.

NAFCARD's interaction with the SCARDB

The SCARDB interacts with NAFCARD as per the requirements of the federation. Every year, NAFCARD conducts meetings twice, and the Bank's higher authorities attend meetings regularly. Recently, the federation completed a training programme in Karnataka and Punjab and plans to conduct a training programme at the national level. It would be an excellent opportunity for the Bank if the federation could organize training on various segments, including loan appraisal, in the following training programmes. If the assessment is good, then loan-related issues will also improve automatically. The Bank further highlighted that if

NAFCARD brings any provisions for better banking systems, there will be no issues as the Bank has not experienced any compliance issues with the State Cooperative Act. Concerning existing by-laws, the board will approve the guideline from NAFCARD, and the legal team will approve it. There will be no legal issue; the only problem is the lack of funds available.

The Bank further expects training programmes from NAFCARD related to recovery and lending. Additionally, lobby with governments for the Bank regarding short-term loans and intervention subsidy-related issues. NAFCARD can also help with the finance issue from NABARD. Also, it could be a great support if NAFCARD takes the Bank's employees for some exposure by visiting different states or ARDBs.

Good Practices

Comprehensive Verification Process

The Bank emphasized local reputation and direct inquiries that significantly enhanced the selection of interested candidates for various lending schemes, including farming and cattle rearing. This process in candidate selection directly correlated with a marked improvement in the recovery rate. As part of this process, bank employees' regular visits to the farmers further strengthened the relationship between the Bank and the farmers, ensuring more consistent and timely repayments. Overall, this proactive approach strengthens trust and minimizes financial risks, leading to a noticeably positive impact on recovery rates.

Awareness Programmes and Meetings

The Bank organized awareness campaigns through various government melas where farmers will be acquainted with multiple existing schemes and modern agricultural practices, improving crop yield, income, etc. These initiatives undertaken by the Bank foster a deeper understanding of loan schemes, promoting better financial security among farmers. Moreover, engaging directly with farmers through meetings helps tailor banking services like loans and insurance, directly addressing their specific needs and enhancing their economic stability.

Challenges

Declining Membership and Investment

As a long-term lending institution, the Bank does not have access to alternative funding besides NABARD refinance. When the Bank came into existence, there were very few reliable and safe avenues for farmers to park their additional funds. The farmers have many alternative sources to park their funds, including commercial Bank fixed deposit schemes and deposit mobilizing schemes. They have a facility for members to make fixed deposits; however, the Bank is reducing FD members due to a lack of interaction with members and awareness about the banking facilities. For example, in the last couple of years, the total FD amount was Rs. 75 crores, but it has now been reduced to Rs. 9 crores.

Challenges in Refinances from NABARD

Despite government guarantee and accumulative profits, NABARD considers UPSCARDB a high-risk bank, which is not convenient for the Bank as it hampered its refinance process; NAFCARD should play a proactive role in lobbying with the central government to look into this matter.

Restrictions on KCC Loans

Other banks offer KCC under short-term loans, but as per the SCARDB provision, the Bank cannot provide except long-term loans. Due to the KCC loan, the Bank is experiencing significant issues, including decreasing deposits, loanee members, and active members.

Suggestions

Mobilising Members to Enhanced Business Growth for Banks

The Bank needs to mobilize its members to expand business growth. Currently, the Bank has nearly two lakh active members; if it increases to fifty per cent or almost three lakh active members, there will be enormous scope for business expansion and sustainable growth.

Bring Innovative Strategies for Business Expansion

Since the Bank is performing well and economically in good health, it can bring some innovative strategies for business expansion. For example, conduct meetings with members and explain various schemes offered by the Bank and its branches. If possible, organize a meeting every six months and explain multiple schemes and their benefits among members. Apart from that, the Bank may consider attending more loan mela to promote their various loan schemes to the people. Additionally, the Bank can consider conducting Member Interaction Abhiyan (MIA) to encourage mobilization deposit schemes.

Chapter 15

West Bengal State Cooperative Agriculture & Rural Development Bank Ltd.

Introduction

The West Bengal State Cooperative Agriculture & Rural Development Bank (WBSCARDB) Ltd. was established in 1958 under the Bengal Co-operative Societies Act of 1940. It was previously known as The Land Mortgage Bank. WBSCARDB was established to meet the needs of Long Term Credit Cooperative Sector (LTCCS). It is the apex institution for long-term credit distribution in the state. It provides long-term and medium-term credit for farms, non-farm and housing . It provides on-lending to 24 affiliated member PCARDBs and direct lending in Purulia, Darjeeling & Kalimpong District through its branches, with refinancing by NABARD. For direct lending, it has 4 Branch offices and 9 Sub-Branches.

Governance Structure

The SCARDB and PCARDBs are supposed to be governed by an elected board member. WBSCARDB and most of the PCARDB did not have elected boards at the time of survey. In the absence of board members, these organizations are operated by government-assigned special officers. As per rules, only the officers who have been working in the cooperative sectors so far may be considered as special officer. The chairman of WBSCARDB was pressing the concerned ministry and Additional Chief Secretary to assign the best possible officers for such duties. Without an elected board, the cooperatives cannot induct any new members as per the Supreme Court order. The elections of these societies are likely to take place very soon. However, the state government have approved the induction of nominal members who can take loans but would not have any voting rights, nor can these members hold any share. As a result, there could be a huge number of nominal members but a stagnant member share. These members are also disinterested in taking shares due to no substantial gain envisaged by them.

The PCARDBs are members of WBSCARDB, but the former have their own board of management to govern their society. Where there is no board, then the state government appoints an administrative officer. WBSCARDB cannot control them in terms of administrative duties. At the maximum, the apex bank can provide suggestions, and members can choose to follow. The MD of the apex bank cannot direct the CEO. The PCARDBs have their own by-laws.

The apex bank can conduct inspection of PCARDBs, obtain compliance from the member banks, and send the findings of the inspection to the state government as well as to the NABARD. NABARD has shown interest in inspecting member banks at the district level. In terms of operations, the apex bank prepared many rules and regulations for member banks, where branches can take deposits from the members. The apex bank has the power to recommend the state government against deposit mobilization of PCARDBs.

The apex can keep a maximum of 33% of PCARDBs' deposits. PCARDBs that are under less than 70% recovery at the ground level, the entire deposit is kept with the apex bank. The PCARDBs inform the apex bank when they want to make deposits before shifting funds to commercial banks. The apex bank offers them a quote and exempt 100% interest earnings from taxation under 80P of Income Tax Act, 1961. Thus, the apex bank becomes stronger, and PCARDB's funds remain in the state. THE PCARDBs pay staff salaries from the interest earnings.

As per the statutory body, there are some clauses which empower WBSCARDB to initiate legal cases against PCARDBs if required. The bank officials informed us that there have been no such disputes between WBSCARDB and PCARDBs. The WBSCARDB, in turn, supports PCARDBs to fight legal cases.

Loan Disbursal

WBSCARDB provides long-term loans to warehouses and godowns. One of PCARDB at Contai offers a gold loan. Previously, it used to offer loans for cold storage, but later, it stopped as the amount involved and the chances of default were high.

The duration of loans ranges from five to 15 years. The bank mainly offers long-term loans (95%). However, it also offers a one-year loan to SHGs, which NABARD approves. Otherwise, NABARD does not allow any short-term loans.

The bank's major limitation is the inability to provide cash credit, which is a short-term loan to meet the requirements of working capital. The consumers switch to other banks to meet their working capital needs, thus constraining opportunities for new businesses for the bank. The officials hope that NABARD may allow them to offer short-term crop loans. The officials also expressed that the bank is interested in offering short-term loans in poultry, dairy and other sectors.

NAFCARD's opinion on cash-credit facilities for long-term loan

Some SCARDBs offer cash credit facilities for borrowers who have short-term needs. If borrowers need five lakhs as cash credit and if the bank has money, then the bank can fix a credit limit of one lakh. This one lakh will be revolved for a year. Whenever borrowers have money, they can repay it. They can take the loan again whenever they need it. This cash credit facility can be made available to long-term borrowers only and for a year. Kerala has such a cash credit facility for the long-term loanees from their deposits. Despite no financial support from NABARD in this segment, they are performing well. Even NAFACRD is planning to recommend that all the SCARDBs implement cash credit facilities.

Sources of Funds

Refinances from NABARD and state government are the main sources of funds for WBSCARDB. NABARD refinances with the rate of interest at 8.3%, and the bank provides funds at 9.5% interest to ARDBs, and ARDBs provide loans to borrowers at 10.85% interest.

Chairman's opinion on NABARD's rate of interest

The interest rate offered by NABARD is high and should be reduced. The interest rates offered by NABARD under the Long Term Rural Credit Fund (LTRCF) have increased over the years. The interest rate availed by the borrowers is around 11% after WBSCARDB and PCARDB add their mark-up. Such high interest rate makes cooperative lending similar to Mahajani (local moneylender) system. The cooperative bank is supposed to provide loans at much lower interest rates to the ultimate borrowers because they are the farmers, the poor people. Furthermore, NABARD does not make timely disbursement of funds. Whenever the WBSCARDB requests refinances, NABARD delays the process. As a result, sometimes banking functions get hampered, and people switch to money lenders despite knowing the difficulties faced by the money lender.

SCARDB receives refinance funds depending on its performance. As per the NABARD prescribed formula, it is 90% of the last three years of apex level recovery or last year's recovery, whichever is lower. As the SCARDBs and PCARDBs often fail to fulfil the criteria, NABARD disburses loans directly to the banks instead of to the bank to get around the rule. The banks recover the loan from beneficiary after receiving details from NABARD. No Disbursement Certificate is issued to SCARDB for these refinancing. The funds provided by NABARD is returned back to them within few days and then a fresh refinance is requested from NABARD.

Revenue Generation

The major revenue generator for WBSCARDB and PARDBs is interest income. WBSCARDB and PCARDB earn from renting out their property. WBSCARDB would rent its space for a SHG counter to display and sell products developed by SHG women.

WBSCARDB has appointed Credit Councillor to bring good business by suggesting good customers and repayment. The Credit Councillor would be RBI and SIDBI registered professional. If s/he is able to bring new customers for lending, the s/he would receive Rs. 2500 as per RBI guidelines. However, the cost would be borne by the customer. The Credit

Councillor is made responsible for recovery. S/he would get commission on the basis of timely repayments in EMIs. The financial implications of this arrangement are minimal to WBSCARDB as the customer bears the cost based on the number of EMIs. In case the Credit Councillors are found to be effective then WBSCARDB would suggest PCARDBs appoint such professionals.

NAFACRD's opinion on multiple avenues for revenue generation

The NAFACRD's MD suggest different profitable business options. The cooperative banks can generate revenue through insurance business. The Karnataka State Co-operative Agriculture and Rural Development Bank Ltd. Has a lot of insurance businesses for dairy and housing. The insurance product is offered along with loans. The cooperative has arrangements with IFFCO TOKIO. The PCARDBs get 15% commission on the premiums. This is a very good source of income for PCARDBs.

Some PCARDBs in Kerala have good buildings offered for rent (Calicut, Kottayam, etc). The cooperative bank in Kerala and Gujarat earns from safe deposit lockers.

The SCARDB initiated an insurance facility for dairy loans. However, it was not fruitful as the loans were actually meant to be used as consumption loans. The insurance agents did not find the livestock when they went to tag them. A similar initiative also failed with SHG loans.

WBSCARDB is planning to launch a pre-paid ATM in collaboration with a private bank. NAFCARD also found the idea to be novel.

Dealing with NPAs

Out of 24 PCARDBs, seven are in healthy financial condition and the rest 17 are struggling, as opined by the bank officials. The WBSCARDB has emphasized on choosing right beneficiary

to avoid potential NPA from loaning. To this aim, WBSCARDB appointed Credit Counsellor is responsible for suggesting good customers with good CIBIL score. WBSCARDB has recently formulated LAP (Loan Against Property) policy, which allows the beneficiaries personal loans by mortgaging property. LAP is very useful to retain customers who have demonstrated constant and long -term repayment behaviour. Without LAP these customers would switch to other commercial banks.

The PCARDBs that are going through difficult financial conditions due to accumulated non-performing assets (NPAs) are either considering a one-time-settlement (OTS) policy or amalgamating with SCARDB. Through OTS, an interest waiver is provided depending on the security of the loan. The interest waiver increases as security weakens. Non-agricultural land used for business or economic activities, such as land used for poultry, is considered as security in general. Agricultural land is not taken into account as security. This is because the state government does not allow sell of agricultural land. In the case of a fully secured loan, the interest waiver can go up to 30%. In case of no or minimal security, the interest waiver can rise up to 100%. Under OTS, no waiver on the principal amount is provided.

A meeting is organized under the chairmanship of Assistant Registrar of Cooperative Societies (ARCS), where 500 to 600 loanees attend for the settlement. The amount recovered after the waiver is deposited in an account under the supervision of ARCS. Subsequently, the recovered loan amount is transferred to the bank. Under the purview of Registrar of Cooperative Societies (RCS), at least one meeting is held per month with each PCARDB to maximize the coverage of OTS. The whole process is guided by Reserve Bank of India's OTS policy framework.

Before the OTS policy was implemented, loan recovery was conducted through Lok Adalat, a congression of 200 to 300 loanees held four times a year. Presently, few recovery attempts have been made through the this process. The process is much more time-consuming than OTS.

The management of due dates is also important for loans regarding activities having a high gestation period, such as poultry. WBSCARDB was working on a due date management policy at the time of survey.

Human Resources

The salaries of the employees of SCARDB and PCARDBs are borne by the banks (WBSCARDB and PCARDBs) themselves. The state government deputed only two administrative officers (an MD and another officer) in SCARDB. In general, the employees for the banks are recruited through Cooperative Service Commission (CSC). However, it is a long-drawn process which may take up to two years after the bank makes a request to the Service Commission. At the time of the survey, recruitment of 14 vacancies was pending for two years. To fill the manpower needs, the SCARDB recruits employees from Randstad India, an internationally reputed agency that has also provided workforce to the Panchayat Department of West Bengal. The PCARDBs also recruit employees from the same agency due to fund shortages. The loss-making PCARDBs unable to recruit through Cooperative Service Commission depend on the same recruitment agency for manpower.

The workforce recruited through the agency is preferred by the bank more than employees recruited through CSC. The candidates employed through the agency have relevant work experience of working with private banks. On the contrary, candidates employed do not have any relevant qualifications and experience. The salary offered to the candidates recruited through an agency is almost half of what is offered to the CSC. It is easier to manage and possible to replace employees recruited through agency in case of non-performance. However, replacement is not possible if recruited through CSC.

Training

WBSCARD has two training centres: Institute of Co-operative Management for Agriculture & Rural Development (ICMARD) in Kolkata and Regional Institute of Co-operative Management for Agriculture & Rural Development (RICMARD) in Siliguri. ICMARD is an apex training institute in cooperative sector of West Bengal. It has two training halls, one meeting hall and one auditorium. It also has guest rooms for residential accommodation of the training participants. It offers various training programmes in cultivation, processing, non-farm activities such as paper bag making, tailoring, catering and entrepreneurship. ICMARD has 45 training programmes scheduled for 2024-25.

WBSCARDB did not send any of their employees for training organized by NAFCARD. However, they can send employees if NAFCARD informs them and NABARD provides financial assistance. WBSCARDB sent three of its employees to Bankers Institute of Rural Development (BIRD), Lucknow a year prior to the survey. They have sent another three employees on the year of the survey to the National Institute of Rural Development and Panchayati Raj (NIRDPR), Hyderabad.

NAFCARD's Interaction with SCARDB

THE WBSCARDB has circulated the model recovery policy to PCARDBs and its Branches. It also circulated another policy in 2015. However, the PCARDBs do not follow the policies.

NAFCARD's opinion on Model recovery policy

In most of the recovery practices, bankers apply their experience. However, a model recovery policy can help bankers keep track of the due date and outstanding amount and plan follow-ups accordingly. A recovery policy systematically guides a bank employee or outsourced individuals. They can immediately learn about the processes without anybody's help. In summary, the procedure is required because everyone would know what they must be done. Thus, a model recovery policy can be very effective.

All the member banks of NAFCARD, including WBSCARDB, are connecting with the National Database for Cooperatives. WBSCARDB provides information regarding lending, loan recovery and overdue to NAFCARD.

Good Practices

The following are found to be good practices of WBSCARDB

i. Appointment of Credit Councillor

WBSCARDB has appointed Credit Councillor to acquire good customers for lending and monitoring the loan. The customers bear the cost of Credit Councillor rather than WBSCARDB

ii. Loan Against Property

WBSCARDB has initiated Loan Against Property to offer personal loans to good customers. This will reduce the propensity to switch to other commercial banks for personal loans.

iii. Launch of pre-paid ATM

WBSCARDB is planning to launch pre-paid ATM in collaboration with commercial banks

iv. Inducting Nominal Members

Due to pending elections of boards of societies, new members cannot be inducted. However, the state government has approved the induction of nominal members who would not contribute to share and would not have any voting rights.

v. Own Training Centre

WBSCARDB has its own training centres with dedicated classrooms, auditorium and accommodation.

Challenges

The following are the key challenges of WBSCARDB:

i. Pending Election of Boards

The election of boards of WBSCARDB and most of the PCARDBs were pending at the time of survey. Without an elected board new members cannot be inducted.

ii. Inability to consider agricultural land as security

As the state government does not allow the sale of agricultural land for loan recovery, the same asset cannot be used as security

iii. High Interest Rates

The interest rates of NABARD refinance are high, causing a very high interest rate burden for the customers. It is discouraging customers to take loans from WBSCARDB or PCARDBs

iv. Inability to provide Cash-credit

Due to the inability to provide cash-credit for working capital the customers switch to commercial banks

v. Moral Hazards of Customers

The customers use the loans for non-productive purposes to meet their financial needs. This is called the moral hazard problem in the credit market. It may cause a loan default

vi. Lack of Awareness of NAFCARD Training

WBSCARDB was not aware of NAFCARD training programmes and did not send employees for training

Suggestion

The following are the recommendations to NABARD, the state government and WBSCARDB:

i. Reduction of NABARD interest rates

The interest rate offered by NABARD should be reduced to make cheaper loans available to poor farmers

ii. Provision of cash-credit by NABARD

NABARD should approve providing short-term loans to meet working capital needs

iii. Provide Cash-Credit on the basis of Revolving Fund

The long term borrowers can avail cash-credit by revolving a small amount of fund multiple times

iv. Strengthening insurance business

WBSCARDB should strengthen its insurance business, as has been done by many other state cooperatives. It is likely to be successful as the Credit Councillors are likely to bring good and genuine customers who would use the loan amount for economic activities as indicated in their loan application.

v. Strengthen Customer Scrutiny and Loan Monitoring

Customers should be scrutinized more before lending, and loans should be monitored better. The Credit Councillors can be helpful in this regard.

Chapter 16

Financial Analysis of State Cooperative Agriculture and Rural Development Banks (SCARDBs)

Assessment of Non-Performing Assets

A Non-Performing Asset (NPA) refers to a loan or advance where the principal or interest payments have been overdue for 90 days or more. These NPAs do not generate any income for the bank. Banks are required to provision funds to account for NPAs, which reduces the amount of capital available for lending or investment. If NPAs are not adequately managed, they can erode the bank's capital base and negatively impact its financial stability. High NPA levels in the balance sheets of State Cooperative Agriculture and Rural Development Banks (SCARDBs) are also affecting their ability to receive refinancing from NABARD. One of the main reasons for NPAs in SCARDBs is government loan-waiver schemes, which have led to wilful default in anticipation of future waivers. Despite the SCARDBs using various methods to reduce NPAs, such as One-Time Settlement (OTS) schemes and other new recovery mechanisms, NPAs remain high. The recent trend in the NPAs of the SCARDBs is presented in Table 16.1.

Table 16.1: Non-Performing Assets (NPA) (Amount-Rs. in Lakh)

Name of SCARDB	As of 31 March 2023			As of 31 March 2022		
	Total Loan Outstanding	Total NPAs	NPA as % of Loans Outstanding	Total Loan Outstanding	Total NPAs	NPA as % of Loans Outstanding
Gujarat	63637.06	28311.17	44.49	55043.07	32127.27	58.37
Haryana	172710.64	86225.58	49.92	173938.84	89579.39	51.50
Himachal Pradesh	40377.72	15308.60	37.91	38770.56	16504.44	42.57
Jammu & Kashmir	4775.10	2191.26	45.89	5191.80	2566.62	49.44
Karnataka *	197444.37	65246.55	33.05	197444.37	65246.55	33.05
Kerala	783678.24	64666.60	8.25	803078.24	88881.56	11.07
Pondicherry *	4439.21	358.19	8.07	4439.21	358.19	8.07
Punjab	186926.34	110000.00	58.85	205861.91	93352.96	45.35
Rajasthan	158998.35	88355.80	55.57	154929.12	83326.68	53.78
Tamil Nadu	97252.44	11218.84	11.54	84145.70	18521.34	22.01
Tripura	784.80	771.41	98.29	885.47	880.72	99.46

	As of 31 March 2023			As of 31 March 2022		
Name of SCARDB	Total Loan Outstanding	Total NPAs	NPA as % of Loans Outstanding	Total Loan Outstanding	Total NPAs	NPA as % of Loans Outstanding
Uttar Pradesh	227940.47	186787.75	81.95	227746.63	182619.73	80.19
West Bengal	135856.18	33520.70	24.67	133608.90	32747.08	24.51
TOTAL	2074820.92	692962.45	33.40	2085083.82	706712.53	33.89

Note : * Position as of 31.03.2022 is considered for review, Source : NCARDBF

Recent data (2023) shows NPA levels ranging from 98% in Tripura to 81% in Uttar Pradesh, although a two-year trend indicates that NPAs are declining in several states, including Gujarat, Tamil Nadu, Himachal Pradesh, Haryana, and Kerala.

Recoveries

Loan recovery from borrowers has several implications for the financial health of the SCARDBs. First, the funds used for lending are sourced from cooperative memberships, public deposits, and borrowings from other financial institutions. Poor loan recovery rates can erode the trust of members, the public, and financial institutions. Depositors may lose confidence in the financial health of SCARDBs, potentially leading to a loss of clients and members. Second, funds tied up in non-performing assets (NPAs) weaken the financial position of SCARDBs, reducing their ability to earn from other potential investments and limiting their capacity for further lending. Third, SCARDBs depend on timely loan repayments to maintain adequate liquidity, enabling them to meet withdrawal demands, continue lending to other borrowers, and keep operations running smoothly. Fourth, strong recoveries help SCARDBs avoid lengthy and expensive legal processes to reclaim funds.

While recoveries are happening, they are not particularly promising due to several factors. One of the main challenges is that all loans are secured by land mortgages, making it difficult for the bank to take legal action through land auctions. This makes recoveries largely reliant on borrowers voluntarily repaying their loans. Also, the bank lacks continuous engagement with borrowers. SCARDB loans are long-term, and once a loan is disbursed, there is little follow-up with borrowers until loan instalments become overdue. As a result, the banks fail to develop a strong relationship with borrowers. It makes loan repayment and collections less important and serious matters.

Recognizing the importance of recoveries, SCARDBs have implemented several mechanisms to improve recovery rates, such as waiving interest payments, reducing penalties, lowering interest rates, and extending moratorium periods. The recent trend in SCARDBs' recovery rates is detailed below in Table 16.2.

Table 16.2: Demand, Collection, Balance Position (Amount-Rs. in Lakh)

	As of 31 March 2023				As of 31 March 2022			
	Demand	Collection	Balance	Recovery (%)	Demand	Collection	Balance	Recovery (%)
Gujarat	61505.62	27661.34	33844.28	44.97	58669.55	19123.44	39546.11	32.60
Haryana	208250.00	24888.00	183362.00	11.95	198174.00	23016.24	175157.76	11.61
Himachal Pradesh	19522.13	5488.92	14033.21	28.12	17121.45	6246.22	10875.23	36.48
Jammu & Kashmir	3681.35	1193.25	2488.10	32.41	3740.75	1149.51	2569.39	30.73
Karnataka	133739.22	17077.51	116661.71	12.77	142040.80	62478.77	79562.03	43.99
Kerala	319041.99	275835.87	43206.12	86.46	305243.48	256198.60	49044.88	83.93
Pondicherry	4124.26	3690.08	434.18	89.47	3377.20	3024.46	352.74	89.56
Punjab	82600.00	35000.00	47600.00	42.37	108535.66	35713.70	72821.96	32.91
Rajasthan	119411.79	21748.92	97662.87	18.21	112243.50	23373.77	88869.73	20.82
Tamil Nadu	106313.48	94621.98	11691.50	89.00	125289.09	97470.57	27818.52	77.80
Tripura	885.47	114.17	771.30	12.89	971.06	85.92	885.14	8.85
Uttar Pradesh	250953.61	72967.04	177986.57	29.08	248417.59	63408.23	185009.36	25.52
West Bengal	86553.44	37451.44	49102.00	43.27	80945.98	33392.68	47553.30	41.25
TOTAL	1396582.36	617738.52	778843.84	44.23	1404770.11	624682.11	780066.15	44.47

Source : NCARDBF

The data from the past two years indicates a positive trend in loan recoveries in several states, particularly in Gujarat, Tamil Nadu, and Punjab.

The severity of farm loan defaults can be better analyzed by examining the time duration of the overdue loans. The current status of SCARDBs based on the farm loan overdue period is outlined below in Table 16.3.

Table 16.3: Period-wise Classification of Overdue at Ultimate Borrowers' Level as on June 2022*

Name of SCARDB	FARM SECTOR (Amount- Rs. In Lakh)										
	Below 1 Year		Over 1 - 3 years		Over 3 - 6 years		Over 6 years			Total	
	Defaulters (Number) (% of total)	Amount	Defaulters (Number) (% of total)	Amount	Defaulters (Number) (% of total)	Amount	Defaulters (Number) (% of total)	Amount	Average overdue per defaulter	Defaulters (Number) (%) (1+3+5+7)	Amount (2+4+6+8)
	1	2	3	4	5	6	7	8	9	10	11
Gujarat	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR
Haryana	1651 (3.49)	5176.47	3431 (7.26)	12200	11605 (24.56)	35143.98	30559 (64.68)	98609.89	3.23	47246 (100)	151130.34
Himachal Pradesh	1699 (23.57)	812.21	1935 (26.84)	2271.50	1624 (22.53)	2814.90	1951 (27.06)	2907.03	1.49	7209 (100)	8805.64
Jammu & Kashmir	169 (13.30)	1053.66	201 (15.81)	441.36	274 (21.56)	389.56	627 (49.33)	135.66	0.22	1271 (100)	2020.24
Karnataka	6855 (13.93)	3165.67	10614 (21.57)	7503.55	12127 (24.64)	10477.19	19613 (39.86)	9282.56	0.47	49209 (100)	30428.97
Kerala	39520 (48.00)	8606.62	29825 (36.22)	21155.13	8045 (9.77)	15377.51	4949 (6.01)	9945.51	2.01	82339 (100)	55084.77
Pondicherry	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR
Punjab	2480 (7.59)	3408.69	5165 (15.80)	13589.53	9033 (27.63)	36206.73	16010 (48.98)	68052.12	4.25	32688 (100)	121257.07
Rajasthan	1826 (6.64)	1690.33	2999 (10.91)	4601.89	3761 (13.68)	8648.73	18904 (68.77)	34873.39	1.84	27490 (100)	49814.34
Tamil Nadu	NR	NR	NR	NR	NR	NR	969 (100.00)	783.82	0.81	969 (100)	783.82
Tripura	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR
Uttar Pradesh	7371 (3.20)	4094.97	30727 (13.35)	18428.13	95382 (41.45)	60800.23	96626 (41.99)	58616.69	0.61	230106 (100)	141940.02
West Bengal	59999 (34.37)	16988.04	38542 (22.08)	11107.66	32007 (18.34)	9002.53	44016 (25.21)	6942.25	0.16	174564 (100)	44040.48

Note:- * Recent available data is for 2022 only, Source: Annual Statistical Bulletin 2021-2022, NR - Not Reported, Estimates: Author

It is evident that a significant portion of the overdue loans has been outstanding for more than six years. The average overdue loan amount per borrower shows that most of the overdue loans are less than Rs. one lakh, except in states like Punjab (Rs. 4.25 lakh), Haryana (Rs. 3.22 lakh), and Kerala (Rs. 2 lakh). The large number of small loan amounts overdue for more than six years highlights the difficulties in recovering these loans. These are land mortgage loans

provided to small and marginal farmers, many of whom are hoping for loan waivers and are largely unaffected by the threat of land auctions as a recovery method.

Cost of Management to Income Ratio

The Cost of Management primarily encompasses the compensation for employees handling administrative, managerial, and operational roles. It also covers additional expenses such as maintaining facilities, office supplies, utilities, and technology infrastructure. Essentially, it reflects employee productivity within the organization. A higher cost of management to income ratio signifies inefficiency or underutilization of human resources to generate income. This ratio is particularly relevant for SCARDBs, especially since many have ceased lending activities, which is a major revenue source for financial institutions. The proportion of the cost of management relative to the bank's total income is detailed below in Table 16.4.

Table 16.4: Cost of Management to Income Ratio for the SCARDBs as on 31 March 2022 (Amount-Rs. in Lakh)

Name of SCARDB	Interest Income (1)	Other Income (2)	Total Income (1+2)	Cost of Management	Cost of Management to Income Ratio (%)
Gujarat	9189.48	397.99	9587.47	3017.97	31.48
Haryana	3752.43	22.17	3774.6	2001.85	53.03
Himachal Pradesh	4648.32	103.52	4751.84	1675.16	35.25
Jammu & Kashmir	725.06	7.25	732.31	1248.74	170.52
Karnataka	17668.57	83.32	17751.89	2451.84	13.81
Kerala	75220.73	24341.9	99562.63	9516.58	9.56
Pondicherry	520.56	236.41	756.97	273.68	36.15
Punjab	17284.27	12035.16	29319.43	9266.85	31.61
Rajasthan	15409.41	6.26	15415.67	1111.72	7.21
Tamil Nadu	10034.34	1217.88	11252.22	1601.98	14.24
Tripura	107.86	38.13	145.99	NR	NR
Uttar Pradesh	41753.95	208.74	41962.69	19923.54	47.48
West Bengal	10525.25	181.62	10706.87	896.04	8.37
Total	206840.23	38880.35	245720.58	52985.95	21.56

Note:- * Recent available data is for 2022 only, Source: Annual Statistical Bulletin 2021-2022, Estimates: Author

The data shows that most SCARDBs have a high cost of management to income ratio, suggesting significant expenses related to human resources for running the organization. States with a cost of management to income ratio exceeding 30% include Jammu and Kashmir

(170%), Haryana (53%), Uttar Pradesh (47%), Pondicherry (36%), and Himachal Pradesh (35%). In contrast, states with a lower cost of management to income ratio are Tamil Nadu (14%), Karnataka (13%), Kerala (9%), West Bengal (8%), and Rajasthan (7%).

Collection per Staff

Employee productivity in SCARDBs can be further assessed through collection/recovery per staff member. This metric is used because many SCARDBs are primarily focused on recovery rather than lending. Many SCARDBs have either ceased lending activities or are only involved in lending on a limited scale. Hence, the other two productivity measures—loan disbursement per staff and loan outstanding per staff—are excluded from the analysis. And the metric of collections per staff member is crucial for assessing employee productivity. The data for collections per employee is provided below in Table 16.5.

Table 16.5: Collection of Overdue per Staff as of 31 March 2023 (Amount-Rs. in Lakh)

Name of SCARDB	Collection Amount	Staff	Collection per Staff
Gujarat	27661.30	624	44.33
Haryana	24888.00	52	478.62
Himachal Pradesh	5488.92	179	30.66
Jammu & Kashmir	1193.25	201	5.94
Karnataka	17077.50	242	70.57
Kerala	275836.00	174	1585.30
Pondicherry	3690.08	29	127.24
Punjab	35000.00	112	312.50
Rajasthan	21748.90	44	494.29
Tamil Nadu	94622.00	117	808.73
Tripura	114.17	20	5.71
Uttar Pradesh	72967.00	2560	28.50
West Bengal	37451.40	77	486.38
Total	617738.52	4431	139.41

Source: NCARDBF, Estimates: Author

The analysis of collections per staff member shows that banks in states such as Kerala, Tamil Nadu, Rajasthan, West Bengal, and Haryana have better collection efficiency. This indicates the productive use of human resources. However, the collections are less efficient in Jammu and Kashmir and Tripura.

Membership

SCARDBs are structured as cooperatives, meaning that the success of the bank depends on the active participation of its members, especially those who borrow from it. The borrowing members help ensure the sustainability and financial stability of the bank. This helps the bank to continue lending to rural areas, including agricultural activities, in the long run. The latest membership data for SCARDBs is presented in Table 16.6.

Table 16.6: Details of Membership

Borrowing Members			Non-borrowing Members		Total Membership (Borrowings + Non-Borrowings)			
Name of SCARDB	31.3.2023	31.03.2022	Increase/Decrease (in %)	31.3.2023	31.03.2022	31.3.2023	31.03.2022	Increase/Decrease (in %)
Gujarat	294138	294712	-0.19	12179	11270	306317	305982	0.01
Haryana	76988	99305	-22.47	653568	729186	730556	828491	-0.12
Himachal Pradesh	39912	39216	1.77	56210	56656	96122	95872	0.01
Jammu & Kashmir	77836	77710	0.16	21699	21583	99535	99293	0.01
Karnataka	663271	687306	-3.5	514009	539190	1177280	1226496	-0.04
Kerala	1283756	1283756	0	608942	608942	1892698	1892698	0
Pondicherry	3520	3520	0	16755	16755	20275	20275	0
Punjab	62752	69787	-10.08	771516	765490	834268	835277	-0.01
Rajasthan	610093	729902	-16.41	552009	538078	1162102	1267980	-0.08
Tamil Nadu	153908	140353	9.66	1518805	1126313	1672713	1266666	0.32
Tripura	24269	24264	0.02	931437	963933	955706	988197	-0.03
Uttar Pradesh	419186	445286	-5.86	1001934	1037210	1421120	1482496	-0.04
West Bengal	221946	258183	-14.04	228614	177870	450560	436053	0.03

Notes:- Number in the parenthesis are negative numbers

* Position as of 31.03.2022 is considered for review Source: NCARDBF, Estimates: Author,.

The recent two years data indicates a decline in number of borrowing members in Haryana (22%), Rajasthan (16%), West Bengal (14%), and Punjab (10%). Conversely, Tamil Nadu has seen a notable increase of 9% in borrowing membership. In other states, the number of borrowing members in SCARDBs remains relatively stable. Overall, there has been little change in total membership (both borrowing and non-borrowing) across all SCARDBs over the past two years.

Summary

There has been a decline in the number of borrowing members in Haryana, Rajasthan, West Bengal, and Punjab, although it has increased in Tamil Nadu. The loan recovery has improved in Gujarat, Tamil Nadu, and Punjab, as data regarding recent years reveals. The difficulty in agriculture, land mortgages, and the prospect of loan waivers slacken the pace of loan recovery. This is evident from a significant portion of the overdue loans outstanding for over six years in many states, especially in Punjab and Haryana.

The cost efficiency of management (management costs to income ratio) is worse in Jammu and Kashmir, Haryana, Uttar Pradesh, Pondicherry, and Himachal Pradesh. It is better in Tamil Nadu, Karnataka, Kerala, West Bengal, and Rajasthan. The efficiency in recovery (collection per staff) is worse in Jammu and Kashmir and Tripura, while it is better in Kerala, Tamil Nadu, Rajasthan, West Bengal, and Haryana.

Chapter 17

Best Practices for Loan Recovery by SCARDBs

The best practices for loan recovery of SCARDBs are detailed by the states

Karnataka

The NAP is calculated at the PCARDB and SCARDB levels. It helps to identify the ailing PCARDBs and take appropriate action.

Branch and technical officers scrutinize the borrowers thoroughly and conduct field visits regularly. The Apex Bank and its member banks used the Bhumi App and Cauvery software to verify land records.

Providing credit to societies (collectives) or businesses has reduced default. For example, PCARDB in Belagavi has provided credit to lift irrigation societies as per government norms. Loans are extended to societies with a ten per cent security provision. The PCARDB also made efforts for systemic recovery. Loans that were provided to warehouses were fully recovered.

Kerala

Loan appraisal is conducted by agricultural officers with specialized field knowledge, and loan amount is based on valuation suggested by valuation officers

A PCARDB's ability to approve loans depends on its performance. Loan applications beyond 75 lakhs are approved by SCARDB.

SCARDB conducts review meetings with PDCARDBs regularly. Online meetings are conducted every week, and physical meetings take place every quarter

Auctioning of mortgaged land in case of default has been conducted with the help of Sale Officer appointed by the Registrar of Cooperative

Gujarat

One way to reduce bad debt is to refrain from providing long-term loans. This is helped the SCARDB to avoid default.

Branches do not sanction loans due to the limitation of staff members for scrutiny of loan applications. Most of the loans are approved by district-level branches, while applications for large loans are approved by the apex bank at the state level.

The major loan product of the SCARDB is a three-year-long Krishi Vikas Loan for seeds, fertilizer, small farming appliances, the purchase of cattle for farmers, etc. Although it is short-duration, half-yearly instalments make the loan repayment regular.

A short-term gold loan is provided, which ensures security and recovery

Loans are not provided to organizations having bad records of loan repayment. For example, APMCs do not have a good record of loan repayment. This is because of changes in leadership due to elections being conducted every three years.

Haryana

Loan applications are accepted online, and SCARD transfers loans directly to the borrower's account. This is a marked change from the earlier practice of manual loan application and issuing bearer checks. The latter leads to rent-seeking activities by middlemen. SCARDB attempted to annihilate the intermediate role of middlemen by this change. It also remains vigilant to resist bribery by frequently contacting borrowers and guarantors. To resist malpractice and reduce default, SCABRD has also mandated the borrowers' registration and deposition of share money before loan disbursement.

Major recovery has taken place through One Time Settlement (OTS), where 50% interest and 100% penal interest are waived.

To improve loan recovery, SCARDB has introduced system-generated calls and text messages before and after the loan instalment due date.

Teams comprising officials from the head office are formed to monitor loan recovery initiatives at the district level and branches. These officials conduct weekly virtual meetings with field (branch) level officials and employees. They also make surprise visits.

Himachal Pradesh

SCARDB conducted frequent seminars with the borrowers and tried to understand the reasons for not paying loans.

OTS scheme has been helpful for loan recovery

Punjab

Many borrowers settle debt to make their land unencumbered asset and then sell it.

Rajasthan

Short intervals (quarterly) of instalments of long-term loans have made recovery easier

SCARDB offers loans that can avail government interest subvention, making it cheaper and easier to recover.

OTS scheme helped to recover past loans

Jammu and Kashmir

The OTS scheme has been helpful in loan recovery.

Many borrowers settle debt to make their land unencumbered asset and then sell it.

Tripura

The SCRDB has adopted a two-pronged strategy for loan recovery: 40 percent of old loans through constant persuasion and the remaining 60 percent through OTS. Persuasion through branch officials other than those from the local branch has been effective.

Uttar Pradesh

The recovery drive is conducted by the SCARDB throughout the year instead of only during a few months in a year. The bank officials visit farmers frequently and create moral pressure for repayment

The auctioning of mortgage land had a demonstration effect on other farmers to clear their debt. The bank has also cautioned borrowers through advertisements that failure of repayment would result in the auctioning of land.

Regular monitoring of loan accounts by bank officials has increased recovery

West Bengal

The SCARDB has appointed a Credit Councillor to choose good customers and ensure systematic recovery of loans.

Loans are provided against property (homestead / commercial) rather than agricultural land to make the auctioning of assets easier.

Loan recovery is facilitated through OTS policy, where interest waivers increase as security weakens. At least one meeting is held every month with PCARDBs under the purview of the Registrar of Cooperative to maximize recovery through OTS

Overall learnings

The above discussion on different strategies and experiences from different states suggests the following good practices for better loan recovery:

- i. Online loan applications be made compulsory
- ii. A robust verification process through field visits by branch and technical officers should be introduced. Digitalized land records help as they make the verification

process easier and more efficient. The loan amount should be based on the valuation officer's recommendations.

- iii. The loan approval ability of the branch, PCARDB or DCCB should depend on their general performance and recovery or NPA records.
- iv. The approved loans should be disbursed directly to the beneficiary or customer account.
- v. Credit to groups/societies can reduce the chances of default, although the liability is limited.
- vi. Due to the difficulty of auctioning, the SCARDBs should consider homestead or commercial property as mortgages rather than agricultural land.
- vii. SCARDBs should avoid providing credit to organizations that would go through frequent changes in leadership
- viii. Registering and depositing share money of the borrowers
- ix. Frequent monitoring of loans, conducting seminars
- x. The Apex bank at the state level should conduct regular and frequent review meetings with branches/ PCARDBs/ DCCBs
- xi. Instil fear of land auctioning in case of failure to repay by actually doing so and cautioning through advertisements.
- xii. One Time Settlement Schemes with interest waivers may be considered to recover bad debts.
- xiii. Persuasion through branch officials other than the local branch for local recovery may be effective in the recovery of bad debts.
- xiv. The SCARDBs may consider shortening loan duration and offering more secured loans such as gold loans.
- xv. Collection of instalments in short intervals (quarterly) for long-term loans may facilitate regular repayments and lesser defaults.
- xvi. As lower interest rates encourage repayment, SCARDBs may focus on offering loans made cheaper due to interest subvention.

Chapter 18

Employee Climate Survey Report

Introduction

Employee Climate Surveys are critical to understanding how an organization's employees view the working environment and conditions of the organization. The result of a climate survey is helpful in improving the internal working of organizations. IRMA has conducted a climate survey among the employees of 12 SCARDBs, with 282 employees participating. The details of participation are given in the table below-

Table 18.1: Participation of SCARDB in Climate Survey

State	No of Respondents
Gujarat	27
Haryana	18
Himachal Pradesh	20
Jammu & Kashmir	13
Karnataka	30
Kerala	13
Pondicherry	14
Punjab	28
Rajasthan	16
Tamil Nadu	17
Tripura	8
Uttar Pradesh	62
West Bengal	16
Total	282

The survey was developed by the IRMA team after initial consultation with NAFCARD officials on the background and purpose of the project. The purpose is to identify the strengths and weaknesses of SCARDBs regarding workplace issues, professional development and growth opportunities from the viewpoint of employees. The study team has analyzed the findings and prepared the report so as to help NAFCARD and other concerned agencies to develop actionable plans for capacity building of the workforce.

The survey questionnaire has a total of 33 questions, out of which 27 questions are about employees' perceptions of their workplace. The remaining six questions cover the details about the designation of employees, their work experiences and educational background. The 33 questions were divided into five broad sections, namely: relationship with work, relationship with Bank, support from Bank, learning opportunities, and trust in the workplace. Questions in the section on relationship with work sought opinions on the level of engagement of employees with their work, the extent of support received to complete their work, etc. The session on relationship with the Bank deals with issues related to emotional attachment to the organization, sense of belongingness to the Bank, and clarity on the purpose of the Bank. The support from the bank section asks questions on recognition of work at the workplace, the opportunity to express one's voice, and the accessibility of seniors. Employees are asked about the learning environment in the Bank and whether they have a culture of sharing feedback. Finally, the section on Trust asks questions about whether there is a future for the Bank and if employees can trust each other.

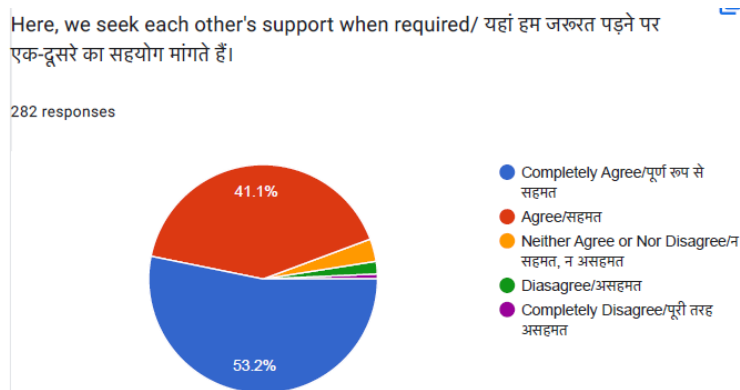
Employees filled out the survey questions during the IRMA team's field visit. Google Sheets was used as a platform to collect data. The field team briefed the employees about the purpose of the study before filling in the form and requested them to use their smartphone or the tab provided by IRMA to fill in the questions. There was minimum interference from the study team in data collection.

Findings from the Climate Survey

Relationship with work

The SCARDBs are struggling with their performance in most states. Poor performance often impacts the morale of employees and eventually negatively impacts their engagement with work. However, the climate survey revealed that the majority of the employees find their work to be satisfying. More than 95% of respondents believe that they get a sense of achievement from their work, and a similar percentage of respondents find themselves to be highly engaged in their jobs. This is primarily because of the impact that the Bank has been able to create among the beneficiaries. The engagement is also a result of support received by employees from their peer group is evident in the figure below,

Figure 18.1: Support from peer group



Relationship with Bank

The findings from the climate survey revealed that most of the employees share a positive and productive relationship with the Bank. When asked, 66% of the respondents declared that they feel very firmly attached to the Bank because of its impactful history. More than 90% of respondents reported that they are proud of their association with the Bank despite all the business struggles that are being experienced. During the field visit, it was found that employees were aware of the history of the Bank and its original purpose. While there has been some deviation from the mission due to business competition, employees are aware of the goal of the Bank, as evident from Figure 18.2.

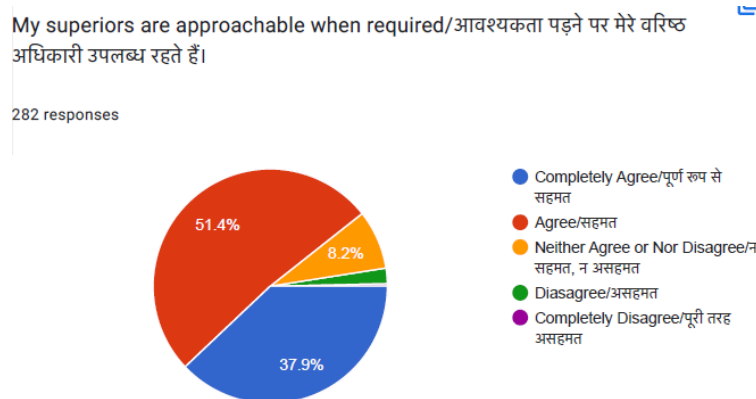
Figure 18.2: Clarity on the goal of Bank



Supportive Environment

Employee engagement and a positive work climate are built through support from the organization. The study findings reveal that despite the financial constraints, the employees believe that they are operating in a supportive environment. Roughly 65% of respondents reported that senior employees appreciate their work whenever they make a meaningful contribution. However, there is scope for improvement in this direction. Another direction of a supportive environment is the support from co-workers. 55% of the respondents disagree with the statement that they don't get support from their co-workers, indicating a relatively helpful workplace culture. Another dimension of a supportive environment is the accessibility of superiors within the organization. The findings, as shown in Figure 18.3 reveal that 89% of respondents believe that their superiors are approachable whenever there is a need.

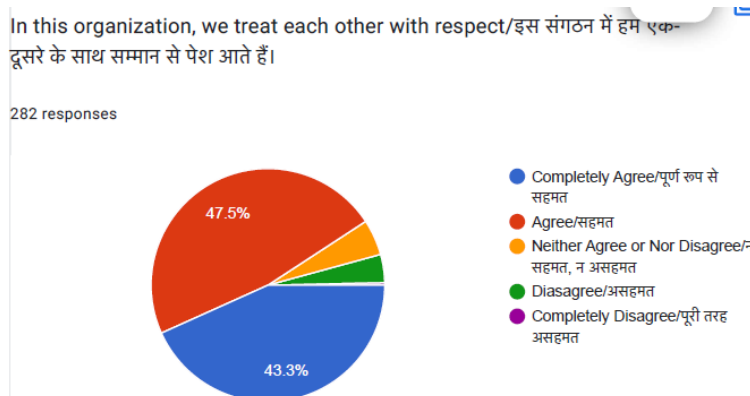
Figure 12.3: Approachability of Superiors



Learning Opportunities

Learning and growth opportunities for employees enhance a positive work climate. Bank employees generally have a positive perception of the learning opportunities within the workplace. Although there are minimal opportunities for formal learning forums like training and capacity building, employees have been able to develop an understanding of their work through standardization of work, alignment of work with purpose and mutual respect. Roughly 83% of respondents reported that they are aware of the standards of work. 78% of employees found their work to be aligned with the organizational goal. Also, 90% of respondents reported that they are being treated with respect within the workplace.

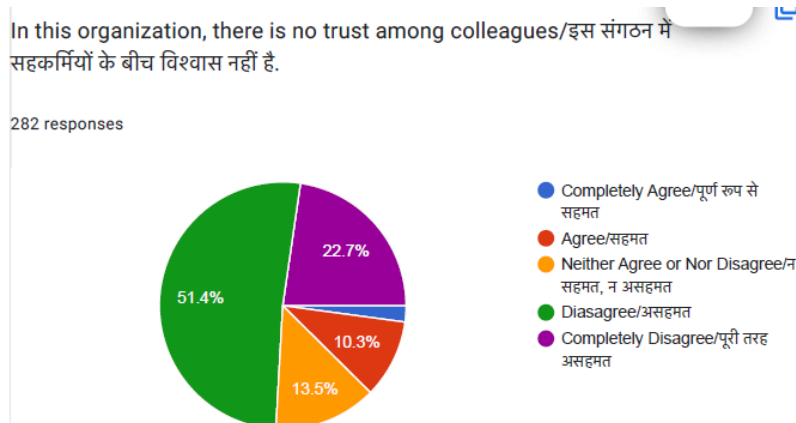
Figure 18.4: Respect for Co-workers



Culture of Trust

The final dimension of the workplace climate is assessed through the perception of employees about the level of Trust within the organization. Many of the employees (84%) see a better future for the Bank despite all the operational challenges. Also, 75% of respondents denied that they were indifferent to the future of the Bank, indicating a high level of engagement and Trust with the Bank. While reporting about Trust, 73% of respondents did not agree with the statement that there is no trust within the workplace, as shown in Figure 18.5.

Figure 18.5: Trust within the workplace



Conclusion

The findings from the report can provide the groundwork for SCARDBs to start planning how they can utilize the existing strengths related to people and build a productive organizational culture. While there seems to be a prevalence of positive work climate in most of the SCARDB,

there is a severe need to invest in workforce planning, including recruitment, induction, training, and performance appraisal. There is very few career growth opportunities within the SCARDB. Although employees, especially those dealing directly with clients, are learning significantly on their jobs, there is still no focus on employee learning.

Automation and computerization are the needs of the hours. The employees should be trained to automate the bank's process and focus on data analytics. Some of these modern work practices are utterly absent from SCARDB and can eventually become a challenge in competing in the market.

Chapter 19

Cooperative Training and Developing Training Infrastructure

Background

There is very little focus on training and capacity building of manpower among the SCARDB. Majority of the staff members have not received any kind of training during their service period. The SCARDBs have made no separate budgetary provision for training and capacity building of their staff members. As a result, most of the staff members have limited horizon so far as business development and management is concerned. The training for cooperative member is also missing. Barring one or two interventions related to awareness generation among members, there is hardly any visible effort to enhance capacity of cooperative members. The other challenge faced by SCARDB is the lack of adequate infrastructure facilities (both human and physical) to design and conduct training programs.

Given this background, the following recommendations are made for cooperative training and developing infrastructure.

Training for Staff and Top Management

The staff including cadre from all scales and senior management should be given training in three thematic areas – people, process and product (As shown in the diagram below)

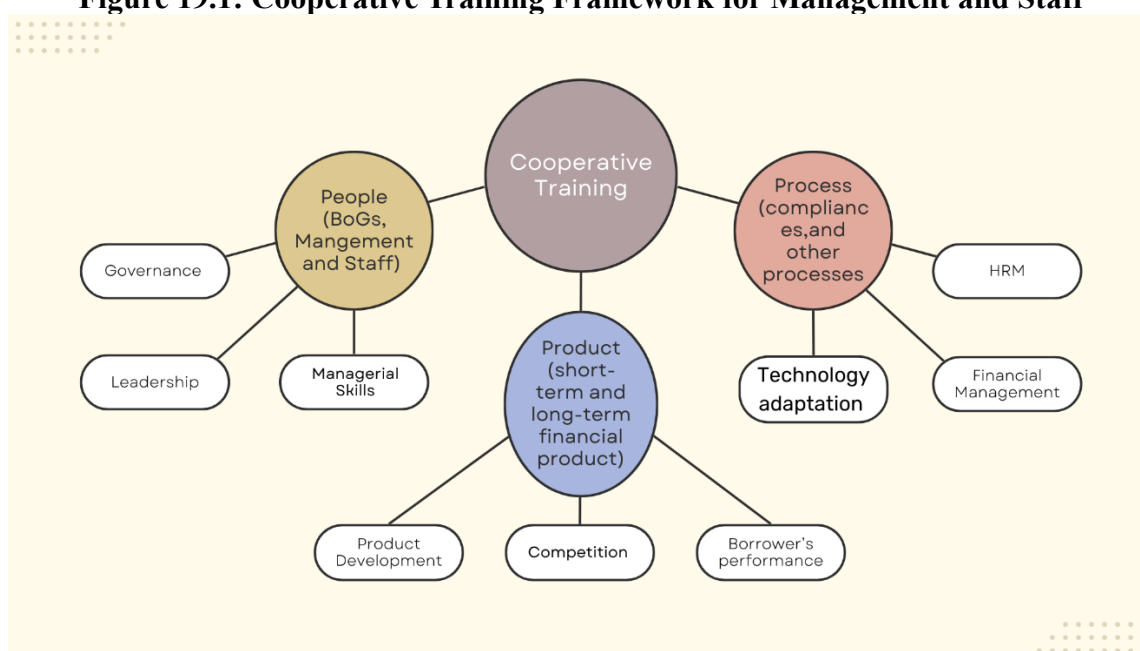
People. The training on people should focus on developing capacity of BoG members, senior management and staff members on different skills including that of governance, management, and leadership. The training on governance should include topics like mission and vision building, accountability, transparency, cooperative principles etc. The management skill should include topics such as conflict management, communication, motivation, problem solving etc. Finally, the area of leadership should include topics like team working, influencing others, delegation, different style of leadership etc.

Process. There should be training program organized focusing on topics like compliance required for cooperative banks, collaborative opportunities with government and NAFCARD etc. Human Resource Management processes like recruitment, induction, performance

appraisal etc., should be included in the training program. Risk management, ratio analysis, and other skills related to financial management should also be a part of such training. Finally, technology adaptation should be a major focus for SCARDB training.

Product. The training on Product should include themes like product development, competition, and borrower's performance. Staff and management should be made aware of short-duration, and long duration product development, profitability across different product, designing impactful product features etc. The theme of Competition should include assessment of market size and share, market demand and different trends in operating market. Finally, the theme of borrower's performance should focus on understanding customer behavior and installing credit-rating mechanisms so that one can develop performance scorecard against each borrower.

Figure 19.1: Cooperative Training Framework for Management and Staff

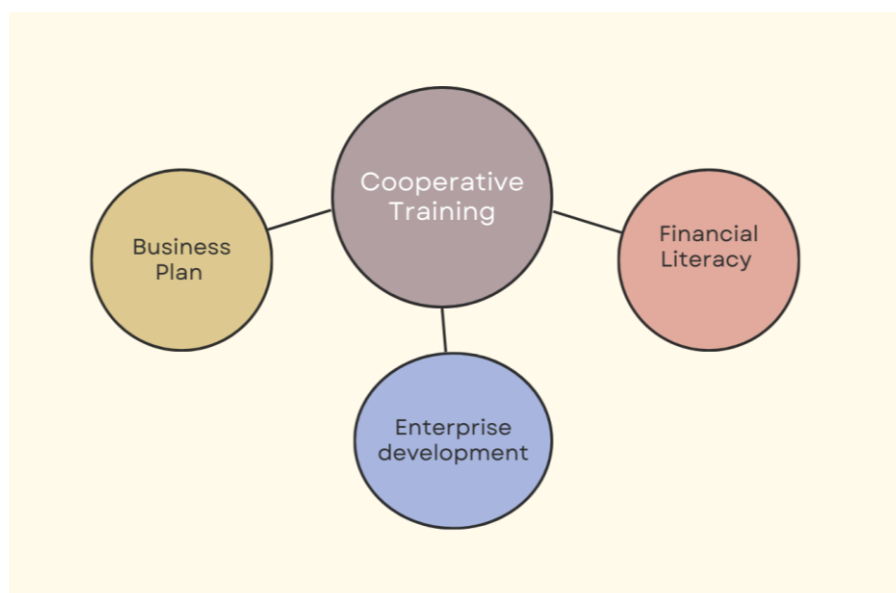


Training for Cooperative members

As shown in the figure below, the cooperative members should be trained on three broad thematic areas- Business plan development, Enterprise development, and Financial literacy. Most of the borrowers of cooperatives are investing their money in some kind of small enterprises (rural and urban based). To run their enterprise effectively, they are required to undergo training on enterprise development including a strong focus on entrepreneurial

orientations. In addition to this, there should also be focus on development to business plan to scale-up the business successfully.

Figure 19.2: Training framework for borrowers/ members



Training design and Delivery

The training can be designed in various formats like short duration (2-3 days), medium duration (5-6 days) and long duration (up to 15 days). They can be delivered through a combination of classroom sessions and field trips.

The SCARDBs have been offering loan products for their members for purposes beyond agriculture like gold / jewel loan and loan for construction. There is a need to equip the cooperatives with skills of business development and understanding of customer behavior. The focus on capacity building can help these organizations to become more efficient in exploring new products and new markets to make their operation profitable. Moreover, diversification of business is a strategic decision and requires leadership competencies to drive and execute such moves. Relevant training can be useful for leadership at SCARDBs to be more prepared to lead such diversifications and demonstrate expected performance.

The following are a few relevant areas of training:

- Consumer behaviour
- Competency based leadership
- Problem solving skills
- Business client development
- Situational leadership
- Enterprise development
- Product communication

Infrastructure Development

The focus on infrastructure development is two-fold- human infrastructure (developing human capital like subject matter experts) and physical infrastructure. Following are the suggested strategies for the same.

- I. In-house capacity building:** The SCARDBs should develop trainers/ subject matter experts in house for some of the selected themes.
- II. Renovating the existing physical infrastructure at SCARDB:** Some of the banks have their own training halls/ center which can be renovated for the same.

Tie up with Expert Institutions

SCARDB can have a tie-up with the National Council for Cooperative Training (NCCT). NCCT has 20 training institutes – Institute of Co-operative Management and Regional Institute of Cooperative Management (ICM/RICM) across the country. SCARDB can opt for some of the existing programs offered at NCCT and can explore the possibility of designing customized program for training on issues related to Accounts, Fund Management, People, Leadership, Business plan, Enterprise Development, and Financial Literacy. IRMA now known as the “Tribhuvan” Sahkari University (TSU), can be a reliable partner and can help in designing and delivering trainings for SCARDBs.

Chapter 20

Summary Findings: Good Practices, Challenges and Recommendations for SCARDBs

This chapter summarises the good practices, challenges and suggestions of all the SCARDBs. The summary is presented in Appendix Table 20.1

Good Practices

The SCARDBs have taken several steps which may be replicated by other states. Many of these practices are also supported by changes in state cooperative bylaws. The alacrity of the state government to make operations hassle-free has also increased efficiency. The state-wise good practices are mentioned below:

Gujarat

- Introducing a revolving block guarantee of NABARD refinance to avoid the requirement of a government guarantee
- Rewarding good customers
- Reducing the tenure of Krishi Vikas loan to three years to reduce default
- Matching NABARD's loan cycle with that of SCARDB's

Kerala

- Developing new schemes for customers, especially youths
- Professionals recruited at the middle level. It makes the operations efficient
- Sale Officer from the Department of Cooperation, Government of Kerala to auction the land mortgage in case of default

- State guarantee for NABARD loans obtained without hassle and delays
- Approval of loans mostly by PCARDBs themselves
- Loans provided to Joint Liability Groups

Uttar Pradesh

- Comprehensive verification process
- Frequent monitoring for recovery
- Committees for increasing accountability in recovery, auditing involving high-ranked officers, nominated members
- Awareness programme for new schemes, banking services

Karnataka

- Providing medium-term loan along with long term
- Diversified loan portfolio offered: under-integrated land development schemes, farm mechanization, fencing, bundling, levelling, land development, etc.
- Loan diversification made possible by bylaw modification – loans provided for to FPO, cold storage, tractor purchase
- Efficient ICT use - digitized land records through the Bhumi App and Cauvery software
- Awareness generation through loan seminars

Other Practices

- Enhancing timely repayment and reducing NPA
 - Application of CIBIL (taken from other banks) for loan disbursement in West Bengal, Punjab, Himachal Pradesh, J&K

- Discount in interest rate for prompt repayment of loans in Kerala, Gujarat, Punjab, Haryana
- One-Time Settlement Policy in West Bengal, Tripura and J&K
- Appointment of Credit Councillor to acquire good customers for lending and monitoring the loan by West Bengal SCARDB
- Assistance to weaker PCARDBs by Tamil Nadu SCARDB by offering cheaper credit
- PCARDBs follow SCARDB's guidelines in Himachal Pradesh
- Constant persuasion through own and other branch employees for loan recovery in Tripura
- Loan instalments are quarterly rather than annual in Rajasthan. This is likely to increase regular and timely repayment
- Digitalization of land records has been completed in Punjab, however, integration with SCARDB lending is pending
- Offering diversified loan and financial products and other services
 - Providing gold loans in Kerala, Gujarat, Pondicherry, and Tamil Nadu. Loans are processed quickly (15-20 minutes). Medium-term gold loan is provided in Tamil Nadu
 - Providing loans for agri-based enterprises by Himachal Pradesh SCARDB.
 - Availability of locker facility in Pondicherry
 - Common service centres/ E-Seva Kendras within their premises of PCARDBs in Tamil Nadu
- Increase Revenue
 - Investment of deposits in public (around 60%) and private (around 40%) banks to generate revenue to the tune of Rs. 4-5 crores per annum in Himachal Pradesh
- Marketing of loan and financial products
 - SCARDB in Himachal Pradesh has put up stalls in various Jan Mancha programmes organized by the state government to promote different loan schemes
- Training and Human Resource Management
 - Availability of own training facility in West Bengal, Kerala, Punjab

- Transfer and rotation of staff to contain rent seeking and thwart political influence
- Despite business challenges, there is a high commitment among the staff members towards the functioning of the Bank
- The employees perceived that the work they did was aligned with the overall purpose of the bank, thus resulting in a motivated workforce
- Efficient operation
 - Efficiency in recovery (collection per staff) is better in Kerala, Tamil Nadu, Rajasthan, West Bengal, and Haryana.
 - Improvement of loan recovery in recent years in Gujarat, Tamil Nadu, and Punjab
 - Cost efficiency of management (management costs to income ratio) is better in Tamil Nadu (14%), Karnataka (13%), Kerala (9%), West Bengal (8%), and Rajasthan (7%)
 - Computerization in SCARDBs and PCARDBs have enhanced efficiency
 - Paperless banking operations in Punjab have enhanced efficiency and transparency. Online loan application in Haryana has increased efficiency
 - Direct transfer of loan amount to the borrower's account has increased efficiency and transparency.

Challenges

The study has also figured out the challenges faced by the SCARDBs in different states. The state wise challenges in the SCARDBs are illustrated below.

Gujarat

- SCARDB cannot avail of the government's interest subvention for short-term loans
- Process of getting a government guarantee is time-consuming
- Process and duration of loan sanctioning lengthy
- Difficult to loan to FPOs, SHGs and JLGs

Kerala

- NABARD interest rate is high. The same has been expressed as a major difficulty by other states
- State government charge a high rate of commission for loan guarantee. As per the SCARDB authorities, the charges are the highest in the country
- Lack of full-fledged CBS

Other challenges

- Sliding long-term loan demand and member engagement
 - Decline in number of borrowing members in Haryana, Rajasthan, West Bengal, and Punjab
 - Members switch to other banks for short-term loans in most states. State Cooperative law restricts efforts to make short-term loans in many states. The availability of interest subvention through Kishan Credit Card (KCC) makes short-term loans from SCARDB or PCARDB less attractive to members
 - From the bank's side, there is little follow-up with borrowers until loan instalments become overdue. This irregular contact weakens the importance of loan repayment and the seriousness of collections.
 - Effective interest rate higher than competitors, primarily due to high interest rate of NABARD refinance. Moreover, the refinance is unable to meet member's loan demand. As a result, farmers are opting out
- Paucity of funding
 - Not Receiving NABARD refencing – Tripura, Jammu and Kashmir, Pondicherry
 - NABARD refinance reduced substantially in Rajasthan
 - NABARD refinance insufficient to meet demands in Haryana
 - Issue of debenture not possible loan waiver in Tamil Nadu
- Inability to scrutinize loans to avert adverse selection
 - The SCARDBs are unable to use CIBIL score for lending in many states including Gujarat. Furthermore, as SCARDBs do not have CIBIL

membership, the repayment behaviour of the members does not leave any implications for their CIBIL score. It increases moral hazards and slackens loan recovery

- Moral hazards due to loan waiver and inaction
 - The prospect of a loan waiver adversely affects the loan recovery process by lowering member's efforts and willingness to repay loans. The testimony is a large number of small loan amounts have been overdue for more than six years in Punjab and Haryana.
 - PCARDBs are not interested in loan recovery and follow SCARDB guidelines. This was observed in Karnataka
- Institutional rigidity and inaction
 - Auctioning agricultural land is extremely difficult or impossible in almost all the states. As a result, SCARDBs cannot recover bad loans.
 - Each time government approval required for NABARD refinancing, delays loan disbursement process, for example in Gujarat
 - Inability to get NABARD to refinance by SCARDBs due to absence of elected board members in Rajasthan, Tripura, J&K, Pondicherry, Tamil Nadu
 - State governments did not transfer the amount of debt relief to SCARDBs and PCARDBs in Tamil Nadu
 - Inability to get government funds on time affecting loaning in Uttar Pradesh
- Infrastructure and Human Resource
 - Computerization of SCARDBs is kept on hold by the state government in Rajasthan
 - An appropriate onboarding program is absent in all the banks, resulting in a lack of support from senior employees in learning and growth of junior employees.
 - Efficiency in recovery (collection per staff) is low in Jammu and Kashmir and Tripura
 - Insufficient staff slackens loan processing and recovery efforts
 - Lack of relevant skills hinders loan distribution, innovation and recovery
 - Cost efficiency of management (management costs to income ratio) is low in Jammu and Kashmir (170%), Haryana (53%), Uttar Pradesh (47%), Pondicherry (36%), and Himachal Pradesh

Suggestions

The following suggests are made for improving the financial conditions, operation and business of the SCABRDs

- Amendment in State Cooperative acts for issuing loans or accepting deposits
 - Gujarat - Lending SHG, JLGs, FPOs
 - Haryana
 - Loans against Fixed Deposits and Gold in Haryana
 - Allow lending FPOs in Haryana
 - Short-term loans and KCC disbursement in Haryana
- Amendment in State Cooperative acts for other issues
 - Haryana
 - Reintroducing provision to auction land. Section 75 and section 104 of Cooperative Societies Act needs to be reinforced
 - Tamil Nadu
 - Currently, the Bank cannot fix the interest rate on loan as per the market rate. The Cooperative Society Acts bestow the rights on Registrar of Cooperative. This makes it difficult to compete in the market. Banks should be able to determine loan interest
 - The bylaws do not allow the bank to invest outside the cooperative banks, resulting in inefficient investment decisions. Deposits are taken only from members, and as a result, the bank fails to offer services to a larger population.
- Offering short term loans
 - SCARDB and PCARDB will consider deposit mobilization to facilitate short-term credit. Appeal to state governments to amend State bylaws if needed
 - SCARDB and PCARDBs can use revolving funds for cash credit
- Generating new business
 - Vast scope for financing farm tourism schemes, especially in Kerala
 - Financing for post-harvest/ processing units through FPOs
 - Introducing or strengthening the insurance business for revenue generation

- Develop an Institutional Development Department for designing new lending products to meet the members' needs
- Expanding the scope of gold loans
- More funds for refinancing at cheaper interest rates
 - More timely availability of refinance to meet farmer's loan demand
 - NABARD to reduce the interest rate of refinance to make it cheaper and make the credit offer competitive interest in the market
 - Avail the benefits of government's interest subvention similar to commercial banks.
 - NCDC should provide more support by making cheap refinancing funds available
 - SCARDB to consider taking loans from other Apex Cooperative Banks in the state
- Improving loan performance and reducing NPAs
 - The banks should maintain frequent contacts with the borrowers after issuing loans. Banks should consider development of strong relationships with borrowers.
 - Closer monitoring of PCARDBs by SCARDB may reduce defaults in most states having a federal structure, such as Karnataka
 - Cluster-based lending would improve targeting potential borrowers and monitoring loan
 - One-time settlement should be initiated with the help of the state government. This has benefitted SCARDB in many states like West Bengal, Haryana, etc. However, many SCARDBs are yet to initiate the process, such as the SCARDB Rajasthan
 - Timely repayment may be encouraged by providing interest discounts or offering fresh loans
- Improve efficiency in operation
 - Computerization of branches if not fully done
 - Membership of CIBIL is necessary for loan processing and contributing to CIBIL score as per customer's repayment behaviour

- NABARD should modify or drop the requirement of guarantee against refinancing to SCARDBs based on their performance in repayment, outstanding loans, and assets. This would help SCARDBs in Gujarat and Kerala
- On-time and single audit rather than multiple audits by different organization would save time and resources. This was especially mentioned by SCARDB Gujarat
- Addressing human resource shortages
 - There is a need to invest in training employees more formally by introducing refresher courses, leadership training and exposure to modern management practices. NAFCARD should design and deliver capacity-building programs for these banks more frequently.
 - Specialized training for employees in banking, finance and recovery is urgently needed.
 - Recruitment of staff and filling vacant positions
 - Proper manpower planning should be introduced, and hiring should be organized to fill the shortages
- Marketing and Branding
 - Conducting loan seminars for the products and services
 - Distribute pamphlets and explain various schemes and subsidies available
 - Enhance visibility and trust through advertising and branding efforts for SCARDBs and PCARDBs
 - Conduct Member Interaction Abhiyan (MIA) to encourage the mobilization of deposit schemes
 - Put up stalls in various programmes organized by state government to promote different loan schemes
- Improve governance
 - Election and formation of Board of Governance in states where it is pending
- Government revival package
 - A revival package is needed from State or Central Govt. to settle and clean the balance sheet to foster NABARD refinancing. The revival package is discussed afterwards in the chapter.

- NABARD may also provide loan waiver to SCARDBs that have demonstrated progress in loan recovery

The study also has found NAFCARD's potential engagement in the following areas:

- Training for staff in different areas: investment management, managing customer interaction, usage of the new software, training regarding long-term lending, etc.
- Training program for good performing PCARDBs to teach skills necessary for long-term loan revival
- Model code of conduct for governing body and internally regulating the SCARDBs
- Arranging alternative sources of funding for the SCARDBs.
- CIBIL registration for SCARDBs to be completed
- Request state governments to waive guarantee commission and ensure faster processing of guarantee
- Empower the SCARDBs and PCARDBs to offer KCC loans
- Request the state governments to transfer the amount of debt relief to SCARDBs and PCARDBs
- Influence NABARD to withdraw the requirement of showcasing the borrower NABARD as the lender. Instead, SCARDB should showcase their name. It would expand the publicity of SCARDB and loan demand.

Governance and Computerization

One of the major areas where cooperative need to look into is efficient decision-making process. This process is slow due to lack of unavailability of an elected governing board and lack of computerization. The table below summarized the latest update on governing board and computerization. This would enable the SCARDBs to compare against their peers and take redial actions.

Table 20.1: State of Governing Board and Status of Computerization

State	Existence of Governing Board at the time of the survey	Number of Members	Last date of Board meeting	Status of Computerization
Gujarat	Yes	18 (out of strength of 21)	18.12.24	Ongoing
Haryana	Yes	14 (9 elected, 5 government officials)	16.12.24	Apex Bank fully computerized. The computerization of the DPCARDBs and their branches has been proposed.
Himachal Pradesh	Yes	21	19.07.24	Very limited usage of computers
J&K	Not present (since 2019)	No board	03-10-2019 (with administration)	Only the head office and regional branches are computerized, and the rest of the branches operate without computers.
Karnataka	Yes (directors from the PCARDBs)	21	23-12-2024	Under process
Kerala	Yes (18 elected Directors).	The actual strength of the board - Directors 22 Ex officio 3 But the present strength is Directors-18 Ex officio -3	13.12.2024	Full computerization awaited till the state government's approval
Pondicherry	Not present (since 2011)	No board	29.09.2022	Computerization process is partly completed. The Bank is in the process of buying systems and get system integration that is required for computerization.
Punjab	Yes (21 elected directors)	16	13.06.24	Fully computerized

State	Existence of Governing Board at the time of the survey	Number of Members	Last date of Board meeting	Status of Computerization
Rajasthan	Not present	No board	02.12.24 (With administration)	Under process.
Tamil Nadu	Not present (since 2023)	20	07.03.23	Ongoing
Tripura	Not present (since 22/09/2023)	5	12-09-2023	Computerization process is yet to start
Uttar Pradesh	Yes	16	19.12.24	Under process and expecting a computerized system by 2026
West Bengal	Not present.(since 2012)	No board	2013	Under process.

Top Five Enablers to Revamp SCARDBs

The suggested top five enablers can be categorized as the following:

1. Legal and Policy Framework
2. Technology
3. Funds
4. NPA Resolution
5. HRD & Governance

(1) Legal and Policy Framework

- Removing restrictions in the State Act relating to
 - Period of loan.
 - Loan purposes.
 - Raising resources
 - Investment of funds
 - Taking routine business decisions by the Management of the Bank.

- Selection and appointment of CEOs and other executives at top level.
- Opening Branches based on objective norms
- Merger/amalgamation of unviable PCARDBs with SCARDB or other viable PCARDBs.
- Introducing Gahan system for mortgage registration (without necessitating the borrower to visit Sub-Registry office).
- Exempting stamp duty and registration fee for mortgage registration for taking Long Term loans by farmers.
- Issuing revolving block guarantee by the State Govt instead of annual guarantee.
- Uniform policy for States to charge guarantee fee, at affordable rate.
- Streamlining the system of Audit to facilitate timely audit, avoiding duplication of audit work and reducing the cost of audit for the institution.

Reforms in the refinance policies of NABARD

- NABARD to implement the following important recommendations of Y.C. Nanda (Ex-Chairman, NABARD) Working Group of Enhancing the share of ARDBs in rural credit.
 - NABARD to introduce a new additional refinance product for financially strong SCARDBs without government guarantee.
 - Later-end repayment of refinance by starting principal repayment only after 2 years from the date of drawal of refinance to absorb a certain level of unavoidable default in repaying of agricultural loans.
- Preference to ARDBs in allocating low cost refinance under Long Term Rural Credit Fund (LTRCF)/giving a due share of LTRCF to ARDBs.
- Giving refinance against composite Term loans including working capital/production credit.
- Ensure reasonable yearly growth in refinance to achieve business growth by ARDBs.

Other policy reforms

- TransUnion CIBIL membership to ARDBs for reflecting dues to ARDBs in CIBIL score of individuals.

- Membership of ARDBs in DICGC for insurance coverage for deposits. Alternatively, setting up Deposit Risk Guarantee Fund at the level of NAFCARD with contribution by depositors, banks, State and Central Govts.
- Extending crop loan interest subvention scheme of Govt of India to the crop loan borrowers of ARDBs.
- RBI to formulate norms for giving Banking license to ARDBs.

(2) Technology

- Government has already approved the Central Sector Scheme for Computerisation of 1851 operational units of ARDBs in 13 States with a financial outlay of Rs.120 crores, 75% of which to be shared by Central & State Govts in the ratio of 60:40 and the balance 25% to be met by ARDBs.
- The implementation of the Scheme is in varying stage of progress in different States.
- NABARD (implementing agency), SCARDBs and State Govts to take steps to complete the project at the earliest.

(3) Funds

- To remove restrictions imposed by NABARD and State Govts in some States on accepting deposits by ARDBs under the provisions of Banning of Upregulated Deposit Schemes (BUDS) Act, 2019.
- NABARD to relax conditions of government guarantee for drawal of refinance by financially strong SCARDBs.
- SCARDBs to raise funds from the market based on credit rating.
- Creation of a separate Fund with NCDC for giving Long Term loans at concessional interest rate to Cooperatives for Agriculture and rural lending.
- SCARDBs and PCARDBs to become members of SCBs and DCCBs, respectively to avail funding support and to facilitate functional coordination.
- A portion of LTRCF meant for Cooperatives should be routed through NCDC.
- Government may consider recapitalization support for SCARDBs, which are potentially viable and can contribute significantly to flow of Long term credit to farmers.

(4) NPA Resolution

- Most of the NPAs in ARDBs are more than 10 years old, mostly related to loans, which were not covered in any of the Debt Waiver Schemes of the Central and State Govts in the past.
- SCARDBs need to implement a Special OTS Scheme to close these accounts with financial support from the State and Central Govts.
- Best practices in loan recovery followed by Kerala, Gujarat, Karnataka etc. should be adopted by all banks. These practices include the following-
 - Sanctioning yearly credit limit for meeting short term credit needs of farmers, which increased the frequency of contacts with borrowers.
 - Interest rebate for prompt repayment.
 - Making loan sanctioning Officers accountable for recovery even if they are subsequently transferred from that Branch/PCARDBs.
 - Monthly/quarterly repayment instalments instead of half-yearly/yearly.
 - Sanctioning of loans based on objective assessment of repaying capacity and on CIBIL score.
 - Meeting all kind of credit needs of borrowers adequately to avoid their dependence on informal sources of credit.
 - Including all earning members in the family as guarantors/joint borrowers.
 - Accepting other type of collaterals, personal surety, hypothecation of movable assets etc. instead of mortgage of agricultural lands.

(5) HRD & Governance

- Formulation and adoption of HRD policy based on model HRD policy under formulation by NAFCARD. The proposed model HRD policy will cover following areas
 1. Assessment of staff based on categorization of SCARDBs. [Head Office, Regional Office, Branches and PCARDBs (Head Office & Branches)]
 2. Staff acquisition through recruitment, apprenticeship, lateral recruitment, deputation etc.

3. Compensation structure including pay, allowances and other perks, welfare measures, performance linked incentives etc.
 4. Service conditions/rules including leave rules, code of ethics, conduct rules, discipline and appeal rules.
 5. Placement, transfers, job rotation, deputation etc.
 6. Career progression, performance appraisal system, promotions via normal track and fast track.
 7. Training and capacity building.
 8. Superannuation and terminal benefits.
- Recruitment by professional agencies at State/National level.
 - Appointment of CEOs and Senior Executives at top Management based on a selection process instead of on deputation from Government.
 - Revamping training infrastructure and revamping training programmes linked to specific skills, knowledge required for different categories of Staff.
 - Timely election to the Board of Management.
 - Inducting professional Directors in the Board.
 - Introducing a Certificate programme for first time elected Directors.
 - Formulation and adoption of guidelines for effective functioning of board.

Actionable points for Central and State Governments

The five enables mentioned above will be revamp and transform the SCARDBs only if the State and Central Governments consider the following initiatives:

State Governments

- i. Reform State Cooperative Laws to bring parity across states, bring flexibility in operation and expand the scope of SCARDBs. Specific suggestions for making changes in state laws have been made earlier in this chapter.
- ii. Elections should be conducted, and Governing Boards should be constructed in the states where these Boards do not exist. The status of the Governing Boards across study states are given in Table 20.1.

Central Government

- i. Central government should work towards convergence of programmes and introduce new schemes for the SCARDBs, for example dairy development scheme, venture capitalist's scheme, etc.
- ii. SCARDBs should be made at par with the other cooperatives and banks in terms of rolling Central Government's schemes.
- iii. SCARDBs can be amalgamated / transformed into Multi-State ARDBs under Multi-State Cooperative Societies Act, 2002. It will ensure consistency in rules and reduce conflicts due to differing state laws and political interference. It will also open a path for central government support, central regulations, and collaborations with the national level institutions.
- iv. Centre may consider a revival package for the ailing SCARDBs. The norms financial Assistance for revival and liquidation may be conducted as per the following norms:
 - $\geq 85\%$ NPA: SCARDB should be liquidated (such as Tripura SCABRD). However, a new initiative needs to be undertaken with very high financial capital infusion, training and capacity building of staff and infrastructure development. Introduction of professional management should be focused.
 - 84%-50% NPA: A high revival package should be provided (such as for Uttar Pradesh SCABRD). Loans more than 10 years old and amount up to Rs 1,00,000 may be waived. Financial assistance should be provided for training and capacity building and infrastructure development. Introduction of professional management should be focused.
 - 50-25 NPA: A moderate revival package should be provided. This may be applicable to SCARDBs from Punjab, Gujarat, Haryana, Jammu & Kashmir, Himachal Pradesh, Karnataka, West Bengal. Loans more than 15 years old and amount up to Rs 1,00,000 may be waived. Financial assistance should be provided for training and capacity building and infrastructure development. Introduction of professional management should be focused.
 - $< 25\%$ NPA: A low revival package should be provided. This may be applicable to SCARDBs in Tamil Nadu, Kerala, Pondicherry. Loans more than 15 years old and amount up to Rs 1,00,000 may be waived. Financial assistance should be provided for training and capacity building and infrastructure development

With the financial assistance and initiatives for revival, the SCARDBs would become at par and competitive with other cooperative and banking financial institutions in the country. This would help them get more customers, retain customers, and maintain a healthy balance sheet. This financial assistance would have a multiplier effect on rural economic growth in India.

Ranking of SCARDBs

The SCARDBs can be ranked taking into account five broad categories: lending performance, recovery, deposit mobilization, other criteria of financial position and performance, and computerization and training.

Table 20.2: Ranking Criteria for SCARDBs

SCARDBs Ranking Criteria	Rank (Scale: 1 (lowest) - 5 (highest))
1) Performance in lending based on following parameters.	
- Formulation of Loan Policy	
- Formulation of Business Development Plan	
- Per staff loans outstanding at above break-even level	
- Growth in loans disbursements during the year over the average annual disbursements for the last 3 years.	
- Disbursements of short-term loans as percentage of total loans issued during the year.	
- Increase in borrowing membership over the previous year	
- Growth in loans outstanding during the year	
2) Recovery	
Following are the parameters considered	
- Range of loan recovery at ground level (<50%, 50-60%, 60-70%, 70-80% and above 80%)	
- Proportion of cash recovery to total repayment liability towards interest and principal during the year (<50%, 50-60%, 60-70%, 70-80% and above 80%)	
- Reduction in unrecovered balance in absolute amount at the ground level (<Rs. 0, Rs. 0-10 Cr, Rs 11-30 Cr, Rs.31-50 Cr, >Rs. 50 Cr)	
- Gross NPAs at SCARDB level (> 70%, 70-50%, 49-30%, 29-10%, <10%)	
- Average gross NPAs of PCARDBs in the Federal structure (> 70%, 70-50%, 49-30%, 29-10%, <10%)	
- Formulation of Recovery Policy (Not discussed, Discussed, Under process, Almost complete, Complete / Existing)	

SCARDBs Ranking Criteria	Rank (Scale: 1 (lowest) - 5 (highest))
3) Deposit Mobilisation	
Following are the parameters considered	
- Deposits outstanding as percentage of loans outstanding as at the end of the year (<50%, 50-60%, 60-70%, 70-80% and above 80%)	
- Growth in deposits outstanding over the previous year. (<-5%, -5-0%, >0-5%, 5-10%, >10%)	
- Increase in the number of Thrift deposit accounts (<-5%, -5-0%, >0-5%, 5-10%, >10%)	
- Increase in the amount of Thrift deposit outstanding (<-5%, -5-0%, >0-5%, 5-10%, >10%)	
- Publicity and marketing of deposit mobilization	
- Publicity and Marketing of deposit products	
4) Additional rating criteria based on financial position and financial performance	
- Capital adequacy (total external liability ÷ Net worth) (<5%, 5-7%, 7-9%, 9-12%, >12%)	
- Earnings and liquidity (current ratio: <0.2, 0.2-0.5, 0.5-1, 1-1.5, >1.5)	
- Housekeeping and governance	
- Return on Assets (<1%, 1-2%, 2-4%, 4-5%, >5%)	
- Systems and management	
- Compliance (deficiency ranking with no deficiency (highest) to many deficiencies (lowest))	
5) Computerization and Training	
- Completion of computerization in SCARD/ Head Office (not started, low, moderated, about to complete, fully complete)	
- Completion of computerization in PCARDS/ BranchOffices (not started, low, moderated, about to complete, fully complete)	
- Trainings conducted in last one year employees (nil, <10% employees, 10-20% employees, 20-50% employees, >50% employees)	
- Trainings conducted in last one year for members (nil, <20% members, >20-40% members, >40-60% members, >60% members)	

Appendix Table A20.1: Summary of Findings

State	Current Major Source of Finance	Reason for constraining or not availing of NABARD refinance	Existence of Governing Board at the time of the survey	Current Major loan / financial products	Short Term Loan	Change of Bylaws Needed	Status of Computerization
Gujarat	NABARD		Yes	Krishi Vikash Loan (3 years)	Crop Loan	Lending SHG, JLGs, FPO	Ongoing

State	Current Major Source of Finance	Reason for constraining or not availing of NABARD refinance	Existence of Governing Board at the time of the survey	Current Major loan / financial products	Short Term Loan	Change of Bylaws Needed	Status of Computerization
Haryana	NABARD	The NABARD refinance is shrinking because of bank high NPAs.	Governing board exists	The apex bank offers loan schemes for minor irrigation, farm mechanization, horticulture/ plantations, land development, animal husbandry, and other non-farm sector loans. The majority of loans are farm sector loans. .	Not providing	<p>Loans against Fixed Deposits and Gold in Haryana</p> <p>Reintroducing provision to auction land. Section 75 and section 104 of the Cooperative Societies Act needs to be reinforced</p> <p>Allow lending FPOs</p> <p>Short-term loans and KCC disbursement in Haryana</p>	At the apex bank level, all the operations are computerized. Hence, all the reports, P&L, Balance sheet, etc, are being generated through Core Banking Solution (CBS) software. The computerization of the DPCARDBs and their branches is proposed under the central computerization scheme.

State	Current Major Source of Finance	Reason for constraining or not availing of NABARD refinance	Existence of Governing Board at the time of the survey	Current Major loan / financial products	Short Term Loan	Change of Bylaws Needed	Status of Computerization
Himachal Pradesh	NABARD		Yes	Farm loans for irrigation, floriculture, agricultural marketing infrastructure schemes, grading machines, packing machines, rural godowns or storage. Non-farm loans in SRTTO, small-scale industries, hotels, shops, and rural housing.	The Bank offers long-term and medium-term loans, no short-term loans due to restrictions under the state act.	Amendment of State Cooperative Act for short-term lending	The Bank heavily depends on manual operation, and there is very limited usage of computers

State	Current Major Source of Finance	Reason for constraining or not availing of NABARD refinance	Existence of Governing Board at the time of the survey	Current Major loan / financial products	Short Term Loan	Change of Bylaws Needed	Status of Computerization
J&K	State government	The Bank has not received refinance from NABARD since 2003 as huge NPA and the state government is not willing to provide loan guarantee.	No, The Bank used to have a Board of Governance till 2019; afterwards, there is no elected board, Bank was run by the Managing Director.	Farm mechanization, dairy development, horticulture, minor irrigation, beekeeping, housing, agri-transportation and land development.	The Bank offers mid-term and long-term loans. The loan tenures vary from five years to fifteen years. Housing loans have a longer tenure of up to 15 years.		Only the head office and regional branches are computerized, and the rest of the branches operate without computers.
Karnataka	NABARD		Yes, the governing board involves a board made up of directors from the PCARDBs	Farm loan with tenure of 5 to 15 years	The Bank offered short-term loans till 2015. Later on, it was discontinued	Changes needed for offering short-term loans	Under process

State	Current Major Source of Finance	Reason for constraining or not availing of NABARD refinance	Existence of Governing Board at the time of the survey	Current Major loan / financial products	Short Term Loan	Change of Bylaws Needed	Status of Computerization
Kerala	NABARD	NABARD refinance has high interest rates of around 8.35%, and the government guarantee also requires a hefty fee of 0.75%, making loans costly and uncompetitive	Currently, an elected board of directors governs the Bank. The new board with 18 elected directors, took charge on 4th September 2023 after the election on 15 th May 2023.	Long-term farm and non-farm loans Short-term loan (including Gold Loan)	Gold loans, consumer durable loans, second-hand vehicles, trader's loan, cash credit, jewel purchase loan, marriage assistance, and rubber slaughter tapping. Additionally, there are certain schemes like personal loan schemes and pilgrimage/tourism loans		Full computerization awaited till the state government's approval. Every PCARDB will get the CBS system developed by NABARD.

State	Current Major Source of Finance	Reason for constraining or not availing of NABARD refinance	Existence of Governing Board at the time of the survey	Current Major loan / financial products	Short Term Loan	Change of Bylaws Needed	Status of Computerization
Pondicherry	Fixed Deposit and Loan from Primary Agricultural Credit Societies (PACS)	The government stopped issuing guarantees in 2001, expressing concerns about the Bank's low recovery and increasing overdue loans. Hence, the Bank could not float any debentures or avail of NABARD refinance.	Due to some issues, the elections have not been conducted for many years and the Bank currently does not have a governing body. Since 1 st July 2011, the Bank is governed by the managing director appointed by the state cooperative department who acts as the administrator. The Bank does not have a chairman.	(1) Jewel Loans: tenure of 1-2 years and maximum amount of 10 lakhs (2) Consumer loans: personal loans tenure up to 5 years. (3) Fixed Deposits: These are major sources of funds for the Bank's current lending activities.	Jewel loans Consumer loans		Computerization process is partly completed. The Bank is in the process of buying systems and get system integration that is required for computerization.

State	Current Major Source of Finance	Reason for constraining or not availing of NABARD refinance	Existence of Governing Board at the time of the survey	Current Major loan / financial products	Short Term Loan	Change of Bylaws Needed	Status of Computerization
Punjab	Nil	High NPA and hence no fresh refinance from NABARD	Governing board consisting of 21 elected directors.	The Bank offers basically long-term loans. The loan tenures vary from five years to nine years. The Bank has paused accepting new deposits	Not providing		Fully computerized
Rajasthan	NABARD	The refinance has been shrinking as NABARD is concerned about the Bank's bad financial position and NPA levels.	Currently, the Bank does not have an elected board, with an administrator (managing director) as the highest authority to oversee the bank operations.	Majority of the loans are for the farm sector, with an average tenure of eight to nine years.	There is no significant short-term lending. NABARD does not provide the short-term refinance. Few PCARDBs that are in financially good condition are disbursing such loans from their owned funds on a small scale. The repayment is good in short-term lending		Under process.

State	Current Major Source of Finance	Reason for constraining or not availing of NABARD refinance	Existence of Governing Board at the time of the survey	Current Major loan / financial products	Short Term Loan	Change of Bylaws Needed	Status of Computerization
Tamil Nadu	Deposit and Loans from cooperative Bank	In 2005 NABARD insisted a mandatory clause in the Bank's MOU which was not agreed by the bank officials. Hence, NABARD refused to provide refinance to Tamil Nadu SCARDB.	The Bank does not have an elected board members for last one year.	(1) Jewel Loans: The Tamil Nadu SCARDB is providing refinance to PCARDBs for issuing of jewel loans. (2) Fixed Deposits: 60 PCARDBs out of 180 can collect deposits from members.	The Bank is providing jewel loans. These jewel loans are primarily short-term loans. Recently, the Tamil Nadu SCARDB has started giving its members medium-term loans against jewel security.	(1) Currently, the Bank can not fix the interest rate on loan as per the market rate. The Cooperative Society Acts bestow the rights on the Registrar of Cooperative. This makes it difficult to compete in the market. (2) The by-Laws does not allow the Bank to invest outside the cooperative banks resulting in inefficient investment decisions. Deposits are taken only from members, and as a result, the Bank fails to offer services to a larger population.	The Bank has initiated computerization of all the routine operations. The hardware is to be purchased by the bank, and the budget for the same is approved. The government will provide the software as a part of the central computerization scheme.

State	Current Major Source of Finance	Reason for constraining or not availing of NABARD refinance	Existence of Governing Board at the time of the survey	Current Major loan / financial products	Short Term Loan	Change of Bylaws Needed	Status of Computerization
Tripura	No source at present	High NPA	Not present.	At the time of the survey, the bank was not offering any loans due to lack of refinances from NABARD			Computerization process is yet to start
Uttar Pradesh	NABARD		Yes	Agriculture products. Last decade, the bank started loans to the non-farm sector	Nil		Under process and expecting a computerized system by 2026
West Bengal	NABARD		Not present.	Long-term loans for warehouses, godowns and housing with a tenure of 5-15 years	One-year loan to SHG. Otherwise, no short-term loans		Under process.

Chapter 21

Recommendations for NAFCARD

Cooperatives were the first set of institutions that entered the lives of farmers and became a catalyst for agricultural growth. The All India Rural Credit Survey of 1960 found several issues with the cooperative structure in meeting the credit needs of rural areas. Still, commercial banks are needed in rural credit scenarios. After the Bank nationalization of 1969, commercial banks were pressed into the rural credit scenario in a big way. In 1975, the Regional Rural banks were also created to serve the rural population. Post-1990s, the long-term and short-term credit requirements of rural people in the agriculture sector were catered by the commercial banks, state cooperative banks through the district central cooperative banks and the State Cooperative Agriculture and Rural Development Banks (SCARDBs) through their branches or the PACRDBs. Thus, the SCARDBs have stopped enjoying the monopoly in long-term agriculture credit and have shrunk over the years compared to the quantum of growth in rural agriculture financing. According to the NABARD Annual Report (2023-24), the share of NABARD's Long-term refinance was just 1.6% of the total Long-term Refinance to all agencies. The State Cooperative banks have the largest share (66.7%), primarily in the short-term agriculture lending domain (<https://www.nabard.org/pdf/2024/version-final.pdf>; PP 84).

- 1) Active membership and member involvement have to increase.
 - i) Because of the cooperative nature of the farmers-controlled and farmer-directed banks, they generated trust and confidence among farmers and rural people. In the early days of its existence, the Land Mortgage banks had no competition in the rural areas. The agriculture cooperative banks provided a solid system backed by strong government oversight and administrative structures with the built-in advantage of rural financial inclusion.
 - ii) Dwindling membership and lack of member involvement is a significant source of concern. Now, the rural lending sector is open to a plethora of organizations, often within the robust regulatory framework of the Reserve Bank of India, that provide trust and confidence to the farmers. SCARDBs must activate the membership base and increase member involvement by encouraging participation. A technology-

enabled system (e.g., SCARDB App) will be ideal for the member interface for greater participation and involvement.

2) Funding Sources of SCARDBs

- i) The primary funding sources of SCARDBs are deposits of members and NABARD Refinance.
- ii) The member's deposits have dwindled over the years as farmers have found mainly other sources where they will have better yields on their deposits.
- iii) Most SCARDBs have become hugely dependent on NABARD refinance, which has many restrictive clauses, and because of this, SCARDBs suffer from working capital issues.
- iv) These banks are not covered under the BR Act of 1949 and, hence, have no access to low-cost deposits and depend heavily on borrowed funds.
- v) Deposits as a percentage of total liabilities of Regional Rural Banks (80%), State Cooperative Banks (54%), and District Central Cooperative Banks (62%) have been much higher than the SCARDBs (9.4%), which makes them highly dependent on NABARD for funding.
- vi) SCARDBs have minimal opportunities to grow their business and explore new areas.
- vii) SCARDBs may be allowed to raise deposits from their areas of operations and, like other cooperatives, can be brought under the BR Act of 1949.

3) Economies of Scale

- i) There must be consolidation and mergers of the state-level Banks and a unitary Federation of the Agriculture Cooperative and Rural Development Banks to attain economies of scale and create a financially sound, economically viable, and sustainable entity.
- ii) All state-level banks will have to migrate to a unitary structure for better coordination, monitoring, and conformity to the regulatory framework, particularly after their inclusion under the BR Act 1949.
- iii) Liberalization, Globalization, and Privatization (LPG) during the 1990s brought new global challenges to the cooperative movement.

- iv) One of the significant challenges to the cooperative banking sector was to achieve the required financial strength to face the challenges thrown open due to competition.
- v) Post-1990s, the distinction between investment banking (long-term credit for businesses) was amalgamated with commercial banking and paved the way for universal banking. Consequently, the banking scenario also changed, and the number of banks was reduced through mergers and acquisitions in the public and private sectors.
- vi) Internationally, many cooperatives merged in Europe and North America, and many cooperative banks have led to fewer cooperative banks with a more extensive asset base. For example, the oldest cooperative Banks in Germany, the Raiffeisen Bank and Volksbank, merged and formed the Central Cooperative Bank. In the Netherlands, 100 cooperative banks merged with Rabobank, now an internationally leading cooperative bank with business interests worldwide. Apart from organic growth, consolidation, mergers, and acquisitions have been routed through the developed world's cooperative banks, and agricultural cooperatives.

4) Required Technological Upgradation

- i) Regarding technology, the SCARDBs are at least 20 years behind their competitors in their areas. The ease of transaction regarding deposit withdrawals, loan verification and disbursement of loans, and verification of documents have become ubiquitous.
- ii) The SCARDBs have yet to fully transition to adopt digitization and information systems conducive to the present business scenarios. Digitization has enabled commercial and rural banks to increase their outreach to members and other partners, drastically reducing the transaction costs of agricultural financing.
- iii) The cooperative banks engaged in agricultural lending have not been able to harness and utilize the power of fintech firms as they have not upgraded their systems to have core banking services. Many banks use technology for off-site supervision tools to monitor loans and end-use.

5) Implement Universal Agricultural Banking Services

- i) As the distinction between long-term lending and short-term lending has vanished in the commercial banking sector, to remain viable, the distinction between short-term and long-term lending has to be buried in agriculture lending.
 - ii) The SCARDBs should be able to get into short-term lending (e.g., crop loans) to remain viable. There is not only a decline in interest for long-term loans, but also the farmers can access loans from different banking sectors for various purposes.
 - iii) Given the competitors' low cost of access to funds, farmers can access loans at more favourable terms and conditions. One has to remember that the farmers are less likely to be in the clutches of village money lenders, the first reason for which the land mortgage banks were started.
 - iv) SCADBs should also get involved in the forward integration of agriculture, such as agri-produce and marketing infrastructure processing. There is a considerable opportunity waiting in the agri-processing and marketing business.
- 6) Integrate the Agriculture Cooperative and Rural Development Banks into the financial system.
 - i) Interoperability across banking systems is the order of the day. More transparent mechanisms to access credit and make deposits and a seamless flow of funds across banking and financial systems are needed for development. The State Cooperative Agriculture and Rural Development Banks need to embrace technology for interoperability.
 - ii) Access to payment systems: Direct access to the payment platform is essential for SCARDBs to provide valuable services to their members and depositors and compete fairly with other institutions engaged in rural banking.
 - iii) Connecting with other innovative finance mechanisms – like "Green Finance."
 - iv) SCARDBs should also focus on developing rural enterprises and include women-led enterprises in rural areas. Women have been out of mortgage finances as most agricultural land holdings belonged to men. However, it is important to make women integral participants in rural enterprises and facilitate and complement their inclusion in formal finance.
- 7) Managing risk
 - i) SCARDBs can manage risks by integrating (having a unitary system) and diversifying their exposure to different areas of rural agricultural financing.

- ii) SCARDBs cannot maximize their value to the members and impact rural communities without achieving sustainable growth by leveraging a solid capital base and increasing efficiency by reducing the cost of servicing loans and deposits using innovative technology.

8) Regulation

There should be an internal and external regulatory authority.

- i) NAFCARD should be the internal regulatory authority to monitor model code of conduct for the SCARDBs. It should raise the issues and concerns of SCARDBs.
- ii) Reserve Bank of India (RBI) should be the external regulatory authority. It would help the SCARDBs to operate as a banking institution, reduce defaults, improve sustainability and increase their relevance, business and profitability. NAFCARD should help the SCARDBs to meet the regulatory compliance of RBI.

Chapter 22

Business Growth Plan

A business growth plan has been prepared considering targeted growth of the number of new loans, amount of loans, and number of borrowing members. The targets for Non-performing Assets (NPAs) have also been calculated. The target benchmark has been taken from the achievements of other better-performing similar financial institutions in the country and by regions. After fixing the targets, projections were made on the basis of the actual situation and the pathways to achieve the targets.

Loan Advances

The general growth of agricultural loans as reported by NABARD is considered for benchmarking. The yearly growth for the number and amount of Term Loans and total loans have been calculated for different regions of the country. The growth rates have been calculated from the changes between the average number and amount of loans between 2017-19 and 2020-22 (Table 22.1).

Table 22.1: Yearly Growth Rates (%)

Regions	Term Loan		Total Loan	
	No. of Accounts	Loan Amount	No. of Accounts	Loan Amount
Central Region	26.22	10.85	4.49	9.97
Eastern Region	28.38	19.33	12.61	16.74
Northeastern Region	19.80	14.17	12.80	11.86
Northern Region	19.09	-1.35	5.37	1.65
Southern Region	26.16	22.63	5.31	13.68
Western Region	20.88	6.05	11.17	11.35
Grand Total	25.57	14.45	6.86	10.74

Source: <https://www.data.gov.in/resource/stateuts-wise-details-disbursement-agriculture-loan-2017-18-2022-23-30-nov-2022>, Accessed 1st January, 2025 and Author's Calculations

The minimum (positive value) growth rate across regions has been considered as the benchmark for the first years. The subsequent five-year targets have been considered based on the achievements of different regions. The highest growth rate across regions has been considered a target for 20-25 years. The targets become higher over the years in general (Table

22.2). The target for the minimum growth rate achievable at the end of 25 years is set at the median value (10-15 years) of these growth figures.

Table 22.2: Projected Yearly Growth Targets

		0-5 years	5-10 years	10-15 years	15-20 years	20-25 years	Minimum (end of 25 years)
Term Loan	No. of Accounts	19	21	26	26	28	26
	Loan Amount	6	11	14	19	23	14
Total Loan	No. of Accounts	4	5	7	11	13	7
	Loan Amount	10	11	12	14	17	12

Source: Author's Calculations

The projections were made for the next 25 years for the number and amount of long-term farm loans, total farm loans, and all loans at the ultimate borrower's level using the targets illustrated in Table 22.2. Similarly, projections were also made for Apex Bank. Further projections were made for the number of borrowing members (Table 22.3- 22.11). We have made projections for only total farm loans rather than long-term farm loans and total farm loans separately. This is as most of the states barring Kerala have not reported number and amount of short-term loans.

Table 22.3: Projected Yearly Number of Total Farm Loans at Ultimate Borrower's Level

State	Year					
	Average (2021-23) #	5	10	15	20	25
Gujarat	475	578	738	1034	1743	3212
Haryana	1174	1428	1823	2557	4308	7938
Himachal Pradesh	2195	2671	3408	4780	8055	14841
Jammu & Kashmir	37	44	57	79	134	247
Karnataka	19033	23156	29554	41450	69846	128687
Kerala	101807	123864	158085	221722	373615	688362
Pondicherry	0	0	0	0	0	0
Punjab	662	805	1028	1442	2429	4476
Rajasthan	5506	6698	8549	11990	20204	37225
Tamil Nadu	0	0	0	0	0	0
Tripura	0	0	0	0	0	0
Uttar Pradesh	11641	14162	18075	25352	42719	78707
West Bengal	22262	27085	34567	48483	81696	150520

Source: Statistical Bulletin 2022-23, National Co-operative Agriculture and Rural Development Banks' Federation Ltd.

Note: Yearly projections are author's calculations

Table 22.4: Projected Yearly Number of All Loans at Ultimate Borrower's Level

State	Year					
	Average (2021-23) #	5	10	15	20	25
Gujarat	12117	14742	18814	26388	44466	81925
Haryana	1918	2333	2977	4176	7037	12965
Himachal Pradesh	2512	3056	3900	5470	9217	16981
Jammu & Kashmir	313	381	486	682	1149	2116
Karnataka	39842	48473	61866	86770	146212	269386
Kerala	159444	193987	247583	347247	585132	1078068
Pondicherry	2749	3344	4268	5986	10087	18584
Punjab	917	1115	1423	1996	3363	6197
Rajasthan	5854	7122	9090	12749	21483	39581
Tamil Nadu	180957	220162	280989	394101	664083	1223530
Tripura	3	3	4	5	9	17
Uttar Pradesh	14419	17543	22390	31403	52915	97493
West Bengal	25056	30484	38907	54569	91951	169415

Source: Statistical Bulletin 2022-23, National Co-operative Agriculture and Rural Development Banks' Federation Ltd.

Note: Yearly projections are author's calculations

Table 3.5: Projected Number of Borrowing Members

State	Year					
	Average (2021-23) #	5	10	15	20	25
Gujarat	293962	357649	456461	640210	1078791	1987603
Haryana	80241	97625	124598	174755	294472	542545
Himachal Pradesh	6301	7666	9783	13722	23122	42600
Jammu & Kashmir	77737	94579	120709	169301	285282	525614
Karnataka	687541	836498	1067607	1497374	2523163	4648764
Kerala	1220582	1485025	1895310	2658270	4479339	8252892
Pondicherry	3403	4140	5283	7410	12487	23006
Punjab	66270	80627	102903	144326	243198	448077
Rajasthan	729555	887615	1132846	1588875	2677347	4932839
Tamil Nadu	116675	141953	181172	254103	428178	788891
Tripura	24267	29524	37681	52849	89054	164076
Uttar Pradesh	432236	525881	671172	941354	1586236	2922538
West Bengal	195812	238235	304054	426452	718597	1323968

Source: Statistical Bulletin 2022-23, National Co-operative Agriculture and Rural Development Banks' Federation Ltd.

Note: Yearly projections are author's calculations

Table 22.6: Projected Yearly Amount (Rs. Lakhs) of Total Farm Loans at Ultimate Borrower's Level

State	Year					
	Average (2021-23) #	5	10	15	20	25
Gujarat	2652	4271	7197	12683	24420	53539
Haryana	4788	7711	12994	22899	44091	96667
Himachal Pradesh	8255	13295	22403	39482	76019	166667
Jammu & Kashmir	148	239	402	708	1364	2991
Karnataka	36942	59495	100253	176681	340183	745834
Kerala	129371	208353	351087	618736	1191323	2611914
Punjab	3136	5050	8510	14998	28877	63311
Rajasthan	15321	24675	41579	73276	141086	309324
Uttar Pradesh	19995	32202	54262	95628	184123	403680
West Bengal	26729	43048	72538	127837	246140	539649

Source: Statistical Bulletin 2022-23, National Co-operative Agriculture and Rural Development Banks' Federation Ltd.

Note: Yearly projections are author's calculations

Table 22.7: Projected Yearly Amount (Rs. Lakhs) of All Loans at Ultimate Borrower's Level

State	Year					
	Average (2021-23) #	5	10	15	20	25
Gujarat	21341	34370	57915	102066	196520	430860
Haryana	7205	11603	19552	34457	66344	145455
Himachal Pradesh	11112	17897	30157	53147	102329	224351
Jammu & Kashmir	563	907	1528	2693	5186	11370
Karnataka	60894	98070	165254	291233	560745	1229404
Kerala	282790	455436	767436	1352484	2604093	5709338
Pondicherry	3838	6182	10417	18358	35346	77495
Punjab	4880	7859	13243	23339	44937	98521
Rajasthan	16721	26929	45377	79970	153976	337585
Tamil Nadu	105641	170135	286688	505242	972800	2132814
Tripura	7	11	18	32	62	136
Uttar Pradesh	25908	41725	70309	123908	238574	523060
West Bengal	35959	57912	97585	171978	331128	725982

Source: Statistical Bulletin 2022-23, National Co-operative Agriculture and Rural Development Banks' Federation Ltd.

Note: Yearly projections are author's calculations

Table 22.8: Projected Yearly Amount (Rs. Lakhs) of Total Farm Loans by Apex Bank

State	Year					
	Average (2021-23) #	5	10	15	20	25
Gujarat	2652	4271	7197	12683	24420	53539
Haryana	3897	6277	10577	18640	35889	78685
Himachal Pradesh	8255	13295	22403	39482	76019	166667
Jammu & Kashmir	148	239	402	708	1364	2991
Karnataka	36942	59495	100253	176681	340183	745834
Kerala	127966	206091	347275	612016	1178385	2583548
Punjab	3107	5004	8433	14862	28615	62736
Rajasthan	14564	23456	39524	69655	134114	294039
Uttar Pradesh	19995	32202	54262	95628	184123	403680
West Bengal	24410	39312	66243	116744	224780	492818

Source: Statistical Bulletin 2022-23, National Co-operative Agriculture and Rural Development Banks' Federation Ltd.

Note: Yearly projections are author's calculations

Table 22.9: Projected Yearly Amount (Rs. Lakhs) of All Loans by Apex Bank

State	Year					
	Average (2021-23)#	5	10	15	20	25
Gujarat	21341	34370	57915	102066	196520	430860
Haryana	6818	10981	18504	32610	62787	137657
Himachal Pradesh	11112	17897	30157	53147	102329	224351
Jammu & Kashmir	563	907	1528	2693	5186	11370
Karnataka	38320	61715	103993	183271	352873	773656
Kerala	278370	448317	755440	1331344	2563389	5620097
Pondicherry	3838	6182	10417	18358	35346	77495
Punjab	4882	7862	13248	23348	44955	98562
Rajasthan	15554	25050	42211	74390	143231	314026
Tamil Nadu	91912	148025	249431	439583	846380	1855643
Tripura	7	11	18	32	62	136
Uttar Pradesh	25908	41725	70309	123908	238574	523060
West Bengal	28401	45740	77074	135831	261531	573394

Source: Statistical Bulletin 2022-23, National Co-operative Agriculture and Rural Development Banks' Federation Ltd.

Note: Yearly projections are author's calculations

The details of the projects over 25 years are illustrated in Appendix Table A22.1-22.7.

Reducing Non-performing Assets

A gradual reduction of non-performing assets (NPA) over time is another important means of improving business in the future . The NPA targets are set as per the performance of diffretn financial institutions in India as illustrated in Table 22.13.

Table 22.10: NPA Target Levels for the SCARDBs

Reduction Level	NPA Target	Rationale
I	35%	Overall NPA of SCARDBs was 35.4% (at end-March 2022) and 36.5% (at end-March 2023)
II	23%	Overall NPA of Primary Agricultural Credit Societies was 23.3 at end-March 2023
III	10%	Overall NPA of District Central Co-operative Banks was 10.8% (at end-March 2022) and 9.6% (at end-March 2023)
IV	6%	Overall NPA of District Central Co-operative Banks at end-March 2022 was 6%
V	3%	The Gross NPA of Scheduled Commercial Banks at end-March 2024 was 2.7%
VI	2%	The Gross NPA of Foreign Banks at end-March 2024 was 1.9%

Source: Report on Trend and Progress of Banking in India (2022-23 & 2023-24), Reserve Bank of India

Considering the average NPA during 2022-23 (average of NPA of March 2022 and March 2023), it was observed that SCARDBs in a few states had very high NPA, such as Tripura (99%), Uttar Pradesh (81%) and Haryana (77%). These states need immediate attention to reduce NPAs through a combination of actions, including government funding, One-time Settlement (OTS), and loan recovery. States that have moderate NPAs, such as Rajasthan (55%), Punjab (53%), Jammu and Kashmir (52%), and Himachal Pradesh (40%), should focus on OTS and rapid loan recovery. Other states with lower NPA, such as Karnataka (36%) and West Bengal (25%), should also focus on OTS and rapid loan -recovery to reduce NPAs. Kerala (10%) and Pondicherry (9%) had the lowest NPAs among states. These states and all other states should attempt to lend judiciously and make recoveries systematically and on time.

Table 22.11: Projected NPAs of SCARDBs (Apex Bank) by States

State	%NPA (2022-23)#	Years						
		First 2 years	2-5 years	5 Years	10 years	15 years	20 years	25 years
Gujarat	50.75	35	23		6	3	2	
Haryana	77.08	50	35		23	6	3	2
Himachal Pradesh	40.20	35	23		6	3	2	
Jammu & Kashmir	52.12	35	23		6	3	2	
Karnataka	35.88	23	10		6	3	2	
Kerala	9.68			6	3	3	2	
Pondicherry	8.46			6	3	3	2	
Punjab	53.29	35	23		6	3	2	
Rajasthan	54.69	35	23		6	3	2	
Tamil Nadu	16.44			10	6	3	2	
Tripura	98.92	50	35		23	6	3	2
Uttar Pradesh	80.95	50	35		23	6	3	2
West Bengal	24.59			10	6	3	2	

Source: Statistical Bulletin 2022-23, National Co-operative Agriculture and Rural Development Banks' Federation Ltd.

Note: Yearly projections are based on author's calculation

Appendix Table A22.1: Projected Yearly Number of Total Farm Loans at Ultimate Borrower's Level

State	Year												
	0	1	2	3	4	5	6	7	8	9	10	11	12
Gujarat	475	494	514	534	556	578	607	637	669	702	738	789	844
Haryana	1174	1221	1270	1321	1373	1428	1500	1575	1653	1736	1823	1951	2087
Himachal Pradesh	2195	2283	2374	2469	2568	2671	2804	2944	3091	3246	3408	3647	3902
Jammu & Kashmir	37	38	39	41	43	44	47	49	51	54	57	61	65
Karnataka	19033	19794	20586	21409	22265	23156	24314	25529	26806	28146	29554	31622	33836
Kerala	101807	105879	110114	114519	119100	123864	130057	136560	143388	150557	158085	169151	180992
Punjab	662	688	716	745	774	805	846	888	932	979	1028	1100	1177
Rajasthan	5506	5726	5955	6193	6441	6698	7033	7385	7754	8142	8549	9147	9788
Uttar Pradesh	11641	12106	12590	13094	13618	14162	14871	15614	16395	17215	18075	19341	20694
West Bengal	22262	23152	24078	25041	26043	27085	28439	29861	31354	32921	34567	36987	39576

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State	Year												
	13	14	15	16	17	18	19	20	21	22	23	24	25
Gujarat	904	967	1034	1148	1275	1415	1570	1743	1970	2226	2515	2842	3212
Haryana	2233	2390	2557	2838	3150	3497	3881	4308	4868	5501	6217	7025	7938
Himachal Pradesh	4175	4468	4780	5306	5890	6538	7257	8055	9102	10286	11623	13134	14841
Jammu & Kashmir	69	74	79	88	98	109	121	134	151	171	193	218	247
Karnataka	36204	38739	41450	46010	51071	56689	62925	69846	78926	89187	100781	113882	128687
Kerala	193661	207217	221722	246112	273184	303235	336590	373615	422185	477069	539088	609170	688362
Punjab	1259	1347	1442	1600	1776	1972	2189	2429	2745	3102	3505	3961	4476
Rajasthan	10473	11206	11990	13309	14773	16398	18202	20204	22831	25799	29153	32943	37225
Uttar Pradesh	22143	23693	25352	28140	31236	34672	38485	42719	48272	54548	61639	69652	78707
West Bengal	42347	45311	48483	53816	59735	66306	73600	81696	92317	104318	117879	133203	150520

Appendix Table A22.2: Projected Yearly Number of All Loans at Ultimate Borrower's Level

State	Year												
	0	1	2	3	4	5	6	7	8	9	10	11	12
Gujarat	12117	12601	13105	13629	14175	14742	15479	16253	17065	17918	18814	20131	21541
Haryana	1918	1994	2074	2157	2243	2333	2450	2572	2701	2836	2977	3186	3409
Himachal Pradesh	2512	2612	2716	2825	2938	3056	3208	3369	3537	3714	3900	4173	4465
Jammu & Kashmir	313	326	339	352	366	381	400	420	441	463	486	520	556
Karnataka	39842	41435	43093	44816	46609	48473	50897	53442	56114	58920	61866	66196	70830
Kerala	159444	165821	172454	179352	186526	193987	203687	213871	224565	235793	247583	264913	283457
Pondicherry	2749	2858	2973	3092	3215	3344	3511	3687	3871	4065	4268	4567	4886
Punjab	917	953	991	1031	1072	1115	1171	1229	1291	1355	1423	1523	1629
Rajasthan	5854	6088	6332	6585	6848	7122	7478	7852	8245	8657	9090	9726	10407
Tamil Nadu	180957	188195	195723	203552	211694	220162	231170	242728	254865	267608	280989	300658	321704
Tripura	3	3	3	3	3	3	3	3	4	4	4	4	4
Uttar Pradesh	14419	14996	15596	16219	16868	17543	18420	19341	20308	21324	22390	23957	25634
West Bengal	25056	26058	27101	28185	29312	30484	32009	33609	35290	37054	38907	41630	44544

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State	Year												
	13	14	15	16	17	18	19	20	21	22	23	24	25
Gujarat	23048	24662	26388	29291	32513	36089	40059	44466	50246	56778	64159	72500	81925
Haryana	3648	3903	4176	4635	5145	5711	6340	7037	7952	8985	10154	11474	12965
Himachal Pradesh	4777	5112	5470	6071	6739	7481	8303	9217	10415	11769	13299	15028	16981
Jammu & Kashmir	595	637	682	757	840	932	1035	1149	1298	1467	1657	1873	2116
Karnataka	75788	81093	86770	96314	106909	118669	131722	146212	165219	186698	210969	238395	269386
Kerala	303299	324530	347247	385445	427843	474906	527146	585132	661199	747155	844285	954042	1078068
Pondicherry	5228	5594	5986	6644	7375	8186	9087	10087	11398	12880	14554	16446	18584
Punjab	1743	1865	1996	2216	2459	2730	3030	3363	3801	4295	4853	5484	6197
Rajasthan	11136	11915	12749	14152	15708	17436	19354	21483	24276	27432	30998	35028	39581
Tamil Nadu	344223	368319	394101	437452	485572	538985	598273	664083	750414	847968	958203	1082770	1223530
Tripura	5	5	5	6	7	7	8	9	10	12	13	15	17
Uttar Pradesh	27428	29348	31403	34857	38691	42947	47672	52915	59794	67568	76351	86277	97493
West Bengal	47662	50999	54569	60571	67234	74630	82839	91951	103905	117413	132677	149924	169415

Appendix Table A22.3: Projected Number of Borrowing Members

State	Year												
	0	1	2	3	4	5	6	7	8	9	10	11	12
Gujarat	293962	305720	317949	330667	343893	357649	375532	394308	414024	434725	456461	488413	522602
Haryana	80241	83451	86789	90260	93871	97625	102507	107632	113014	118664	124598	133319	142652
Himachal Pradesh	6301	6553	6815	7087	7371	7666	8049	8451	8874	9317	9783	10468	11201
Jammu & Kashmir	77737	80846	84080	87444	90941	94579	99308	104273	109487	114961	120709	129159	138200
Karnataka	687541	715042	743644	773390	804325	836498	878323	922239	968351	1016769	1067607	1142340	1222303
Kerala	1220582	1269405	1320181	1372989	1427908	1485025	1559276	1637240	1719102	1805057	1895310	2027981	2169940
Pondicherry	3403	3539	3680	3827	3980	4140	4347	4564	4792	5032	5283	5653	6049
Punjab	66270	68920	71677	74544	77526	80627	84658	88891	93336	98003	102903	110106	117813
Rajasthan	729555	758737	789086	820650	853476	887615	931995	978595	1027525	1078901	1132846	1212145	1296996
Tamil Nadu	116675	121342	126196	131244	136493	141953	149051	156503	164328	172545	181172	193854	207424
Tripura	24267	25237	26247	27297	28388	29524	31000	32550	34178	35886	37681	40318	43141
Uttar Pradesh	432236	449525	467506	486207	505655	525881	552175	579784	608773	639212	671172	718155	768425
West Bengal	195812	203644	211790	220261	229072	238235	250146	262654	275786	289576	304054	325338	348112

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State	Year												
	13	14	15	16	17	18	19	20	21	22	23	24	25
Gujarat	559184	598327	640210	710633	788803	875571	971884	1078791	1219034	1377509	1556585	1758941	1987603
Haryana	152637	163322	174755	193978	215315	239000	265290	294472	332753	376011	424892	480128	542545
Himachal Pradesh	11985	12824	13722	15231	16906	18766	20830	23122	26128	29524	33362	37700	42600
Jammu & Kashmir	147874	158225	169301	187924	208596	231541	257011	285282	322369	364277	411633	465145	525614
Karnataka	1307865	1399415	1497374	1662085	1844915	2047855	2273120	2523163	2851174	3221826	3640664	4113950	4648764
Kerala	2321836	2484364	2658270	2950679	3275254	3635532	4035441	4479339	5061653	5719668	6463225	7303444	8252892
Pondicherry	6472	6925	7410	8225	9130	10134	11249	12487	14110	15944	18017	20359	23006
Punjab	126060	134884	144326	160202	177825	197385	219098	243198	274814	310540	350910	396529	448077
Rajasthan	1387785	1484930	1588875	1763652	1957653	2172995	2412025	2677347	3025402	3418705	3863136	4365344	4932839
Tamil Nadu	221943	237479	254103	282054	313080	347519	385746	428178	483842	546741	617817	698134	788891
Tripura	46161	49392	52849	58663	65116	72278	80229	89054	100631	113713	128496	145200	164076
Uttar Pradesh	822215	879770	941354	1044903	1159842	1287425	1429042	1586236	1792447	2025465	2288776	2586317	2922538
West Bengal	372480	398553	426452	473362	525432	583229	647384	718597	812014	917576	1036861	1171653	1323968

Appendix Table A22.4: Projected Yearly Amount (Rs. Lakhs) of Total Farm Loans at Ultimate Borrower's Level

State	Year												
	0	1	2	3	4	5	6	7	8	9	10	11	12
Gujarat	2652	2917	3209	3530	3883	4271	4741	5262	5841	6483	7197	8060	9027
Haryana	4788	5267	5794	6373	7010	7711	8559	9501	10546	11706	12994	14553	16299
Himachal Pradesh	8255	9081	9989	10988	12086	13295	14758	16381	18183	20183	22403	25091	28102
Jammu & Kashmir	148	163	179	197	217	239	265	294	326	362	402	450	504
Karnataka	36942	40636	44700	49170	54087	59495	66040	73304	81368	90318	100253	112284	125758
Kerala	129371	142308	156539	172193	189412	208353	231272	256712	284950	316295	351087	393218	440404
Punjab	3136	3449	3794	4174	4591	5050	5606	6223	6907	7667	8510	9531	10675
Rajasthan	15321	16853	18539	20392	22432	24675	27389	30402	33746	37458	41579	46568	52156
Uttar Pradesh	19995	21994	24194	26613	29274	32202	35744	39676	44040	48884	54262	60773	68066
West Bengal	26729	29402	32343	35577	39135	43048	47783	53039	58874	65350	72538	81243	90992

State	Year												
	13	14	15	16	17	18	19	20	21	22	23	24	25
Gujarat	10111	11324	12683	14458	16483	18790	21421	24420	28571	33428	39111	45760	53539
Haryana	18255	20446	22899	26105	29760	33926	38676	44091	51586	60356	70617	82621	96667
Himachal Pradesh	31475	35251	39482	45009	51310	58494	66683	76019	88942	104062	121752	142450	166667
Jammu & Kashmir	565	633	708	808	921	1050	1197	1364	1596	1867	2185	2556	2991
Karnataka	140849	157750	176681	201416	229614	261760	298406	340183	398014	465677	544842	637465	745834
Kerala	493253	552443	618736	705359	804109	916685	1045020	1191323	1393848	1630802	1908039	2232405	2611914
Punjab	11956	13391	14998	17097	19491	22220	25331	28877	33786	39530	46250	54112	63311
Rajasthan	58415	65425	73276	83534	95229	108561	123760	141086	165071	193133	225965	264380	309324
Uttar Pradesh	76234	85382	95628	109016	124278	141677	161511	184123	215424	252046	294894	345026	403680
West Bengal	101911	114140	127837	145735	166137	189397	215912	246140	287984	336941	394221	461238	539649

Appendix Table A22.5: Projected Yearly Amount (Rs. Lakhs) of All Loans at Ultimate Borrower's Level

State	Year												
	0	1	2	3	4	5	6	7	8	9	10	11	12
Gujarat	21341	23475	25823	28405	31245	34370	38151	42347	47005	52176	57915	64865	72649
Haryana	7205	7925	8718	9589	10548	11603	12879	14296	15869	17614	19552	21898	24526
Himachal Pradesh	11112	12224	13446	14791	16270	17897	19865	22050	24476	27168	30157	33776	37829
Jammu & Kashmir	563	619	681	750	825	907	1007	1117	1240	1377	1528	1712	1917
Karnataka	60894	66983	73681	81050	89155	98070	108858	120832	134124	148877	165254	185084	207294
Kerala	282790	311069	342176	376393	414033	455436	505534	561142	622868	691384	767436	859528	962671
Pondicherry	3838	4222	4644	5109	5620	6182	6862	7617	8454	9384	10417	11667	13067
Punjab	4880	5368	5905	6495	7145	7859	8724	9683	10748	11931	13243	14832	16612
Rajasthan	16721	18393	20232	22256	24481	26929	29891	33180	36829	40880	45377	50823	56921
Tamil Nadu	105641	116205	127825	140608	154668	170135	188850	209624	232682	258277	286688	321090	359621
Tripura	7	7	8	9	10	11	12	13	15	17	18	21	23
Uttar Pradesh	25908	28499	31348	34483	37932	41725	46314	51409	57064	63341	70309	78746	88195
West Bengal	35959	39555	43510	47861	52647	57912	64282	71353	79202	87914	97585	109295	122410

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State	Year												
	13	14	15	16	17	18	19	20	21	22	23	24	25
Gujarat	81367	91131	102066	116356	132646	151216	172386	196520	229929	269016	314749	368257	430860
Haryana	27469	30765	34457	39281	44780	51049	58196	66344	77622	90818	106257	124321	145455
Himachal Pradesh	42368	47452	53147	60587	69069	78739	89762	102329	119725	140078	163892	191753	224351
Jammu & Kashmir	2147	2405	2693	3070	3500	3990	4549	5186	6068	7099	8306	9718	11370
Karnataka	232169	260030	291233	332006	378487	431475	491881	560745	656071	767604	898096	1050773	1229404
Kerala	1078192	1207575	1352484	1541832	1757688	2003765	2284292	2604093	3046788	3564742	4170749	4879776	5709338
Pondicherry	14635	16391	18358	20928	23858	27198	31006	35346	41355	48386	56611	66235	77495
Punjab	18605	20838	23339	26606	30331	34577	39418	44937	52576	61514	71971	84206	98521
Rajasthan	63752	71402	79970	91166	103930	118480	135067	153976	180152	210778	246610	288534	337585
Tamil Nadu	402776	451109	505242	575976	656612	748538	853333	972800	1138176	1331666	1558049	1822918	2132814
Tripura	26	29	32	37	42	48	55	62	73	85	100	116	136
Uttar Pradesh	98778	110632	123908	141255	161030	183575	209275	238574	279131	326583	382103	447060	523060
West Bengal	137100	153551	171978	196055	223502	254792	290463	331128	387420	453282	530339	620497	725982

Appendix Table A22.6: Projected Yearly Amount (Rs. Lakhs) of Total Farm Loan by Apex Bank

State	Year												
	0	1	2	3	4	5	6	7	8	9	10	11	12
Gujarat	2652	2917	3209	3530	3883	4271	4741	5262	5841	6483	7197	8060	9027
Haryana	3897	4287	4716	5187	5706	6277	6967	7734	8584	9529	10577	11846	13267
Himachal Pradesh	8255	9081	9989	10988	12086	13295	14758	16381	18183	20183	22403	25091	28102
Jammu & Kashmir	148	163	179	197	217	239	265	294	326	362	402	450	504
Karnataka	36942	40636	44700	49170	54087	59495	66040	73304	81368	90318	100253	112284	125758
Kerala	127966	140763	154839	170323	187355	206091	228760	253924	281856	312860	347275	388947	435621
Punjab	3107	3418	3760	4136	4550	5004	5555	6166	6844	7597	8433	9445	10578
Rajasthan	14564	16020	17623	19385	21323	23456	26036	28900	32079	35607	39524	44267	49579
Uttar Pradesh	19995	21994	24194	26613	29274	32202	35744	39676	44040	48884	54262	60773	68066
West Bengal	24410	26851	29536	32489	35738	39312	43637	48437	53765	59679	66243	74193	83096

State	Year												
	13	14	15	16	17	18	19	20	21	22	23	24	25
Gujarat	10111	11324	12683	14458	16483	18790	21421	24420	28571	33428	39111	45760	53539
Haryana	14859	16643	18640	21249	24224	27615	31482	35889	41990	49129	57480	67252	78685
Himachal Pradesh	31475	35251	39482	45009	51310	58494	66683	76019	88942	104062	121752	142450	166667
Jammu & Kashmir	565	633	708	808	921	1050	1197	1364	1596	1867	2185	2556	2991
Karnataka	140849	157750	176681	201416	229614	261760	298406	340183	398014	465677	544842	637465	745834
Kerala	487896	546443	612016	697699	795376	906729	1033671	1178385	1378711	1613092	1887317	2208161	2583548
Punjab	11848	13269	14862	16942	19314	22018	25101	28615	33479	39171	45830	53621	62736
Rajasthan	55528	62192	69655	79407	90523	103197	117644	134114	156914	183589	214799	251315	294039
Uttar Pradesh	76234	85382	95628	109016	124278	141677	161511	184123	215424	252046	294894	345026	403680
West Bengal	93067	104235	116744	133088	151720	172961	197175	224780	262992	307701	360010	421212	492818

Appendix Table A22.7: Projected Yearly Amount (Rs. Lakhs) of All Loans by Apex Bank

State	Year												
	0	1	2	3	4	5	6	7	8	9	10	11	12
Gujarat	21341	23475	25823	28405	31245	34370	38151	42347	47005	52176	57915	64865	72649
Haryana	6818	7500	8250	9075	9983	10981	12189	13530	15018	16670	18504	20724	23211
Himachal Pradesh	11112	12224	13446	14791	16270	17897	19865	22050	24476	27168	30157	33776	37829
Jammu & Kashmir	563	619	681	750	825	907	1007	1117	1240	1377	1528	1712	1917
Karnataka	38320	42152	46367	51004	56104	61715	68503	76039	84403	93687	103993	116472	130449
Kerala	278370	306207	336827	370510	407561	448317	497632	552371	613132	680577	755440	846093	947624
Pondicherry	3838	4222	4644	5109	5620	6182	6862	7617	8454	9384	10417	11667	13067
Punjab	4882	5370	5907	6498	7148	7862	8727	9687	10753	11936	13248	14838	16619
Rajasthan	15554	17109	18820	20702	22773	25050	27805	30864	34259	38028	42211	47276	52949
Tamil Nadu	91912	101103	111214	122335	134568	148025	164308	182382	202444	224713	249431	279363	312887
Tripura	7	7	8	9	10	11	12	13	15	17	18	21	23
Uttar Pradesh	25908	28499	31348	34483	37932	41725	46314	51409	57064	63341	70309	78746	88195
West Bengal	28401	31241	34365	37801	41582	45740	50771	56356	62555	69436	77074	86323	96682

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State	Year												
	13	14	15	16	17	18	19	20	21	22	23	24	25
Gujarat	81367	91131	102066	116356	132646	151216	172386	196520	229929	269016	314749	368257	430860
Haryana	25996	29116	32610	37175	42380	48313	55076	62787	73461	85949	100561	117656	137657
Himachal Pradesh	42368	47452	53147	60587	69069	78739	89762	102329	119725	140078	163892	191753	224351
Jammu & Kashmir	2147	2405	2693	3070	3500	3990	4549	5186	6068	7099	8306	9718	11370
Karnataka	146103	163635	183271	208929	238179	271524	309538	352873	412861	483048	565166	661244	773656
Kerala	1061339	1188700	1331344	1517732	1730214	1972445	2248587	2563389	2999165	3509023	4105557	4803502	5620097
Pondicherry	14635	16391	18358	20928	23858	27198	31006	35346	41355	48386	56611	66235	77495
Punjab	18613	20847	23348	26617	30343	34591	39434	44955	52597	61539	72001	84241	98562
Rajasthan	59303	66419	74390	84804	96677	110211	125641	143231	167580	196069	229400	268398	314026
Tamil Nadu	350433	392485	439583	501125	571282	651262	742438	846380	990264	1158609	1355573	1586020	1855643
Tripura	26	29	32	37	42	48	55	62	73	85	100	116	136
Uttar Pradesh	98778	110632	123908	141255	161030	183575	209275	238574	279131	326583	382103	447060	523060
West Bengal	108284	121278	135831	154847	176526	201240	229413	261531	305992	358010	418872	490080	573394

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