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Credit Performance of RRBs and Co-operative Banks in India

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A B S T R A C T

The rapid expansion of RRBs and co-operative banks has helped in reducing substantially the regional disparities in respect of banking facilities in India. RRBs followed by DCCBs and State co-operative banks successfully achieve its objectives like to take banking to door steps of rural households particularly in banking deprived rural area, to avail easy and cheaper credit to weaker rural section who are dependent on private lenders, to encourage rural savings for productive activities, to generate employment in rural areas and to bring down the cost of purveying credit in rural areas. The increase in the number of outstanding and the problem of recovery has necessitated the need to study the credit performance of RRBs and DCCBs. The main objective is to evaluate the credit performance of RRBs and co-operative banks in India. The study conducted is descriptive in nature and data is collected from published annual reports of RBI and NABARD for the period 1981-2020 which was divided in 10 years for each period. The study was confined to India as a whole. The study was exclusively based on secondary data. The secondary data required for achieving the objective of the study pertained to credit dispersal to small, marginal farmers and socio economically weaker section of population for the development of agriculture, trade and industry. Statistical technique *i.e.* CGR was used to evaluate the credit performance of RRBs and co-operative banks in India. it was concluded for study that there were wide variations observed in the share between all the periods with regard to the flow of direct institutional credit. It was suggested that Rural banks need to remove lack of transparency in their operation which leads to unequal relationship between banker and customer.

Keywords: *Regional Rural Banks, Co-operative banks, Deposit Mobilization, Credit Distribution, performance.*

1.0 Introduction

A bank is a financial body which offers its financial and extra monetary services to its clients and users. A bank is usually considered as an organization which serves basic and essential banking services like accepting deposits and lending loans to its customers. Indian banking system should not only be functioning without strained balance sheet but also should be strong enough to compete and adapt to the latest technological advancements. In a long period of business, the banking system in India has exceptional attainments to be reflected upon. Banks are very important and prominent contributor to the financial system in India (Rajbahadur, 2015).

The structured banking sector was performing well and abides by the rules and regulations prescribed by the concerned authority.

The following functions of banks highlight the importance of the organized banking system in India.

- To control the credit and money supply in the markets.
- To protect the customer's savings and investments.
- To make financial system and it's working more secure and safe in the eye of the public to raise their confidence and to make working more smooth and efficient.
- To end the monopoly from few hands and organizations that were running the financial activities and exploiting people in India by charging a high rate of interest.
- To set some guidelines and a framework for the financial system.

1.1 History of Banking System in India

First bank in India named General Bank of India was set up in the year 1786, shadowed by the Bank of Bengal in the year 1809 established by The East India Company, Bank of Bombay in the year 1840 and Bank of Madras in the year 1843. After that Bank of Hindustan was set up in the year 1870 (Kupiec, 2009). Three entities (Bank of Madras, Bank of Bombay, and Bank of Calcutta) named as Presidency Banks. The first leading bank which was solely run by Indians was Allahabad Bank which was established in the year 1865 followed by Punjab National Bank in the year 1894, headquartered at

Lahore. In the time between 1906 to 1913, Bank of India, Bank of Baroda, Indian Bank, Canara Bank and Bank of Mysore were also established. All Presidency banks were incorporated to form one bank, the Imperial Bank of India in the year 1921 which was run by European shareholders. Reserve Bank of India i.e. the central bank of the nation was set up in April 1935 to make 4 banking system stronger, transparent and regulated. But in the initial years of the banking industry, the growth was very slow and not as per the expectations. From the year 1913 to 1948, approximately 1100 small banks came into existence.

To give an organized structure to the banking sector and to formalize the financial activities of commercial banks, Banking Companies Act, 1949 was introduced by Government of India and later in 1966; it was named as Banking Regulation Act, 1949. As a central authority, Reserve Bank of India was assigned immense powers to control and supervise banking activities (Leightner and Lovell, 1998). Post-independence, RBI took some crucial steps with regards to banking sector reforms. Imperial Bank of India was nationalized in the year 1955 and given a new name i.e. State Bank of India, which acts as the key agent of the Central Bank and to manage financial activities in the whole country (Inyiama, 2015). State Bank of India Act, 1955 covers this aspect. Other seven associated subsidiary of SBI was nationalized in 1960. In the year 1969 Indira Gandhi, the then Prime Minister of India, conveyed her intent for the Indian government to nationalize the banks. The message was conveyed in the annual conference meeting of All India Congress via the paper named “Stray Thoughts on Bank Nationalization”. This move forced the Indian government to issue the regulations and nationalized fourteen biggest commercial banks on 19 July 1969 midnight (Aryeetey, 1996). A national leader Jayaprakash Narayana explained the action as a “Masterstroke of political sagacity” in 2 weeks of issuance of regulation and ordinance. The foremost step of nationalization was taken in 1969. Approximately 85 per cent of banks were under the ownership of government till 1980 and in the year 1980, another major step of nationalization was taken for 6 more commercial banks. The reason behind this nationalization was to give more authority and control to the government on money and financial institutions. After another step of nationalization, the Indian government controlled the major portion of the banking industry in India (Sureshchandran and Chandrasekharan, 2013). In the year 1990, private banks came into existence which made the banking industry more competitive and advance. In the year 1993, Punjab National Bank was merged with New Bank of India by Government of India. It was single merger which reduced the total number of nationalized banks from 20 to 19 which resulted in nationalized banks pick the growth of 5 to 4 per cent till 1990 which was very much close to the average progress level of the Indian economy. Following were foremost actions taken by the RBI to control banking industry in the country (Sufian and Habibullah, 2009).

1949: Banking Regulation Act Enactment.

1955: SBI nationalization

1959: SBI subsidiaries nationalization

1961: Insurance cover was drawn up to deposits.

1969: Fourteen foremost banks nationalization.

1971: Setup of credit guarantee corporation.

1980: Six banks nationalization with deposits over Rs. 200 crore.

1990: Entry of private banks in banking industry.

1993: Merger of few major banks.

Foremost reasons why banks are heavily controlled are under:

- To guard the public dealings.
- To control the credit and money supply in the economy.
- To create public confidence in the financial system of the country to make it more smooth and efficient.
- To avoid monopoly of financial power from few hands and to make it more liberal.
- To provide more credit to Government of India, revenues in form of taxes and other services

Indian banking sector has become a crucial pillar for the growth and development of the country’s economy. It has also come up as the largest employer by providing jobs to 15 per cent of the working population of the nation.

Modern banking in India originated in the last decade of the 18th century. The first bank was the Bank of Hindustan, which was established in 1770 and liquidated in 1829–32; and the General Bank of India established in 1786 but failed in 1791 the largest and the oldest bank which is still in existence is the State Bank of India (SBI). It originated and started working as the Bank of Calcutta in mid -June 1806. In 1809, it was renamed as the Bank of Bengal. This was one of the three banks founded by a presidency government; the other two were the Bank of Bombay in 1840 and the Bank of Madras in 1843. The three banks were merged in 1921 to form the Imperial Bank of India, which upon India’s independence, became the State Bank of India in 1955. For many years, the presidency banks had acted as quasi-central banks, as did their successors, until the Reserve Bank of India (Karlapudi, 2018).

In 1960, the State Banks of India was given control of eight state-associated banks under the State Bank of India (Subsidiary Banks) Act, 1959. These are now called its associate banks. In 1969, the Government of India nationalized 14 major private banks; one of the big banks was Bank of India. In

1980, six more commercial banks were nationalized. These nationalized banks are the majority of lenders in the Indian economy. They dominate the banking sector because of their large size and widespread networks.

India's banking system is a robust one and is classified into commercial banks and co-operative credit institutions. Commercial banks include: Scheduled Commercial Banks (SCBs) and non-scheduled commercial banks. SCBs are further classified into public sector banks (PSBs), private banks, foreign banks and Regional Rural Banks (RRBs). Co-operative credit institutions include the various co-operative banks. As on March 2012, the Indian banking system comprised 87 SCBs, 82 RRBs, 618 Urban Co-operative Banks (UCBs) and 94,531 rural co-operative credit institutions. As on December, 2012, the Indian banking system comprised 165 SCBs including RRBs (RBI, 2019).

1.2 Emergence of Regional Rural Banks

In India, up to first quarter of the 19th century there was lack of banking facilities in the rural areas of the country and large proportion of rural population was dependent upon exploitative terms and conditions of funds from unorganized suppliers such as professional money-lenders, landlords, big farmers, friends, relatives, neighbours and trade merchants. These unorganized players such as money-lenders and landlords used to charge not only exorbitant rates of interest but also used to manipulate of loan records, humiliate the borrowers and acquire their assets, particularly land, all on the plea of default. To mitigate the sufferings of the rural poor the infrastructure of the co-operative credit was brought into being. The co-operative Societies Act of 1904 provided for the formation of primary agricultural co-operative credit societies. Later in 1912, the co-operatives movement was extended to the formation of non-agricultural co-operative credit societies also. But, the co- operatives could not deliver the things envisaged to the rural people (Krishnan, 2001). In spite of the rapid increase in the membership of primary agricultural credit societies, it was realized that the institutional credit was not available in adequate measure to the weaker section in rural areas. Therefore, there is a widely shared view that a more determined effort was needed to speed up the flow of institutional credit, especially to meet the needs of the weaker section of the rural community (Desai, 1986). Many earlier studies have exposed that the institutional credit, both co-operative and commercial banks are concentrated in a few economically prosperous; a large portion of the institutional credit has gone to the big and medium farmers. The per acre availability of credit has been very low (Thingalaya, 1980). Even the introduction of multipurpose co-operatives on the recommendation of the All India Debt and Rural Credit Survey (AIDRCS) and farmers service societies advocated by the National Commission on Agriculture did not provide viable alternative to the credit problems of the rural population (GOI, 1975). There are still many unbanked areas in the country. And, demand for rural credit has increased over the year after the introduction of modernization in agriculture. In view of the aforesaid facts, the idea of setting up of some kind of rural banks was proposed by the banking commission of 1969 in its report submitted in 1972. The commission was appointed with a view to having a comprehensive review of the structure and operations of commercial banks and other credit institutions in the country, and to suggest measures for reorganization and improving the functioning of commercial banks. The terms of reference of the commission also included the review of the working of co-operative banks and meeting recommendations with a view to ensuring a coordinated development of commercial & co-operative banks particularly with a view to extending the geographical and functional coverage of the commercial banking system (GOI, 1972) . The post-independence era witnessed a number of epoch making events in the sphere of rural credit; one of these events was the introduction of Regional Rural Banks (RRBs). The concept proposal for setting up some sort of rural banks was first mooted by the Banking Commission report in 1972. Prior to this "All India Rural Credit Survey Committee" also had an idea of rural banks when it recommended that primary co-operative banks should gradually be developed into rural banks (Saraiah Commission, 1972). The banking commission, after examining the growth and expansion of the activities of commercial banks and also considering their limitations, expressed serious doubts on the capabilities of commercial banks for giving adequate coverage to the rural sector in the foreseeable future and opined that the commercial banks even after maximum possible expansion will neither be able to meet the needs of the rural people for credit, nor will they be able to develop banking habits among the people. There will always remain a gap. The commission, therefore, proposed the setting up of a new class of rural banks in areas where the co-operatives credit structure was weak (Rathore, 2004). However, the government of India on the Banking Commission proposal took no action. In accordance with the guidelines from the Government of India, several state governments enacted legislation for moratorium, discharge of debts and scaling down of debts of the small and marginal farmers, landless laborer, rural artisans and other weaker sections of the society from the non -institutional source. This led to creation of vacuum for meeting the credit requirements of the rural poor, since indigenous money lenders now felt skeptical of recovery of these loans. Thus, the Government of India seriously considered devising new alternative sources of credit to meet the requirements of the weaker sections of the society (Government of India, 1975).

1.2.1 Establishment of RRBs

In the meantime, of 1975, came the announcement of the new economic programme (presently the old 20-point programme) led to establishment of new set-up organized rural credit structure. The new economic programme aimed at inter alia "devising alternative agencies to provide institutional credit to landless labors, rural artisans and small and marginal farmers". In pursuance of this objective view of liquidating rural indebtedness of the rural population, the Government of India appointed on July 1, 1975 a working group under the chairmanship of M. Narasimham to examine in detail the need for setting up of new rural banks as subsidiaries of public sector banks to cater to the credit needs of the rural people. The group thoroughly examined the strength and weaknesses of co-operative and commercial banks and come to conclusion that the existing intuitions neither in their present form of functioning nor with any possible adaptation would be able to fill that kind of credit gap, which existed in rural economy and new type of institutions was necessary. The banking group submitted its report within a month and therefore, recommended the setting up of state sponsored regionally based and rural oriented commercial banks, which would combined the local feel and familiarity with rural problems, which co-operatives possessed, and the degree of business organization ability to mobilize deposits, access to control money markets and modernized outlook which the commercial bank had (Government of

India, 1976). Then, Government of India accepted the recommendation of the Narasimhan working group and decided to set up Regional Rural Banks. Thus, ordinance of 1975 was promulgated by the President of India on 26 September, 1975 and the first five Regional Rural Banks were set up on October 2, 1975 at Moradabad and Goakhpur in Uttar Pradesh, Bhiwani in Haryana, Jaipur in Rajasthan and at Malda in West Bangal. Subsequently, the ordinance was replaced by the Regional Rural Bank Act 1976, with no major changes except clarification on certain issues. According to the preamble of the Act, Regional Rural Banks were set up for the purpose of development of agriculture, industry and other productive activities in rural areas, credit and other facilities particularly to marginal farmers, artisans and small entrepreneurs According to the Regional Rural Banks Act, 1976, RRBs are set up mainly with a view to develop rural economy by providing credit for the purpose of development of agriculture, trade, commerce, industry and other productive activities in rural areas and other facilities particularly to small and marginal farmers, agricultural laborers, artisans and small entrepreneurs for matter connected therewith and incidental thereto. The bank can carry on its business within the geographical limit specified and the area is generally confined to one to five districts in the state with homogeneity in agro- climatic conditions and rural clientele. The bank has the status of a scheduled commercial bank. While RRBs may accept all types of deposits from the public, their lending operations are directed exclusively towards meeting the needs of the weaker sections of society (RBI, 1986).

1.2.2 Jurisdiction of RRBs

RRBs Act extended to the whole of India and came into force with retrospective effect *i.e.* September 26, 1975. This Act contains the following provisions.

The central Government, on request of a sponsor bank, may establish in a State or Union Territory one or more RRBs through notification in the official Gazette. Such RRBs shall have the name and operational area as decided by the Central Government in consultation with sponsor bank and RBI. Except the Chairman, RRBs can appoint all the staff *i.e.* branch managers, field officers, clerks, cashiers *etc.* Those within an operational jurisdiction of the respective RRB and with rural knowledge and orientation are to be selected on the staff with active secretarial assistance from the sponsoring bank. This would mean that the staff is familiar with the local language and environment. The RRBs have been evolved as low -cost and rural-based institution and, therefore, eminently suited to implement bankable schemes in the rural areas (Mello, 1976). Dantawala committee 1977 observed that identification of the RRB with the local people and their problems may suffer if its jurisdiction becomes unduly large. Therefore, it is recommended that jurisdiction of RRBs should be over one district only with 50 to 60 branches, each branch covering a population of about 20000 (Reddy, 2001).

According to the 1987 amendment in the act, if the government of India, after consultation with the National Bank for Agriculture and Rural Development, the concerned state government and the sponsor bank, felt it necessary in public interest or in the interest of the development of the area served by any RRB or in the interest of the RRBs themselves; in either cases, two or more RRBs would be amalgamated into a single RRB (RRB, 1987).

1.2.3 Incorporation and Capital Structure of RRBs

Every RRB in a body corporate with perpetual successions and a common seal with power, subject to the provision of this act, requires to hold and dispose of property and to contract and may sue and be sued in its name. As per the RRBs act, 1976, the authorized capital of each rural bank was ‘one crore, divided into 1 lakh shares of 100 each. The Central Government may increase or reduce the authorized capital in consultation with the Reserve Bank of India and the sponsor bank but the capital cannot be reduced below 25 lakhs and the share of value below 100 each. The issued capital of each RRB shall be 25 lakh of which 50 per cent shall be subscribed by the Central Government, 35 per cent by sponsor bank and 15 per cent by the State Government (Narasaiah and Venkata, 1999). With the enactment of RRBs (Amendment) Act, 1987, the authorized capital of each RRB has been raised to 5 crore. Further, the Regional Rural Bank (Amendment) Act, 2015, the authorized capital of each RRB raised to 2000 crore and amended section 6 provided that in case the Regional Rural Bank raises its capital from sources other than the Central Government or the State Government or the sponsor bank, the shareholding of the Central Government and the sponsor bank shall not be less than fifty-one per cent. Act, provided further that the Central Government shall consult the concerned State Government if the level of shareholding in the Regional Rural Bank of such State Government is reduced below fifteen per cent (RRB, 2015).

1.2.4 Objectives of RRBs

The RRBs, initially government owned, regionally-based and rurally-oriented institutions cannot enter the urban or metropolitan centres. The preamble of the RRBs Act, 1976, clearly shows that the banks are set up with the following objectives:

- To imbibe the local co-operatives and banking discipline of commercial banks
- To help specifically weaker sections and for promotion of local employment
- To reduce the dependence of the rural poor on local money-lender
- To serve as an instrument for implementation of 20 point economic programme in rural areas and to develop banking habits by offering all types of deposit schemes
- To extend credit facilities with simplified procedures to the rural areas for development of agriculture, trade; commerce, industry and other productive activities
- To meet the credit requirement of small and marginal farmers, agricultural labourers, rural artisans and small entrepreneur (Gaur, 1992).

1.2.5 Special Concession to RRBs

To achieve viability of the RRBs, the Reserve Bank of India has granted the following concessions (Agrawal, 2005).

- Regional rural banks have been allowed to maintain a lower cash reserve ratio as compared to other scheduled commercial banks.
- Regional rural banks can refinance at a concessional rate of 3 per cent below the bank rate from the NABARD.
- RRBs are allowed to offer 0.5 per cent higher rate of interest on all deposits except the deposits of 3 years and above.
- RRBs are allowed to earn interest at the rate of 9 per cent on the current account balances maintained by them with the sponsor bank.
- RRBs are required to maintain & lower statutory liquid ratio at 25 per cent as against 36 per cent by the commercial banks.
- The training cost of the staff is borne by the concerned sponsoring bank.
- In case RRBs incurred heavy losses in excess of its paid up capital, the sponsoring bank may perhaps have to bear a part of its losses.
- Salary, allowances *etc.*, of the chairman of the RRBs is borne by the sponsor bank.

1.2.6 Business of the RRBs

The RRB has to carry on and transact the business, the business of banking as defined in Clause (b) of Section 5 of the Banking Regulation Act, 1949, and may engage in one or more forms of business specified in sub- section (1) of Section of 6 of that act. The RRB is to undertake the granting of loans and advances, particularly to small and marginal farmers and agricultural labourers, whether individually or in groups, The granting of loans to co-operative societies, including agricultural marketing societies, agricultural processing societies, co-operative farming societies, primary agricultural credit societies or farmers service societies, for agricultural purposes or agricultural operations or for other purposes connected therewith. The granting of loans and advances to artisans, small entrepreneurs and persons of small means engaged in trade, commerce, or industry or other productive activities, within its area of operation (NABARD, 1998).

1.2.7 NABARD and Regional Rural Banks

The NABARD has been playing significance role in promotion of adequate refinance with reasonable spread so as to ensure continuous flow of credit in rural areas through the SCB, DCB and RRBs, which in different areas find difficulties in mobilizing resources, *e.g.* in desert, drought prone, hilly and tribal districts. It improves the functioning, viability, competitiveness, profitability and efficiency of the RRBs. NABARD has been constituted the board for supervision of SCBs, CCBs and RRBs under section 13 (3) of NABARD Act, 1981 as an Internal Committee to the Board of Directors of NABARD. The board powers and functions of the board of supervision are as under:

- Giving directions and guidance in respect of policies and on matters relating to supervision and inspection, reviewing the inspection findings and suggesting appropriate measures.
- Reviewing the follow- up action taken by Department of Supervision (DoS) on matters of frauds and internal checks and control.
- Identifying the emerging supervisory issues in the functioning of co-operative banks/ RRBs such as recovery, investment portfolio, credit monitoring system, management practices, frauds *etc.*
- Suggesting necessary follow-up measures for improving the functioning of supervised banks
- Suggest measures for strengthening supervisory mechanism.
- Recommend to RBI for issue of directions and other regulatory action against supervised banks.
- Oversee the quality of inspections.
- Review the information generated through off-site surveillance and other supplementary vehicles, action taken thereon (RBI, 2014).

1.2.8 Amalgamation of RRBs

An advisory committee headed by chairman Shri V.S. Vyas recommended for the restructuring of RRB's in June 2004. A Working group was also set up in RBI to examine the scope for strengthening RRB's which submitted its report showing huge variation in number of districts covered & branch network of RRBs' Thus various suggestions were given to improve operational viability and to strengthen some weak RRBs' by amalgamation & mergers In order to reposition the RRBs as an effective instrument of credit delivery in the Indian financial system, the government and the sponsor banks initiated state level sponsor bank wise amalgamation of the RRBs in September 2005 to overcome the deficiencies prevailing in the RRBs and making them viable and profitable units consequent upon the amalgamation of 147 RRBs into 46 new RRBs, sponsored by 19 banks in 17 state, effected by the government of India since September 12, 2005. There have been two broad phases in the amalgamation of RRBs. In the first phase (September 2005 -March 2010), RRBs of the same sponsor banks within a State were amalgamated bringing down their number to 82 from 196. In the second and ongoing phase, starting from October 2012, geographically contiguous RRBs within a State under different sponsor banks would be amalgamated to have just one RRB in medium sized States and two/three RRBs in large States. In the current phase, RRBs bringing down their effective number 82 to 56 in the country. After amalgamation, the RRBs would become bigger in size with a larger area of operation, which would enable them to function in a competitive environment more effectively by taking advantage the economies of scale and reduction in transaction cost. The process of bringing down the number of RRBs would also make it more convenient for the sponsor banks to manage the affairs of the RRBs (Gupta, 2011).

Table 1.1 Lists of RRBs in India as on 31 March, 2021

Sr. No.	State/UT	Sponsor Bank	Name of RRB
I	Andhra Pradesh	Canara Bonk	Andhra Pragathi Garmin Bank
2	Andhra Pradesh	Union Bank of India	Chaitanya Godavari Garmin Bank
3	Andhra Pradesh	Indian Bank	Saptagiri Garmin Bank
4	Arunachal Pradesh	State Bank of India	Arunachal Pradesh Rural Bank
5	Assam	Punjab National Bank	Assam Gramin Vikash Bank
6	Bihar	Punjab National Bank	Dakshin Bihar Garmin Bank
7	Bihar	Central Bank of India	Uttar Bihar Gramin Bank
8	Chhattisgarh	State Bank of India	Chhattisgarh Rajya Gramin Bank
9	Gujarat	Bank of Baroda	Boroda Guiarat Gramin Bank
10	Gujarat	State Bank of India	Saurashtra Gramin Bank
II	Haryana	Punjab National Bank	Sarva Harvana Gramin Bank
12	Himachal Pradesh	Punjab National Bank	Himachal Pradesh Gramin Bank
13	Jammu & Kashmir	State Bank of IJ1dia	Ellaquai Dehati Bank
14	Jammu & Kashmir	J and K Bank	J & K Grameen Bank
15	Jharkhand	State Bank of India	Jharkhand Raiva Gramin Bank
16	Karnataka	Canara Bank	Karnataka Gramin Bank
17	Karnataka	Canara Bank	Karnataka Vikas Gramin Bank
18	Kerala	Canara Bank	Kerala Gramin Bank
19	Madhya Pradesh	Bank of India	Madhya Pradesh Gramin Bank
20	Madhya Pradesh	State Bank of India	Madhyanchal Gramin Bank
2 1	Maharashtra	Bank of Maharashtra	Maharashtra Gramin Bank
22	Maharashtra	Bank of India	Vidharbha Konkan Gramin Bank
23	Manipur	Punjab National Bank	Manipur Rural Bank
24	Meghalaya	State Bank of India	Meghalaya Rural Bank
25	Mizon1n1	State Bank of India	Mizoram Rural Bank
26	Nagaland	State Bank of India	Nagaland Rural Bank
27	Odisha	Indian Overseas Bank	Odisha Gramya Bank
28	Odisha	State Bank of India	Utkal Grameen Bank
29	Pondicherry	Indian Bank	Pondicherry Bhamthiyar Grama Bank
30	Punjab	Punjab National Bank	Punjab Gramin Bank
31	Rajasthan	Bank of Baroda	Baroda Rajasthan Kshtriya Gramin Bank

32	Rajasthan	State Bank of India	Rajasthan Marudhara Gramin Bank
33	Tamil Nadu	Indian Bank	Tamil Nadu Gramin Bank
34	Telangana	State Bank of India	Andhra Pradesh Grameen Vikas Bank
35	Telangana	State Bank of India	Telangana Grameena Bank
36	Tripura	Punjab National Bank	Tripura Gramin Bank
37	Uttar Pradesh	Bank of India	Aryavan Bank
38	Uttar Pradesh	Bank of Baroda	Baroda U. P. Bank
39	Uttar Pradesh	Punjab National Bank	Prathama U.P Gramin Bank
40	Uttar Pradesh	State Bank of India	Uuarakhand Gramin Bank
41	West Bengal	Punjab National Bank	Bangiya Gramin Vikash Bank
42	West Bengal	UCO Bank	Paschim Banga Gramin Bank
43	West Bengal	Central Bank of India	Uttar Banga Kshctriya Gramin Bank

(Source: NABARD, 2021)

1.3 CO-OPERATIVE BANKING IN INDIA

A co-operative bank is a financial entity which belongs to its members, who are at the same time the owners and the customers of their bank. Co-operative banks are often created by persons belonging to the same local or professional community or sharing a common interest. Co-operative banks generally provide their members with a wide range of banking and financial services (loans, deposits, banking accounts *etc.*). Co-operative banks differ from stockholder banks by their organization, their goals, their values and their governance. Depending on countries, this control and supervision can be implemented directly by state entities or delegated to a co-operative federation or central body. Co-operative banking is retail and commercial banking organized on a co-operative basis. Co-operative banking institutions take deposits and lend money in most parts of the world. Co-operative banking, includes retail banking, as carried out by credit unions, mutual savings and loan associations, building societies and co-operatives, as well as commercial banking services provided by manual organizations (such as co-operative federations) to co-operative businesses. The structure of commercial banking is of branch-banking type; while the co-operative banking structure is a three tier federal one (Soyeliya, 2013).

- A state co-operative bank works at state level.
- The central co-operative bank works at central level.
- District co-operative banks works at district level.
- Primary co-operative credit societies at village level.

Even if co-operative banks organizational rules can vary according to their respective national legislations, co-operative banks share common features as follows;

Customer-owned entities: In a co-operative bank, the needs of the customers meet the needs of the owners, as co-operative bank members are both. As a consequence, the first aim of a co-operative bank is not to maximize profit but to provide the best possible products and services to its members. Some co-operative banks only operate with their members but most of them also admit non-member clients to benefit from their banking and financial services.

Democratic member control: Co-operative banks are owned and controlled by their members, who democratically elect the board of directors. Members usually have equal voting rights, according to the co-operative principle of “one person, one vote”.

Profit allocation: In a co-operative bank, a significant part of the yearly profit, benefits or surplus is usually allocated to constitute reserves. A part of this profit can also be distributed to the co-operative members, with legal or statutory limitations in most cases. Profit is usually allocated to members either through a patronage dividend, which is related to the use of the co-operatives’ products and services by each member, or through an interest or a dividend, which is related to the number of shares subscribed by each member.

Co-operative banks are deeply rooted inside local areas and communities. They are involved in local development and contribute to the sustainable development of their communities, as their members and management board usually belong to the communities in which they exercise their activities. By increasing banking access in areas or markets where other banks are less present, farmers in rural areas, middle or low income households in urban areas - co-operative banks reduce banking exclusion and foster the economic ability of millions of people. They play an influential role on the economic growth in the countries in which they work in and increase the efficiency of the international financial system. Their specific form of enterprise, relying on the above 38 mentioned principles of organization, has proven successful both in developed and developing countries (RBI, 2019).

1.3.1 History of Co-operative Banks in India.

For the co-operative banks in India, co-operatives are organized groups of people and jointly managed and democratically controlled enterprises. They exist to serve their members and depositors and produce better benefits and services for them (Nayak, 2012). Professionalism in co-operative banks reflects the co-existence of high level of skills and standards in performing, duties entrusted to an individual. Co-operative bank needs current and future development in information technology. It is indeed necessary for co-operative banks to devote adequate attention for maximizing their returns on every unit of resources through effective services. Co-operative banks have completed 100 years of existence in India. They play a very important role in the financial system. The co-operative banks in India form an integral part of our money market today. Therefore, a brief resume of their development should be taken into account. The history of co-operative banks goes back to the year 1904. In 1904, the co-operative credit society act was enacted to encourage co-operative movement in India. But the development of co-operative banks from 1904 to 1951 was the most disappointing one. The first phase of co-operative bank development was the formation and regulation of co-operative society. The constitutional reforms which led to the passing of the Government of India Act in 1919 transferred the subject of "Co-operation" from Government of India to the Provincial Governments. The Government of Bombay passed the first State Co-operative Societies Act in 1925 "which not only gave the movement, its size and shape but was a pace setter of co-operative activities and stressed the basic concept of thrift, self-help and mutual aid." This marked the beginning of the second phase in the history of co-operative credit institutions (Soyeliya, 2013).

There was the general realization that urban banks have an important role to play in economic construction. This was asserted by a host of committees. The Indian Central Banking Enquiry Committee (1931) felt that urban banks have a duty to help the small business and middle class people. The Mehta - Bhansali Committee (1939) recommended that those societies which had fulfilled the criteria of banking should be allowed to work as banks and recommended an Association for these banks. The co-operative Pharming Committee (1946) went on record to say that urban banks have been the best agencies for small people in whom Joint stock banks are not generally interested. The Rural Banking Enquiry Committee (1950), impressed by the low cost of establishment and operations recommended the establishment of such banks even in places smaller than taluka towns (Chander and Chandel, 2011). The real development of co-operative banks took place only after the recommendations of All India Rural Credit Survey Committee (AIRCSC), which were made with the view to fasten the growth of co-operative banks.

The co-operative banks are expected to perform some duties, namely, extend all types of credit facilities to customers in cash and kind, advance consumption loans, extend banking facilities in rural areas, mobilize deposits, supervise the use of loans etc. The needs of co-operative bank are different. They have faced a lot of problems, which has affected the development of co-operative banks. Therefore it was necessary to study this matter. The first study of Urban Co-operative Banks was taken up by RBI in the year 1958- 59 (Gupta and Jain 2012). The Report published in 1961 acknowledged the widespread and financially sound framework of urban co-operative banks; emphasized the need to establish primary urban co-operative banks in new centres and suggested that State Governments lend active support to their development. In 1963, Varde Committee recommended that such banks should be organized at all Urban Centres with a population of 1 lakh or more and not by any single community or caste. The committee introduced the concept of minimum capital requirement and the criteria of population for defining the urban centre where UCBs were incorporated (Barot and Gajjar 2013).

1.3.2 Types of co- operative Banks

The co-operative banks are small- sized units which operate both in urban and non-urban centres. They finance small borrowers in industrial and trade sectors besides professional and salary classes. Regulated by the Reserve Bank of India, they are governed by the Banking Regulations Act 1949 and banking laws (Co-operative societies) act, 1965. The co-operative banking structure in India is divided into following five components:

1.3.2.1 Primary co-operative credit society

The primary co-operative credit society is an association of borrowers and non-borrowers residing in a particular locality. The funds of the society are derived from the share capital and deposits of members and loans from central co-operative banks. The borrowing powers of the members as well as of the society are fixed. The loans are given to members for the purchase of cattle, fodder, fertilizers, pesticides *etc.*

1.3.2.2 Central co-operative banks

These are the federations of primary credit societies in a district and are of two types those having a membership of primary societies only and those having a membership of societies as well as individuals. The funds of the bank consist of share capital, deposits, loans and overdrafts from state co-operative banks and joint stocks. These banks provide finance to member societies within the limits of the borrowing capacity of societies. They also conduct all the business of a joint stock bank.

1.3.2.3 State co-operative banks

The state co-operative bank is a federation of central co- operative bank and acts as a watchdog of the co-operative banking structure in the state. Its funds are obtained from share capital, deposits, loans and overdrafts fi-om the Reserve Bank of India. The state co-operative banks lend money to central co-operative banks and primary societies and not directly to the farmers.

1.3.2.4 Land development banks

The Land development banks are organized in 3 tiers namely; state, central, and primary level and they meet the long term credit requirements of the farmers for developmental purposes. The state land development banks oversee, the primary land development banks situated in the districts and tehsil areas in the state. They are governed both by the state government and Reserve Bank of India. Recently, the supervision of land development banks has been assumed by National Bank for Agriculture and Rural development (NABARD). The sources of funds for these banks are the debentures subscribed by both central and state government. These banks do not accept deposits from the general public.

1.3.2.5 Urban co-operative banks

The term Urban Co-operative Banks (UCBs), though not formally defined, refers to primary co-operative banks located in urban and semi-urban areas. These banks, till 1996, were allowed to lend money only for non-agricultural purposes. This distinction does not hold today. These banks were traditionally cantered on communities, localities, work place groups. They essentially lend to small borrowers and businesses. Today, their scope of operations has widened considerably. The origins of the urban co-operative banking movement in India can be traced to the close of nineteenth century. Inspired by the success of the experiments related to the co-operative movement in Britain and the co-operative credit movement in Germany, such societies were set up in India. Co-operative societies are based on the principles of cooperation, mutual help, democratic decision making, and open membership. Co-operatives represented a new and alternative approach to organization as against proprietary firms, partnership firms, and joint stock companies which represent the dominant form of commercial organization. They mainly rely upon deposits from members and non-members and in case of need, they get finance from either the district central co-operative bank to which they are affiliated or from the apex co-operative bank if they work in big cities where the apex bank has its head office. They provide credit to small scale industrialists, salaried employees, and other urban and semi-urban residents (Kadam, 2010).

1.3.3 Features of Co-operative Banks in India

Some distinguishing characteristics of the nature of co-operative banks are as follows:

- They are organized and managed on the principles of co-operation, self-help and mutual help. They fiction with the rule of one member, one vote “.
- They function on “No Profit, No Loss” basis. The co-operative banks, by their very nature, do not pursue the goal of profit maximization.
- Co-operative banks perform all the main banking functions of deposit mobilization, supply of credit and provision of remittance facilities. In other words, co-operative banks are characterized by functional specialization. For example, the co- operative banks now provide housing loans also.
- The co-operative banks do banking business mainly in the agricultural and rural sector. The co-operative banks demonstrate a shift from rural to urban, while the commercial banks shift from urban to rural.
- Co-operative banks are perhaps the first government-sponsored, government-supported, and government-subsidized financial agency in India. They get financial and other help from the RBI, NABARD, Central Government and State Governments.
- Co-operative banks belong to the money market as well as to the capital market. Similarly, they accept short- term and long-term deposits, and some of them mobilize resources through the issue of debentures.
- Co-operative banks are financial intermediaries only partially. The sources of their funds (resources) are : (a) Central and State governments, (b) the RBI and NABARD, (c) other co-operative institutions, (d) ownership finds, and (e) deposits or debentures issues.
- Co-operative banks have a federal structure of three tier linkages. Their operation is of mixed banking type.
- Some co- operative banks are scheduled banks while others are non-scheduled banks. At present, 28 SCBs and 11 UCBs with demand and time liabilities over Rs 50 crore each are included in the Second Scheduled of the RBI Act.
- The co-operative banks accept current, savings and fixed or time deposits from individuals and institutions including banks.
- The co-operative banks are subject to CRR and Liquidity requirements as other scheduled and non -scheduled banks.
- Although the main aim of the co-operative banks is to provide cheaper credit to their members, and not to maximize profits, they may access the money market to improve their income so that they remain viable (Walia, 2003).

1.3.4 Functions of Co-operative Banks

Co-operative banks also perform the basic banking functions but they differ from commercial banks in the following respects:

- Commercial banks are joint-stock companies under the companies’ act of 1956, or public sector bank under a separate act of a parliament whereas co -operative banks were established under the co-operative society’s acts of different states.

- Commercial bank structure is branch banking structure whereas co-operative banks have a three tier setup, with state co-operative bank at apex level, central / district co-operative bank at district level, and primary co-operative societies at rural level.
- Only some of the sections of banking regulation act of 1949 (fully applicable to commercial banks), are applicable to co-operative banks, resulting only in partial control by RBI of co-operative banks.

Co-operative banks function on the principle of co-operation and not entirely on commercial parameters (Devi, 1996).

1.3.5 Significance of Co-operative Banks in India

It is a well-known fact that for any nation, banking system plays a vital role in the development of its sound economy. India is not an exception. Bankers are the identified custodians of the liquid capital of the country mobilized in the form of savings. Bankers are trustees of the surplus balances of the subjects of the country.

- Co-operatives, like money lenders, can possess intimate knowledge of the character and financial position of their members, of and the local production possibilities and chances of growth.
- Co-operative has lower administrative costs on account of voluntary services rendered by their members.
- They instil (into a person's mind) among their members a strong feeling of responsibility for prompt payment of interest and repayment of loans.
- They promote thrift (careful use of money) and savings among their members and mobilize their small savings for productive or useful purpose.
- The procedure of deposit and withdrawal of a co-operative credit society or bank is far less complicated, since personal identification and such other problems do not exist.
- Co-operative may provide loans to their members at lower rates of interest and save them from the clutches of shylock type (hard- hearted) money lender.
- They make their members financially more secure.
- They are suitable to help people of small means (Bodla and Verma 2006).

1.3.5 Rules for Co-operative Banks

1.3.5.1. Applicability of banking regulation act

a) Co-operative banks are registered either under the state laws governing co-operatives or under the Multi-State Co-operative Societies Act. If a co-operative bank operates only in one state, the state law applies and in the case of co-operative banks operating in more than one state, the Central Act applies. While the state law governs the constitution and related matters, the business of banking is regulated by the Banking Regulation Act as applicable to co-operative societies.

b) The Banking Regulation Act is applicable to co-operative societies subject to the modifications stipulated in Part V (Section 56) of the Act. The Act was made applicable to co -operative societies by the Banking Laws (Application to Co-operative Societies) Act, 1965. As defined in Section 5 (cci) of the Banking Regulation Act. A co-operative bank means a state co-operative bank, a central co-operative bank and a primary co-operative bank. A primary co-operative bank is a co-operative society other than a primary agricultural credit society which satisfies the following criteria.

- The primary object or principal business is the transaction of banking business. The paid-up share capital and reserves are not less than Rs 1 lakh.
- The bye laws do not permit admission of any other co-operative society as a member (except the membership of a co-operative bank by subscribing to the share capital of the society out of the funds provided by the state government).

c) A state co-operative bank is the principal co-operative society in a state with the primary objective of financing other societies. A central co-operative bank is the principal co- operative society in a district with the primary objective of funding other co-operative societies in the district (RBI, 2016). The reference to banking company in the Act shall be construed as a reference to co-operative banks unless the context otherwise requires:

No co-operative society other than a co-operative bank is permitted to use as part of its name or in connection with the business, the words "bank", "banker" and "banking". Further, a co-operative society carrying on banking business has to use at least one of such words as part of its name. However, certain categories of co-operative societies are exempted from these provisions as follows:

- A primary credit society;

- A co-operative society formed for the protection of the mutual interest of co-operative banks or co-operative land development banks;
- A co-operative society other than a primary credit society formed by employees of the state Bank, a subsidiary bank, a nationalized bank or a co-operative bank, a primary credit society, or a co- operative land development bank.

1.3.5.2. Paid-up capital and reserves

The minimum paid-up capital and reserves required commencing or carry on banking business by a co-operative bank is not less than Rs 1 lakh under Section 11 (as applicable to co-operative banks). However, this provision is not applicable to a primary credit society which becomes a: primary co-operative bank after the commencement of the Act, for a period of two years from the date it becomes a primary co-operative bank. The Reserve Bank may give a further period of one year in the interests of depositors of the primary co-operative bank in any particular case. For calculating the value of paid-up capital and reserves, the real and exchangeable value and not the nominal value would be considered. In the case of a dispute regarding the value of paid-up capital and reserves the Reserve Bank’s decision shall be final.

1.3.5.3. Cash reserve

Co-operative banks other than scheduled state co-operative banks have to maintain in India by way of cash reserve with itself or by way of balance in current account with the Reserve Bank or the state co-operative bank of the state concerned or by way of net balance in current accounts or anyone or more of these ways a sum equivalent to at least 3 per cent of its total demand and time liabilities in India. In the case of a primary co-operative bank the balance in current accounts with the central co-operative bank of the district concerned may also be taken into account. The balance has to be reckoned as on the last Friday of the second preceding fortnight. The co- operative bank has to submit a return every month showing such amount held by it on alternate Fridays during a month along with the particulars of its demand and time liabilities in India on such Fridays. When the relevant Friday is a holiday under the Negotiable Instruments Act, the return shall be required as at the close of business on the preceding working day. The demand and time liabilities have to be calculated as stipulated in Section 18 (as applicable to co-operative societies).

1.3.5.4. Restrictions on loans and advances

A. Section 20 of the Banking Regulation Act (as applicable to co-operative societies) lays down certain restrictions on loans and advances by co-operative banks. Accordingly, a co-operative bank shall not grant loans and advances as under :

- Loans and advances on the security of its own shares; (ii) unsecured loans or advances to any of its directors;
- Unsecured loans or advances to firms or private companies in which any of its directors are interested as partner, managing agent or guarantor, or t6 individuals in cases where any of its directors is a guarantor for the loans or advances.
- Unsecured loans or advances to any company in which the Chairman of the co-operative bank is interested as managing agent or chairman or managing director.

However, these restrictions do not apply to unsecured loans or advances made by a co- operative bank against bills for supplies or services made to government or bills of exchange arising out of bonafide. Further, unsecured loans or advances in respect of which trust receipts are furnished to the co-operative bank and loans to directors or any other persons within the limits and on terms and conditions approved by the Reserve Bank are also exempted.

B. Every co-operative bank has to submit a return in the prescribed form showing the unsecured loans and advances granted by it to companies in which its directors are interested as director, managing agent, or guarantor. Such returns have to be filed before the close of the month succeeding to which the return relates. If it appears to the Reserve Bank on examination of any return that the loans or advances were granted to the detriment of the interest of depositors, Reserve Bank may prohibit granting of such further loans or advances. The Reserve Bank may also impose other restrictions on the grant of such loans and direct the co-operative bank to secure the repayment of the loan or advance within a stipulated time.

1.3.5.5 Licensing of co-operative banks

I. Every co-operative society requires a license from the Reserve Bank under Section 22 of the Banking Regulation Act to carry on banking business in India. However, primary credit societies are exempted from the requirement. The Reserve Bank may impose such conditions as it may deem fit while granting license to a co -operative bank. Co-operative societies carrying on banking business at the commencement of the Banking Laws Act, 1965 were given exemption for a period of one year. Every co-operative society carrying on banking business at the commencement of the act had to apply for a license within three months from such commencement and every primary co-operative society which becomes a primary co-operative bank after such commencement has to apply for a license. Before three months from the date of it becoming a primary co-operative bank. After applying for license the co- operative bank can continue to carry on banking business unless its license is rejected.

II. A co-operative bank requires the prior permission of the Reserve Bank for opening a new place of business or changing an existing place of business otherwise within the same city, town or village where it has an existing place of business. However, opening of temporary branches for a period not exceeding one month within the city, town or village where it has a place of business on the occasion of an exhibition, conference, mela or any like occasion is permissible. The opening or changing of location of branches by a central co-operative bank within its area of operation is also exempted. The application of a co- operative bank for permission to open a branch, other than of a primary co-operative bank, has to be routed through the National Bank. However, an advance copy of the application has to be sent directly to Reserve Bank.

1.3.5.6 Liquid assets

Co-operative banks have to maintain liquid assets as provided in Section 24 (1) of the Banking Regulation Act. In computing the amount of liquid assets any balances maintained by a co-operative bank in current account with the Reserve Bank or by way of net balances in current accounts would be taken into account. In the case of state co-operative banks which are scheduled banks, the balances required under Section 42 of the RBI Act will also be accounted. In the case of central co-operative banks, balances maintained with the state co-operative bank concerned and in the case of primary co-operative banks the balances maintained with central co-operative banks or the state co-operative bank concerned shall be accounted. The co-operative banks have also to maintain as specified in Section 24(2A) liquid assets being not less than 25 per cent or such other per cent age not exceeding 40 per cent as the Reserve Bank may stipulate by notification in the Gazette. The amount has to be maintained as at the close of business on any day. For this purpose, any balance maintained by a scheduled state co-operative bank with the Reserve Bank in excess of the balance required under Section 42 of the RBI Act shall be accounted. Similarly cash or balances maintained in India by a non-scheduled co-operative bank with itself or with the state co-operative bank or in current account with Reserve Bank or net balance in current accounts in excess of the requirement of Section 18 would be accounted. In the case of primary co-operative banks such balances maintained with central co-operative bank of the district concerned will also be taken into account. The co-operative banks have to file a return with the Reserve Bank and every co-operative bank other than a primary co-operative bank has also to furnish a copy thereof to the National Bank.

1.3.5.7. Accounts and audit

Every co-operative bank has to prepare a balance sheet and profit and loss account of its business as on the last working day of the year. The balance sheet and accounts have to be prepared in the forms set out in the third schedule to the act or as near thereto as circumstances admit. Three copies of such balance sheet and accounts along with auditor's report have to be submitted to the Reserve Bank within 6 months. A state co-operative bank and a central co-operative bank have to submit such return to the National Bank also.

1.3.5.8. Inspection

The provisions of Section 35 relating to inspection are applicable to co-operative banks with minor modifications. It is also open to Reserve Bank to call for inspection of a primary co- operative bank by one or more officers of the state co-operative bank in the state where the primary co-operative bank is registered. The Reserve Bank may supply a copy of the report on any inspection to the state co-operative bank or the Registrar of co-operative societies concerned.

1.3.5.9 Insured co-operative banks

a) Registration with DICGC

The Deposit Insurance and Credit Guarantee Corporation Act (DICGC), 1961, which provides for insuring deposits of banks is applicable to co-operative banks also. Accordingly, under Section 13C of the Act, co-operative banks have to be registered with the corporation for this purpose. The registration of a co-operative bank may be cancelled if:

- It is prohibited from accepting deposits;
- Its license is cancelled;
- It has been ordered to be wound up;
- It has ceased to be a co-operative bank under sub-section (2) of section 36a of the Banking Regulation Act;
- It has converted into a non-banking co-operative society;
- It has been amalgamated with any other co-operative society;
- It has transferred its deposit liabilities to any other institute;
- It ceases to be an eligible co-operative bank.

b) eligible co-operative bank

- A co-operative bank to become an eligible co-operative bank, the law governing that co-operative bank should have the following provisions:

- An order for the winding up or an order sanctioning a scheme of compromise or arrangement or of amalgamation or reconstruction of the bank may be made only with the previous sanction in writing of the Reserve Bank.
- An order for the winding up of the bank shall be made if so required by the Reserve Bank in the circumstances referred to in Section 13D.
- An order shall be made for the supersession of the committee of management or other managing body of the bank and the appointment of an Administrator therefore for such period or periods not exceeding five years in the aggregate as may be specified by the Reserve Bank if so required by the Reserve Bank in the public interest or for preventing the affairs of the bank being conducted in a manner detrimental to the interests of the depositors or for securing the proper management of the bank.
- An order for the winding up of the bank or an order sanctioning a scheme of compromise or arrangement or of amalgamation or reconstruction or an order for the supersession of the committee of management or other managing body of the bank and the appointment of an administrator therefore made with the previous sanction in writing or on the requisition of the Reserve Bank shall not be liable to be called in question in any manner.
- The liquidator or the insured bank or the transferee bank, as the case may be, shall be under an obligation to repay the corporation as provided in Section 21 of the Act.

c) When reserve bank may require winding up

Section 13D of the DICGC Act, mentions the circumstances in which Reserve Bank may require winding up of a co-operative bank. Such circumstances are that:

- The co-operative bank has failed to comply with the requirements as to minimum paid-up capital and reserves specified in Section 11 of the Banking Regulation Act; or
- The co-operative bank has under Section 22 of the Act (dealing with license) become disentitled to carry on banking business in India; or
- The co-operative bank has been prohibited from receiving fresh deposits by an order under Section 35(4) of the Act or under Section 42(3 A)(b) of the Reserve Bank of India Act; or
- The co-operative bank having failed to comply with any requirement of the Banking Regulation Act, 1949, other than the requirements laid down in Section 11 thereof, has continued such failure or having contravened any provisions of the Act, has continued such contravention beyond such period or periods as may be specified by the Reserve Bank, after notice in writing of such failure or contravention has been conveyed to the co-operative bank; or
- In the opinion of the Reserve Bank, a compromise or arrangement sanctioned by a competent authority in respect of the co-operative bank cannot be worked satisfactorily with or without modification, or the continuance of the co-operative bank is prejudiced to the interests of its depositors.

A co-operative bank shall be deemed to be unable to pay its debts if,

i. on the basis of the returns, statements or information finished to the Reserve Bank under or in pursuance of the provisions of the Banking Regulation Act, the Reserve Bank is of opinion that the co -operative bank is unable to pay its debts; or

ii. if the co- operative bank has refitted to meet any lawful demand made at any of its offices or branches within two working days, if such demand is made at a place where there is an office, branch or agency of the Reserve Bank, or within five working days if such demand is made elsewhere and, in either case, the Reserve Bank certifies in writing that the co-operative bank is unable to pay its debts (RBI, 2021).

1.3.6 Structure of the Co-operative Banking Sector

The structure of co -operative banking in India is multi-tiered, with urban and rural co-operatives as its main pillars. UCBs are classified as scheduled and non-scheduled, based on their inclusion or otherwise in the second schedule of the Reserve Bank of India Act, 19343, and their geographical outreach (single-state or multi-state). Rural co-operatives, on the other hand, are classified into two arms short-term and long-term. As on march 2021, there were 98,042 co-operatives, consisting of 1,534 UCBs and 96,508 rural co-operatives (RBI, 2020)

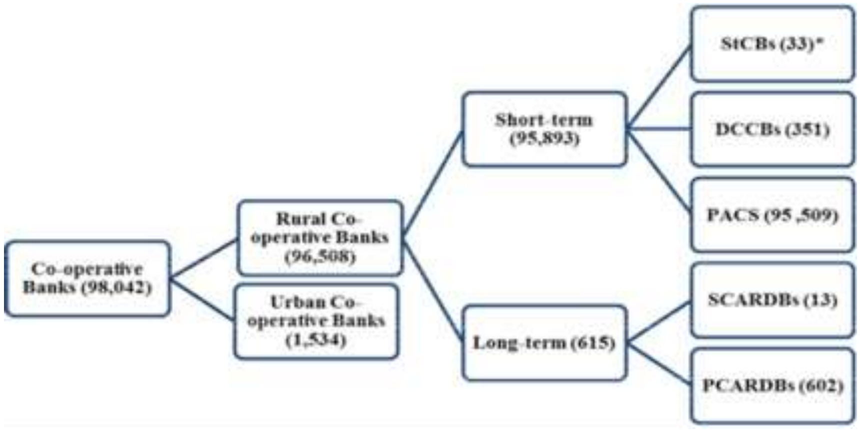

Fig. 1 Structure of co-operative banks in India

Source: RBI, NABARD and NAFSCOB, 2020.

1.5 Objective of the research problem

Keeping the above outline in mind, the study was undertaken with the following specific objectives:

- To compare the share of institutional credit for agriculture and allied activities by RRBs and co-operative banks

1.6 Hypotheses

- There is no disparity in the share of institutional credit for agriculture and allied activities by RRBs and co-operative banks.

1.7 Limitations of the study

1) The study was confined to the period from 1981-82 to 2020-21 considering the availability of data..
2) The study was based only on secondary data and thereby it may or may not be suitable for generalization at individual bank.

2.0 Review of literature

To attain comprehension on any study, it is necessary to review the various concepts, research methodologies and analytical tools used by the researchers in earlier studies conducted by them. The literature available in the working and performance of RRBs and co-operative banks in India is limited. The literature obtained for the study, in the form of reports of various committees, commissions and working groups established by the Union Government, NABARD and Reserve Bank of India, the research studies, articles of researchers, bank officials, economists and the comments of economic analysts and news is briefly reviewed in this part. Some of the related literatures of reviews is as follows.

- Institutional credit for agriculture and allied activities

Bhaskar (2011) studied the problems and prospects related to credit system of RRBs in India. The data studied for the year 2005 to 2010. It was found that RRBs have to be repositioned and to carry out their entrusted responsibility of meeting the credit requirements in rural sector. In order to repositioning of RRBs, loss making RRBs should take step for enhancing productive by improving the skill and performance of their employees by better and specialized training in the areas of banking and finance, IT, management etc.

Reddy and Prasad (2011) in an evaluative study observed that these banks penetrate every corner of the country and have been extending a helping hand in the growth of the economy. Despite the RRBs journeyed over three decades, they have achieved performance to the expected level quantitatively but not turning towards sound financial management and productivity.

Biradar (2013) analyzed the trends and patterns of institutional credit flow, deployed by the CBs, SCBs and RRBs, for production and investment purposes in agriculture and allied activities in India in the light of banking sector reforms initiated in the early 1990s. The data relating to institutional credit at the all India level were collected for 1971-1972 to 2007- 2008. The period from 1971- 1972 to 1980- 1981 was considered as the beginning of multi-agency approach and bank branch expansion, from 1981-1982 to 1990-1991 was regarded as the pre -reform period, from 1991-1992 to 2007- 2008, as the post-reform period. The study found that the annual growth rate of total institutional credit for agriculture and allied activities was much higher during the reform period as compared to that of pre reform period. It has been observed that the CBs have lost their historical prime position in provision of agricultural credit. The growth pattern of production as well as investment credit constituted what can be described as the “U -shaped” curve. This implies that the bulk of the increase in institutional credit for agriculture and allied activities during the reform period was attributed to the banking sector reforms initiated in the early 1990s.

Suman (2015) investigated on the trend of agricultural credit in India during 2003-13. It was concluded that the growth of agricultural credit was based on the agricultural production and growth and strategic role of financial credit. The analysis showed that the trend of direct and indirect institutional credit significantly increased from 400.49 to 1112.03 at the end of 2013. It was also observed that growth of institutional credit increased by modernization of agriculture, increase agriculture allied activities and advanced equipment.

Nithin (2016) studied the institutional credit share of RRBs, co-operative banks and commercial banks in rural India for the period of five years 2010-11to 2014-15. Descriptive statistics and ANOVA were used for the study. It was observed that major credit provider was Commercial bank followed by Co-operative and Regional Rural Banks with 71, 17 and 12 per cent, respectively. ANOVA result revealed significant difference between the mean values of loan issued and loans outstanding among co-operative, commercial and regional rural banks.

Jatin (2017) analyzed the performance of institutional rural credit for agricultural and allied activities in India. The study was done during the period of 2010-2015. It was observed that the interest rate of non-institutional sources was much higher than that of institutional sources. It was also found that RRBs play a vital role in institutional credit transfer.

Mishra and Mohapatra (2017) discussed the institutional credit flow to the agriculture from the year 2000- 01 to 2011-12. It was found from the result that there had been a sharp decline in the percentage of agricultural credit financed by non- institutionalized sources like money- lenders from 90.9 per cent to 20.9 per cent. The highest increase in loans issued was in the case of scheduled commercial banks with CGR of 32.05 while the lowest was in the case of co-operatives with CGR of 13.57 per cent in case of short term credit. In case of long term credit, the highest loans outstanding were in the case of scheduled commercial banks with CGR of 22.74 while the lowest was here also in the case of co -operative banks with CGR of - 2.81 per cent. The share of agricultural credit as a proportion of agricultural GDP has been rising continuously since the 1950s, and even as a proportion of total GDP until the 1980s, after which it was stagnant. It was suggested that by imparting training to borrowers regarding procedural formalities of financial institutions could be helpful in increasing their access to institutional credit. It was also suggested that the option of microfinance and Kisan Credit Card (KCC) should be adopted and streamlined to alleviate the plight of the marginal, small, tribal farmers. They should be linked effectively to the Self Help Groups (SHGs).

Sinha and Kundu (2018) analyzed the share of institutional credit by the scheduled commercial banks in India for the period of 2004-05 to 2015-16. The study revealed that performance parameters with regard to the credit disbursement by the scheduled commercial banks are showing a healthy sign. The credit-deposit ratio in the country was at a healthy level of close to 80 per cent. The analysis of data across regions had shown a wide range of variability of personal credit disbursement though results also point consistent rise in the credit flow of all regions. With regard to the share of regions, the southern states enjoy close to forty percent distantly followed by the western and northern regions. The regional bias is also reflected in the concentration measure and inequality index. Though the share of some regions is comparatively more than others, the growth rate does not follow that order in to. The regions with the maximum growth include the north-eastern, southern and western regions.

Singh and Gupta (2020) analyzed the sources of institutional agricultural credit and repayment behaviour of farmer for the year 2016-17 to 2019-20 in India. It was found that farmers utilized credit for agriculture and other purposes in different manners. It was also shown the growth of institutional agricultural credit in the terms of credit and loan disbursement amount was not encouraging. The huge gap was observed in loan disbarment and loan repayment behaviour.

3.0 Methodology

Methodology is a system of broad principles or rules from which specific methods or procedures may be derived to interpret or solve different problems within the scope of a particular discipline. Unlike an algorithm, a methodology is not a formula but a set of practices. This part deals with the salient features of data collection and methodology adopted in the analysis.

Compound growth rate

The compound growth rates (CGR) of progress of RRBs and co–operative banks in India was calculated by using the exponential function of the following specification (Acharya *et al.,* 2012).

$$\boldsymbol{Y_t = ab^t}$$

Where,

Yt = Dependent variable (Number of banks, capital, investment, loans and advances and deposits etc.);

t = Time variable in years taking the value of 1, 2, 3,...,n;

a = Intercept;

b = Regression coefficient (1+r);

For the purpose of estimation, the equation was expressed in logarithmic form.

$$\mathbf{Log}\ Y_t = \mathbf{Log\ a + t\ log\ b}$$

The value of log b in was computed using the formula,

$$\text{Log b} = \frac{\sqrt{\sum t \text{ Log } Y - (\sum t. \sum \text{Log } Y/N)}}{\sum t^2 - \left(\frac{\sum t^2}{N}\right)}$$

Where,

N = Number of years

Subsequently, the compound growth rate (%) was computed using the formula,

r = (Antilog of log b-1)*100

Student 't' test was used to determine the significance of the growth rates obtained for which, the following formulation was employed,

t = Log b/SE (Log b)

$$\text{Log (b)} = \frac{\sum (Y - \bar{Y}) \text{ Log } b^* (\sum (Y^*t) - \sum(Y) * \bar{t}}{(N-2) \sum (t - \bar{t})^2}$$

The calculated 't' value, from equation was compared with the table 't'values and the significance were tested for 1 and 5 per cent, probability levels.

4.0 Result and discussions

The credit disbursement by RRBs and co-operative banks for Period I is presented in Table 1. The table was split in to two parts as loan issued and loan outstanding. In both the cases the SCARDBs and PACs had a continuous growth, at the same time there was growth in RRBs' outstanding also. It was because RRBs was in its initial stage of formulation. In Period II there was growth noticed from Table 2 as RRBs had significant value in both loan issued and outstanding *i.e.* 30.21 and 21.34, respectively followed by DCCBs loan outstanding with 23.7 and SCARDBs in loan issued with 13.01 value at 10 per cent of significance. This showed the increasing share of RRBs in institutional credit then other banks. It may also be one of the reason that RRBs was in its growth stage of development, it had increasing amount of loan issued and loan outstanding than other banks. In Period III again growth was observed from Table 4.53 as RRBs had significant value in both loan issued and outstanding *i.e.* 33.37 and 28.58, respectively followed by PACs loan issued with 16.35 and SCARDBs in loan outstanding with 54.56 value at 10 per cent of significance.

Table 1 Credit disbursement by RRBs and co-operative banks for Period I

Sr. no.	Growth	RRBs		SCBs		DCCBs		PACs		PCARDBs		SCARDBs	
		CGR	SE	CGR	SE	CGR	SE	CGR	SE	CGR	SE	CGR	SE
1	Loans issued	1.97**	0.25	0.93**	0.06	1.46**	0.04	2.28**	0.14	2.75*	0.37	6.87**	0.20
2	Loans Out standing	11.32**	0.11	0.92**	0.06	1.46**	0.04	1.48**	0.21	4.39*	0.33	13.86	0.64

Note: *, ** indicate significance at 5 % and 10%, respectively.

Table 2 Credit disbursement by RRBs and co-operative banks for Period II

Sr. no.	Growth	RRBs		SCBs		DCCBs		PACs		PCARDBs		SCARDBs	
		CGR	SE	CGR	SE	CGR	SE	CGR	SE	CGR	SE	CGR	SE
1	Loans issued	30.21**	0.29	11.31**	0.26	30.57**	0.39	19.08	1.32	1.43**	0.28	13.01**	0.37
2	Loans Outstanding	21.34**	0.26	1.58**	0.24	23.7**	0.33	4.52**	0.19	4.88**	0.39	9.48*	0.56

Note: *, ** indicate significance at 5 % and 10%, respectively.

Table 3 Credit disbursement by RRBs and co-operative banks for Period III

Sr. no.	Growth	RRBs		SCBs		DCCBs		PACs		PCARDBs		SCARDBs	
		CGR	SE	CGR	SE	CGR	SE	CGR	SE	CGR	SE	CGR	SE
1	Loans issued	33.37**	0.26	6.5**	0.22	13.9**	0.22	16.35**	0.17	4.78**	0.33	17.71*	0.43

2	Loans Outstanding	28.58**	0.24	9.2**	0.25	15.97**	0.16	0.93**	0.07	2.33**	0.27	54.56*	0.78

Note: *, ** indicate significance at 5 % and 10%, respectively.

The share of all India direct credit to agriculture during the Period IV is presented in Table 4 showed the rapid growth in RRBs with in both loan issued and outstanding i.e. 14.76 and 15.20, respectively followed by SCBs in loan issued with 10.01 and DCCBs in loan outstanding with 7.23 values at 10 per cent of significance. The share of all India direct credit to agriculture during the Period V is shown in Table number 5. It showed that in case of loan issued, RRBs and state co-operative banks had high significant values i.e. 18.19 and 8.33, respectively, while in case of loan outstanding DCCBs and SCBs had high significant values i.e. 13.09 and 7.30 respectively, at 10 per cent level of significance.

Looking to these results it was found that there were wide disparities in the share of institutional credit between the co-operative banks during these Periods. While RRBs had maintained their share in both loan issued and in loan outstanding simultaneously. Considering the compound annual growth rate of the both RRBs and co-operative banks in India, in all the Periods it was found that performance of RRBs followed by DCCBs, State co-operative banks were better with respect to other financial institutions in the share of institutional credit distribution.

Table 4 Credit disbursement by RRBs and co-operative banks for Period IV

Sr. no.	**Growth**	**RRBs**		**SCBs**		**DCCBs**		**PACs**		**PCARDBs**		**SCARDBs**	
		CGR	**SE**	**CGR**	**SE**	**CGR**	**SE**	**CGR**	**SE**	**CGR**	**SE**	**CGR**	**SE**
1	Loans issued	14.76**	0.18	10.01**	0.15	8.78**	0.16	6.69**	0.22	3.88**	0.25	6.27	0.91
2	Loans Outstanding	15.2**	0.14	4.52**	0.19	7.23**	0.19	6.8**	0.15	2.48**	0.25	16.71	0.80

Note: *, ** indicate significance at 5 % and 10%, respectively.

Table 5 Credit disbursement by RRBs and co-operative banks for Period V

Sr. no.	**Growth**	**RRBs**		**SCBs**		**DCCBs**		**PACs**		**PCARDBs**		**SCARDBs**	
		CGR	**SE**	**CGR**	**SE**	**CGR**	**SE**	**CGR**	**SE**	**CGR**	**SE**	**CGR**	**SE**
1	Loans issued	18.19**	0.49	8.33**	0.38	13.51***	0.37	0.90	1.31	0.98**	0.32	5.10	0.72
2	Loans Outstanding	0.56**	0.32	7.30**	0.40	13.09***	0.35	3.53**	0.19	0.97**	0.32	22.73	0.77

Note: *, ** indicate significance at 5 % and 10%, respectively.

5.0 Conclusion

There were wide disparities in the share of institutional credit between the co-operative banks during these Periods. While RRBs had maintained their share in both loan issued and in loan outstanding simultaneously. Considering the compound annual growth rate of the both RRBs and co-operative banks in India, in all the Periods it was found that performance of RRBs followed by DCCBs, SCBs were better with respect to other financial institutions in the share of institutional credit distribution. It was concluded that credit performance of RRBs followed by DCCBs, SCBs were better with respect to other financial institutions.

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