Need of Credit in Cooperative Sector, Constraints and Ways Ahead

Executive Summary

1. The independent India had adopted the model of mixed economy wherein public sector, private sector and the cooperative sector coexisted. The subject of cooperation was enshrined in the constitution itself. The public sector was given a predominant role particularly in infrastructure and major industries. The cooperative sector was envisaged and encouraged as an alternative model to the public sector and the private sector. Over the years similar approach was adopted even in banking sector in the country. The banking had three sectors viz., public sector banks, private sector banks and the cooperative banks.

2. The cooperative banks could broadly be grouped in to Urban Cooperative Banks (UCBs) and Rural Cooperative Banks (RCBs). The rural cooperative credit structure is divided into the Short Term Cooperative Credit Structure (STCCS) and the Long Term Cooperative Credit Structure (LTCCS). The STCCS comprises of Primary Agriculture Credit Society (PACS) at the primary level, District Cooperative Central Banks (DCCBs) at the middle level and the State Cooperative Banks (StCBs) at the apex level under the 3-tier structure and PACS at the primary level and StCBs at the apex level under the 2-tier structure. Cooperation being a state subject, these institutions have been formed under the respective State Cooperative Societies Acts.

3. The cooperative credit structure has played an important role in ushering in the green revolution in the country by providing necessary credit support to the farmers. The cooperatives were in fact the first choice of farmers for their credit requirements and were the major purveyors of the agriculture credit in the country till 1970s.

4. Introduction of Priority Sector concept by RBI, nationalization of major private sector banks in 1969 & 1980 and establishment of Regional Rural Banks (RRBs), the share of cooperative banks in agriculture credit has come down significantly from 60%-70% in mid 1960s to 12% presently.

5. To strengthen the STCCS, the GoI had setup a Task Force on Revival of Rural Cooperative Credit Institutions under the chairmanship of Prof., Vaidyanathan in 2005. The Task Force had recommended a comprehensive Revival Package including financial assistance, institutional & legal reforms, technical assistance and infusion of technology at all levels with bottom up approach for strengthening of the STCCS. Implementation of the Revival Package has helped in strengthening of StCBs and DCCBs in several states. However, the PACS did not get the full advantage of the implementation of the Revival Package and continued to beset with the same problems more acutely.

6. Recognizing the importance of cooperative sector in the overall economic development of the country, Govt., of India has, during July, 2021, setup a separate Ministry of Cooperation which aims to deepen the cooperatives as a true people based movement reaching up to the grass roots and develop a cooperative based economic model with the vision of "Sahkar se Samriddhi" (from cooperation to prosperity). The Ministry has since initiated several steps in this direction. In this context, the Ministry has entrusted the present study of 'Need of Credit in Cooperative Sector, Constraints and ways ahead' to the NAFSCOB.

7. The present study confines to the requirement of both short term and long term credit in the cooperative sector purveyed through the STCCS.

8. The problems of the LTCCS being different from the STCCS, it is desirable to take-up a separate study to address the issues of LTCCS.

9. The Study Team designed detailed questionnaires to obtain data. The questionnaires were circulated amongst all the StCBs and Registrars of Cooperative Societies (RCS). Ministry of Cooperation, GoI have also pursued the matter with the RCS and StCBs for early submission of the data.

10. The Study Team sourced information from different sources including the Report on Trend and Progress of Banking in India, 2020-21, Reserve Bank of India, the State Focus Papers, Potential Linked Credit Plans (PLPs) of NABARD, Basic Data on PACS, DCCBs & StCBs (2020-21) published by NAFSCOB and Annual Credit Plans of State Level Bankers Committees (SLBCs) of different states etc.

11. The Study Team had interactions with the officials of various StCBs, DCCBs, PACS and other officials in different states besides having personal interface with the officials of NABARD RO, RCS, KSCAB, Mysore & Hassan DCCBs and four PACS in the state of Karnataka, StCBs of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Tripura and NABARD Regional Office Assam.

12. The STCCS in the country is a multi-tier structure. As at the end of March, 2021, the STCCS comprised of 1,02,559 PACS, 351 DCCBs and 33 StCBs.

13. As on 31st March, 2021, 72,548 PACS were categorized as viable, 17,997 PACS as potentially viable and 2,014 PACS as defunct and dormant societies.

14. PACS had a large outreach of 13.71 Cr., members. However, the borrowing members at 5.37 Cr., constituted 39% of total membership.

15. During the FY 2020-21, the PACS had disbursed loans and advances amounting to ₹2,29,443.41 Cr. As on 31st March, 2021 the total loans outstanding of PACS amounted to ₹2,16,861.59 Cr. On an average, viable PACS seem to have invested their own funds amounting to less than ₹10,000 per PACS towards disbursement of loans. The average loan amount disbursed per member was ₹42,764.

16. In terms of infrastructure, 55,427 PACS had their own godowns with a storage capacity of 42.87 lakh mt.

17. The PACS were not having adequate human resources to manage them. The total number of staff working in 1,02,559 PACS was only 1,60,947 with average staff for PACS at 1.57.

18. There is a skewed distribution in terms of performance of PACS in different zones with the south zone taking the lion's share. While the south zone accounted for only 15% of total number of PACS in the country, it accounted for 42% of total members and 62% of borrowing members. Kerala alone with a deposit base of ₹1,15,902 Cr., accounted for 79.76% of the total deposits of the PACS in the south zone and 67.80% of total deposits of all PACS in the country.

19. As on 31st March, 2021, 351 DCCBs were functioning in 20 states which were having 3-tier STCCS. The DCCBs had a network of 13,992 branches. The DCCBs had a deposit base of ₹3,59,744.91 Cr. The total borrowings of DCCBs were ₹1,00,482.24 Cr., of which, borrowings from NABARD amounted to ₹98,698.79 Cr., (98.22%) as on 31st March, 2021.

20. During the financial year 2020-21, the total loans issued by DCCBs amounted to ₹2,76,310.55 Cr., of which short term loans and term loans at ₹2,23,202.43 Cr., and ₹29,279.33 Cr., constituted 80.77% and 10.59% respectively. As at the end of March, 2021 the total loans outstanding of DCCBs stood at ₹2,82,811.69 Cr., of which short term loans and term loans at ₹1,89,290.25 Cr., and ₹62,482.57 Cr., constituted 66.93% and 22.09% respectively.

21. As on 31st March, 2021, out of 351 DCCBs, 308 DCCBs were in profit and the remaining 43 DCCBs were in losses. Further, 100 DCCBs were having accumulated losses. As on the same date, the gross and net NPAs were 11.4% and 5.0% respectively.

22. As on 31st March, 2021, 34 StCBs were functioning in the country with 2,000 branches. The total deposits of StCBs as on 31st March, 2021 amounted to ₹2,17,585.37 Cr. The total loans issued by StCBs during FY 2020-21 amounted to ₹1,86,451.48 Cr., of which short term loans and term loans at ₹1,63,184.73 Cr., and ₹10,995.46 Cr., constituted 87.52% and 5.89% respectively.

23. As at the end of March, 2021, the total loans outstanding of StCBs stood at ₹1,66,328.05 Cr., of which short term loans and term loans at ₹1,13,923.14 Cr., and ₹33,532.43 Cr., constituted 68.49% and 20.16% respectively.

24. Out of 34 StCBs 32 were in profit as on 31st March, 2021 and the remaining 2 StCBs were in losses. 7 StCBs were having accumulated losses. The gross and net NPAs as on 31st March, 2021, were 6.7% and net NPA 3.2% respectively.

25. The STCCS with 1,14,542 outlets (including PACS numbering 1,02,559) outnumbered the total network of Commercial Banks and RRBs at 93,832 branches in rural and semi-urban areas.

26. As on 31st March, 2021, the market share of STCCS in deposits was 3.93% and in loans was 4.15%. The share of STCCS in the GLC varied between 10.9% and 13.0% during the last 5 years, with an average of about 11.0% of the total GLC.

27. The STCCS caters primarily to the production credit needs and to some extent investment credit needs of the agri and allied sectors. Even in the states where the LT structure is present, for instance in Karnataka, Gujarat, West Bengal etc., the STCCS is extending support for investment credit needs of farmers.

28. During the last 5 years GLC of the banking system has gone up from ₹11.62 Lakh Cr., during 2017-18 to ₹17.10 Lakh Cr., in 2021-22 recording an increase of 47.16%. Assuming similar growth rate, the GLC in the next 5 years is expected to be of the order of ₹30 Lakh Cr., by FY 2027-28. The GLC however, is expected to be higher than this, in view of the emerging opportunities including FPOs, MSME, SHGs etc.

29. The STCCS should take up financing of FPOs registered under the Cooperative Societies Acts and should execute MoUs with NCDC and NABARD for the purpose.

30. The CGTMSE scheme has since been extended to the cooperative banks during February, 2022 opening up new opportunities for DCCBs/StCBs to extend loans to the MSME sector.

31. The share of cooperative banks in the loans disbursed to SHGs during FY 2021-22 and loans outstanding as on 31st March, 2022 was only about 5.9% and the per group loaning for SHGs in STCCS was far below the National average. The STCCS should aim to reach its SHG portfolio to at least ₹20,000 Cr., outstanding loans in the next 5 years.

32. There are more than 8 Lakh registered cooperative societies in the country. Functional societies particularly in the handlooms, fisheries, dairy, sheep breeders, industrial cooperatives, labor contract societies etc., are many times more than the number of PACS in the country. The STCCS should initiate a plan of action for financing the functional societies in the next 5 years which would generate additional demand for credit many fold.

33. There are several cooperative federations operating at District and State Level. Many of these federations are not being financed by the STCCS. The StCBs/DCCBs should explore the possibility of financing these federations as a strategy to build their aggregate loan portfolio. Similarly, there are several opportunities for the StCBs/DCCBs to extend loans for Cooperative Housing Societies, individual housing loans, education loans, gold loans, transport sector etc.

34. Only three StCBs viz., Andhra Pradesh, Gujarat and Tamil Nadu have enrolled as Member Lending Institutions with Mudra Bank. There is a tremendous scope for extending retail loans under the Pradhan Mantri Mudra Yojana (PMMY) for DCCBs and StCBs.

35. The GLC is likely to grow faster in the coming years than during the last 5 years in view of the various schemes being implemented by MoA&FW, MoFPI, MoRD, MNRE etc., of GoI and also by different State Governments.

36. To meet the credit requirements of all the existing members of PACS at the NSO national average of ₹74,121, the total disbursements of PACS have to increase from the existing ₹2.29 Lakh Cr., during 2020-21 to ₹10.16 Lakh Cr., by FY 2027-28.

37. PACS should launch programs for universal membership of farmers, financing of tenant farmers individually or through JLGs, financing non-farm sector loans for rural artisans, retail traders, micro food processing units etc., which would increase the credit needs of PACS many times more. This would in fact facilitate true financial inclusion in rural areas.

38. To support the expected disbursement of loans at PACS level in the next 5 years. DCCBs will have to step up their disbursements maintaining the same leverage ratio.

39. To support the expected disbursement of loans at DCCBs level in the next 5 years. StCBs will have to step up their disbursements by maintaining the same leverage ratio.

40. Focused attention should be given to the development of PACS. Each DCCB and StCBs in case of 2-tier structure should have dedicated PDCs to focus on the development of PACS. The NABARD's scheme of PDCs may be revisited to suit the present requirements and provide appropriate funding support.

41. Deposit Guarantee Scheme on the lines of Deposit Guarantee Scheme obtaining in Kerala should be introduced in all the states.

42. PACS do not have required staff to run their operations. The PACS staff are neither trained properly nor oriented towards business promotion. The HR Policy for PACS prepared by NAFSCOB should be implemented in all states. **This should be the first step in the direction of strengthening of PACS in particular and STCCS in general**.

43. To catch up with the Digital India, there is an urgent need to take up computerization of PACS at the earliest.

44. PACS in general do not have proper infrastructure like office building, banking counters, furniture, safe, godowns etc., which affects their visibility. The infrastructure requirements of all the viable and potentially viable PACS in each state should be assessed and such infrastructure should be provided at the earliest.

45. The scheme of PACS as MSC launched by NABARD should be extended to all the viable PACS instead of limiting to 35,000 PACS. Eventually, the scheme should also be extended to all other potentially viable PACS and also proposed new PACS.

46. More than 10% of the PACS (12,014) have been categorized as dormant and defunct. There is a need to revive these PACS or setup new PACS where such revival is not possible. Further, there is need to setup new PACS in the under-served and un-served areas.

47. PACS being born FPOs, financial assistance on the lines of FPOs may be extended to PACS towards equity and management cost.

48. DCCBs and StCBs should launch new deposit schemes on a mission mode and aim at increasing their market share of deposits to at least 10% market share in the next 5 years with special focus on increasing CASA deposits.

49. One of the main constraints for DCCBs to raise public deposits is their limited network. The policy for opening of branches by DCCBs needs to be revisited and a level playing field has to be created as DCCBs are functioning mainly in the rural and semi-urban areas.

50. Branch licensing policy for StCBs in 3-tier also may be revisited, enabling them to open branches in places other than the state headquarters.

51. Governments should revisit their policies for keeping deposits in banks and give preference to DCCBs and StCBs at least to the extent of their share in the priority sector loans. This would strengthen not only public confidence in these banks, but also augment their CASA deposits.

52. The GoI has been extending financial support by way of equity contribution to Public Sector Banks and RRBs to comply with CRAR and other statutory requirements. On similar lines, government should extend financial support to DCCBs and StCBs.

53. NABARD should consider relaxing NPA norms to STCCS similar to the relaxations granted under Bringing Green Revolution to Eastern India (BGREI).

54. Till such time DCCBs and StCBs improve their own funds and deposits, NABARD may consider increasing the share of refinance appropriately on a tapering basis. This would act as an incentive to DCCBs and StCBs to accelerate their deposit mobilization process.

55. A part of the Priority Sector Lending (PSL) shortfall by Commercial Banks may be allocated to Rural Cooperative Banks (RCBs) through NABARD. This would in fact, promote overall lending for priority sectors directly.

56. As a part of the Atma Nirbhar package, GoI had extended special refinance facility through NABARD to extend refinance support to cooperative banks which may be continued for a period of next 5 years.

57. Some of the StCBs are facing constraints to access refinance from NABARD on account of single exposure norms. NABARD may revisit and revise the policy appropriately.

58. PACS, DCCBs and StCBs should prepare Strategic Comprehensive Business Development Plans (SCBDPs) to achieve financial viability and structural strengthening in the next 5 years, factoring in their strengths and opportunities and required external support.

59. STCCS should evolve a uniform and common branding for all the units to give visibility and identity by launching "Sahkar se Samriddhi" brand.

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