



# International Journal of Research Publication and Reviews

Journal homepage: [www.ijrpr.com](http://www.ijrpr.com) ISSN 2582-7421

## Cooperative Banking in India: NPA Challenges and Solutions

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### ABSTRACT :

This study investigates the pervasive issue of Non-Performing Assets (NPAs) and the operational challenges facing India's cooperative banking sector, a crucial pillar for rural and semi-urban economic development. Despite the sector's historical significance and successes like AMUL and IFFCO, a substantial portion of cooperative institutions are grappling with rising NPAs, rendering them non-functional or under liquidation, thereby straining the national exchequer. Through a blend of primary data collected via stakeholder interviews and secondary data sourced from the National Cooperative Database, RBI reports, and economic surveys, this research explores the multifaceted factors contributing to this crisis. The analysis delves into the impact of operational capability, liquidity, business development capacity, solvency, capital adequacy, and profitability on NPA levels. It highlights the systemic issues stemming from poor management, inadequate credit assessment, governance failures, and external economic pressures. The study also examines the efficacy of government initiatives, including the 'Four R Resolution Approach' and RBI's Master Circular, aimed at revitalizing these institutions. The findings underscore the urgent need for comprehensive reforms encompassing enhanced governance, financial literacy, and technological integration to mitigate NPAs and restore the functionality of cooperatives. The research advocates for a holistic, multi-dimensional strategy involving all stakeholders to ensure the sustainability and resilience of the cooperative sector, thereby safeguarding the livelihoods of rural and semi-urban communities.

**Keywords:** Non-Performing Assets (NPAs), Cooperative Banks, Financial Stability, Rural Development, Governance, Economic Reforms.

### Introduction

The success of any economy depends on a robust and a strong stable financial framework and institutions. The Indian economy at present is revolving around a growth rate of 6-7% with lots more initiatives and measures to make India a Developed Nation and the leading economy in the world. The Indian banking structure has a well-defined hierarchy with the central bank, commercial banks, cooperative banks, regional rural banks, and specialized financial institutions. In this hierarchical pattern, the cooperative banks play a significant role in the upliftment of the livelihoods of the rural and semi-urban masses. The cooperative banks have been in existence since 1904, with the enactment of the cooperative societies act, 1904. Since the number of cooperative banking institutions have increased manifold. Today there are more than 29 cooperative sectors working in multi-diversified roles and capacities. It may be noted that a cooperative society/institution is a voluntary organisation consisting of members irrespective of caste, creed, gender and class. They join hands to achieve their common economic, social, and cultural needs and ambitions through a jointly owned and democratically governed society. Cooperatives function on the ideas of collaboration, democracy, and equal benefit sharing. There have classic success stories of cooperatives like AMUL<sup>1</sup>, IFFCO<sup>2</sup>, KRIBHCO<sup>3</sup> etc who have not only shown excellent performances but have also have improvised the livelihoods of many farmers and rural masses. However, at the same time, around 21% of these cooperative institutions have shown negative performances, with a rising NPAs thereby rendering it as Non-functional and in some cases, some of the cooperatives are under liquidation. As per the National cooperative database, out of 817215 cooperatives as on 15/2/2023, 628352 were functional and 144335 were non-functional and 44528 were under liquidation. This greatly creates a burden on the National exchequer. The reasons for Such NPAs may be many. The NPA of the Cooperative Banks is largely dependent on the local business/economic conditions, state government policies, quality of manpower, etc. it also further depends on the nature of Portfolio investments made by the cooperative institutions. Most of the researches has analysed the fields of NPA aligning with individual impact of operational capability, solvency and profitability on NPAs. However, the possibility of exploring the impact of these together on NPAs has not been considered as of now. A comprehensive framework needs to be done to know the impact of the operational capability<sup>4</sup>, liquidity<sup>5</sup>, business development capacity, solvency<sup>6</sup>, capital adequacy<sup>7</sup> and profitability on NPAs<sup>8</sup> of Cooperative institutions. Figure 1 provides a schematic diagram of the NPA literature review.



The schematic<sup>9</sup> diagram of the NPA literature review shows a set of variables which has actually led to the formation of NPAs in the banking industry. Apart from these, many studies have also highlighted the concerns and the factors contributing to NPAs .

## Review of Literature

Choudhury, M. (2018) explores the growing challenge of Non-Performing Assets (NPAs) in cooperative banks. The study emphasizes the necessity for comprehensive management strategies that encompass both financial oversight and community engagement to enhance cooperative functionality.

Ghosh, S., & Sen, A. (2019) highlight the systemic issues leading to NPAs in cooperatives, particularly focusing on governance failures and lack of accountability. They advocate for holistic reforms that integrate robust governance frameworks alongside financial management practices.

Iyer, R. (2020) discusses the multifaceted causes of non-functional cooperatives, identifying mismanagement, lack of member participation, and external economic pressures as key factors. The paper suggests a holistic approach that includes educational initiatives for members and enhanced operational transparency.

Jha, R. (2021) reviews various reform models implemented in cooperative sectors to mitigate NPAs. The author posits that a blend of regulatory reforms and grassroots mobilization can revitalize non-functional cooperatives, leading to more sustainable operations.

Kumar, V. (2017) examines best practices from successful cooperative banks and highlights the importance of adaptive management strategies to address NPAs. The study emphasizes the role of member involvement in governance as a critical factor for success.

Mitra, A. (2018) proposes a reform framework aimed at addressing the operational inefficiencies of non-functional cooperatives. The paper argues for integrating technology into management processes to improve transparency and accountability.

Nair, K. (2016) investigates the correlation between governance quality and NPA levels in cooperatives. The findings suggest that enhanced governance structures are essential for reducing NPAs and improving cooperative performance.

Prasad, A. (2020) highlights the economic impact of NPAs on cooperative societies, suggesting that effective risk management strategies are vital. The study calls for holistic reforms that encompass financial, operational, and educational dimensions.

Rao, P. (2019) focuses on policy measures needed to tackle NPAs within cooperative frameworks. The author advocates for strategic reforms that address both systemic and individual cooperative challenges.

Sahoo, S. (2021) discusses innovative management approaches for addressing NPAs in cooperative banks, emphasizing the need for holistic solutions that include financial literacy and member education as integral components.

Sen, R. (2018) analyzes the role of financial literacy in managing NPAs, suggesting that improving members' understanding of financial principles can lead to better decision-making and reduced risk of non-functionality.

Sharma, R. (2020) employs a case study approach to examine the effectiveness of reform strategies in revitalizing non-functional cooperatives. The study concludes that a comprehensive strategy involving stakeholder engagement is crucial for long-term sustainability.

Tripathi, S. (2017) reviews various approaches to cooperative management and highlights the importance of holistic strategies that consider the socio-economic context of cooperatives in managing NPAs effectively.

Verma, J. (2021) investigates the governance challenges faced by non-functional cooperatives, arguing that systemic reforms are necessary to foster a culture of accountability and performance.

Zar, M. (2019) emphasizes the need for multi-dimensional reform strategies to revitalize non-functional cooperatives, arguing that addressing NPAs requires a holistic view that integrates financial, operational, and social aspects.

The literature on managing NPAs and the need for holistic reforms in non-functional cooperatives reveals a consensus on the importance of comprehensive, multi-faceted strategies. The integration of governance improvements, member education, and innovative management practices emerges as crucial for the revitalization and sustainability of cooperatives. These insights underscore the necessity for a collaborative approach that involves all stakeholders to effectively address the challenges posed by NPAs.

## Objectives of the study

- To evaluate the NPAs and its impact on cooperatives growth and stability
- To analyse Non-functional cooperatives and suggest remedial measures for its recovery

## Methodology of the Study

The study is an attempt to penetrate into the cooperative sectors rising NPA and the defunct cooperatives. As such, both primary and secondary sources are relied upon. Primarily, the BoD, and other stakeholders of cooperatives were interviewed (25). The secondary source has been the data collected from the National cooperative database, RBI, Economic survey Reports, websites etc.

### NPAs and Cooperatives

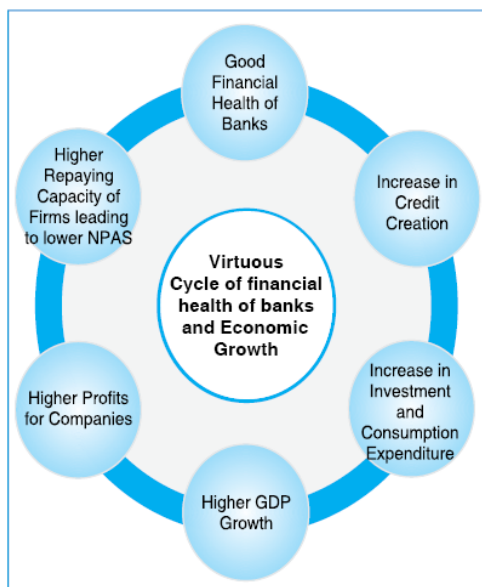
Non-Performing Assets (NPAs) and non-functional cooperatives pose significant challenges to the cooperative sector, undermining financial stability and member trust. NPAs refer to loans or advances that have not been repaid for a specified period, leading to liquidity issues and impacting the cooperative's ability to fulfil its obligations. Non-functional cooperatives, often resulting from poor management, lack of member engagement, and governance failures, struggle to operate effectively and meet their objectives. As per the statement given Minister of State, Ministry of Finance, Mr. Bhagwad Karad, the Gross Non-Performing Assets as a percentage of Gross Loans outstanding of Rural Cooperative Banks (RCBs) decreased from 10.2 in 2020 to 9.5 in 2021. Whereas in case of UCBs it increased from 10.6 in 2020 to 11.7 in 2021. The NPA of Cooperative Banks is largely dependent on the local business/economic conditions, state government policies, quality of manpower etc. These challenges not only hinder financial growth but also diminish the cooperative's role in community development and support. To address these issues, a comprehensive approach involving enhanced governance, financial literacy for members, and strategic reforms is essential. By revitalizing these cooperatives, stakeholders can foster resilience, restore functionality, and ultimately contribute to sustainable economic development within the community. The data presented reveals a stark contrast between non-functional and functional cooperatives across different categories in Tamil Nadu compared to the national landscape. Tamil Nadu has 1,109 non-functional primary cooperatives out of a total of 14,429 registered in India, highlighting a significant operational challenge at the grassroots level. There are no non-functional federations at the block, regional, and state levels in Tamil Nadu, indicating that these structures may be more stable than primary cooperatives. However, the existence of a few functional district federations (8 in Tamil Nadu) shows some level of operational success. The data shows limited functionality among cooperative banks, with only one state cooperative bank and 24 district cooperative banks still operational in Tamil Nadu. Across all types of societies, Tamil Nadu has 20,740 total registered societies, with 6,640 functional ones. In contrast, India has 628,371 registered societies, with 44,528 functional cooperatives. This data underscores the urgent need for strategic reforms and support to revitalize non-

Sr.No.	Types of Society	Non-Functional cooperatives		Functional Cooperatives		Under Liquidation	
		Tamilnadu	Total Regd. Societies (INDIA)	Total Regd. Societies (INDIA)	Tamilnadu	Tamilnadu	India
1	Primary Cooperatives	1109	144290	624828	20385	638	44425
2	Block/Taluka/Mandal Federation	0	18	247	0	0	8
3	Regional Federation	0	2	36	0	0	1
4	District Federation	0	14	441	8	0	9
5	State Federation	0	10	212	5	0	15
6	National Federation*	0	0	19	19	0	0
7	Multistate Cooperative	0	0	1678	140	2	66
8	State Cooperative Banks	0	0	32	1	0	0
9	District Cooperative Banks	0	1	338	24	0	1
10	Primary Cooperative Agriculture and Rural Development Banks (PCARDB)	0	0	526	176	0	0
11	State Cooperative Agriculture and Rural Development Banks (SCARDB)	0	0	14	1	0	3
	Total	1109	144335	628371	20740	640	44528

Source: Ministry of Cooperation

functional cooperatives, particularly primary cooperatives, to enhance their effectiveness and contribution to local economies. Further, the data regarding cooperatives under liquidation reveals important insights into the operational challenges faced within the cooperative sector in Tamil Nadu compared to the national context. The dataset does not specify the number of primary cooperatives under liquidation in Tamil Nadu, but this indicates a pressing issue, given that primary cooperatives form the backbone of local cooperative movements. Tamil Nadu has 638 federations under liquidation, a substantial figure compared to the 44,425 in India. This suggests significant instability at the federative level, which may affect local cooperative dynamics. Both district and regional federations in Tamil Nadu show no entries under liquidation, indicating relative stability compared to block federations. The data highlights that two state cooperative banks in Tamil Nadu are under liquidation, while the national figure stands at 66. The absence of liquidated district cooperative banks suggests some level of resilience within that segment. No primary or state cooperative agricultural and rural development banks are listed under liquidation, suggesting these institutions may be better managed or supported.

Overall, the significant number of block/taluka/mandal federations under liquidation in Tamil Nadu points to a critical need for reform and intervention to stabilize and revitalize these structures. Addressing the challenges facing cooperatives, particularly at the grassroots level, is essential for ensuring their sustainability and effectiveness in serving local communities. At the state level, there is an urgent need for the reformative measures through the state cooperative Acts. At the central level, the government had launched various measures to minimise the NPAs in terms of structural reforms. The government has formulated specific policies focused on the promotion and development of cooperatives, emphasizing self-sustainability and member participation. A list of more than 54 initiatives have been floated to facilitate the defunct cooperatives to diversify their losses with a diversified framework of doing business in more than 29 sectors of the economy. The model bye laws, computerisation of PACs, reforms in elections of societies, Jan Aushadi Kendra, LPG distributorship, setting up of Petrol Pumps etc have paved the ways for the cooperatives to diversify their losses and businesses. The Cooperative Rehabilitation, Reconstruction and Development Fund has been established by the Central Government of India to revive and develop multi-state cooperative societies that are in financial distress. The fund is used to revive and develop multi-state cooperative societies that are considered sick. The increasing NPAs on the other hand was a source of worry for the National exchequer. The rising trend of Non-Performing Assets (NPAs) in cooperatives poses a significant challenge to their financial health and sustainability. Factors contributing to this increase include poor management

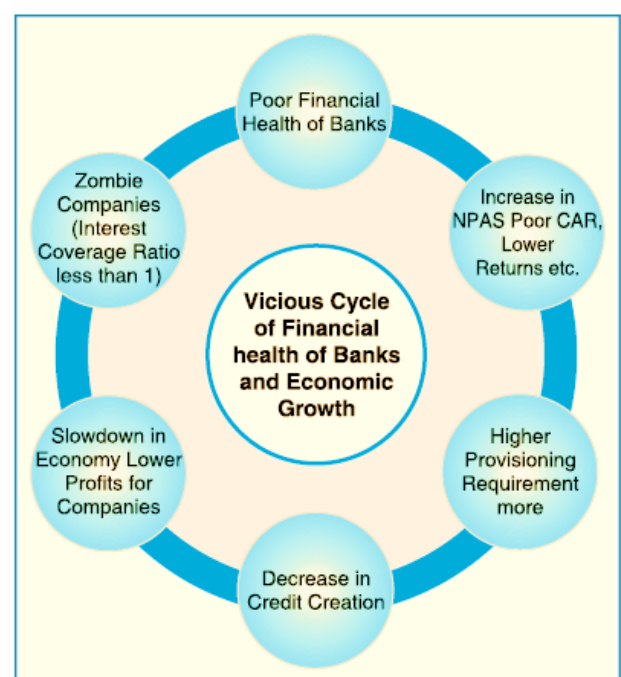


sustainability of cooperatives but also impact the livelihoods of those they serve, exacerbating socioeconomic challenges in communities reliant on cooperative support.

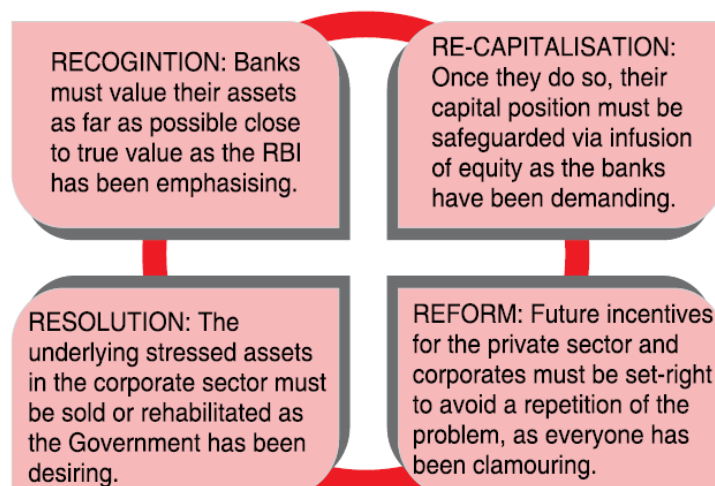
#### ***Approaches to deal with NPAs***

The Economic Survey 2015-16 has suggested 'Four R (4R) Resolution Approach' to comprehensively resolve the issues of rising Non Performing Assets and Twin Balance Sheet problem.

practices, inadequate credit assessment, and a lack of member engagement. Many cooperatives have extended loans without rigorous scrutiny, leading to defaults that compromise their liquidity. Additionally, external economic pressures, such as fluctuations in market conditions and agricultural productivity, exacerbate the situation. The absence of effective governance structures further compounds these issues, leaving cooperatives vulnerable to mismanagement and fraud. As NPAs escalate, the viability of these institutions comes into question, threatening their ability to serve members and contribute to community development. Addressing this crisis requires a comprehensive approach, including better risk management practices, enhanced member participation, and stronger regulatory oversight to restore trust and stability within the cooperative sector. Further as As NPAs increase, cooperatives face liquidity challenges, which hinder their ability to lend and invest in community development projects. This results in reduced access to credit for members, particularly small farmers and local entrepreneurs, stifling economic growth at the grassroots level. Additionally, high NPAs erode member confidence, leading to a decline in participation and investment in cooperative initiatives. The overall trust in the cooperative model diminishes, making it harder for these institutions to attract new members and resources. Moreover, the regulatory burden increases as authorities seek to address the rising NPAs, diverting attention from productive activities. Ultimately, the growing NPAs not only threaten the



The 4 Rs of the approach include:



#### Other Legal Measures

Sr. No	Measures	Details
1	Debt Recovery Tribunal (DRT) – 2013	1. It was set up to reduce the time required for settling cases 2. Governed by Recovery of Debt due to Banks and Financial Institutions Act, 1993 3. Insufficient numbers, hence cases are pending for longer durations.
2	Credit Information Bureau (2000)	This step is to prevent NPA's by sharing of information on wilful defaulters
3	ARC (Asset Reconstruction Companies)	Recovering value from stressed loans bypassing courts which was a time-consuming process.
4	Corporate Debt Restructuring (2005)	Reduce the burden of debts on the company by giving more time to the company to payback as well as decreasing the rates along with it
5	5:25 Rule (2014)	1. This is also called Flexible Restructuring of Long Term Project Loans to Infrastructure and Core Industries 2. This involves refinancing of long term projects
6	Joint Lenders Forum (2014)	1. It is done to avoid a situation where a loan is taken from one bank to repay the loans in other banks
7	Mission Indradhanush (2015)	1. It is the most comprehensive reforms undertaken to improve the functioning of the Public Sector Banks, by using the ABCDEFG formula.
	Strategic Debt Restructuring (SDR) – 2015	1. Corporates who have taken loans from banks if they are unable to repay, then the banks can convert part or complete loans into equity shares
8	Asset Quality Review (2015)	1. This is a kind of preventive measure, involving early identification of assets which could turn out to be stressed at a later stage.
9	Insolvency and Bankruptcy Code, 2016	1. One-stop process for solving insolvencies. 2. Aims to protect small investors.

The government has also revised the provisions pertaining to NPAs via its Master Circular DOR.STR.REC.14/21.04.048/2023-24 dated May 8, 2023, which all cooperative banks need to adhere as the guidelines from RBI. It may be noted that this Master Circular only consolidates all instructions on the above matter issued up to March 31, 2024 and does not contain any new instructions/guidelines.

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  - 2) [https://en.wikipedia.org/wiki/Indian\\_Farmers\\_Fertiliser\\_Cooperative](https://en.wikipedia.org/wiki/Indian_Farmers_Fertiliser_Cooperative)
  - 3) <https://www.kribhco.net/pages/about/Genesis.html>
  - 4) the ability of a system or entity to maintain a certain level of operation in the future
  - 5) the ease with which an asset, or security, can be converted into ready cash without affecting its market price.

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- 6) the ability of a company to meet its long-term debts and other financial obligations
  - 7) the amount of capital a financial institution needs to have to support its operations and absorb losses.
  - 8) Advances or loans for which the principal or interest payment was past due for ninety days are considered non-performing assets.
  - 9) <https://en.wikipedia.org/wiki/Schematic>
  - 10) RBI Report on Trend and Progress of Banking in India, 2021 & NABARD