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*If cooperation fails, there
will fail the best hope of
rural India.*

”

*—The Royal Commission
on Agriculture*

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EMPOWERING RURAL FINANCIAL INSTITUTIONS

Only healthy and strong institutions can survive and serve well during crises that often leave economic and financial agents in disarray. In such times when rural financial institutions (RFIs) have to be at their strongest to meet the crucial credit needs of their clientele, they remain most vulnerable, struggling to keep afloat. The RFIs of India form a robust multi-agency system that includes rural cooperative banks (RCBs), regional rural banks (RRBs), scheduled commercial banks, small finance banks, non-banking financial companies—micro-finance institutions, and local area banks. The system serves rural India through six lakh banking outlets, including branches and banking correspondents. Credit delivery models, refined and mainstreamed over time, aim to ensure adequate, timely, and affordable credit to borrowers. Institutional and process innovations such as the Self-Help Group–Bank Linkage Programme, joint liability groups, network of banking correspondents and business facilitators, introduction of micro-ATMs, and other financial inclusion interventions are constantly implemented to maximise outreach.

The RFIs, however, face a few challenges—exclusion of many geographies and people from the formal financial system; increasing diversity of financial needs; and heavy compliance norms mandated under the emerging regulatory framework like Basel III.

This chapter discusses NABARD’s efforts at strengthening RCBs and RRBs to enable them play their expected role in supporting rural India through the period of severe economic contraction brought on by the pandemic.

6.1 Monitoring, strengthening, and supervising rural banking

While NABARD refinances all types of RFIs, it plays the additional role of monitoring and strengthening RCBs and RRBs (that is, institutional development), as also supervising their compliance with regulatory requirements. These roles are vested in NABARD by Section 35 (6) of the Banking Regulation Act, 1949. The

Act as amended in FY2021 could lead to changes in the way RFIs are monitored and supervised (Box 6.1).

6.1.1 Structure of supervised entities

The rural cooperative system has separate institutions to cater to short-term and long-term credit needs. The short-term cooperative credit structure has largely three tiers while the long-term cooperative credit structure (LTCCS) has two (Figure 6.1).

Box 6.1: Recent developments in the short-term cooperative credit structure

1. Amendments to the Banking Regulation Act, 1949

On 26 June 2020, the Banking Regulation (Amendment) Ordinance, 2020 was promulgated bringing additional areas of functioning of cooperative banks under the regulatory purview of the Reserve Bank of India (RBI). The major provisions of the amendment pertain to areas such as

- governance and management of cooperative banks,
- prior approval of the RBI for appointment or removal of statutory auditors,
- time allowed for disposal of non-banking assets,
- additional avenues for raising capital,
- voluntary/compulsory amalgamation, and
- preparation of scheme of reconstruction and winding up by the concerned High Court at the instance of the RBI.

These amendments are likely to improve the management and financial performance of cooperative banks and enable the RBI to regulate them more effectively. The Act is not applicable to certain types of credit societies, including primary agricultural credit societies and cooperative societies whose main objective and principal business is long-term finance for agricultural development.

On 29 September 2020, the Banking Regulation (Amendment) Act, 2020, which replaced the Ordinance, was notified for urban cooperative banks from 29 June 2020. Vide Gazette notification dated 23 December 2020, the Government of India further extended the applicability of the amended provisions of the Act to state cooperative banks (StCBs) and district central cooperative banks (DCCBs) from 1 April 2021.

2. Amalgamation of DCCBs in Kerala with Kerala StCB

With effect from 29 November 2019, 13 DCCBs in Kerala (except Malappuram DCCB) were amalgamated with the Kerala StCB. The issue of amalgamation of Malappuram DCCB is pending before the Kerala High Court.

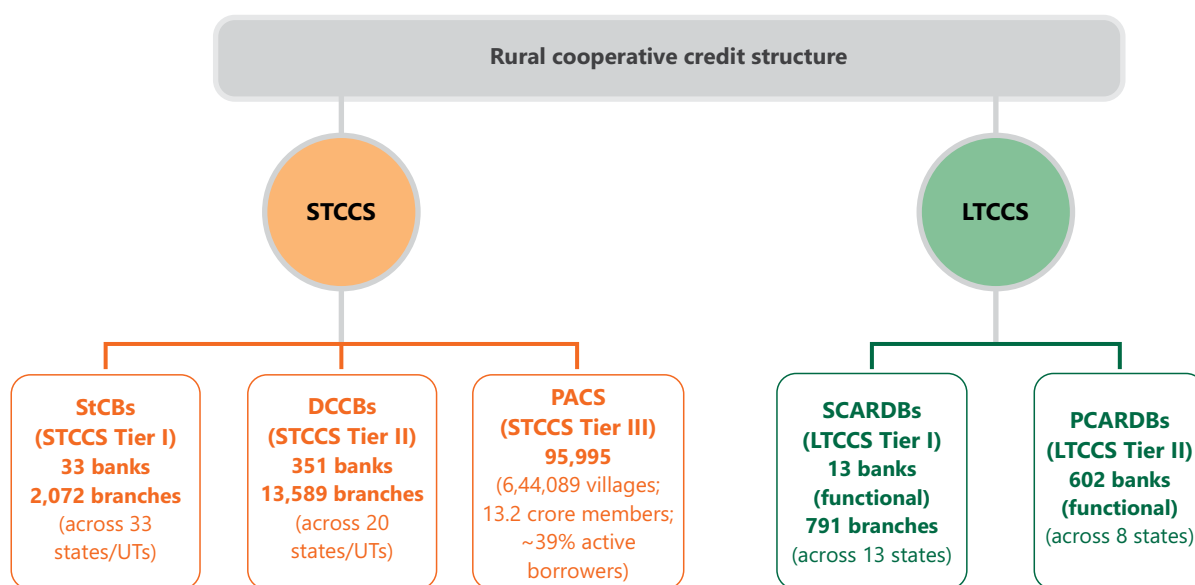
3. Formation of Supaul DCCB in Bihar

The RBI vide letter dated 19 December 2019, issued a license to Supaul DCCB in Bihar, increasing the number of DCCBs in the state from 22 to 23.

With the amalgamation of 13 DCCBs in Kerala and formation of one DCCB, viz., Supaul in Bihar during the year, the total number of DCCBs in India declined from 363 to 351 at the end of FY2020.



FIGURE 6.1: Rural cooperative credit structure



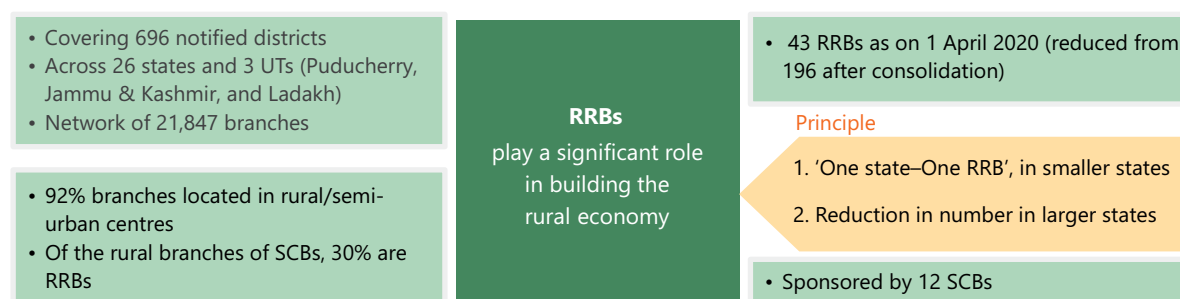
Notes:

1. DCCB = District Central Cooperative Bank; LTCCS = Long-Term Cooperative Credit Structure; PACS = Primary Agricultural Credit Societies; PCARDB = Primary Cooperative Agriculture and Rural Development Bank; SCARDB = State Cooperative Agriculture and Rural Development Bank; StCB = State Cooperative Bank; STCCS = Short-Term Cooperative Credit Structure; UT = Union Territory.
2. Number of entities as on 31 March 2020.
3. Of the 33 StCBs, 23 are listed as Scheduled StCBs in the Second Schedule of the Reserve Bank of India Act, 1934. Daman & Diu StCB is excluded as it is yet to be bifurcated from Goa StCB.
4. There are variations in the cooperative structure across states. Not all STCCS are three-tiered. For example, while Andhra Pradesh has a three-tiered STCCS, Manipur has only an StCB and PACS as two tiers.
5. Number of PACS is as on 31 March 2019.
6. Of the 13 functional SCARDBs, there are
 - a. Unitary (5), i.e., lend directly: Gujarat, Jammu & Kashmir, Puducherry, Tripura, and Uttar Pradesh;
 - b. Federal (6), i.e., lend through PCARDBs: Haryana, Karnataka, Kerala, Punjab, Rajasthan, and Tamil Nadu; and
 - c. Mixed (2), i.e., lend through PCARDBs and directly: Himachal Pradesh and West Bengal.
7. DCCBs exclude Tamil Nadu Industrial Cooperative Bank Ltd.

Regional rural banks, once at 196, were amalgamated to form 45 RRBs as on 31 March 2020. With effect from 1 April 2020, 43 RRBs remained (when Kashi Gomti

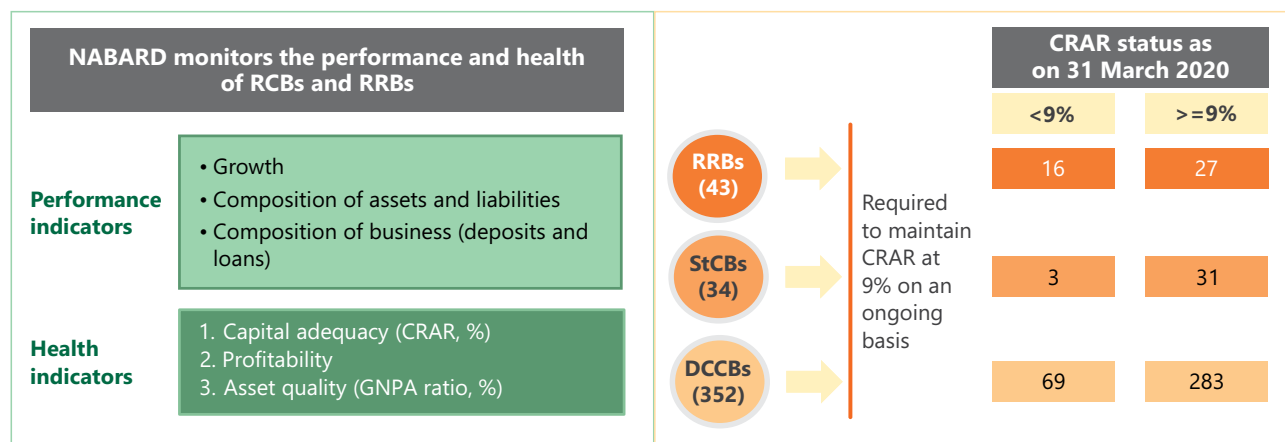
Samyut Gramin Bank, Baroda Uttar Pradesh Gramin Bank, and Purvanchal Bank were amalgamated to form the Baroda U.P. Bank) (Figure 6.2).

FIGURE 6.2: Regional rural banks



Notes: RRB = Regional Rural Bank; SCB = Scheduled Commercial Bank; UT = Union Territory.

FIGURE 6.3: Monitoring of supervised entities in FY2021



Notes:

1. CRAR = Capital to Risk Weighted Asset Ratio; DCCB = District Central Cooperative Bank; GNPA = Gross Non-Performing Assets; RCB = Rural Cooperative Bank; RRB = Regional Rural Bank; StCB = State Cooperative Bank.
2. DCCBs include Tamil Nadu Industrial Cooperative Bank Ltd; StCBs include Daman and Diu StCB.
3. Number of RRBs as on 1 April 2020.

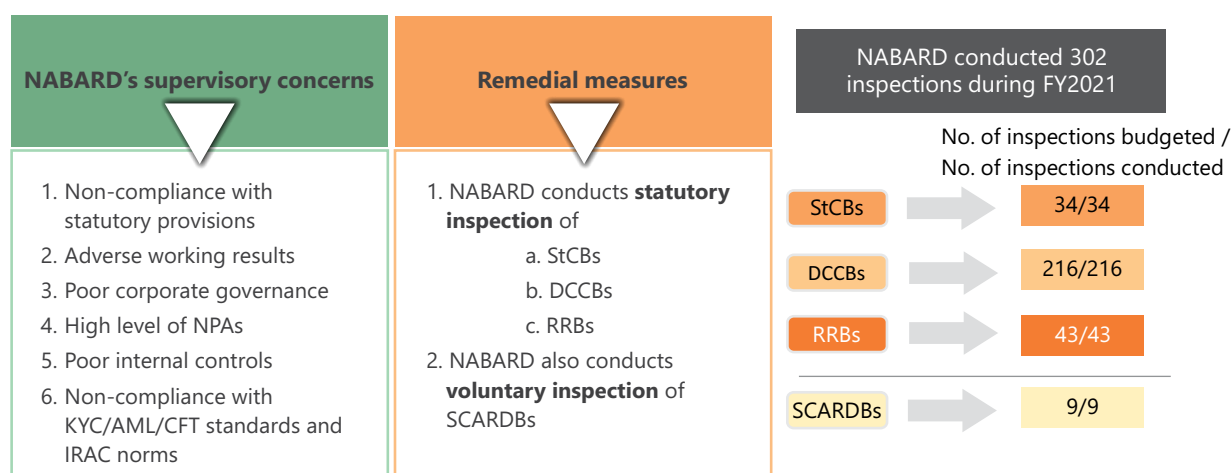
NABARD monitors the performance of RCBs and RRBs through the returns they file and their financial statements (Figure 6.3).

6.1.2 NABARD in a supervisory role

At present, NABARD follows the CAMELSC (capital adequacy, asset quality, management, earnings, liquidity, systems, and compliance) approach for supervision over the RCBs and RRBs. NABARD's supervisory concerns cover a wide range of compliance issues (Figure 6.4).

The Board of Supervision (BoS), a sub-committee of the Board of Directors of NABARD, met four times during FY2021 to provide guidance on supervision. The BoS reviewed policies on fraud monitoring, credit monitoring arrangement norms, compliance monitoring mechanism, cyber security/information systems audit, business continuity plan audit, revised inspection strategy considering COVID-19 pandemic, redressing of complaints and grievance, status of compliance, etc. (Figure 6.5).

FIGURE 6.4: Supervision by NABARD in FY2021



Notes:

1. AML = Anti-Money Laundering; CFT = Combating the Financing of Terrorism; DCCB = District Central Cooperative Bank; IRAC = Income Recognition and Asset Classification; KYC = Know Your Customer; NPA = Non-Performing Asset; RRB = Regional Rural Bank; SCARDB = State Cooperative Agriculture and Rural Development Bank; StCB = State Cooperative Bank.
2. DCCBs include Tamil Nadu Industrial Cooperative Bank Ltd; StCBs include Daman and Diu StCB.



FIGURE 6.5: Status of compliance in FY2021

	StCBs (34)	DCCBs (352)	RRBs (43)
Compliance with the Sec. 11(1) of BR Act, 1949 (AACS)	33	328	NA
Compliance with the Sec. 42 (6) (a) (i) of the RBI Act, 1934	23	NA	41
Licensed banks	33	349	NA
Scheduled banks	24	NA	42

Notes:

1. AACS = As Applicable to Cooperative Societies; BR = Banking Regulation; DCCB = District Central Cooperative Bank; NA = Not Applicable; RBI = Reserve Bank of India; RRB = Regional Rural Bank; StCB = State Cooperative Bank.
2. DCCBs include Tamil Nadu Industrial Cooperative Bank Ltd; StCBs include Daman and Diu StCB.

In line with recent directives of the BoS, NABARD envisages continuous engagement with the chief executive officers of all supervised entities, as well as deeper interactions with supervisors deputed by the Reserve Bank of India (RBI). In this context, discussions

on topics such as 'Stress Testing Model for Urban Cooperative Banks' and 'Supervisory Action Framework for Prompt Corrective Action for Rural Cooperative Banks' were held.

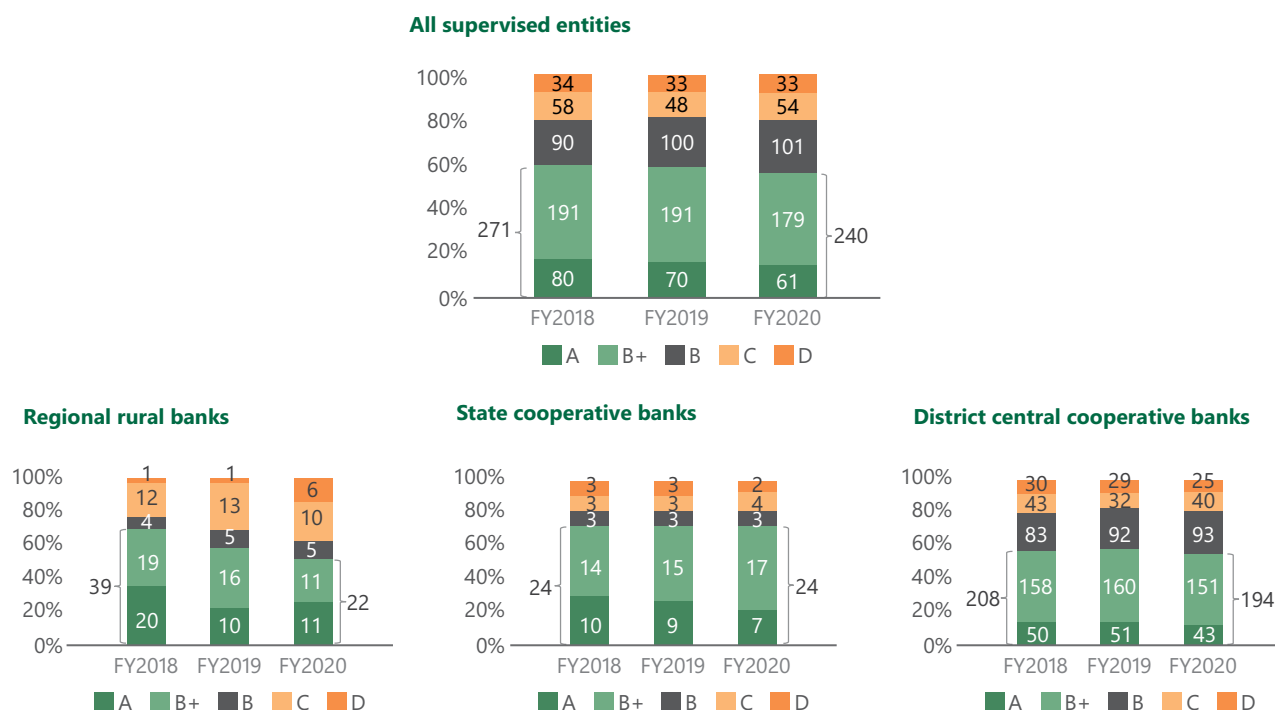
Rating of supervised entities

NABARD's ratings of RCBs and RRBs based on inspections conducted with reference to financial position as on 31 March over the last three years reveal that there is a slippage of RCBs and RRBs in A and B+ category to lower rating (Figure 6.6).

Recent action in supervision

- NABARD has strengthened its cyber security and information technology examination cell to support its supervised entities which are adopting digital banking on a large scale.
- NABARD is geared up to face the challenges involved in RCBs implementing the amendments to Banking Regulation Act (June 2020) with effect from 1 April 2021.
- NABARD has initiated action on the 78 recommendations of the Working Group on Risk-Based Supervision.¹

FIGURE 6.6: Rating of supervised entities



Note: B+ rated RRBs include the Baroda U.P. Bank, which was formed after amalgamating Kashi Gomti Samyut Gramin Bank, Baroda Uttar Pradesh Gramin Bank, and Purvanchal Bank as on 1 April 2020.

- NABARD is incorporating additional quantitative and qualitative indicators for supervision towards rolling out 'Enhanced CAMELSC' in FY2022.
- NABARD plans to develop 'SuperSoft', a software to digitise the supervision process, standardise observations, and improve efficiency.

6.2 Cooperatives

6.2.1 Short-term cooperatives

Performance and health indicators of state cooperative banks

As on 31 March 2020, state cooperative banks (StCBs) mobilised resources from deposits (62%) and borrowings (25%), of which NABARD's share was 90% (Figure 6.7). Current and Savings Account (CASA)

FIGURE 6.7: Overview of state cooperative banks

PERFORMANCE INDICATORS

LIABILITIES	31 March 2019		31 March 2020	
	Amount (₹ crore)	YoY growth (%)	Amount (₹ crore)	YoY growth (%)
Share capital and reserves	21,226 (18,545)	9.9	21,900	3.2
Deposits	1,92,693 (1,35,392)	6.3	2,10,342	9.2
Borrowings	84,073 (79,358)	10.2	85,723	2.0
ASSETS				
Loans and advances	1,83,633 (1,48,625)	11.6	1,99,943	8.9
Investments	1,03,131 (76,458)	0.3	1,12,828	9.4
Total assets/liabilities	3,17,074 (2,48,949)	7.6	3,40,267	7.3

HEALTH INDICATORS

PROFITABILITY	FY2019		FY2020
	(₹ crore)	(₹ crore)	
Profit	1,389 (1,313)	1,740	
Loss	169 (147)	16	
Net profit	1,220 (1,166)	1,724	
Accumulated loss	986 (471)	1,232	
No. of banks in profit	30	32	
No. of banks in loss	3	1	

ASSET QUALITY	31 March 2019		31 March 2020
	(₹ crore)	(₹ crore)	
Loans outstanding	1,83,633 (1,48,625)	1,99,943	
Gross NPAs	9,968 (6,420)	13,477	
Gross NPA (%)	5.4 (4.3)	6.7	
Net NPA (%)	3.0 (1.5)	3.4	

Notes:

- NPA = Non-Performing Asset; YoY = Year-on-Year.
- The figures in parentheses exclude 13 DCCBs in Kerala that were added to Kerala StCB in 2020. Their data has been added to FY2019 data to make it comparable with FY2020.
- Year-on-year variations could be slightly different because absolute numbers have been rounded off to ₹1 crore.
- Components may not add up to the total due to rounding off.
- Daman & Diu StCB has been excluded as it is yet to be bifurcated from Goa StCB.

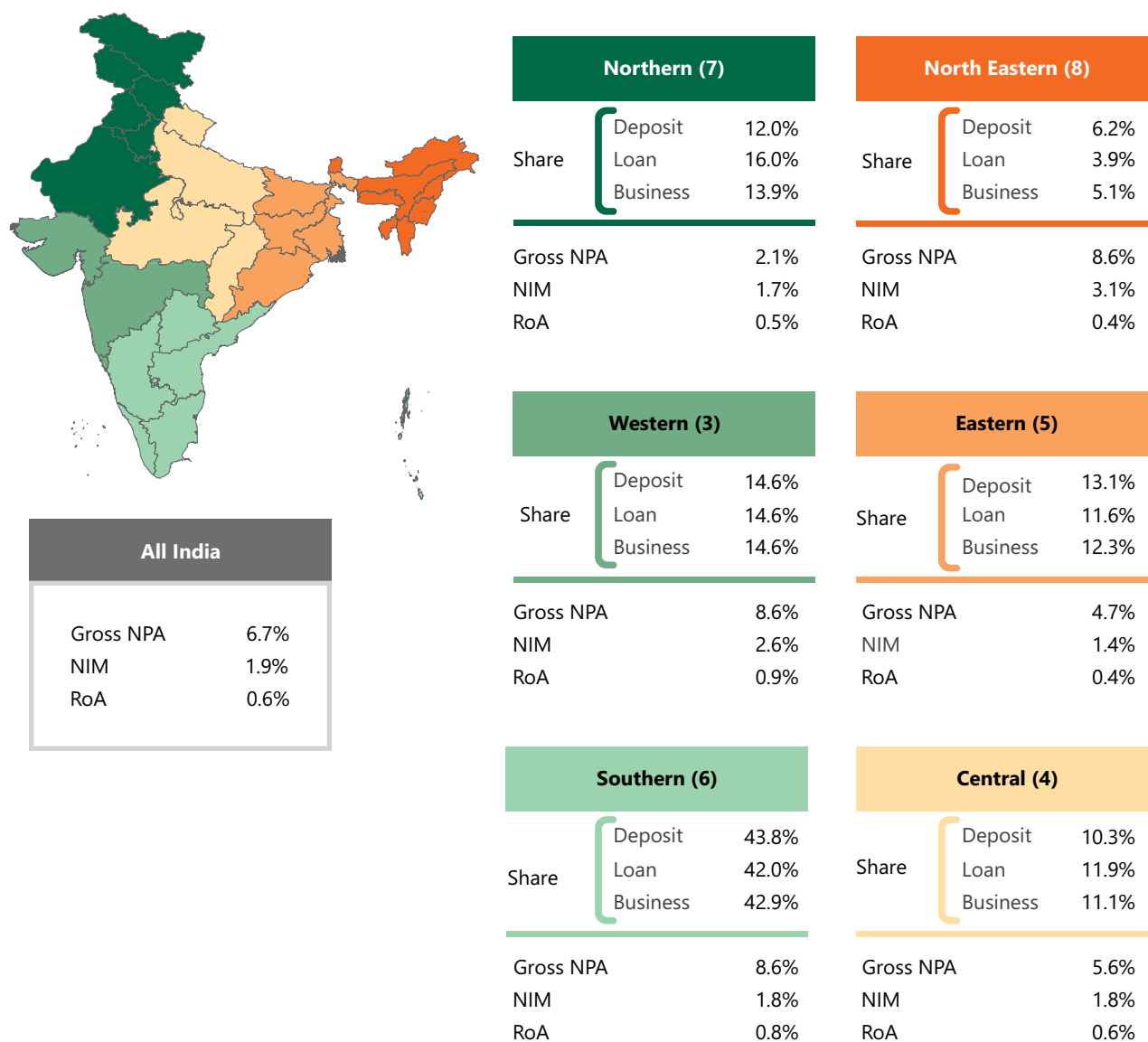


deposits, known as low-cost deposits, formed less than 18% of total deposits. On the assets side, gross loans outstanding had a share of 59%, followed by investments (33%). Sizeable share (43%) of the gross loans outstanding was towards agriculture sector. Crop loans accounted for 78% of agricultural loans. Statutory liquidity ratio (SLR) securities accounted for 50% of the total investments.

The CRAR of StCBs as a whole at 11.8% was greater than the 9% norm as on 31 March 2020, though Puducherry (7.3%), Goa (3.4%), and Kerala (7.3%)

lagged behind. All StCBs (barring Arunachal Pradesh) earned net profits (Figure 6.7). In fact, the StCBs of Jharkhand and Puducherry, which reported losses in FY2019, posted net profits of ₹2.6 crore and ₹23.4 crore, respectively in FY2020. Seven StCBs had accumulated losses amounting to ₹1,232 crore. While Nagaland StCB wiped out its accumulated losses, Kerala StCB posted accumulated losses of ₹776 crore after 13 district central cooperative banks (DCCBs) were merged with it. Asset quality of StCBs deteriorated with the share of sub-standard assets being 3.9% of total advances followed by doubtful assets (2.2%), and loss assets

FIGURE 6.8: Regional analysis of state cooperative banks (FY2020)



Notes:

1. NIM = Net Interest Margin; NPA = Non-Performing Asset; RoA = Return on Asset.
2. Figures in parentheses indicate number of StCBs in the region (as on 31 March 2020).
3. Share represents share of region in all-India deposits/loans/business.
4. Daman & Diu StCB has been excluded as it is yet to be bifurcated from Goa StCB.

(0.6%). The provision coverage ratio (PCR) was 55% as on 31 March 2020.

Regional disparities among state cooperative banks

During FY2020, the share of deposits and loans outstanding (all-India) of the StCBs in the Southern region was the highest. Asset quality, measured by gross non-performing asset (NPA) (%), was the best in the North. Though the net interest margin (NIM) was high in the North East, return on assets (RoA) was low on account of high cost of management and high incidence of NPA. The Western region had the highest RoA (Figure 6.8).

Performance and health indicators of district central cooperative banks

As on 31 March 2020, borrowings of DCCBs, forming 18% of their resources, primarily came from StCBs (80%) followed by NABARD (13%) (Figure 6.9). Deposits were the major component (64.5%) of the

resources, with two-fifths being low-cost CASA deposits. Loans and investments constituted 52% and 35% of the assets, respectively. Credit-deposit ratio (CD ratio) of DCCBs declined to 81% as on 31 March 2020 compared to 83% in the previous year. About 57% of the gross loans outstanding of DCCBs was towards the agriculture sector and within the loans towards agriculture, 87% was towards crop loans. Out of the agricultural loans outstanding of the DCCBs, 97% was towards primary agricultural credit societies (PACS) and other societies and 3% towards individuals. Of total investments, SLR investments constituted 43%, and balances kept in deposit account constituted 51%.

Capital adequacy of DCCBs as a whole stood at 12% as on 31 March 2020, with 35 DCCBs reporting CRAR less than 9% (18 DCCBs had negative CRAR). Uttar Pradesh (31%), Madhya Pradesh (23%), and Bihar (11%) have maximum concentration of such DCCBs (Figure 6.10). Though the total profitability of DCCBs improved, the performance varied across different states. As against

FIGURE 6.9: Overview of district central cooperative banks

PERFORMANCE INDICATORS

LIABILITIES	31 March 2019		31 March 2020	
	Amount (₹ crore)	YoY growth (%)	Amount (₹ crore)	YoY growth (%)
Share capital and reserves	43,584 (40,902)	7.4	43,245	5.7
Deposits	3,78,248 (3,20,947)	10.6	3,45,682	7.7
Borrowings	97,678 (92,963)	7.9	97,448	4.8
ASSETS				
Loans and advances	3,00,034 (2,65,026)	8.4	2,79,272	5.4
Investments	1,96,227 (1,69,554)	8.4	1,86,745	10.1
Total assets/liabilities	5,69,698 (5,01,573)	9.7	5,35,977	6.9



HEALTH INDICATORS

PROFITABILITY	FY2019 (₹ crore)	FY2020 (₹ crore)	ASSET QUALITY	31 March 2019 (₹ crore)	31 March 2020 (₹ crore)
Profit	1,699 (1,623)	1,887	Loans outstanding	3,00,034 (2,65,026)	2,79,272
Loss	986 (964)	1,041	Gross NPAs	35,546 (31,998)	35,208
Net profit	713 (659)	846	Gross NPA (%)	11.9 (12.1)	12.6
Accumulated loss	6,654 (6,139)	6,721	Net NPA (%)	6.0 (5.9)	6.6
No. of banks in profit	303 (291)	291			
No. of banks in loss	60 (59)	60			

Notes:

1. NPA = Non-Performing Asset; YoY = Year-on-Year.
2. The figures in parentheses exclude 13 DCCBs in Kerala that were added to Kerala StCB in 2020. These have been presented to make the data comparable with FY2020.
3. Year-on-year variations could be slightly different because absolute numbers have been rounded off to ₹1 crore.
4. Components may not add up to the total due to rounding off.
5. DCCBs exclude Tamil Nadu Industrial Cooperative Bank Ltd.

The amendments in 2020 to the Banking Regulation Act, 1949 are likely to improve the management and financial performance of cooperative banks, and enable the RBI to regulate them more effectively.

291 DCCBs showing profits, 60 DCCBs incurred a net loss during FY2020. Three-fourth of the loss-making DCCBs were concentrated in Uttar Pradesh (30%), Madhya Pradesh (22%), Punjab (13%), and Bihar (12%). In all, 21 loss-making DCCBs in FY2019 posted net profit during FY2020. However, 108 DCCBs recorded accumulated losses of ₹6,721 crore (Figure 6.9).

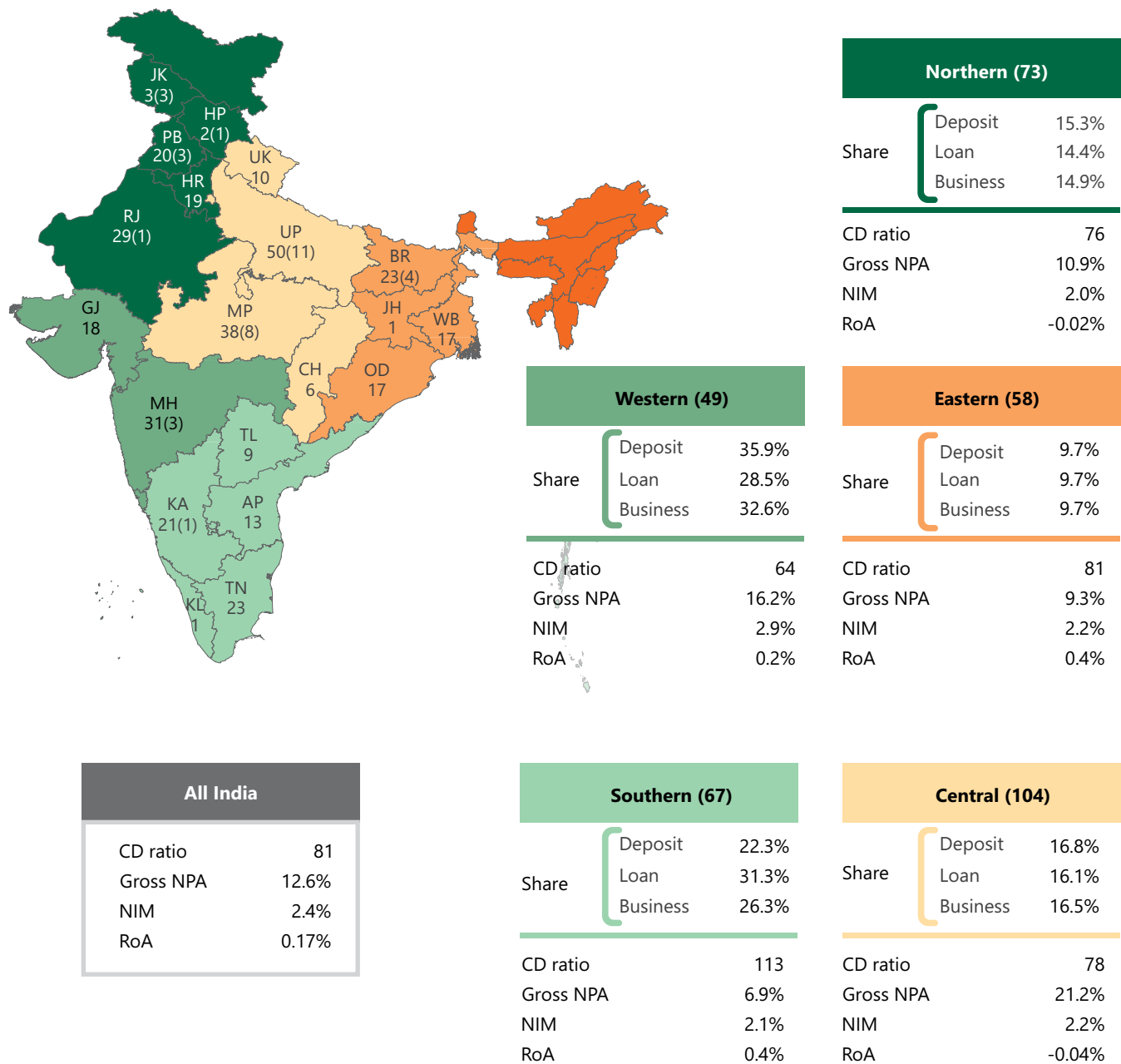
Asset quality of DCCBs (measured by gross NPA %) deteriorated to 12.6% as on 31 March 2020 comprising of sub-standard, doubtful, and loss assets, whose shares in total loans outstanding were 5.8%, 6%, and 0.8%, respectively. The PCR stood at 59%. As on 31 March 2020, 126 of 351 DCCBs had gross NPA greater than 15%. High incidence of such DCCBs was observed in Madhya Pradesh, Uttar Pradesh, Bihar, and Maharashtra. All the

DCCBs in Odisha and Tamil Nadu had gross NPA less than 15%.

Regional disparities among district central cooperative banks

The DCCBs in the Western region had the highest share of all-India business followed by the Southern, Central, Northern, and Eastern regions (Figure 6.10). The share of the Southern region came down from 34% in FY2019 to 14.9% in FY2020 due to the amalgamation of 13 DCCBs of Kerala with its StCB. Despite lower NIM, DCCBs in the South had high RoA, due to lower cost of management and better asset quality. The DCCBs in the Central and Northern regions reported negative RoA due to lower NIM and high NPAs.

FIGURE 6.10: Regional analysis of district central cooperative banks (FY2020)



Notes:

1. CD ratio = Credit-Deposit ratio; NIM = Net Interest Margin; NPA = Non-Performing Asset; RoA = Return on Asset.
2. State initials: AP = Andhra Pradesh; BH = Bihar; CH = Chhattisgarh; GJ = Gujarat; HP = Himachal Pradesh; HR = Haryana; JH = Jharkhand; JK = Jammu & Kashmir (now Union Territory); KL = Kerala; KN = Karnataka; MH = Maharashtra; MP = Madhya Pradesh; OD = Odisha; PB = Punjab; RJ = Rajasthan; TL = Telangana; TN = Tamil Nadu; UK = Uttarakhand; UP = Uttar Pradesh; WB = West Bengal.
3. Share represents share of region in all-India deposits/loans/business.
4. Figure in parentheses alongside region name indicates the number of DCCBs in that region.
5. Figure in each state indicates the number of DCCBs in that state as on 31 March 2020.
6. Figure in parentheses in each state indicates the number of DCCBs with CRAR less than 9% as on 31 March 2020.
7. DCCBs exclude Tamil Nadu Industrial Cooperative Bank Ltd.



FIGURE 6.11: Overview of primary agricultural credit societies

Particulars	31 March 2018	31 March 2019
No. of PACS	95,238	95,995
Total membership (lakh)	1,305	1,320
No. of borrowing members (lakh)	507	511

PERFORMANCE INDICATORS

LIABILITIES	31 March 2018 (₹ crore)	31 March 2019 (₹ crore)
Owned funds	30,942	42,196
Deposits	1,19,632	1,33,010
Borrowings	1,28,333	1,38,922
ASSETS		
Loans outstanding	1,69,630	1,15,048
Loans issued during year ended	2,07,322	2,05,895

Notes: PACS = Primary Agricultural Credit Societies.

Source: National Federation of State Cooperative Banks.

Performance of primary agricultural credit societies

As on 31 March 2019, about 39% members across the 95,995 PACS in India sought to borrow from the community-level institutions (Figure 6.11). According to data provided by the National Federation of State Cooperative Banks for 84,661 PACS, in FY2019, 46,930 PACS earned a profit of ₹5,949 crore; the remaining 37,731 incurred loss of ₹7,666 crore.

6.2.2 Long-term cooperatives

Performance and health of state cooperative agriculture and rural development banks

While borrowings and deposits of state cooperative agriculture and rural development banks (SCARDBs) declined in FY2020, their combined assets were marked by decline in investment and draw down on cash and bank balances. As we know, borrowings form half of their resources (Figure 6.12).

During FY2020, SCARDBs posted a net profit due to increase in non-interest income and decline in operating expenses even as provisions grew by 11%. Out

of 13 SCARDBs, 10 posted a net profit of ₹287 crore, while 3 (Himachal Pradesh, Jammu & Kashmir, and Puducherry) incurred a net loss of ₹35 crore. The SCARDBs in Haryana, Tripura, and Uttar Pradesh turned around in FY2020. The asset quality of SCARDBs further declined during FY2020 due to a spurt in NPAs in Himachal Pradesh, Kerala, Punjab, and Uttar Pradesh. The gross NPA (%) of all the SCARDBs (barring Kerala and Puducherry) was over 10% as on 31 March 2020. The overall gross NPA of 33% in FY2020 was 650 basis points higher than FY2019 level (Figure 6.12).

FIGURE 6.12: Overview of state cooperative agriculture and rural development banks

PERFORMANCE INDICATORS

LIABILITIES	31 March 2019		31 March 2020 ^P	
	Amount (₹ crore)	YoY growth (%)	Amount (₹ crore)	YoY growth (%)
Capital	939	-0.6	939	0.0
Reserves	3,550	5.7	3,921	10.5
Deposits	2,434	4.0	2,409	-1.0
Borrowings	15,098	-2.0	13,710	-9.2
Other liabilities	5,976	-14.0	6,125	2.5
ASSETS				
Cash and bank balances	257	-6.5	174	-32.3
Investments	3,302	-6.6	2,499	-24.3
Loans and advances	20,651	-0.7	20,700	0.2
Accumulated losses	568	12.9	547	-3.7
Other assets	3,219	-17.3	3,183	-1.1
Total liabilities/assets	27,997	-3.4	27,104	-3.2

HEALTH INDICATORS

FINANCIAL PERFORMANCE	31 March 2019		31 March 2020 ^P	
	Amount (₹ crore)	YoY growth (%)	Amount (₹ crore)	YoY growth (%)
Income	2,510	5.3	2,586	3.0
Interest income	2,427	6.1	2,378	-2.0
Other income	83	-14.2	208	150.6
Expenditure	2,559	6.9	2,334	-8.8
Interest expended	1,376	-8.4	1,296	-5.8
Provisions and contingencies	394	-12.8	437	10.9
Operating expenses	454	13.1	397	-12.6
Wage bill (out of operating expenses)	377	9.8	339	-10.1
Other expenses	335	793	204	-39.1
Net profit	-49		252	

ASSET QUALITY	31 March 2019		31 March 2020 ^P	
	(₹ crore)		(₹ crore)	
Loans outstanding	20,651		20,700	
Gross NPAs	5,476		6,836	
Gross NPA (%)	26.5		33.0	
Recovery (%) as on 30 June of previous year	46.1		38.8	

Notes:

1. NPA = Non-Performing Asset; P = Provisional; YoY = Year-on-Year.
2. Year-on-year variations could be slightly different because absolute numbers have been rounded off to ₹1 crore.
3. Components may not add up to the total due to rounding off.

Performance of primary cooperative agriculture and rural development banks

As on 31 March 2020, there were 602 primary cooperative agriculture and rural development banks (PCARDBs) spread across eight states having federal/mixed structure of LTCCS (Figure 6.13).

FIGURE 6.13: Overview of primary cooperative agriculture and rural development banks

Particulars	31 March 2019	31 March 2020 ^P
Total no. of PCARDBs	602	602
PCARDBs in profit	271	252
PCARDBs in loss	331	350

PERFORMANCE INDICATORS

LIABILITIES	31 March 2019 (₹ crore)	31 March 2020 ^P (₹ crore)
Owened funds	2,810	3,602
Deposits	1,303	1,333
Borrowings	16,101	16,538
ASSETS		
Investments	2,019	2,058
Loans outstanding	15,594	15,692
Total assets/liabilities	30,108	31,180
Net profit	-442	-568

Notes: P = Provisional; PCARDB = Primary Cooperative Agriculture and Rural Development Bank.

6.2.3 NABARD's initiatives for cooperatives

During FY2021, ₹18.7 crore was utilised from NABARD's Cooperative Development Fund towards activities for strengthening cooperatives. Some of these activities included Scheme of Financial Assistance for Training of Cooperative Banks Personnel (₹7 crore), PACS Development Cells (PDCs) (₹0.4 crore), stakeholder engagement events (meetings/seminars/conferences/workshops) (₹0.3 crore), exposure visits (₹0.4 crore), infrastructure development of PACS (₹2.6 crore), PACS computerisation (₹5 crore), and operations of the Centre for Professional Excellence in Cooperatives (C-PEC) (₹1.2 crore).



NABARD held a national review meet and conclave of RCBs in January 2021 to review performance and discuss the issues concerning rural cooperative institutions in India. The meeting highlighted best practices, new technologies, and NABARD's latest developmental schemes and policies for the RCB sector.

Business Diversification & Product Innovation Cell

NABARD has introduced a new scheme to support and incentivise efforts by RCBs for setting up Business Diversification & Product Innovation Cells (BDPICs) for the development of integrated financial and non-financial products in tune with the external and internal business environment. During FY2021, NABARD sanctioned 11 BDPICs in Andhra Pradesh, Bihar, Karnataka, Kerala, Odisha, Rajasthan, Sikkim, Telangana, Tripura, Uttarakhand, and Uttar Pradesh with grant assistance of ₹66 lakh each.

PACS computerisation

During FY2021, NABARD introduced a new scheme for PACS computerisation under which grant support of up to ₹5 crore will be provided to those state governments/StCBs/DCCBs that are willing to provide a matching grant for the purpose. NABARD has so far sanctioned six proposals for PACS computerisation in Andhra Pradesh, Bihar, Rajasthan, Telangana, Uttarakhand, and Uttar Pradesh with a total fund outlay of ₹30 crore, of which ₹5 crore has already been disbursed to Telangana StCB.

PACS as multi-service centres

Under the Agriculture Infrastructure Fund scheme, PACS can avail of NABARD's concessional special refinance facility through StCBs to take loans at an effective rate of 1% interest after netting the interest subvention at 3% to create quality infrastructure (capital assets) and increase their business portfolio. The ultimate interest rate to be charged from PACS cannot exceed 1% (over and above the interest rate charged by NABARD) and is shared by the StCB and DCCB as per the mutually agreed terms. Repayment period of refinance is up to 7 years. Each PACS can seek grant support towards accompanying measures not exceeding 10% of the loan component subject to a maximum of ₹2 lakh. Ultimately 35,000 PACS can benefit from this facility.

PACS Development Cells

NABARD also disbursed an amount of ₹38.8 lakh for functional PDCs in seven states in FY2021 for capacity building, handholding, developing new models/avenues

for income generation, guidance, exposure visits, and other suitable interventions. The PDCs, currently established and functional in 94 DCCBs/StCBs, have so far assisted 2,556 PACS operating in 20 states.

Comprehensive support plan for the North East

A separate assistance package has been developed to address specific issues faced by rural credit cooperatives in the North East (including Sikkim, Jammu & Kashmir, and Andaman & Nicobar Islands). During FY2021, assistance under the package has been sanctioned to six StCBs—Arunachal Pradesh (₹90.4 lakh), Andaman & Nicobar Islands (₹96 lakh), Jammu & Kashmir (₹99.1 lakh), Meghalaya (₹99.9 lakh), Nagaland (₹99.1 lakh), and Tripura (₹100 lakh)—and total grants released to the tune of ₹27.8 lakh to the four StCBs in Andaman & Nicobar Islands, Arunachal Pradesh, Meghalaya, and Sikkim.

Centre for Professional Excellence in Cooperatives

The C-PEC at the Bankers Institute of Rural Development, Lucknow conducted four certification course examinations, added 34 institutional and 1,502 individual members, increasing the membership to 10,024 comprising 52 central training institutes (CTIs), 29 StCBs, 271 DCCBs, 5,605 PACS, and 4,067 individuals. In FY2021, C-PEC standardised 50 online training programmes and 25 regular training programmes. Till now, C-PEC has standardised a total of 156 training programmes for various CTIs.

Supervisory instructions

NABARD advised RCBs on

- updating information on Anti-Money Laundering (AML), Counter Financing of Terrorism (CFT), and Know Your Customer (KYC);
- reporting the detection and impounding of Fake Indian Currency Notes (FICN) every month;
- sharing with the Central Economic Intelligence Bureau copies of RCB complaints against economic offenders lodged with Central Bureau of Investigation or the Economic Offences Wing of the state police; and
- the standard operating procedure for the scheme for grant of ex-gratia payment of the difference between compound interest and simple interest for six months to borrowers in specific loan accounts (from 1 March 2020 to 31 August 2020).

6.3 Regional rural banks

During FY2021, RRBs registered the maximum year-on-year growth in credit at 12.4% vis-à-vis 5.8% for public sector banks, 8.6% for private sector banks, and (-)3% for foreign banks. Some of the recent policy changes pertaining to RRBs are presented below.

1. **Perpetual debt instruments:** RRBs can issue perpetual debt instruments (PDIs) eligible for inclusion as Tier 1 capital to maintain prescribed CRAR. However, none of the RRBs have issued PDIs as on 31 March 2021.
2. **Revision in priority sector lending (PSL) guidelines:** Targets prescribed for 'small and marginal farmers' and 'weaker sections' are being increased in a phased manner and RRBs incurring any shortfall in lending against their PSL target/sub-targets from FY2021 onwards will be required to make contributions towards Rural Infrastructure Development Fund and other refinance funds, as directed by the RBI.
3. **Introduction of liquidity adjustment facility (LAF) and marginal standing facility (MSF) for RRBs:** To provide an additional avenue for liquidity management to RRBs, RBI has decided to extend LAF and MSF to scheduled RRBs that meet specific criteria.

6.3.1 Performance and health of RRBs

The consolidated balance sheet of RRBs grew at 9.3% to reach at ₹5.9 lakh crore as on 31 March 2020 (Figure 6.14). On the liabilities side, growth was driven by rise in deposits, increase in reserves (because of internal accruals of profit-making RRBs), and capital infusion. Deposits constitute over 81% of the total resources of RRBs and the share of CASA deposits constituted 53% of the total deposits of the RRBs as on 31 March 2020.

On the assets side, growth in investments surpassed the growth in gross loans and advances resulting in decline in the CD ratio of RRBs from 65% as on 31 March 2019 to 62% as on 31 March 2020.

The loans outstanding towards PSL constituted 91% of the total loans outstanding of RRBs as on 31 March 2020. Further, loans outstanding to small and marginal farmers and weaker sections constituted 48% and 60%, respectively of the total loans outstanding of RRBs.

Business of RRBs (deposits plus loans), at ₹7.8 lakh crore, grew 8.6% during FY2020. Business size ranged from ₹148 crore (Nagaland Rural Bank) to ₹49,920 crore (Karnataka Gramin Bank).

The CRAR of RRBs as whole (system-wide) deteriorated from 11.5% as on 31 March 2019 to 10.3% as on 31 March 2020, due to provisions and payments made towards the implementation of the new pension scheme for the RRB employees. There was a wide variation in CRAR across banks ranging from (-)10% (Madhyanchal Gramin Bank) to 22% (Chhattisgarh Rajya Gramin Bank). As on 31 March 2020, of the 45 RRBs, 17 reported CRAR less than 9%.

FIGURE 6.14: Overview of regional rural banks

PERFORMANCE INDICATORS

LIABILITIES	31 March 2019		31 March 2020	
	Amount (₹ crore)	YoY growth (%)	Amount (₹ crore)	YoY growth (%)
Capital	6,721	4.6	7,849	16.8
Reserves	25,398	0.8	26,814	5.6
Deposits	4,34,444	8.5	4,78,737	10.2
Borrowings	53,556	-7.1	54,393	1.6
Other liabilities	17,864	17.3	20,228	13.2
ASSETS				
Cash and bank balances	26,279	8.6	27,217	3.6
Investments	2,26,172	1.8	2,50,859	10.9
Loans and advances (net)	2,61,953	10.5	2,80,220	7.0
Accumulated losses	2,887	54.7	6,467	124.0
Other assets	20,698	5.5	23,258	12.4
Total liabilities/assets	5,37,989	6.5	5,88,021	9.3



HEALTH INDICATORS

FINANCIAL PERFORMANCE	31 March 2019		31 March 2020	
	Amount (₹ crore)	YoY growth (%)	Amount (₹ crore)	YoY growth (%)
Income	42,988	2.8	49,452	15.0
Interest income	38,931	1.5	43,698	12.2
Other income	4,057	16.5	5,754	41.8
Expenditure	43,640	8.2	51,660	18.4
Interest expended	23,716	-0.6	25,985	9.6
Provisions and contingencies	6,120	-12.7	5,599	-8.5
Operating expenses	13,803	25.3	20,076	45.4
Wage bill (out of operating expenses)	9,379	33.1	14,654	56.2
Net profit	-652	-143.4	-2,208	-

Notes:

1. YoY = Year-on-Year
2. Year-on-year variations could be slightly different because absolute numbers have been rounded off to ₹1 crore.
3. Components may not add up to the total due to rounding off.

During FY2020, 26 RRBs earned profit of ₹2,203 crore while 19 RRBs incurred losses of ₹4,411 crore, recording an overall net loss of ₹2,208 crore (Figure 6.14). Profitability deteriorated due to increase in wage bill because of implementation of the pension scheme. As on 31 March 2020, 17 of the 45 RRBs had accumulated losses amounting to ₹6,467 crore, as compared to 11 of 53 RRBs accumulating losses of ₹2,887 crore as on 31 March 2019. Aryavart Bank and Sarva Haryana Gramin Bank turned around in FY2020. Profits ranged from ₹0.5 crore for Baroda Gujarat Gramin Bank to ₹617.6 crore for Andhra Pradesh Grameena Vikas Bank. Out of 26 profit-making RRBs, 18 earned a profit below ₹100 crore. Four RRBs reported profits just below ₹1 crore and two, above ₹200 crore.

Asset quality of RRBs, measured as gross NPA, improved slightly to 10.4% as on 31 March 2020 from 10.8% as on 31 March 2019, possibly due to the moratorium on asset classification during the COVID-19 pandemic. The net NPA declined from 6.8% as on 31 March 2019 to 5.8% as on 31 March 2020 and the PCR improved from 41.5% to 47% during the same period. The shares of standard, sub-standard, doubtful, and loss assets were 89.6%, 3.5%, 6.6%, and 0.3% respectively. While there was a decline in the share of sub-standard assets from 4.6% to 3.5% during FY2020, the share of doubtful and loss assets increased from 6.2% to 6.9%.

For those RRBs which are unable to maintain minimum CRAR of 9%, the Cabinet Committee on Economic Affairs (CCEA) extended the scheme of recapitalisation of RRBs up to FY2021. The CCEA also approved further utilisation of ₹670 crore as the central government's share of recapitalisation assistance, which was 50% of the total recapitalisation assistance of ₹1,340 crore (Table 6.1).

TABLE 6.1: Government of India's share in recapitalisation sanctioned (₹ crore)

Regional Rural Bank	FY2020	FY2021
Assam Gramin Vikash Bank	20.7	12.4
Bangiya Gramin Vikash Bank	111.4	66.3
Dakshin Bihar Gramin Bank	75.7	45.1
Ellaquai Dehati Bank	7.8	-
Madhya Pradesh Gramin Bank	21.3	12.7
Madhyanchal Gramin Bank	48.3	7.6
Manipur Rural Bank	2.3	-
Nagaland Rural Bank	0.7	-
Odisha Gramya Bank	99.3	34.6
Utkal Gramin Bank	237.7	-
Uttar Bihar Gramin Bank	36.0	21.4
Vidharbha Konkan Gramin Bank	39.2	-
Total	700.5	200.0

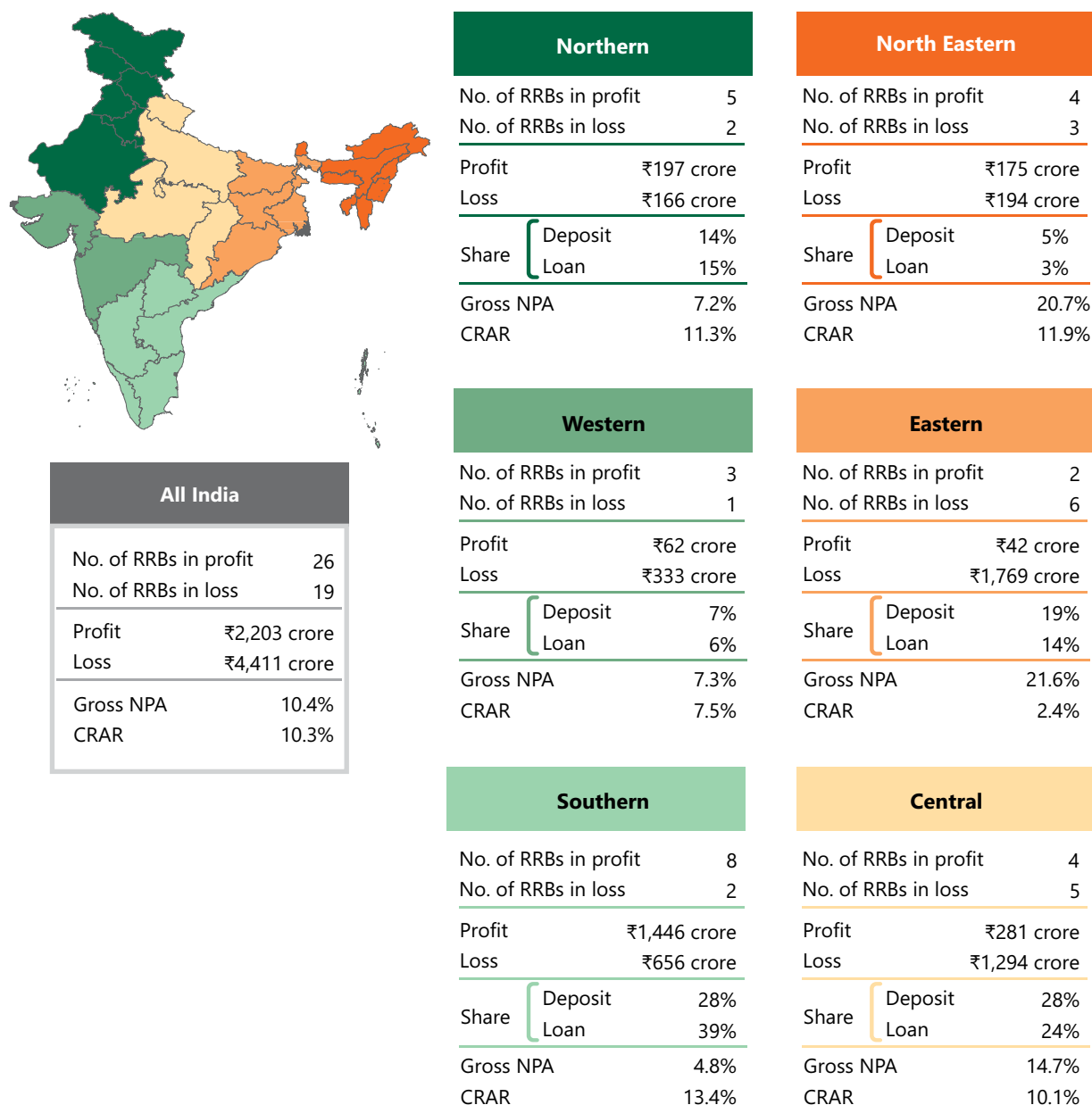
Note: NABARD released the central share of ₹39.2 crore to Vidharbha Konkan Gramin Bank (VKGB) during FY2021 after VKGB received the state government's share of recapitalisation assistance.

Regional disparities among regional rural banks

While none of the RRBs in the West or South incurred losses during FY2019, this was no longer true in FY2020 when one or more loss-making RRBs were reported across all regions (Figure 6.15). Though the number of RRBs in profit declined to 26 during FY2020 (from 39

in the previous year), the overall quantum of profit they reported increased by 25% to ₹2,203 crore in FY2020. However, RRBs in loss reported an 83% increase in quantum of loss in FY2020 (over FY2019). As a result, the net loss posted by RRBs increased from ₹652 crore during FY2019 to ₹2,208 crore during FY2020.

FIGURE 6.15: Regional analysis of regional rural banks (FY2020)



Notes:

1. CRAR = Credit Risk Weighted Asset Ratio; NPA = Non-Performing Asset; RRB = Regional Rural Bank.
2. 'Share' represents the share of the region in all-India deposits (₹4,78,737 crore) and loans (₹2,98,214 crore) as on 31 March 2020.



When FPOs take centre stage and serve as credit intermediaries, inter-institutional dynamics will redefine institutional development.

About 75% of the RRBs in the East incurred losses during FY2020 and the average CRAR of the Eastern RRBs was just 2.4% as on 31 March 2020. Deposits outstanding registered the maximum growth of 13% in the South, while gross loans outstanding registered a maximum growth of 7.7 % in the North. Though the gross NPA (%) was the least in the South at 4.8%, the asset quality improved in all regions (barring the South) as compared to the position on 31 March 2019.

Strengthening regional rural banks

Important measures taken for the development of RRBs during FY2021 are enumerated below.

1. **RRBs in focus:** NABARD continuously tracked the health of RRBs and gave special attention to weak banks. NABARD takes supervisory concerns seriously and thus decided to downgrade any RRB to B-category rating if it is under PCA framework and/or has serious governance/internal control issues even if it deserves better performance rating. As on 31 March 2020, 26 banks diagnosed with one or more health challenges such as, CRAR less than 10%, gross NPA more than 10%, or negative RoA for the last two consecutive years, were identified as 'RRBs in focus' so that timely remedial measures could be taken to prevent RRBs from slipping deeper into the PCA framework. For instance, Chhattisgarh Rajya Gramin Bank and Jharkhand Rajya Gramin Bank, which were 'in focus' in FY2019, were able to take the right measures (as recommended by NABARD) to move out of the 'RRB in focus' framework by FY2020.
2. **Industrial relations and human resource management:** On 30 December 2020, NABARD

presided over the XIth Joint Consultative Committee meeting (a consultative forum of national-level RRB associations and selected state governments/sponsor banks/RRB chairpersons) to discuss service and work conditions, employee welfare, work standards, recruitment, promotion, and discipline norms. NABARD also supported the Government of India in framing human resource policies such as guidelines on financial incentives, insurance coverage, and special leave for RRB employees during the pandemic. Following the implementation of Regional Rural Bank (Employees') Pension Scheme 2018, the RBI permitted RRBs to amortise their total pension liability over a period of five years from FY2019, subject to guidelines. NABARD monitors the disbursal of pensions to eligible retired staff and family pensioners of RRBs every month and reports to the Department of Financial Services, Government of India.

3. **Supervisory instructions:** NABARD advised RRBs on
 - a. updating information on AML, CFT, and KYC;
 - b. reporting the detection and impounding of FICN every month; and
 - c. the standard operating procedure for the scheme for grant of ex-gratia payment of the difference between compound interest and simple interest for six months to borrowers in specific loan accounts (from 1 March 2020 to 31 August 2020).

6.4 Stronger institutions and innovative delivery to define the future

To help institutions cope better with the pandemic and its aftermath, the cooperative banking system has been mainstreamed under core banking solutions. Bad assets in banks have been pared down through a series of measures, and commercial banks and RRBs recapitalised to strengthen their portfolio.

Going forward, institutional development may have to look beyond the existing institutions (RCBs and RRBs) and existing credit delivery models. Now that farmer producers' organisations are taking centre stage, once their numbers reach a threshold, they may be thought of as credit intermediaries or wholesalers. Then inter-institutional dynamics would redefine institutional development.

New entities like small finance banks, non-banking financial companies, and micro-finance institutions may have to be nurtured for them to serve the rural people better. However, there is no dedicated fund for such activities. We may have to create a new fund or expand the scope of the existing funds. Stronger institutions can deliver services sustainably to the rural clientele.

Notes

1. A Working Group on Risk-Based Supervision was constituted in September 2019 (chaired by erstwhile Deputy Managing Director, R. Amalorpavanathan) for preparing a road map for implementation of risk-based supervision.