Importance of Cooperative Credit System in Indian Economy: Role of Short -Term and Long-Term Cooperative Credit Structure & Urban Cooperative Banks

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Rural credit co-operatives came into existence as an institutional mechanism to dispense credit to marginalised areas and activities at affordable cost to address the twin problem of rural indebtedness and poverty, since enactment of Cooperative Societies Act, 1904.

Urban credit cooperatives such as urban cooperative Banks & Urban Cooperative Credit societies are self initiated autonomous cooperatives credit institutions having single tire arrangement and functioning in urban and semi-urban areas. These urban cooperative institutions inculcating habit of saving and provides credit in urban areas for self employed professionals, housing, education, and similar population base in urban areas through their micro-credit products. These institution regulated by the registrar of cooperatives in case of urban cooperative credit societies and Reserve Bank of India/ Registrar of Cooperative Societies in case of urban cooperative banks

Although Co-operative banks function as intermediaries for last mile credit delivery and promote financial inclusion. In the recent period, however, this sector has faced challenges emanating from ownership structure, deficient corporate governance practices, and rising incidence of frauds besides issues arising from dual regulation of the Reserve Bank and government. Mobilisation of additional capital is constrained by shareholding patterns and constitutional provisions. Legal impediments and idiosyncratic factors tend to hinder their expeditious resolution, the role of rural cooperative credit and banking consisting of State Cooperative Banks, District Central Cooperative Banks and Primary Agricultural Cooperative Credit Societies a three tire credit delivery system in short term credit disbursement and State Cooperative Agriculture and Rural Development Banks, Primary Cooperative Agriculture and Rural Development Banks/ Branches as two tire long term credit disbursement mechanism plays vital role for credit disbursement to small and marginal farmers, rural artisans, SHGs JLGs etc. similarly the Urban Cooperative Banks as single tire arrangement performs similar role with respect to population residing in Urban and Semi-urban areas.

This strata of beneficiaries constitute majority of the membership and beneficiaries group of rural cooperative credit system for agriculture, agri-allied activities and livelihood development in rural areas. The Cooperative delivery mechanism since has a sizable presence in rural areas has a definite role not only in credit disbursement as one of the input for farmers but also making available other necessities for farmers and other rural population viz. fertilizer, pesticides, seeds, storage facility, agricultural implements, consumer items, and community development programmes. Their role in finance to agri-processing cooperatives and business linkages with rural credit cooperatives and Urban Credit and Banking cooperatives is of vital importance, though supplementary in nature.

Review of Literature

Thomas and Gupta (2021) studied the financial inclusion through Urban Cooperative Banks insights from Telangana. The study shows that among the surveyed UCBs, 62% were catering to the financial needs of slum dwellers and daily wage laborers. A slightly higher percentage of UCBs had MSMEs and self-help groups (SHGs) as their clientele. Mortgage loans were the predominant type of loans given out by UCBs, followed by gold loans. About 36% to 38% of the UCBs had implemented the Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) and the Pradhan Mantri Suraksha Bima Yojana (PMSBY). However, only 13% of the UCBs had bank accounts opened under the flagship financial inclusion programme of Government of India, the Pradhan Mantri Jan Dhan Yojana (PMJDY). All the surveyed UCBs claimed that they had adopted core banking solutions (CBS). CBS aids in the integration of various banking services offered by all branches of a bank, using centralized data centers and information technology.

Pitale, Y. (2021) studied the polyvalent financial inclusion by state cooperative banks. The findings showed that the arduous scale of operations of the SCBs faces shortcomings at the hands of Limited bandwidth of operations and secondly due to Liberalization, Privatization and Globalization of the Indian banking industry need to receive more attention in context to technology upgrade in tune with the technology match adopted by the SCBs. It is observed that the SCBs focusing only on short and medium credit requirement has recently led to gaps in profitability resulting in restricted expansion in profitability volumes and efficiency of operations. Thus it is a common and emerging thought by the banking seers that SCBs along with their network of DCCBs, PACS and its member farmers can flourish economically when they take up other business activities over and above agricultural activities. It is observed that the SCB sector accounts for just 10.6 per cent of the commercial banking sector. It is now pertinent that the SCBs network to bow to the reigning transformations and yet perform its functions based on cooperative principles. Increase in scale of operations by having more number of district level DCCBs network with more number of PACS depending on the number of land holdings will help the SCBs reach more to the last mile of the society. Inclusion of MSME credit based on cooperative principles by forming MSME cooperatives or associations will help expansion of scope and scale for the SCBs, thus realizing the goal of polyvalent Financial Inclusion.

Kumar, K. (2022) studied the success story of PACS Borkheda is no less than a Bank. This society providing diverse services to its members like term deposit offers more interest than other banks, loan facility on NSC/Kisan Vikas Patra, loan for salaried staff, consumer loans, business loans, CC limits, house loans, and other loan facilities, special interest for deposits by senior citizens, lockers and e-Mantra facility. The activities of this society are mostly for the benefit of rural and semi-urban entrepreneurs of the Kota city area for the socio-economic development of the area of operation of this society. The things which makes the society successful like trust of the members, easy process of opening account, easy process of loan sanction, personal relations, etc.

Ingale and Sayed (2022) studied the adaptation of information and communication technology (ICT) in Primary Agricultural Cooperative Societies (PACS): empirical research in Western Zone. Both primary and secondary source of information along with the descriptive statistics such as frequency, percentage and mean, Binary Logit Model was used for analytical part. It was observed that ICT adoption has been growing, different applications and technologies have adopted by some PACS to control costs, create efficiency and effectiveness in their operations, improve productivity, and increase outreach to the members. ICT adoption has been growing, different applications and technologies have been adopted by some PACS to control costs, create efficiency and effectiveness in their operations, improve productivity, and increase outreach to the members. Some PACS are appreciating the benefits associated with ICT and in particular increased efficiency, improved service delivery, improved operational performance among many others. Barriers in the ICT usage such as high cost of qualified services that must brought to the attention of practitioners and policy makers for action taken so that ICT may continue influencing positively to the PACS operations. Some recommendations from the study are, PACS members need to make awareness about importance of ICT in credit business; State Government and the cooperative unions should ensure implementation of cooperative education as a principle to include computer training of managers / staff particularly in the use of DBMS, electronic spreadsheet and other software.

Choudhary and Farmer (2022) studied the evolution, functioning and analytical study of loans advanced by long term cooperative credit structure in Gujarat. It was observed that GSCARD bank providing long term credit to farmers of the Gujarat State through 176 branches as its retail credit delivery units. Banks performs through unitary structure. The management of the bank is in the hands of Board of Directors of the bank. Low recovery, overdue, rising NPAs, lesser growth in loans & advances, limited scope for deposit mobilization, non-availability of Government guarantee, lack of skilled & professional staff, acute shortage of staff, resource crunch for expansion of credit, non-computerization, non availability of interest subvention scheme and high number s loss making branches. Because of this, bank requires urgent need of reforms to address deficiencies in its design as a non-resource based institution with the only business of providing term loans to farmers. The GSCARD Bank is required to bestow immediate attention for taking corrective steps to tackle the above major areas of concern for up scaling the business and financial performance. It needs to prepare effective action plans to step up lending, resource mobilization and timely recovery of loan installments. It shall seek enhanced support from Central Government, Government of Gujarat and the NABARD.

Structure of the Co-operative Credit Sector

The cooperative credit system in India is an essential component of the country's financial framework, encompassing two main sectors: urban and rural cooperatives. Its primary purpose is to bring together the financial resources of individuals with limited means, granting them access to a range of financial services. The rural credit cooperatives were initially conceived as a means to pool the resources of economically disadvantaged individuals and offer them opportunities for economic growth.

Table: 1 Structure of the Co-operative Credit Sector

Cooperative Banks (1,05,074)	
Rural Cooperative Banks (1,03,560)	**Urban Cooperative Banks (1,514)**
Short Term (1,02,944) • StCBs (34) • DCCBs (351) • PACS (1,02,559)	Scheduled UCBs (52)
Long Term (616) • SCARDBs (13) • PCARDBs (603)	Non-Scheduled UCBs (1,462)

Note:1. StCBs: state Cooperative Banks DCCBs: District Central Cooperative Banks PACS: Primary Agricultural Credit Societies SCARDBs: State Cooperative Agriculture and Rural Development Banks PCARDBs: Primary Cooperative Agriculture and Rural Development Banks.

2. Figures in bracket indicate the number of institutions at end-March 2022 for UCB and at end-March 2021 for rural cooperatives.

3. DCCBs excluding Tamil Nadu Industrial Cooperative Bank Ltd.

(Source: Report on Trends and Progress on Banking in India 2021-22)

Rural co-operative banks' network of short and long-term institutions has nurtured a distinctive place in the rural credit delivery system due to outreach and volume of business. Deposits are the major sources of funds for short-term credit co-operatives while long-term credit co-operatives rely heavily on borrowings. The co-operative banking structure in India was developed to complement and supplement the commercial banking structure, with a specific focus on serving the requirements of marginalised borrowers and meeting the development needs of rural as well as urban areas. Rural co-operatives are segregated by activity, i.e., into short term vis-à-vis long-term lending. At end-March 2022, the sector consisted of 1,03,560 rural credit co-operatives and 1,514 UCBs (Table.1)

With this context the present paper ascertains structure, growth rate, issues and challenges faced and importance of rural credit cooperatives and urban cooperative banks in the Indian economy. The section A deals with the Rural Credit Cooperatives and Section B deals with the Urban Cooperative Banks.

Section A

Role of Short term and Long term Rural Credit Structure:

Short-term Rural Credit Co-operatives

Short-term credit co-operatives, viz. State Co-operative Banks (StCBs), District Central Co-operative Banks (DCCBs) and Primary Agricultural Credit Societies (PACS) that operate at the grass root level, cater to the credit requirements of the members through provision of crop loans / working capital. They also provide several non-financial services like input supply, storage and marketing of produce as well as supply of consumer goods at the PACS level.

State Co-operative Banks (StCBs)

State co-operative banks (StCBs) are the apex institutions in the rural co-operative structure, providing liquidity and technical assistance to the Tier II and Tier III institutions, apart from customer lending on their own. At end-March 2021, they had 2,078 branches across 35 states and UTs, providing credit for a range of agricultural and non-agricultural purposes. Agricultural loans constituted 43 per cent of the total loan portfolio of StCBs.

District Central Co-operative Banks

District central co-operative banks (DCCBs), which constitute the second tier in the short-term rural co-operative structure, are operating in 20 states/ UTs with a network of 13,610 branches that are largely concentrated in the central region. They mobilise funds through public deposits, borrowing from StCBs and refinance from NABARD to lend to individual borrowers and third tier institutions, viz. PACS.

Primary Agricultural Credit Societies

Primary Agricultural Credit Societies (PACS) are the grass root level institutions in the short-term rural co-operative structure. Historically, they have raised resources through both borrowings and deposits for providing short-term and medium-term agricultural credit, especially to marginal farmers. They also undertake a gamut of other activities, including supply of agricultural inputs, distribution of consumer articles and marketing of produce for their members.

Long-term Rural Credit Co-operatives

Long-term rural co-operatives were established for providing funds for investment in agriculture — including land development, farm mechanisation and minor irrigation — rural industries and housing. This structure consists of 13 state co-operative agriculture and rural development banks (SCARDBs) operating at the state level and 603 primary co-operative agriculture and rural development banks (PCARDBs) operating at the district/block level. The structure of long-term rural co-operatives differs across states. States like Jammu and Kashmir, Tripura, Uttar Pradesh, Gujarat and Puducherry follow a unitary structure i.e., SCARDBs operate through their own branches with no separate PCARDBs. On the other hand, states like Haryana, Punjab, Rajasthan, Karnataka, Kerala, and Tamil Nadu follow a federal structure wherein SCARDBs lend through PCARDBs. In two states viz. Himachal Pradesh and West Bengal, SCARDBs operate through PCARDBs as well as through their own branches.

Market shares of Rural Financial Agencies in Ground Level Credit:

Table. 2 Share of various agencies in total agricultural GLC (Amount in ₹ crore)

Year	Commercial Banks		RRBs		Cooperative Banks		Total GLC
	Amt.	% to total	Amt.	% to total	Amt.	% to total	Amount
1991-92	4,806	42.90	596	5.3	5,800	51.7	11,202
1992-93	4,960	32.6	831	5.4	9,378	61.4	15,169
1999-00	24,836	53.7	3,172	6.9	18,260	39.5	46,268
2004-05	81,674	65.2	12,404	9.9	31,231	24.9	1,25,309
2009-10	2,85,800	74.3	35,217	9.2	63,497	16.5	3,84,514
2013-14	5,27,506	72	82,653	11	1,19,963	16	7,30,122
2014-15	6,04,376	71.5	1,02,483	12.1	1,38,469	16.4	8,45,328
2015-16	6,42,954	70.2	1,19,261	13	1,53,295	16.8	9,15,510
2016-17	7,99,781	75	1,23,216	11.5	1,42,758	13.5	10,65,755
2017-18	8,77,155	75	1,40,959	12.1	1,50,389	12.9	11,68,503
2018-19	9,54,822	76.0	1,49,666	12.1	1,52,340	12.3	12,56,829
2019-20	10,70,036	76.8	1,65,326	11.9	1,57,367	11.3	13,92,729
2020-21	11,81,558	75.8	1,89,505	12.2	1,87,769	12	15,58,831

Source: NABARD

Commercial Banks (CBs) enhanced their Agri-credit growth at a faster pace since 2004-05 (GoI announced doubling of credit flow) and increased their share from 53.7 percentin 1999-2000 to 75.8 per cent in 2020-21. RRBs accounted for the remaining share of 12.1 per cent in 2020-21, which is an improvement from their share of 6.9 per cent in 1999-2000. RCB whose share in corresponding period was 39.5 per cent in 1999-2000 and 24.9 percent in 2004-05 has come down to 12 per cent in the year 2020-21 though comparable to the ground level credit disbursement by RRB. It is worth mentioning that the GLC disbursement by RCB in agriculture in 1991-92 & 1992-93 was 51.7 per cent & 61.4 per cent respectively. In sequence if seen, the indicated share in GLC was 42.9 percent and 32.6 percent during the referred period by the commercial banks. Although the rural co-operatives were established with the objective of lending to agriculture, their share in total lending to the sector declined since 2015-16 until 2019-20, but improved marginally thereafter (Table 2).

Details of Members and Borrowers of Primary Agricultural Credit Societies:

Tale No. 3 Details of Members and Borrowers of Primary Agricultural Credit Societies

Numbers in thousands

All India	Members		Borrowers	
	2020	**2021**	**2020**	**2021**
Scheduled Castes	15,886	14,183	4,044	4,390
Scheduled Tribes	9,087	8,482	2,572	2,666
Small Farmers	35,959	35,507	12,449	12,559
Rural Artisans	2,996	3,231	762	820
Others and Marginal Farmers	74,230	75,767	32,728	33,217
Total	**1,38,158**	**1,37,170**	**52,555**	**53,652**

(Source: Report on Trend and Progress of Banking in India, 2020-21)

At end-March 2021, PACS served 13.7 crore members and 5.4 crore borrowers. They have a dominant presence in the western region (mainly Maharashtra), followed by the eastern region. The borrower-to-member ratio — a metric to gauge credit penetration of PACS — was progressively declining from 39.6 per cent in 2016-17 to 38 per cent in 2019-20. During 2020-2021 however, the ratio increased to 39.1 per cent, mainly reflecting a fall in total membership and a rise in total number of borrowers. Rural artisans' and 'other and marginal farmers' share rose in the membership. (*Report on Trend and Progress of Banking in India, 2020-21, Appendix Table V.7)*

Share of RCBs and RRBs in credit flow to agriculture, FY2020–FY2022:

Table No.4 Share of RCBs and RRBs in credit flow to agriculture, FY2020–FY2022

Parameters (Rs.)	RCBs			RRBs		
Financial Year	2020	2021	2022	2020	2021	2022
Share (%) in GLC	11.3	12.1	12.7	11.8	12.1	11.7
Loan (%) dispensed to small and marginal farmers	69.7	71.6	59.3	65.4	65.3	68.0

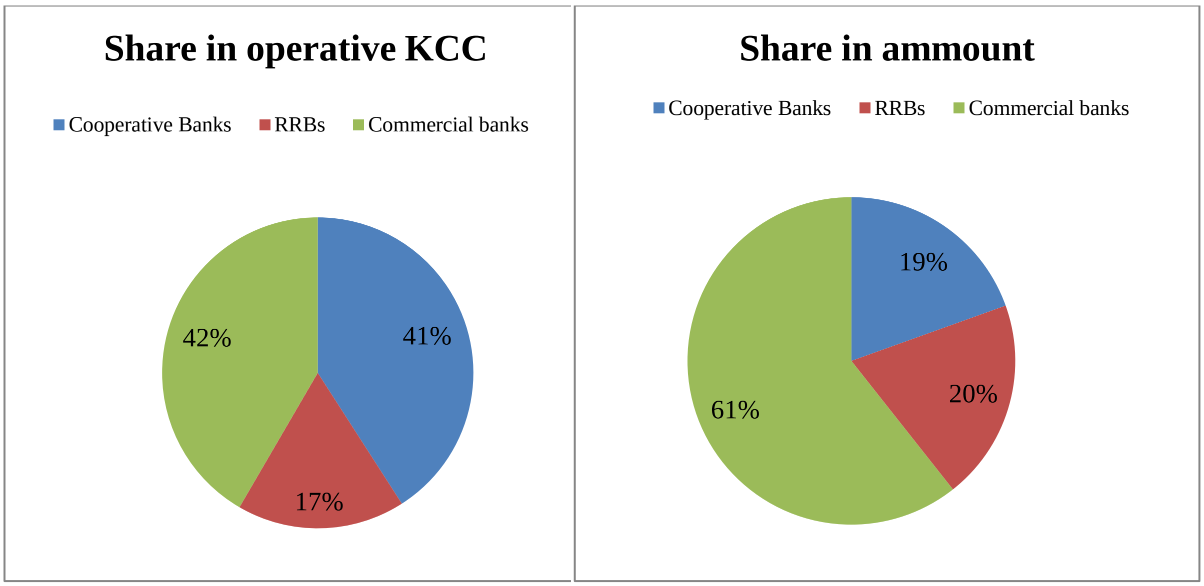
(Report on Trend and Progress of Banking in India,2020-21)

Credit flow to agriculture by RCBs to small and marginal farmers ranges between 59.3 per cent to 71.6 per cent between FY 2020 to 2022

Kisan Credit Card (KCC) Scheme:

The Kisan Credit Card (KCC) scheme, introduced in 1998, aimed at providing adequate and timely credit support from the banking system under a single window with flexible and simplified procedure for the farmers for their overall credit requirements such as cultivation of crops, post-harvest expenses, marketing of produce, maintenance of farm assets, activities allied to agriculture and also consumption requirements of farmer households. As per 2021 data, there were total 71.3 million operative KCC accounts, the bank category-wise share of which is shown in the chart 1

Chart.1 Bank Categories wise share in operative KCC and Amount Disbursement



Source: RBI report on trend and progress of banking in India, *2020-21*

Issues Confronted by the Rural Cooperative Banks (District Central Cooperative Banks)

A long with scheduled commercial banks (SCBs), coop- erative banks play a crucial role in the multi-agency approach to credit delivery in both urban and rural areas (Chakrabarty 2003) They are also an important channel for inclusion of the unbanked segment of the population. With over 120 million customers, the rural cooperative banking structure in India has the largest outreach in rural credit delivery anywhere in the world (Muley 2007; Sinha 2012).

In spite of importance of DCCBs in rural credit delivery, there are several problems with their performance. Most problems have revolved around poor management, operational profits, competitiveness, and governance. Low repayment rates and high non-performing assets (NPAs), undercapitalisation, state patronage, political rent-seeking, and corruption have been chronic problems of cooperative banks (Shah 2007; Vaidyanathan Committee 2005). Surprisingly, despite their long history and relevance in credit delivery, there is scant evidence on the efficiency of cooperative banks in general and DCCBs in particular.

Understanding efficiency of cooperative banks gains significance because of the peculiarities of the cooperative institution that sets them apart from other institutions such as SCBs. Their distinct organisational and managerial structure—they are owned and managed by the clients who are members of the cooperative (voluntarily)—determines not only the division of the initial investment among the members, but also the patronage in the form of dividends and claims on shares. Due to their organisational structure and regulatory constraints, cooperative banks are also less capital intensive compared to their counterparts (Porter and Scully 1987). The equity is in proportion to the borrowings of the bank and the bank has restricted capital from the public. This implies that cooperative banks are not only undercapitalised but also not mandated to maximise returns on equity (ROE). Furthermore, these banks are driven by value systems based on "mutuality" and a spirit of service that is at the core of the cooperative philosophy unlike a profit motive dominance as in SCBs (Madan 2007). The emphasis on mutuality, however, does not imply that cooperatives ignore financial viability. Rather, it implies that cooperatives are driven by social objectives that put benefits to the members ahead of ROE. For DCCBs, maximisation of ROE takes a backseat as they have a mandate to provide low-cost credit to their members.

It is necessary to recognise that the source of funds of DCCBs as well as capitalisation structure may affect their competitiveness. For instance, on their major source of funds, that is, deposits from members (cooperative organisations and individuals), DCCBs offer higher interest rates than commercial banks. While this benefits their members in the short run, it may affect their financial health in the long run. Furthermore, most DCCBs have experienced a fall in the percentage of own fund in working capital in spite of growing membership and working capital (Bhatt and Bhat 2013). External borrowings from the National Bank for Agriculture and Rural Development (NABARD) through SCB in the form of refinance constitute another major source of fund.

A considerable portion of DCCBs continue to be undercapitalised with about half not meeting the 9% capital adequacy ratio requirement (compliance mandated by March 2017)

DCCBs raise equity from the affiliated member institutions. Another source of capital for DCCBs is surpluses and reserves, but they do not form a large component of their accumulated capital given their small spread (College of Agriculture and Banking 2008). Share capital and reserve funds are owned funds component of a cooperative bank's working capital that belong to the members and other agencies. Together, share capital and reserve funds determine the borrowing capacity of DCCBs. Also, whilst share capital influences their lending capacity, reserve funds act as a buffer against contingencies and help securitise their borrowings. Deposits and borrowings comprise borrowed funds component of working capital. The share of reserve funds, share capital, deposits, and borrowings in working capital may show different trends over time as well as across DCCBs. However, expansion of the deposit base and reserve funds indicates self-reliance of DCCBs as it reduces their need for external and costlier resources.

DCCBs draw their funds from share capital (owned funds), deposits, reserve funds, and loans (borrowings) from NABARD, StCBs, the RBI, and commercial banks. A majority of the borrowing of DCCBs comprises concessional loans from NABARD and StCBs. DCCBs also raise deposits from member societies, cooperatives (including PACS), and individuals. DCCBs mobilise funds from several sources and advance these as loans. Under such circumstances, differences between costs of funds and ROA determine profitability of DCCBs. How efficiently a DCCB mobilises its funds and disburses credit has consequences on its overall efficiency.

Increasingly, the distinction between scheduled commercial banks (SCBs), rural co-operatives and urban co-operatives is getting blurred, with all of them competing to serve the same set of clients. Even short-term credit co-operatives like the State Co-operative Banks (StCBs) are diversifying their portfolios, with long term lending to housing and education. Apart from traditional brick-and-mortar models, SCBs have been relying on business correspondents and harnessing benefits of FinTech to solve the problem of last mile connectivity. With growing penetration of commercial banks in the hinterland, the relative size and influence of co-operatives is shrinking. At end-March 2021, the aggregate balance sheet size of the co-operative banking sector at ₹20 lakh crore was 10.3 per cent of the SCBs' consolidated balance sheet, down from 19.4 per cent at end-March 2005.

Financial Inclusion

The Committee on Financial Inclusion in India headed by Dr. C. Rangarajan has defined Financial Inclusion as, "The process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost". Financial Inclusion is both a crucial link and a substantial first step towards achieving inclusive growth. Financial Inclusion should include access to financial products and services like Bank accounts – check in account, Immediate Credit, Savings products, Remittances & Payment services, Insurance – Healthcare, Mortgage, Financial advisory services & Entrepreneurial credit.

Financial Inclusion can be referred to as delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. This definition earmarks three key priority areas in promotion of financial inclusion: a. Access to banking services; b. Access to affordable credit; and c. Access to free face-to-face money advice. Financial Inclusion is critical for achieving inclusive growth in the country. Cooperative Banks focus on the core financially excluded people: viz. SHGs, JLGs, small and marginal farmers.

Considering their long history and their existence in India for more than hundred years, cooperatives institutions have served its customers significantly. The Urban Cooperative Banks have shown their mushroom growth and established themselves as people's bank. Today these banks basically work towards providing cheap, easy and smooth credit access to the poor people and have contributed significantly in the shaping of life of the urban poor. As far as rural areas are concerned, the cooperatives have hundred percent penetrations in rural India through their network of Primary Agricultural Cooperative Credit Societies, meeting not only agricultural needs but supplying other allied and non agricultural requirements to the rural poor and the farmers as well. They enjoy unique selling proposition and that is their relationship banking. The managers of cooperatives know their customer and members personally and well aware of their need and aspirations from the institutions.

The relevant tables presented above and inferences drown depicts following :

i. The Rural Cooperative Banks has definite role for cultivating saving habit in rural areas and credit disbursement at the village level for agriculture and agri-allied activities including credit requirements of consumption nature.

ii. The larger portion of their credit disbursement is to small and marginal farmers, rural artisans, and weaker section of the society.

iii. The credit disbursement through Kisan Credit Card (KCC) through the small and marginal farmers

iv. The cooperative banks also promote organising of self help groups, joint liabilities group s at the village level and disbursement of credit both to men and women beneficiaries.

The cooperative Banks have created IT infrastructure with core banking solutions for effectively serving their rural cliental. The computerisation process of Primary Agricultural Credit Societies, the grass root entities of cooperative rural credit delivery mechanism at the village level, has also been done progressively

Role of NABARD

NABARD continued its measures to strengthen RCBs through FY2022. Under its Revival Package Scheme, NABARD recommended and passed through central government's recapitalization assistance of ₹111.2 crore to Anantnag, Baramulla, and Jammu DCCBs. The union territory of Jammu & Kashmir had released ₹255.7 crore as its share prior to this.

Apart from capital infusion, NABARD supported business diversification and growth, technology adoption, and institution building and infrastructure. The Cooperative Development Fund (CDF)5 was utilised to finance most of these activities . Training of personnel on software and processes and PACS computerisation was a priority.

NABARD has initiated a project for capturing comprehensive geographic, infrastructural, and financial data of around 95,000 PACS, by mapping the data up to the village level. The database for 76,000 PACS has already been created. This comprehensive PACS database will serve as a reference for all assistance under schemes such as PACS as multi-service centres, PACS computerisation, and other future initiatives. It will also give a digital push to agriculture by geotagging of PACS, linking to Agristack, etc.

Under the 'special refinance facility' introduced in FY2021 to transform 35,000 PACS into multiservice centres by FY2023, ₹439.1 lakh was sanctioned (Madhya Pradesh Rajya Sahakari Bank Maryadit: ₹97 lakh; Sikkim State Cooperative Bank: ₹4.9 lakh; and Karnataka State Cooperative Bank: ₹337.2 lakh) and ₹4.9 lakh disbursed during FY2022. The PACS Development Cells (PDCs),7 currently established and functional in 94 DCCBs/StCBs, have assisted 2,556 PACS operating in 20 states. During FY2022, ₹14 lakh was disbursed for the functional PDCs in four states—Bihar, Kerala, Nagaland, and Telangana.

Capacity building during FY2022 During FY2022, the Centre for Professional Excellence in Cooperatives (C-PEC), Lucknow, standardised 9 online training programmes and 23 regular training programmes, taking cumulative number to 188. It conducted 4 certifications to induct 87 institutional and 2,289 individual members, raising its total membership to 12,400 (53 cooperative training institutes, 30 StCBs, 276 DCCBs, 5,685 PACS, and 6,356 individuals

Section B

Role of Urban Cooperative Banks (UCBs)

Urban Cooperative Banks play a vital role in meeting the banking needs of urban and semi-urban areas. These banks are registered under the Cooperative Societies Act and operate based on the principles of self-help, mutual assistance, and democratic decision-making. UCBs provide banking services such as savings accounts, current accounts, fixed deposits, loans, remittances, and payment services to individuals, small businesses, and communities in urban areas. They contribute to financial inclusion and support urban development by offering localized and personalized financial solutions.

In the cooperative credit system, all these entities work together to ensure the availability of credit, promote thrift and financial discipline, and support the socio-economic development of rural and urban areas. They operate under the regulatory framework of the Reserve Bank of India (RBI), which provides guidelines and monitors their operations to ensure financial stability, compliance, and the protection of depositors' interests.

The cooperative credit system, with the participation of SCBs, DCBs, PACS, and UCBs, plays a significant role in fostering inclusive growth, strengthening rural and urban economies, and empowering communities through access to financial services and credit facilities.

As per RBI Bulletin May 2023, the banking and financial sector has demonstrated remarkable resilience, showcasing yet another quarter of robust revenue growth. This impressive performance can be attributed to the substantial expansion of credit, further bolstered by the Reserve Bank of India's strategic allocation of credit across various sectors. Specifically, the noteworthy contributors to this growth were the agriculture and allied activities, trade, and personal loans segments.

The urban co-operative banking system in India consists of a single tier known as Primary Co-operative Banks (UCBs). These banks operate in urban areas and provide financial services to the local population. In simpler terms, urban co-operative banks are single-tier institutions that operate in cities and towns, while rural co-operative credit institutions have a multi-tier structure.

Over the years, the Reserve Bank has been initiating reforms to strengthen the co-operative banking structure. Its two-pronged strategy consists of statutory reforms and regulatory support. The amendment to the Banking Regulation Act, 2020 has eased capital raising constraints of urban co-operative banks (UCBs). The Reserve Bank has been empowered to reconstruct or amalgamate them. The Reserve Bank also revised the regulatory framework governing UCBs on July 19, 2022. The vision guiding the framework is to consolidate their position as friendly neighborhood banks by catering to the heterogeneity in the customer base, while offering more operational flexibility to strong UCBs in order to enhance their contribution to credit intermediation.

Current Status of Urban Cooperative banks: -

Currently, there are 1,514 urban cooperative banks operating in India. These banks can be classified into two categories: scheduled and non-scheduled.

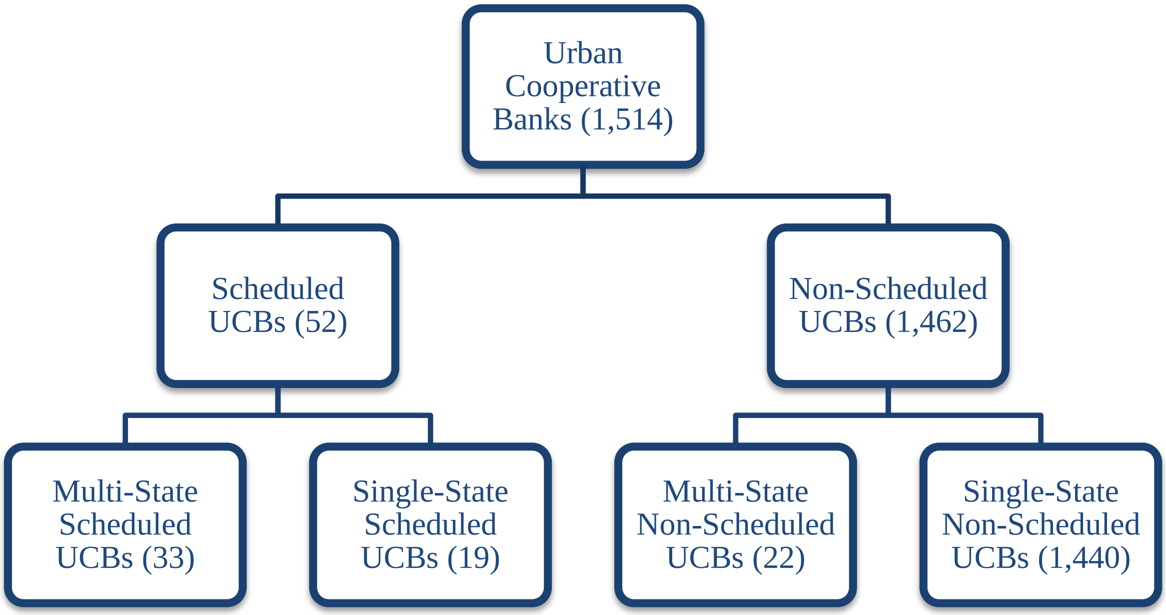


Chart 2:- Structure of Urban Cooperative Banks in India as on 31-March-2022
Source- Database on Indian Economy: Primary (Urban) Co-operative Banks' Outlook Current

Table 5:- Distribution of UCBs based on State, Union Territory and Region

Amount in Rs crore

Region	No. of UCBs	No. of Branches	Deposits	Advances	Total Districts	No. of District with a presence of UCB	No. of District without a presence of UCB	No. of ATM
Northern	69	419	15641.46	7984.87	122	68	54	105
North	16	45	1714.05	709.67	120	14	106	0
Eastern	57	145	8547.78	4150.02	124	28	96	30
Central	125	451	15944.22	7814.09	173	83	90	143
Western	700	7037	390155.67	235394.19	74	69	5	4502
Southern	547	2232	94017.35	58688.06	147	126	21	565
All India	1514	10329	526020.52	314740.91	760	388	372	5345

(Source:- RBI)

The table 5 indicates that according to RBI data, there were a total of 1,514 UCBs in 2022. These banks collectively operated more than 10,000 branches. When comparing the data between 2021 and 2022, it was observed that 1.30% of UCBs had closed within that year. Additionally, there was a decrease of 5.07% in the number of UCB branches. Deposits saw a decrease of 0.18%, while advances experienced an increase of 0.63%.

Furthermore, the total district reaches of UCBs increased by 6.59% in 2022. Additionally, the number of ATMs associated with UCBs increased by 9.98% during the same year.

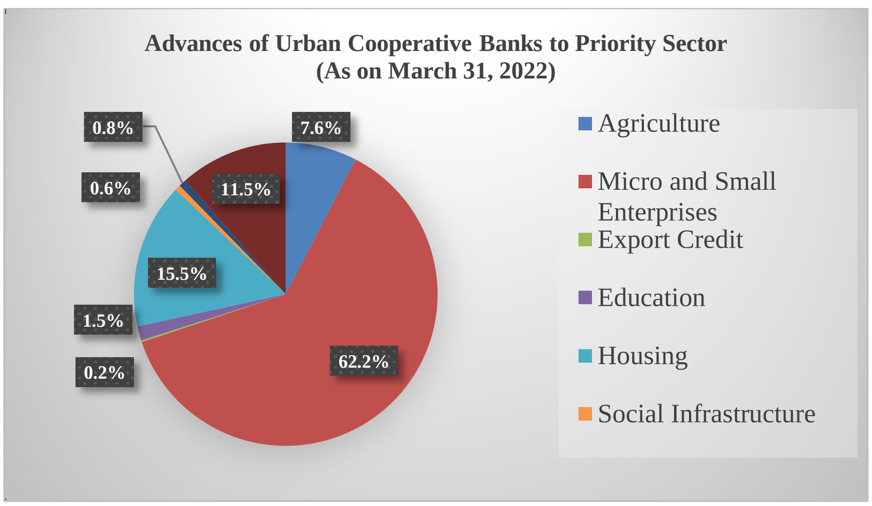
Table 6: Advances of Urban Co-operative Banks to Priority Sector and Weaker Section as on March 31, 2022

Priority Sector Advances (Items)	**Percentage to Total Advances of 2022**
1. Agriculture	4.20
2. Micro and Small Enterprises	34.27
3. Export Credit	0.09
4. Education	0.84
5. Housing	8.52
6. Social Infrastructure	0.35
7. Renewable Energy	0.44
8. 'Others' category under Priority Sector	6.36
9. Total (1 to 8)	**55.06**
of which, Loans to Weaker Sections under Priority Sector	11.07

Source- RBI-Database on Indian Economy: Primary (Urban) Co-operative Banks' Outlook

The table 6 presents the Priority Sector advances of Urban Cooperative banks. It is evident that the highest lending is allocated to Micro and Small Enterprises (MSEs), followed by housing loans, which represent significant lending activities within the Priority Sector.

Chart3:- Advances of Urban Co-operative Banks to Priority Sector and Weaker Section



In comparison to 2021, the Priority Sector advances of Urban Cooperative Banks (UCBs) in the year 2022 witnessed the following changes: agricultural advances increased by 7.90%, lending to Micro and Small Enterprises (MSEs) increased by 6.42%, education loans increased by 10.73%, housing loans increased by 6.32%, and overall lending to Weaker Sections under the Priority Sector increased by 3.73%. The total percentage of Priority Sector lending by UCBs increased by 7.16% over the span of one year. (Chart 3)

Non-Performing Assets of UBC's:-

Table 7 : Gross NPA of UCB's and lending of UCB's in Priority Sector.

(Amount in crores of Rs)

Parameters	March 31, 2022	March 31, 2021	March 31, 2020	March 31, 2019
Total Advances	3,14,740.94	3,12,765.19	3,05,368.27	3,03,017.76
Total Gross NPAs	30472.63	37996.21	32221.51	22,097.99
% of Gross NPAs to Total Advances	**9.68**	**12.15**	**10.55**	**7.29**
Priority Sector Advances (PSA)	1,73,282.00	1,61,708.44	1,53,843.21	1,34,027.97
% of PSA to Total Advances	**55.06**	**51.70**	**50.38**	**44.23**
Non-priority Sector Advances	141458.95	151056.75	151525.06	168989.79

(*Source:- RBI)*

The table 7 reveals that UCB's advances have shown a year-on-year (YOY) average increase of 1.27%. Additionally, UCB's Priority Sector lending has experienced an average YOY growth of 7.67% over the past three years. In contrast, Non-priority Sector Advances have exhibited a negative YOY growth of 5.66%.

Furthermore, UCB has maintained its Gross Non-Performing Assets (NPA) at an average YOY rate of 13.17%.

Issues and challenges for cooperative Urban Banks

Strengths:

- UCBs have a business orientation focused on serving small customers, offering flexibility in operations tailored to local conditions.
- They have the ability to quickly design products suited to local requirements.
- Proximity to borrowers allows for a better understanding of local needs, resulting in informal sources that contribute to credit quality.
- UCBs enjoy high customer loyalty due to the mutual objectives shared with their customers.

Weaknesses:

- UCBs face challenges in raising capital, particularly during times of stress.
- They often lack professional management and suffer from poor corporate governance.
- Weaknesses in internal control and audit systems can be observed.
- The small area of operation limits economies of scale, hindering investment in IT infrastructure and skilled manpower.

Opportunities:

- UCBs have a large untapped market, particularly among small borrowers who are their primary customers.
- Financial inclusion initiatives present significant business potential for UCBs.
- There are opportunities for UCBs to offer third-party products and embrace digital payment solutions.
- The establishment of Umbrella of UCB's (National Cooperative Financial and Development Company (NCFDC)) may boost the UCB in coming future operations.

Threats:

- UCBs face intense competition from differentiated banks, MFIs (Microfinance Institutions).
- Frequent failures of UCBs, including some prominent ones, have negatively impacted their image.
- There is a shift in customer preference towards digital banking channels.
- Geographical concentration risk poses a threat to smaller UCBs due to their limited area of operation.

Fintech Inclusion through UCB

UCB (Urban Co-operative Banks) have implemented a Core Banking Solution (CBS) to manage and handle banking transactions efficiently. In line with the "Technology Vision for Cyber Security for Urban Co-operative Banks (UCBs) - 2020-2023," UCBs are required to prioritize the implementation of robust cybersecurity measures.

This signifies that UCBs possess a significant potential to embrace and integrate Fintech solutions. With their existing infrastructure and commitment to cybersecurity, UCBs are well-positioned to leverage the advancements in financial technology. By embracing Fintech, UCBs can enhance their operational capabilities, improve customer experiences, and unlock new opportunities for growth and innovation in the banking sector.

Importance of cooperative credit system

One of the key characteristics of the cooperative credit movement in India is its democratic nature. The cooperative structure allows members to actively participate in decision-making processes, ensuring a sense of ownership and empowerment. This inclusive approach has proven to be an effective instrument in various aspects of rural development.

One significant area where rural credit cooperatives have made a substantial impact is the reclamation of degraded wastelands. By providing financial support and guidance to individuals, these cooperatives have played a vital role in transforming barren lands into productive agricultural areas. This not only enhances the overall productivity of rural regions but also contributes to food security by increasing agricultural output.

Furthermore, the cooperative credit system has been instrumental in generating employment opportunities in rural areas. By extending financial assistance to individuals for setting up small-scale enterprises and agricultural activities, these cooperatives have facilitated the creation of sustainable livelihoods. This has been particularly beneficial for the rural population, enabling them to become self-reliant and improve their socio-economic status.

In addition to promoting economic development, the cooperative credit system also aims to address social and economic inequalities. By prioritizing the needs of the poor and vulnerable sections of society, these cooperatives strive to ensure social justice and equitable distribution of resources. They provide financial services to individuals who may have limited access to formal banking institutions, thereby fostering financial inclusion and reducing economic disparities.

Conclusion:

Overall, the cooperative credit system in India, comprising both urban and rural cooperatives, plays a crucial role in the country's financial landscape. It facilitates the pooling of resources for individuals with limited means, promotes rural development, boosts productivity, enhances food security, generates employment opportunities, and fosters social and economic justice. Through its democratic structure and inclusive approach, the cooperative credit movement continues to contribute significantly to the growth and well-being of rural communities in India.

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Annexure

In order to strengthen and promote the cooperative eco- system in various sectors including the agriculture based cooperative societies, the Ministry of Cooperation since its formation in July, 2021 has taken various initiatives such as: –

1. Computerization of PACS: Process to onboard 63,000 functional PACS on an ERP based common national software with an outlay of ?2,516 Crore started.
2. Model bye laws for PACS: Model bye laws prepared and circulated for their adoption as per the respective State Cooperatives Act to enable PACS to undertake more than 25 business activities like dairy, fishery, setting up of godowns, LPG/ Petrol/ Green energy distribution agency, banking correspondents, CSC, etc.
3. PACS as Common Service Centres (CSC): MoU signed between Ministry of Cooperation, Ministry of Electronics and Information Technology, NABARD and CSC – SPV to facilitate functioning of PACS as CSCs to improve their viability, provide e-services at village level and generate employment.
4. National Cooperative Database: Preparation of an authentic and updated data repository of cooperatives in the country started to facilitate stakeholders in policy making and implementation.
5. Establishment of Multi-Purpose PACS, Dairy and Fisheries Cooperative Societies in every Panchayat/Village: A plan has been approved by the Government to set up 2 lakh new multi-purpose PACS, dairy and fisheries cooperatives covering every Panchayat/Village in the next five years by taking advantage of various existing schemes.
6. National Cooperative Policy: A National level committee composed of experts and stakeholders drawn from all over the Country constituted to formulate the New Cooperation Policy to create an enabling ecosystem to realize the vision of 'Sahakar-se- Samriddhi'.
7. Amendment of MSCS Act, 2002: Bill introduced in the Parliament to amend the centrally administered MSCS Act, 2002 to incorporate provisions of 97th Constitutional Amendment, strengthen governance, enhance transparency, increase accountability and reform electoral process in the Multi State Cooperative Societies.
8. National Cooperative Development Corporation: New schemes for cooperatives launched by NCDC in various sectors such as 'Swayamshakti Sahkar' for SHG; 'Deerghavadhi Krishak Sahkar' for long term agricultural credit; 'Dairy Sahkar' for dairy and 'Neel Sahkar' for fisheries. Total financial assistance of Rs. 34,221 Crores disbursed in FY 2021-22.
9. Member Lending Institutions in Credit Guarantee Fund Trust: Non-scheduled UCBs, StCBs and DCCBs notified as MLIs in CGTMSE Scheme to increase share of cooperatives in lending.
10. Cooperatives as 'buyers' on GeM portal: Cooperatives permitted to register as 'buyer' on GeM, enabling them to procure goods and services from nearly 40 lakh vendors to facilitate economical purchases and greater transparency.
11. Reduction in surcharge on cooperative societies: Surcharge reduced from 12 % to 7% for co-operative societies having income between Rs 1 to 10 Cr.
12. Reduction in Minimum Alternate Tax: MAT reduced for cooperatives from 18.5% to 15%.
13. Relief under Section 269ST of IT Act: A clarification has been issued to remove difficulties in cash transactions by cooperatives under Section 269ST of IT Act.
14. Lowering tax rate for new cooperatives: Announcement made in the Union Budget 2023- 24 to charge flat lower tax rate of 15%, compared with current rate of upto 30% plus surcharge, for new cooperatives commencing manufacturing activities till March 31, 2024.
15. Increase in limit of deposits and loans in cash by PACS and PCARDBs: Announcement made in the Union Budget 2023-24 to increase limit from Rs. 20,000 to Rs. 2 lakh per member for deposits and loans in cash by PACS and PCARDBs.

16. Increase in limit for TDS: Announcement made in the Union Budget 2023-24 to increase cash withdrawal limit for cooperatives from Rs. 1 Crore to Rs. 3 Crore, per annum, without being subjected to TDS.
17. Relief to Sugar Cooperative Mills: Sugar cooperative mills not to be subjected to additional income tax for paying higher sugarcane prices to farmers upto Fair and Remunerative or State Advised Price.
18. Resolution of chronic pending issues of Sugar Cooperative Mills: Announcement made in the Union Budget 2023-24 to allow sugar cooperatives to claim as expenditure their payments to sugarcane farmers for the period prior to assessment year 2016–17, giving a relief of nearly Rs. 10,000 crores.
19. New National Multi-State Cooperative Seed Society: New apex national multi-state cooperative seed society being established under the MSCS Act, 2002 as an umbrella organization for quality seed cultivation, production and distribution under a single brand.
20. New National Multi-State Cooperative Organic Society: New apex national multi-state cooperative organic society being established under the MSCS Act, 2002 as an umbrella organization to produce, distribute and market certified and authentic organic products.
21. New National Multi-State Cooperative Export Society: New apex national multi-state cooperative export society being established under the MSCS Act, 2002 as an umbrella organization to give thrust to exports from the cooperative sector.

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