

IV

Capacity Building of Client Institutions

The financial health and growth of rural credit institutions has always been an area of concern to NABARD. The Bank has, therefore, constantly strived towards improving the health of these institutions through various initiatives.

In addition, NABARD also conducts inspection of co-operatives and RRBs to assess the financial soundness and managerial efficiency of these institutions and their compliance with banking rules and regulations.

Institutional Development

This section highlights the performance of co-operative banks and RRBs during 2005-06 and various measures and initiatives taken by the Bank during the year to facilitate development and improve their performance.

A. Rural Co-operative Credit Institutions

a. Performance

4.2 Primary Agricultural Credit Societies (PACS), the credit institutions at the grassroots level, deal directly with individual borrowers and provide short, medium and long-term credit. Total membership of PACS as on 31 March 2005 aggregated 1,274 lakh, of which, borrowing members at 451 lakh constituted around 35 per cent as compared to 38 per cent in the previous year. The total as well as borrowing members of PACS declined during 2004-05. Deposits and borrowings of PACS increased by 4 and 17 per cent, respectively, as on 31 March 2005 over the previous year. The loans issued increased by 12 per cent during 2004-05 as compared to an increase of 3 per cent during 2003-04, over the previous year (Table 4.1). The loans issued per borrowing member increased from Rs.6,845 (2003-04) to Rs.8,694 (2004-05).

Particulars	(Rs. crore)		
	2003	2004	2005
Number (lakh)	1.12	1.06	1.09
Membership (lakh)	1,236	1,354	1,274
Borrowing Members (lakh)	639	513	451
Owned Funds	8,198	8,397	9,197
Deposits	19,120	18,143	18,976
Borrowings	30,278	34,257	40,249
Loans Issued*	33,996	35,119	39,212

* : April-March. Source : NAFSCOB

4.3 As on 31 March 2006, deposits of State Co-operative Banks (SCBs) and District Central Co-operative Banks (DCCBs) increased by 2 and 7 per cent, and borrowings increased by 16 and 8 per cent, respectively. Loans issued during 2005-06 by SCBs and DCCBs increased by 4 and 8 per cent, respectively, over the previous year (Table 4.2).

Particulars	(Rs. crore)			
	SCBs		DCCBs	
	2005	2006**	2005	2006**
Number	31	31	367	366 [§]
Share Capital	1,023	1,135	4,336	4,751
Reserves	8,366	9,285	15,270	17,630
Deposits	44,331	45,403	82,080	87,996
Borrowings	14,613	17,030	22,451	24,329
Loans Issued*	46,234	48,260	67,899	73,583
Loans Outstanding	37,361	39,817	72,757	79,693

* : April - March ** : Data provisional.
[§] : Taran Taran DCCB in Punjab excluded as the scheme of bifurcation was not approved by RBI.

4.4 In the case of long-term (LT) co-operative credit structure, borrowings by State Co-operative Agriculture and Rural Development Banks (SCARDBs) and Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) decreased marginally (0.62%) and increased by 2 per cent, respectively, over the previous year. Deposits of SCARDBs increased by 5 per cent, while those of PCARDBs fell by 3 per cent as on 31 March 2006 compared to the previous year. During 2005-06, loans issued by SCARDBs and PCARDBs decreased by 12 and 10 per cent, respectively, over the previous year (Table 4.3).

b. Working Results

i. Profitability

4.5 During 2005-06, at aggregate level the profit earned by 31 SCBs was Rs.378 crore. Among them, 27 SCBs, which were in profit, earned profit of Rs.408 crore. Out of 366 DCCBs, 278 were in profit to the tune of Rs.1,116 crore, while the profit earned by all DCCBs together was at Rs.203 crore during 2005-06. The profit earned by profit-making SCBs increased by 16 per cent and that of DCCBs decreased by 18 per cent during 2005-06, over the previous year. The losses of loss-making SCBs decreased (55%), while those of DCCBs increased (108%) during the same period.

4.6 In the case of 11 profit-making SCARDBs, profit increased by 308 per cent, while losses of 8 loss-making SCARDBs increased marginally (1%) during 2005-06

Table 4.3: Performance of Long-Term Co-operative Credit Structure (As on 31 March)				
(Rs. crore)				
Particulars	SCARDBs		PCARDBs	
	2005	2006**	2005	2006**
Number	20	20	727	696 [§]
Share Capital	791	801	927	920
Reserves	2,165	2,354	2,254	2,683
Deposits	608	636	394	380
Borrowings	17,182	17,075	12,847	13,163
Loans Issued*	3,291	2,907	2,506	2,254
Loans Outstanding	17,403	17,713	12,614	12,880

* : April – March. ** : Data provisional.
[§] : Number reduced due to reorganisation of 48 PCARDBs in Haryana to 19 District PCARDBs and 2 PCARDBs in Orissa.

Table 4.4: Working Results of Co-operative Banks					
(Rs. crore)					
Agency/ Year	Total (No.)	In Profit		In Loss	
		No.	Amount	No.	Amount
SCBs					
2004-05	31	25	351	6	67
2005-06 [@]	31	27	408	4	30
DCCBs					
2004-05	367 [#]	295	1,355	72	439
2005-06	366 [^]	278	1,116	88	913
SCARDBs					
2004-05	20 [*]	11	82	8	244
2005-06	20 [*]	11	335	8	247
PCARDBs					
2004-05 ^{**}	727	265	657	458	328
2005-06 ^{***}	696 [§]	331	328	194	411

* : Including Manipur SCARDB.
** : Data in respect of 2 PCARDBs each in Orissa and Kerala not available.
*** : Data provisional.
[@] : Data in respect of Kerala SCB repeated from the previous year.
[#] : 2 new DCCBs, Dausa in Rajasthan and Udham Singh Nagar in Uttarakhand were formed by bifurcation.
[^] : Excluding Taran Taran DCCB in Punjab.
[§] : Information in respect of 171 PCARDBs in Tamil Nadu not available for 2005-06.

over the previous year. At the aggregate level, SCARDBs earned a profit of Rs.88 crore during 2005-06. Profit of profit-making PCARDBs (331) during 2005-06 decreased to Rs.328 crore from Rs.657 crore (including Rs.518.34 crore reported by 27 DCARMDBs) during 2004-05. The losses of PCARDBs increased by 25 per cent during 2005-06 over the previous year (Table 4.4). PCARDBs at the aggregate level suffered losses of Rs.83 crore during 2005-06.

4.7 As on 31 March 2006, the aggregate amount of accumulated losses of SCBs decreased by 10 per cent, and that of the DCCBs increased by 10 per cent over previous year. Accumulated losses of SCARDBs decreased by 12 per cent and PCARDBs increased by 8 per cent as on 31 March 2006 over the previous year (Table 4.5)

Table 4.5: Accumulated Losses (As on 31 March)				
(Rs. crore)				
Year	SCBs	DCCBs	SCARDBs	PCARDBs
2004	261	5,091	856	2,788
2005	305	4,776	1,039	2,466
2006	274	5,275	918	2,672

4.8 During 2005-06, profits of SCBs from the central region increased by 129 per cent and those in northern and southern regions showed an increase of 12 and 57 per cent, respectively. Profits of SCBs in the western region declined by 74 per cent while their losses in the NER declined by the same magnitude during 2005-06 over the previous year (Table 4.6). While profits of 19 SCBs (Andaman & Nicobar, Andhra Pradesh, Chandigarh, Delhi, Goa, Gujarat, Haryana, Himachal Pradesh, Karnataka, Madhya Pradesh, Meghalaya, Mizoram, Orissa, Rajasthan, Sikkim, Tamil Nadu, Uttar Pradesh, Uttarakhand and West Bengal) increased, that of five SCBs (Bihar, Jammu & Kashmir, Maharashtra, Punjab and Pondicherry) declined considerably during 2005-06 over the previous year. Assam and Manipur SCBs, which were in loss, reported profit during 2005-06. The losses of loss-making SCBs in Arunachal Pradesh and Chhattisgarh declined considerably, while losses of loss-making SCBs in Nagaland and Tripura increased during 2005-06 over the previous year.

4.9 During 2005-06, despite an increase in the amount of profit and the number of profit-making DCCBs in the central region, the amount of losses also increased though the number of loss-making DCCBs declined. In

all other regions the amount of profits as well as the number of profit-making DCCBs decreased. In the southern region the amount of profit declined significantly (26%) during 2005-06 (Table 4.7).

4.10 During 2005-06, profits of SCARDBs from north-eastern, southern and western regions increased, while in central region profits declined. Losses of SCARDBs in the eastern region increased considerably, while in the case of northern region, SCARDBs which were in profit during 2004-05, incurred losses during 2005-06 (Table 4.8). Profits of profit-earning SCARDBs increased (except Madhya Pradesh, Rajasthan, Uttar Pradesh and West Bengal), while in the case of loss-making SCARDBs losses increased further (except Orissa). Karnataka, Maharashtra and Tamil Nadu SCARDBs reported profit, whereas Chhattisgarh SCARDB, which was earlier in profit, incurred a loss during 2005-06. In the case of PCARDBs, profits of profit-making PCARDBs in Karnataka increased during 2005-06 in the southern region. The profits of PCARDBs at the aggregate level declined substantially due to decrease in number of profit-making PCARDBs as well as the quantum of profit in Haryana, Madhya Pradesh, Orissa, Punjab, Rajasthan and West Bengal during 2005-06 over the previous year.

**Table 4.6: Region-wise Working Results of SCBs
(As on 31 March)**

Region	Profit /Loss (+)/(-)		NPAs		NPA as % to loans outstanding		Recovery (%) As on 30 June	
	2004-05	2005-06	2005	2006	2005	2006	2005	2006
	(Rs. crore)							
Central	37.04	84.78	560.96	568.35	11.60	11.73	80.98	80.13
Northern	131.61	147.12	210.87	232.21	2.99	2.97	97.93	98.35
Eastern	96.09	86.05	387.93	386.56	10.74	9.06	77.90	78.74
Western	30.06	7.87	3,048.21	3,080.29	30.70	30.68	73.95	71.85
Southern	42.40	66.48	1,428.31	1,640.57	12.86	13.72	88.55	88.83
North-Eastern	- 52.94	-13.73	441.64	452.41	52.76	51.19	46.06	48.14
All-India	284.26	378.57	6,077.91	6,360.39	16.27	15.97	85.86	86.62
<i>Data for 2006 provisional.</i>		<i>Jharkhand SCB not yet formed.</i>						
<i>Data for Kerala SCB for 2005-06 is repeated from previous year.</i>								
<i>Central : Madhya Pradesh, Chhattisgarh, Uttar Pradesh and Uttarakhand.</i>								
<i>Eastern : Bihar, Jharkhand, Orissa, West Bengal and A&N Islands.</i>								
<i>Northern : Haryana, Himachal Pradesh, Punjab, Rajasthan, J&K, Delhi and Chandigarh.</i>								
<i>NER : Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura.</i>								
<i>Southern : Andhra Pradesh, Karnataka, Kerala, Tamil Nadu, Pondicherry and Lakshadweep Islands.</i>								
<i>Western : Gujarat, Goa, Maharashtra, DN Haveli and Daman & Diu.</i>								

Table 4.7: Region-wise Working Results of DCCBs
(As on 31 March)

(Rs. crore)																
Region	2004-05					2005-06					Total NPAs		NPA as % to loans outstanding		Recovery (%) As on 30 June	
	DCCBs		Profit		Loss	DCCBs		Profit		Loss	2005	2006	2005	2006	2005	2006
	(No.)	No.	Amt.	No.	Amt.	(No.)	No.	Amt.	No.	Amt.						
Central	104	70	121.03	34	155.78	104	74	159.19	30	174.00	2,561.44	2,719.06	28.76	29.10	60.06	60.71
Northern	70	66	262.89	4	11.48	69	64	213.64	5	15.40	962.94	1,067.29	7.70	7.70	83.90	72.94
Eastern	64	54	123.60	10	16.23	64	52	92.72	12	27.99	1,331.51	1,128.80	27.84	21.23	63.04	64.95
Western	49	35	295.39	14	169.49	49	34	244.23	15	245.81	5,246.86	5,834.28	23.40	23.54	65.67	62.47
Southern	80	70	552.42	10	85.90	80	54	406.60	26	450.00	4,631.11	4,963.03	19.18	18.81	77.36	77.29
All India	367	295	1,355.33	72	438.88	366	278	1,116.38	88	913.20	14,733.87	15,712.46	20.25	19.72	72.23	69.23

Data for 2006 is provisional.

Losses of PCARDBs at the aggregate level also increased by 26 per cent though the number of loss-making PCARDBs decreased substantially in Karnataka, Haryana, West Bengal and Tamil Nadu during 2005-06 over the previous year. Region-wise working results of PCARDBs for 2005-06 are given in Table 4.9.

ii. Costs and Margins

4.11 For SCBs as a group, the average returns and cost of funds as a percentage of working funds worked out to 7.10 and 4.60, respectively, as a result of which the financial margin was at 2.50 per cent (excluding

miscellaneous income of 0.4%) during 2005-06. The average transaction and risk costs of SCBs during 2005-06 worked out to 1.49 and 0.78 per cent, respectively. SCBs as a group earned average net margin* of 0.63 per cent during 2005-06. In the case of DCCBs the average return (yield on assets) to working funds and cost of funds were 8.48 and 5.37 per cent. Thus, the financial margin available to DCCBs was 3.11 per cent (excluding miscellaneous income of 0.48%). The average transaction and risk costs as a percentage to working funds were 1.89 and 1.38, respectively, during 2005-06. DCCBs as a group earned average net margin* of 0.32 per cent, during 2005-06.

Table 4.8: Region-wise Working Results of SCARDBs
(As on 31 March)

(Rs. crore)									
Region	No. of Branches	Profit /Loss (+)/(-)		Total NPAs		NPA as % to loans outstanding		Recovery (%) As on 30 June	
		2004-05	2005-06	2005	2006	2005	2006	2005	2006
Central	345	13.72	-0.48	1,281.58	1,606.65	25.21	30.95	39.51	40.85
Eastern	159	-24.90	-186.51	266.67	271.82	30.60	30.11	37.05	24.82
North-Eastern	39	-0.26	18.86	19.43	18.57	71.15	64.10	26.04	19.73
Northern	85	36.62	-12.77	505.89	978.46	8.98	16.52	75.62	71.19
Southern	56	-40.39	235.16	1,869.23	1,438.89	45.53	36.74	37.90	61.46
Western	181	-147.02	33.81	1,354.77	1,471.66	80.42	84.03	25.73	23.30
All India	865	-162.24	88.07	5,297.57	5,786.05	30.44	32.67	44.00	47.32

Data repeated for J & K and Manipur SCARDBs.

Data for 2006 provisional.

Chhattisgarh SCARDB earned a profit of Rs.0.28 lakh during 2004-05.

* Includes miscellaneous income

**Table 4.9: Region-wise Working Results of PCARDBs
(As on 31 March)**

(Rs. crore)														
Region	2004-05				2005-06				Total NPAs		NPA as % to loans outstanding		Recovery (%) As on 30 June	
	Profit		Loss		Profit		Loss		2005	2006	2005	2006	2005	2006
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.						
Central	18	2.39	32	20.02	11	1.68	39	108.87	487.65	475.73	31.7	29.7	58.4	45.0
Eastern	44	30.43	26	16.07	15	3.88	55	15.41	114.44	192.78	19.3	30.6	56.0	48.9
Northern	131	83.90	41	69.50	101	39.98	42	107.35	1,457.68	1,701.75	26.0	29.1	53.7	47.1
Southern	45	21.82	357	221.53	204	282.33	29	19.22	1,986.80	1,692.99	52.5	45.1	58.8	58.7
Western	27	518.34	2	0.45	-	-	29	159.70	169.28	490.46	15.5	46.6	27.2	14.7
All India	265	656.88	458	327.57	331	327.87	194	410.54	4,215.85	4,553.71	33.4	35.4	54.1	47.8
Data repeated for J & K state and Manipur State.							Data for 2006 is provisional.			- : Nil				

4.12 For SCBs, the risk cost as a percentage to working funds ranged between 0.03 (Punjab) and 3.41 (Goa), the average being 0.78. Similarly, for DCCBs average risk cost worked out to 1.38 per cent, which ranged between 0.16 (West Bengal) and 4.11 per cent (Tamil Nadu) during 2005-06.

4.13 During 2005-06, out of 19 reporting SCARDBs, 13 SCARDBs had positive net margin. PCARDBs had negative net margin in 9 States and positive net margin only in 3 States.

iii. Non-Performing Assets (gross) and Recovery Performance

4.14 At the aggregate level for SCBs and DCCBs, the percentage of Non-Performing Assets (NPAs) to total loans and advances outstanding decreased to 15.97 and 19.72 as on 31 March 2006 from 16.27 and 20.25 as on 31 March 2005, respectively (Tables 4.6 and 4.7). NPAs for SCBs and DCCBs in absolute terms were estimated at Rs.6,360.39 crore and Rs.15,712.46 crore, which were more by 5 and 7 per cent, respectively, as on 31 March 2006 as compared to the previous year.

4.15 As compared to the all-India average, NPA levels of SCBs were much lower in northern (3%), eastern (9%) and central (12%) regions, however, they were very high in north-eastern and western regions (Table 4.6). SCBs in Haryana, Punjab, Orissa, Gujarat, Tamil Nadu, Rajasthan, Sikkim and West Bengal had very low levels

of NPAs. In the case of DCCBs, declining trend of NPAs was observed only in eastern region. As compared to all-India average, the proportion of NPAs was low (7.7%) for DCCBs in the northern region (Table 4.7).

4.16 In the case of SCARDBs and PCARDBs, NPAs as a percentage to total loans and advances outstanding as on 31 March 2006 increased from 30.44 to 32.67 and 33.42 to 35.36, respectively (Table 4.8 and 4.9). As on 31 March 2006, NPAs were estimated at Rs.5,786.06 crore for SCARDBs (Rs.5,297.57 crore as on 31 March 2005) and Rs.4,553.71 crore for PCARDBs (Rs.4,215.85 crore as on 31 March 2005), with an increase of 9 and 8 per cent for SCARDBs and PCARDBs, respectively (Table 4.10).

**Table 4.10: Composition of NPAs of Co-operative Banks
(As on 31 March 2006)***

(Rs. crore)				
Asset Classification	SCBs	DCCBs	SCARDBs	PCARDBs
Sub-Standard	2,498.37	6,904.54	3,758.39	2,635.20
Doubtful	2,234.12	6,698.86	2,011.04	1,872.84
Loss Assets	1,627.90	2,109.06	16.63	45.67
Total NPAs	6,360.39	15,712.46	5,786.06	4,553.71
Provisions required	3,314.39	8,713.07	1,444.69	744.64
Provisions made	3,558.40	9,440.28	1,572.90	785.81
* : Data provisional.				
Note : Data for Kerala SCB and Manipur and J & K SCARDBs repeated from the previous year.				

4.17 The average loan recovery of SCBs increased marginally to 87 per cent, while that of DCCBs decreased to 69 per cent as on 30 June 2006 (Table 4.11). The absolute amount of loan recovery of SCBs increased to Rs.21,575 crore (by 9%), as on 30 June 2006 from Rs.19,835 crore as on 30 June 2005. Recovery performance of SCBs in the northern region, except Himachal Pradesh and Jammu & Kashmir, improved marginally as on 30 June 2006. Though the recovery performance of SCBs in the NER improved marginally, their level of recovery remained at 48 per cent as compared to the all-India average of 87 per cent. DCCBs in the eastern region improved their recovery performance marginally (Table 4.7).

4.18 As on 30 June 2006, of the 31 SCBs, 16 and 7 had a loan recovery of more than 80 per cent and between 60 to 80 per cent, respectively (Table 4.12). Of the 366 DCCBs, only 103 had recovery levels of more than 80 per cent of the demand, while for 52, recovery was less than 40 per cent, as on 30 June 2006. Particularly, 6 out of 22 DCCBs in Bihar, 6 out of 8 in Jharkhand, 9 out of 31 in Maharashtra and 20 out of 50 in Uttar Pradesh had a loan recovery of less than 40 per cent (Table 4.13).

4.19 As on 30 June 2006, the recovery performance of DCCBs in West Bengal and Bihar in the eastern region and Chhattisgarh, Uttar Pradesh and Uttarakhand in

Agency	2004	2005	2006*
SCBs	83	86	87
DCCBs	63	72	69
SCARDBs	44	44	47
PCARDBs	44	54	48

* : Data provisional
Note : Data for Kerala SCB and Manipur and J&K SCARDBs repeated from the previous year.

Recovery (%)	(Number)							
	SCBs		DCCBs		SCARDBs		PCARDBs	
	2005	2006	2005	2006	2005	2006	2005	2006
≤ 40	04	04	56	52	11	9	210	113
> 40 and ≤ 60	05	04	76	66	3	6	235	161
> 60 and ≤ 80	09	07	127	145	4	3	207	178
> 80	13	16	108	103	2	1	80	54
Total	31*	31#	367	366	20**	19	732[§]	506[@]

: Data for Kerala SCB repeated from the previous year.
* : Data in respect of 9 PCARDBs in Orissa and 181 PCARDBs in Tamil Nadu not available.
** : Data for Manipur SCARDB not available.
§ : Data in respect of 5 liquidated PCARDBs in Orissa included.
@ : Data provisional.

the central region improved as compared to 30 June 2005, while it declined in Madhya Pradesh (central region). Similarly, in the northern region recovery performance of DCCBs improved in Himachal Pradesh, Jammu & Kashmir and Punjab, while it declined in the case of DCCBs in Haryana and Rajasthan as on 30 June 2006.

4.20 As on 31 March 2006, of the 11 profit earning SCARDBs, their NPA levels as a percentage to loans outstanding in Punjab (Nil), Kerala (13%) and Madhya Pradesh (14%) was comparatively low. In the case of loss-making SCARDBs, NPAs were very high and recovery was very poor. NPA levels were very high in the case of PCARDBs in Tamil Nadu (70%), Orissa (48%), Maharashtra (47%), Haryana and Himachal Pradesh (38%), Karnataka and Kerala (36%), Rajasthan (28%) and West Bengal (26%) as on 31 March 2006.

4.21 At the aggregate level, the loan recovery performance of SCARDBs improved, while that of PCARDBs declined as on 30 June 2006 (Tables 4.11).

Table 4.13: Frequency Distribution of States/ UTs according to Level of Loan Recovery of SCBs and DCCBs (As on 30 June 2006)

Recovery (%)	SCBs	DCCBs
<40	Jammu & Kashmir, Manipur, Meghalaya, Tripura	Jammu & Kashmir (1), Bihar (6), Jharkhand (6), West Bengal (2), Madhya Pradesh (3), Chhattisgarh (2), Uttar Pradesh (20), Gujarat (1), Maharashtra (9), Karnataka (1), Tamil Nadu (1)
>40 and ≤ 60	Arunachal Pradesh, Assam, Nagaland, Bihar	Jammu & Kashmir (1), Bihar (9), Orissa (4), West Bengal (1), Madhya Pradesh (7), Chhattisgarh (1), Uttar Pradesh (17), Uttarakhand (3), Gujarat (4), Maharashtra (10), Andhra Pradesh (4), Karnataka (3), Tamil Nadu (2)
>60 and ≤ 80	Chandigarh, Himachal Pradesh, Sikkim, Uttar Pradesh, Goa, Maharashtra, Andhra Pradesh	Haryana (15), Himachal Pradesh (1), Jammu & Kashmir (1), Punjab (1), Rajasthan (13), Bihar (5), Jharkhand (1), Orissa (12), West Bengal (7), Madhya Pradesh (22), Chhattisgarh (3), Uttar Pradesh (6), Uttarakhand (2), Gujarat (6), Maharashtra (9), Andhra Pradesh (15), Karnataka (8), Kerala (7), Tamil Nadu (11)
>80	Delhi, Haryana, Punjab, Rajasthan, Mizoram, Andaman & Nicobar, Orissa, West Bengal, Chhattisgarh, Madhya Pradesh, Uttarakhand, Gujarat, Karnataka, Kerala, Pondicherry, Tamil Nadu	Haryana (4), Himachal Pradesh (1), Punjab (17), Rajasthan (14), Bihar (2), Uttar Pradesh (7), Jharkhand (1), Orissa (1), West Bengal (7), Madhya Pradesh (6), Uttarakhand (5), Gujarat (7), Maharashtra (3), Andhra Pradesh (3), Karnataka (9), Kerala (7), Tamil Nadu (9)
Total	31	366

Low recovery performance of SCARDBs and PCARDBs is a matter of concern. Only SCARDBs in Kerala and Punjab (out of 19) and 54 PCARDBs (out of 506) had recovery of above 80 per cent, while the recovery performance of 8 SCARDBs and 113 PCARDBs was below 40 per cent (June 2006). Another 161 PCARDBs had recovery between 40 and 60 per cent. Recovery of PCARDBs was less than 40 per cent in the case of 28 out of 29 in Maharashtra, 15 out of 87 in Punjab, 17 out of 37 in Orissa and 8 out of 177 in Karnataka (Table 4.14).

4.22 NABARD, as a matter of policy, continues to insist on the need for co-operative banks to be managed by elected Boards of Management. However, the phenomenon of superseding elected Boards continued in some of the co-operative banks. As on 31 March 2006, Boards were superseded in 12 SCBs (out of 31) and 160 DCCBs (out of 366) in the ST structure, and in 7 SCARDBs (out of 20) and in 330 PCARDBs (out of 696) in the LT structure (Table 4.15).

c. Areas of Concern

4.23 Co-operative credit institutions suffered from low resource base, high dependence on financing agencies, imbalances, poor business diversification and recoveries, huge accumulated losses, lack of professionalism and skilled staff, weak MIS, poor internal check and control systems, etc. As on 31 March 2006, 4 out of 31 reporting SCBs, 88 out of 366 DCCBs, 53,626 out of 1,05,735 PACS, 8 out of 19 reporting SCARDBs and 194 out of 696 reporting PCARDBs incurred losses. The total accumulated losses of the LT and ST co-operative credit structure (excluding PACS) amounted to Rs.9,139 crore as on 31 March 2006.

d. Development Action Plan / Memorandum of Understanding

4.24 The process of preparing institution specific Development Action Plans (DAPs) and execution of Memorandum of Understanding (MoU) was initiated during 1994-95 with a view to enabling co-operative banks and RRBs to achieve turnaround and function as viable organisations on a sustainable basis. The first

Table 4.14: Frequency Distribution of States/UTs according to levels of Loan Recovery of SCARDBs and PCARDBs (As on 30 June 2006)

Recovery (%)	SCARDBs	PCARDBs
< 40	Assam, Bihar, Chhattisgarh, Gujarat, Jammu & Kashmir, Madhya Pradesh, Maharashtra, Orissa.	Haryana (8), Rajasthan (12), Orissa (17), West Bengal (4), Madhya Pradesh (15), Maharashtra (28), Karnataka (8), Kerala (5), Punjab (15), Chhattisgarh (1).
> 40 and ≤ 60	Himachal Pradesh, West Bengal, Karnataka, Tamil Nadu, Rajasthan, Uttar Pradesh.	Haryana (11), Punjab (12), Rajasthan (17), Orissa (17), West Bengal (12), Chhattisgarh (5), Madhya Pradesh (18), Maharashtra (1), Karnataka (43), Kerala (25).
> 60 and ≤ 80	Haryana, Pondicherry, Tripura.	Himachal Pradesh (1), Punjab (21), Rajasthan (5), Orissa (2), West Bengal (8), Chhattisgarh (6), Madhya Pradesh (5), Karnataka (116), Kerala (14).
> 80	Kerala, Punjab.	Punjab (39), Rajasthan (2), Orissa (1), Karnataka (10), Kerala (2).
Total	19*	506
* Data on recovery performance in respect of Manipur SCARDB and 9 PCARDBs in Orissa and 181 PCARDBs in Tamil Nadu not available.		

phase of DAP/MoU covered the period from 1994-95 to 1999-2000, followed by the second phase, which continued till 2003-04. In view of weaknesses persisting in the co-operative credit structure, it was decided to continue the DAP/MoU process with certain refinements. Thus the process was extended for a period of three years (2004-07) co-terminous with the Tenth Plan period. With a view to making the process more focused and effective, the following refinements were introduced.

- i. PACS were brought into the development planning process and they were advised to prepare viability action plans under the guidance of DCCBs and enter into MoUs for the first time with their respective DCCBs. A model MoU containing viability action plan was circulated by NABARD for guidance of DCCBs and PACS. As on 31 March 2007, grassroots level co-operatives in 15 States have participated in the exercise.

- ii. As on 31 March 2006, 26 out of 31 SCBs and 13 out of 19 reporting SCARDBs have prepared/executed DAP/MoUs with NABARD and the State Governments concerned. Similarly, 359 of 366 DCCBs have executed MoUs with the respective SCBs.

e. Co-operative Development Fund

4.25 NABARD had constituted a Co-operative Development Fund (CDF) in 1992-93 with the objective of supporting co-operative credit institutions in undertaking various developmental initiatives such as HRD, building up better MIS, infrastructure creation, setting-up of Business Development Department with technical personnel, etc. The Fund is replenished every year through contributions from NABARD's surplus. During the year, an amount of Rs.2.71 crore was sanctioned (including Rs.10 lakh to flood affected Surat DCCB for replacement of computers) while, disbursement amounted to Rs.2.96 crore including drawals against sanctions accorded in the previous years. As on 31 March 2007, sanctions and disbursements aggregated Rs.76.35 crore and Rs.67.66 crore, respectively. The support provided through the Fund resulted in increase in deposit mobilisation in the primary societies, improved MIS and availability of trained manpower in co-operative banks contributing to overall efficiency of the structure.

Table 4.15: Elected Boards under Supersession (As on 31 March 2006)

Particulars*	SCBs	DCCBs	SCARDBs	PCARDBs
Total Institutions (No.)	31	366	20	696
Institutions where Boards are under Supersession (No.)	12	160	7	330
Boards under Supersession (%)	39	44	35	47
* : In respect of reporting banks only.				

f. Organisational Development Initiative

4.26 Organisational Development Initiative (ODI) is a re-engineering process which facilitates changes in the organisational structure, staff composition and their skills, strategic planning and shared values, taking into account the wider external environment so as to improve the effectiveness and efficiency and enable the organisation fulfil its mission. ODIs are being conducted by NABARD since 1994-95. During 2006-07, 13 ODIs were conducted in 6 co-operative banks. As on 31 March 2007, ODIs have been conducted in 155 RRBs (pre-amalgamated position), 15 SCBs and 60 DCCBs. Besides conduct of ODIs, 25 and 8 exposure visits for staff of RRBs and of DCCBs/SCBs, respectively, sensitisation meets and programmes like 'Ridge to Valley' were conducted by ROs/TEs of the Bank.

4.27 Keeping in view the changing environment for RRBs due to their amalgamation and approval of a revival package for the short-term co-operative credit structure, a Working Group was set up to revisit the methodology, design and focus of ODI.

g. Revival of the Short-Term Rural Co-operative Credit Structure

4.28 Based on the recommendations of the Task Force (Chairman: Prof. A. Vaidyanathan), GoI, in January 2006, approved a Revival Package for the Short-Term Rural Co-operative Credit Structure (STCCS) with an estimated outlay of Rs.13,596 crore. Financial assistance under the Package for cleansing of the balance sheets of the constituents of STCCS (as on 31 March 2004), capital infusion to ensure CRAR of 7 per cent, technical support for building up common accounting and internal control systems, computerization and capacity building is contingent upon certain legal and institutional reforms relating to the co-operative credit structure. NABARD, as the Implementing Agency, has dialogues with the States and UTs on various aspects of the Package. As on 31 March 2007, 17 States and 1UT (Andhra Pradesh, Arunachal Pradesh, Bihar, Chhattisgarh, Goa, Gujarat,

Haryana, Madhya Pradesh, Maharashtra, Meghalaya, Orissa, Punjab, Rajasthan, Sikkim, Tripura, Uttarakhand, Uttar Pradesh and Dadra & Nagar Haveli) have conveyed their 'in principle' acceptance to implement the Package. Of these, ten States, *viz.*, Andhra Pradesh, Bihar, Gujarat, Haryana, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Uttarakhand and Uttar Pradesh have executed MoU with GoI and NABARD (Box 4.1).

i. Special Audits

4.29 As prescribed in the Package, cleansing of the balance sheets of co-operative credit structure units is

Box 4.1

Memorandum of Understanding

The key activities contemplated to be accomplished through MoU are:

NABARD

- Conduct of special audits of STCCS as on 31 March 2004.
- Designing and installation of common accounting system in the STCCS with computerisation of operations wherever necessary.
- Human Resource Development through specifically designed training modules and assistance for conduct of training programmes for the personnel of STCCS.

State Government

- Ushering in co-operative reforms in STCCS through amendments to State Co-operative Societies' Act to provide autonomy to co-operative credit structure in financial and internal administrative matters especially in (i) fixation of interest rates on deposits and loans as per RBI guidelines, (ii) borrowings and investments, (iii) loan policies, (iv) personnel policy and (v) appointment of Auditors.
- Reducing equity of State Governments in the CCS to 25% and conversion of the excess amount as grant.
- Freedom to CCS units to affiliate or disaffiliate with a federal structure of their choice.
- Restrictions on the State Government in supersession of the Boards.
- Professionalisation of the Boards of SCB and DCCBs and prescription of fit and proper criteria for elected members of Boards and CEOs of SCB/DCCBs by RBI.

based on a special audit of their accounts as on 31 March 2004 to firm up the amount of accumulated losses and erosion in the assets. NABARD has formulated guidelines and a manual for the special audit of PACS and has trained over 800 master trainers. Adequate number of departmental auditors are being trained to undertake special audits in States which have executed the MoU for implementing the Package. Special audit of PACS has been completed in Rajasthan and is in progress in Andhra Pradesh, Gujarat, Haryana, Madhya Pradesh, Maharashtra, Orissa, Uttarakhand and Uttar Pradesh.

ii. Monitoring Implementation Process

4.30 Implementation of the Package is guided and monitored by Implementing and Monitoring Committees at the national, state and district levels. The Committee at national level (NIMC) is headed by Secretary (Financial Sector), Banking Division, MoF, GoI with members representing RBI, NABARD and participating State Governments. SLICs and DLICs have been constituted in nine of the ten States that have executed MoU. NABARD has made arrangements for placing a three-member dedicated support team in each DCCB as the implementing arm.

iii. State Level Task Force

4.31 A State Level Task Force headed by CGM, NABARD, RO with Registrar of Co-operative Societies, GM, RBI and MD, SCB as members have been constituted in nine States to, (i) review the performance of the SCB and DCCBs periodically, (ii) review the aspects relating to good governance, compliance with statutory requirements of regulatory and supervisory norms and actions initiated by RBI/ NABARD, (iii) suggest improvements in the functioning of SCB and DCCBs including their HRD and (iv) suggest any measures required for improving the efficiency and viability of SCB and DCCBs.

iv. Co-operative Reforms

4.32 NABARD is in touch with the States for facilitating the required amendments to their respective Co-operative Societies' Acts. Andhra Pradesh has amended the A.P.

State Co-operative Societies Act, 1964, and Haryana has promulgated an ordinance to give effect to co-operative reform. Proposals to amend the respective State Co-operative Societies' Act by the State Governments of Madhya Pradesh, Maharashtra Orissa, Rajasthan and Uttar Pradesh have been vetted by NABARD and forwarded to them for necessary action.

v. Common Accounting and Monitoring System

4.33 A Common Accounting and Management Information System for the STCCS with appropriate checks and controls has been developed by NABARD to facilitate transparency, improve operations, decision making and meet supervisory and regulatory requirements. NABARD has collaborated with GTZ under the NB-GTZ Rural Finance Programme for fine - tuning this assignment.

vi. HRD Initiatives

4.34 In order to equip the STCCS to meet the emerging requirements under the new legal or institutional dispensation, and help them tap emerging business opportunities, the human resources at both the governance and management levels need to be appropriately upgraded. A Working Group on Co-operative Training set up by NABARD has developed training modules, training material and strategies for training of PACS staff and Board members. The training modules have been tested in the field and are to be launched for extensive replication after the training of state and grassroot level trainers, which has since been started.

vii. Computerisation

4.35 A Committee headed by MD, NABARD with members drawn from RBI and IDRBT, Hyderabad has been set up to suggest technical parameters for software, hardware requirements, guidelines for procurement of software and hardware and cost estimates. SLIC would decide on the hardware and software to be acquired in the State for the PACS, taking into account all relevant factors.

viii. Funding by Bilateral Agencies

4.36 Asian Development Bank has sanctioned a loan of US \$1 billion to GoI for supporting the Revival Package. World Bank and KfW have also mounted appraisal missions for processing loans of US\$ 600 million and Euro 140 million, respectively, to GoI.

ix. Release of Funds

4.37 With regard to the progress of special audit and preparedness of the States, GoI has disbursed an amount of Rs.1,425 crore to NABARD for release of recapitalisation assistance to STCCS in the States and to meet expenses related to HRD measures, Common Accounting System, computerisation and implementation. It is expected that with the fulfilment of prescribed benchmarks, recapitalisation assistance would be released to the implementing States in the first quarter of 2007-08.

4.38 With the implementation of the Revival Package, the STCCS is expected to emerge stronger with following benefits accruing to the system:

- Better financial position with cleansed balance sheets.
- Reduced control of the State Government.
- Professionalised boards and management.
- Autonomy to take business related decisions.
- Ability to access resources from institutions outside the co-operative fold.
- Autonomy in matters of personnel policy, staffing, recruitment, posting and compensation to staff.
- Timely elections and conduct of audit.
- Computerised operations with a common accounting system and better internal checks and controls resulting in operational efficiency.

4.39 Safety of public deposits accepted by the Co-operative Banking system will be augmented with regulatory and prudential norms for STCCS to be on par with other banking institutions and the structure will be in a position to deliver efficient financial services in rural areas.

h. Task Force on Revival of Long-Term Rural Co-operative Credit Structure

4.40 Task Force appointed under the Chairmanship of Prof. A.Vaidyanathan, for the revival of the Long-Term Co-operative Credit Structure (LTCCS) submitted its report to GoI in August 2006. The GoI has since circulated the report to all States and UTs inviting their observations and suggestions.

B. Regional Rural Banks**a. Financial Performance**

4.41 Due to amalgamation, the number of RRBs have been reduced from 196 to 133 operating with a network of 14,494 branches covering 525 districts in 26 States as on 31 March 2006. Over a period of three years (2004-06), aggregate reserves of RRBs increased significantly (37%), while the deposits and investments increased by 27 and 14 per cent, respectively. During the same period, loans and advances outstanding increased by 52 per cent, while loans issued increased by 63 per cent (Table 4.16).

**Table 4.16: Indicators of Performance
(As on 31 March)**

Particulars	(Rs. crore)		
	2004	2005	2006
No. of RRBs	196	196	133 **
Branch Network (No.)	14,446	14,484	14,494
Share Capital	195.85	195.93	196.00
Share Capital Deposit	2,134.98	2,166.82	2,180.03
Reserves	3,107.05	3,818.52	4,270.56
Deposits	56,350.08	62,143.00	71,328.83
Borrowings	4,595.48	5,524.32	7,302.59
Investments	36,135.40	36,767.66	41,182.45
Loans & Advances			
Outstanding	26,113.86	32,870.03	39,712.57
Loans Issued*	15,579.05	21,082.47	25,426.97
RRBs earning			
Profit (No.)	163	166	111
Amount of Profit* (A)	952.33	902.60	807.79
RRBs incurring Losses (No.)	33	30	22
Amount of Losses* (B)	183.65	154.49	190.66
Net Profit (A – B)	768.68	748.11	617.13
Accumulated Losses	2,725.35	2,715.01	2,636.85
RRBs with accumulated losses (No.)	90	83	58

* : April-March. ** : After amalgamation.

4.42 Significant improvement in the performance of RRBs was witnessed during 2005-06. In all, 111 of the 133 RRBs showed improvement in their performance by way of increase in profits, reduction in losses or by transcending from loss to profit during 2005-06. The net profit of RRBs as a group, however, declined to Rs.617.13 crore during 2005-06 from Rs.748.11 crore during 2004-05. The aggregated reserves of 75 RRBs that had wiped off their accumulated losses and attained sustainable viability stood at Rs.4,270.56 crore at end-March 2006. Net worth of RRBs as a whole stood at Rs.4,009.74 crore as on 31 March 2006. During the year, another 55 RRBs had also attained current viability. At the aggregate level, as on 31 March 2006, the accumulated losses of RRBs decreased by around 3 per cent from the level of the previous year (Table 4.16). The performance of RRBs, across regions varied widely. While all RRBs were in profit in the southern region, 46 (out of 48), 15 (out of 18), 8 (out of 11), 17 (out of 28) and 5 (out of 8) RRBs in the central, northern, western, eastern and north-eastern regions, respectively, were in profit (Table 4.17).

b. Recovery Performance

4.43 As on 30 June 2006, the recovery performance of RRBs (109) was 79.80 per cent which has improved from

76.73 per cent as on 30 June 2004 (Table 4.18). As at end-June 2006, RRBs in northern (88.42%) and southern (82.25%) regions had recovery performance of about 80 per cent, while those in the NER had recovery of 67.13 per cent (Table 4.17). RRBs in Punjab registered the maximum recovery (94.7%), followed by Tamil Nadu (92.5%), Haryana (89.1%) and Kerala (87.9%). Out of 109 RRBs, as at end-June 2006, 51 had recovery above 80 per cent and two had recovery levels of below 40 per cent (Table 4.19).

4.44 All the RRBs in Haryana, Himachal Pradesh, Punjab, Kerala, Tamil Nadu and Uttarakhand, 1 (out of 5) each in Andhra Pradesh and Bihar, 1 (out of 2) in Assam, 2 (out of 3) each in Chhattisgarh and Gujarat, 4 (out of 6) in Karnataka, 6 (out of 11) in Madhya Pradesh, 8 (out of 18) in Uttar Pradesh, 2 (out of 8) each in Orissa and Maharashtra, 5 (out of 6) in Rajasthan, 1 (out of 3) in Jammu & Kashmir and 2 (out of 9) in West Bengal recorded a recovery performance above 80 per cent (Table 4.19).

c. Non-Performing Assets

4.45 There was decline in gross NPAs of all RRBs put together from 8.5 per cent as at end-March 2005

Table 4.17: Region-wise Working Results of RRBs
(As on 31 March 2006)

(Rs. crore)												
Region	RRBs (No.)	Profit Earning*		Loss Incurring*		Net Profit*	Accumul- ated Losses	Loans & Advances Outstanding	NPAs		Recovery (%) As on 30 June	
		No.	Amt.	No.	Amt.				Amount	%	2005	2006
North-Eastern	8	5	15.94	3	9.04	6.90	252.22	1,534.29	210.71	13.73	65.82	67.13
Eastern	28	17	44.30	11	141.65	-97.35	1,601.25	7,283.40	776.53	10.66	71.55	69.92
Northern	18	15	161.02	3	19.71	141.31	276.14	5,079.24	243.19	4.79	88.37	88.42
Central	48	46	255.86	2	4.67	251.19	373.59	10,615.91	927.68	8.74	78.15	77.65
Western	11	8	24.53	3	15.59	8.94	133.65	1,961.05	203.44	10.37	75.55	78.58
Southern	20	20	306.14	-	-	306.14	-	13,238.68	528.92	4.00	82.88	82.25
All India	133	111	807.79	22	190.66	617.13	2,636.85	39,712.57	2,890.47	7.28	79.85	79.80
* : During 2005-06.		- : Nil										

**Table 4.18: Recovery Performance of RRBs
(As on 30 June)**

(Rs. crore)				
Year	Demand	Collection	Balance	Recovery (%)
2004	15,780.61	12,109.10	3,671.51	76.73
2005	19,730.17	15,755.18	3,974.99	79.85
2006	24,071.58	19,209.67	4,861.91	79.80

to 7.3 per cent as at end-March 2006. However, 53 RRBs recorded NPA levels above the national average of 7.3 per cent, while only 7 RRBs registered high NPA level (> 20%). Lowest level of NPAs was observed in the case of RRBs in the southern (4%), followed by northern (4.8%), central (8.7%) and western (10.3%) regions, while the NPA level of RRBs in eastern and north-eastern regions was 10.7 and 13.7 per cent, respectively, as at end-March 2006 (Table 4.17).

d. Other Developments

i. Amalgamation of RRBs

4.46 As per GoI instructions, the process of amalgamation of RRBs in consultation with State Governments and sponsor banks was started. As on 31 March 2007, 145 RRBs were amalgamated to form 45 new entities taking the total number of RRBs to 96 including 51 stand-alone RRBs.

ii. Recapitalisation Support

4.47 During the year, the Governments of Orissa, Assam and Jammu & Kashmir paid their outstanding share of recapitalisation support. There is no outstanding recapitalisation support payable by any State Government. During the year, the Government of Assam also paid Rs.7.5 lakh towards the outstanding contribution of the initial share capital. With this the share capital of RRBs stood at Rs.196 crore as on 31 March 2007.

iii. Publications on Institutional Development

4.48 NABARD continued to collect and publish data on co-operative banks, RRBs and other institutions related to agriculture and rural development. During the year, publications related to (i) Statistical Statements relating to Co-operative Movement in India-Credit Societies and Non-Credit Societies for 2000-01, (ii) Key Statistics on Co-operative Banks/RRBs for 2005-06, (iii) Dossier/Overviews on Co-operative Banks indicating performance parameters for 2004-05, (iv) Financial Statements on RRBs for 2004-05 and 2005-06, (v) Ratio Analysis of Co-operative Banks with reference to their profitability position for 2004-05, (vi) Review of Performance of RRBs for 2004-05, were brought out. These publications are also available on CD.

**Table 4.19: Frequency Distribution of States according to Levels of Recovery of RRBs
(As on 30 June 2006)**

Recovery (%)	States
<40	Arunachal Pradesh (1), Jharkhand (1).
> 40 and ≤ 60	Bihar (2), Manipur (1), Nagaland (1), Orissa (2).
> 60 and ≤ 80	Andhra Pradesh (4), Assam (1), Bihar (2), Chhattisgarh (1), Gujarat (1), Jammu & Kashmir (2), Jharkhand (1), Karnataka (2), Madhya Pradesh (5), Maharashtra (6), Meghalaya (1), Mizoram (1), Orissa (4), Rajasthan (1), Tripura (1), Uttar Pradesh (10), West Bengal (7).
>80	Andhra Pradesh (1), Assam (1), Bihar (1), Chhattisgarh (2), Gujarat (2), Haryana (2), Himachal Pradesh (2), Jammu & Kashmir (1), Karnataka (4), Kerala (2), Madhya Pradesh (6), Maharashtra (2), Orissa (2), Punjab (3), Rajasthan (5), Tamil Nadu (3), Uttar Pradesh (8), Uttarakhand (2), West Bengal (2).

Figures given in parentheses indicate number of RRBs. Total number of RRBs as on 30 June 2006 was 109.

Supervision over Banks

4.49 In accordance with the powers vested under Section 35(6) of the B.R. Act, 1949 (AACS), NABARD inspects SCBs and DCCBs. The Bank also conducts inspection of RRBs under Section 35(6) of B.R. Act, 1949. Besides, NABARD conducts voluntary inspections of SCARDBs, Apex Weavers' Co-operative Societies, State Co-operative Marketing Federations, etc.

4.50 The objective of NABARD's supervision is to assess the financial and operational soundness and managerial efficiency of co-operative banks (SCBs, DCCBs and SCARDBs) and RRBs as also to ensure that the affairs of these banks are conducted in conformity with the provisions of the relevant Acts/Rules, Regulations, Bye-laws, etc., so as to protect the interests of their depositors. It also suggests ways and means for strengthening the institutions to enable them to play a more efficient role in the dispensation of rural credit. Under the revised strategy, the inspection is sharply focussed on the core areas of the functioning of banks pertaining to Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Systems Compliance (CAMELSC).

4.51 Concerned over the sizeable number of weak banks, and recognising the need for effective supervision, the periodicity for conduct of on-site inspections had been increased from 2005-06. Accordingly, statutory inspections of all SCBs as well as those DCCBs and RRBs which are not complying with minimum capital requirements as required under B.R. Act, 1949 (AACS) and RBI Act, 1934, respectively, and voluntary inspections of all SCARDBs are being conducted on an annual basis. The statutory inspections of those DCCBs and RRBs having positive net worth, as also the voluntary inspections of Apex Cooperative Societies/Federations continue to be conducted once in two years. Subsequent to recent amalgamation of some of the RRBs, the strategy for inspection of the new entities was finalised and inspection of the 9 banks amalgamated on 12 September 2005 were conducted during the year. Based on the experience gained during inspection of these banks, detailed guidelines would be prepared for on-site inspection of RRBs to be conducted during 2007-08.

4.52 As a part of the new strategy of supervision, a system of 'Off-site Surveillance' has been introduced in 1998-99 as a supplementary tool to the on-site inspection. The returns/software in use are being revised/broad-based to make them more effective and user-friendly.

4.53 The work relating to policy and supervision of Credit Monitoring Arrangements (CMA) and exposure norms in respect of co-operative banks has been integrated with the inspection function to make it more focused and intensive. A CMA Cell has been set up at DoS, HO and at ROs. The important developments in the areas of operations and policy decisions during the year were as under.

A. Operational Matters

a. Inspection of Banks

4.54 During the year, statutory inspections of 335 banks (31 SCBs, 247 DCCBs and 57 RRBs) and voluntary inspections of 18 SCARDBs were carried out. The supervisory concerns brought out by inspections were advised to the banks concerned and the RCS of State Governments (for co-operatives) and sponsor banks (for RRBs) for necessary corrective action. These included, (i) improper application/implementation of income recognition, asset classification and provisioning norms for impaired assets resulting in inflated profit or reduced losses, (ii) high level of NPAs/erosion in the value of assets, (iii) deficiencies in sanction and disbursement of loans and advances, (iv) inadequate financial margin/high cost of management leading to unsatisfactory working results, (v) ineffective funds management, (vi) inadequate risk management strategy, (vii) delay in submission of satisfactory compliance to inspection observations, (viii) lack of appropriate 'corporate governance' system, (ix) weak internal checks and control system, etc. In case of serious deficiencies in co-operative banks, the matter was brought to the notice of Chief Secretary/Secretary, Co-operation of State Government for prompt and effective remedial action.

b. Board of Supervision

4.55 The Board of Supervision (for SCBs, DCCBs and RRBs) [BoS] met thrice during the year. The issues deliberated by BoS included, (i) functioning of SCBs and SCARDBs based on inspection findings, (ii) functioning of co-operative credit institutions of Chhattisgarh, Himachal Pradesh and Uttar Pradesh and that of insolvent SCBs and DCCBs, (iii) need and extent of regulatory action required against SCBs and DCCBs in the context of MoUs executed by the State Governments under the GoI revival package, based on Vaidyanathan Committee I recommendations, (iv) review of frauds, misappropriation, embezzlements, defalcations, etc., in SCBs, DCCBs and RRBs, (v) review of financial position of RRBs sponsored by Bank of Maharashtra, (vi) compliance with Section 42 (6) (a) (i) & (ii) of RBI Act, 1934, by RRBs, their internal control system, status of amalgamation and review of inspection strategy, (vii) review of Section 11 non-compliant/recomplied banks, (viii) review of investment portfolio of banks, (ix) the ways and means for fast tract regulatory action, (x) the scope for refinement of supervisory processes, tools and instruments, (xi) status of implementation of the RBI guidelines on compounding of interest on agricultural advances, (xii) system of receipt and disposal of public complaints against the banks and strategies for redressal of their grievances and (xiii) review of audit system for co-operative banks, norms of audit rating *vis-à-vis* supervisory rating.

4.56 As advised by the BoS, for greater sharing of information with the public, the Balance Sheets of co-operative banks are put on the website of NABARD with a suitable disclaimer. Co-operative banks are also advised to display the abridged Balance Sheets in their branches. A separate Trigger Point mechanism for regulatory actions is being evolved for assessing the extent of improvement and compliance in the case of co-operative banks situated in States that have executed the MoU for implementation of reform package, based on the recommendations of Vaidyanathan Committee for STCCS.

4.57 As per decision of BoS, a conference of Chief Auditors of State Governments was organised to deliberate on issue, *viz.*, (i) revision of audit scales, (ii) review of the structure of Long-Form Audit Report, (iii) convergence between supervisory and audit ratings, (iv) conduct of audit in the computerised environment and (v) speeding up of audit process to ensure its early completion.

B. Other Developments

a. Compliance to Minimum Share Capital Requirement

4.58 The number of SCBs and DCCBs not complying with the provisions of Section 11(1) of the B.R. Act, 1949 (AACS), increased from 6 to 7 and declined from 130 to 127, respectively, as on 31 March 2007 with 12 DCCBs recomplying and 9 additional DCCBs not complying during the year. The total erosion in the value of assets of the 134 non-compliant co-operative banks as on 31 March 2007 aggregated Rs.14,514.25 crore, which had not only eroded their entire owned funds but also affected deposits to the extent of Rs.4,655.21 crore. The erosion of entire deposits of 7 DCCBs is a matter of serious concern. Of the 134 non-compliant co-operative banks, exemption from the provisions of Section 11(1) of the Act, *ibid.*, was granted by GoI to 12 DCCBs and applications for grant of exemption in respect of 25 banks (4 SCBs and 21 DCCBs) were under consideration by RBI/GoI.

b. Grant of Licence

4.59 As new licences were granted to 3 banks, *viz.*, Andaman & Nicobar SCB, Ambala DCCB and Fazilka DCCB during the year, the number of licensed co-operative banks increased from 86 (13 SCBs and 73 DCCBs) as on 31 March 2006 to 89 (14 SCBs and 75 DCCBs) as on 31 March 2007.

c. Scheduling of State Co-operative Banks

4.60 During 2006-07, no SCB was included in the second schedule to the RBI Act, 1934. Thus, the number of scheduled SCBs remained unchanged at 16.

d. Compliance with various Sections of Acts

4.61 As on 31 March 2007, 7 SCBs and 126 DCCBs did not comply with the provisions of Section 22 (3) (a) of B.R. Act, 1949 (AACS), as regards their capacity to pay their depositors in full and 13 SCBs and 333 DCCBs did not comply with the provisions of Section 22 (3) (b) of the Act, *ibid.*, as the affairs of these banks were not being conducted in a manner not detrimental to the interests of their depositors.

4.62 Of 16 scheduled SCBs, 1 SCB was not complying with the provisions of Section 42 (6) (a) (i) of RBI Act, 1934, in regard to the minimum capital requirements of Rs.5 lakh and 13 SCBs were not complying with the provisions of Section 42 (6) (a) (ii) of the Act, *ibid.*, as the affairs of these banks were not being conducted in a manner not detrimental to the interests of depositors.

C. Policy Decisions

4.63 It has been decided to introduce on a pilot basis Assets-Liability Management in select 5 SCBs and 12 RRBs with effect from 1 April 2007. Necessary guidelines have been issued to these banks. The advantage of DICGC's deposit insurance cover and the need to ensure the availability of insurance cover for public deposits was emphasised to all the SCBs and DCCBs. Further, the State Governments/banks were advised to constitute a Committee of Management comprising of professionals such as retired bank officials, Chartered Accountants, etc., to provide sound management systems during supersession of the Board. It was also decided to constitute a sub-group for discussing all issues pertaining to rehabilitation of weak banks, comprising the Secretary, Co-operation, representatives of Finance Department, RCS, Managing Director of Apex Bank and CGM, NABARD. This sub-group could also help to clear applications for exemption expeditiously and recommend supervisory/regulatory actions to the concerned authorities.

4.64 During the year, NABARD took certain policy decisions and issued 45 circulars conveying instructions/operational guidelines to the banks under supervision,

NABARD ROs and State Governments to improve supervisory interventions/processes. The circulars covered important issues like, (i) proper application of IRAC norms in respect of loans under 'Doubling of Agricultural Credit Scheme', (ii) exercising prudence in investment management, (iii) introduction of special notes on implementation of RKBY/NAIS, (iv) broad-based reporting through MDOs for strengthening MIS at HO, (v) capacity building strategies/knowledge management for DoS officials, etc.

D. Internal Control System

4.65 In view of the rising incidence of frauds, banks were advised to bring in/strengthen necessary organisational arrangements like Supervision Department, Vigilance Cell, Audit Committee, Internal Audit, adopt integrated approach and devote focussed attention to manage, monitor and minimise incidence of frauds. Focus was also laid on strengthening internal control systems, recovery of amount involved in frauds, etc. A system of review/reporting of frauds was introduced in SCARDBs.

E. Other Developments

4.66 As a part of capacity building efforts, particularly in the new and emerging areas of supervision, practical based intensive training modules in supervision were evolved by NBSC, Lucknow in consultation with DoS, HO and ROs.

4.67 In response to the observations made by the Finance Ministry, GoI and the Standing Committee on Agriculture regarding charging of compound interest on agricultural loans, snap studies were undertaken in respect of select DCCBs and RRBs in all the States. Based on the study findings, requisite follow-up action was initiated with the concerned banks. The implementation of the guidelines is being monitored through inspection and other related mechanisms.