GOVERNMENT OF KERALA
KERALA STATE PLANNING BOARD

FOURTEENTH FIVE-YEAR PLAN
(2022-2027)

WORKING GROUP ON

COOPERATIVE BANKING IN KERALA: REVAMPING THE ROLE OF KERALA BANK

REPORT

AGRICULTURE DIVISION
March 2022

FOREWORD

Kerala is the only State in India to formulate and implement Five-Year Plans. The Government of Kerala believes that the planning process is important for promoting economic growth and ensuring social justice in the State. A significant feature of the process of formulation of Plans in the State is its participatory and inclusive nature.

In September 2021, the State Planning Board initiated a programme of consultation and discussion for the formulation of the 14th Five-Year Plan. The State Planning Board constituted 44 Working Groups, with more than 1200 members in order to gain expert opinion on a range of socio-economic issues pertinent to this Plan. The members of the Working Groups represented a wide spectrum of society and include scholars, administrators, social and political activists and other experts. Members of the Working Groups contributed their specialised knowledge in different sectors, best practices in the field, issues of concern, and future strategies required in these sectors. The Report of each Working Group reflects the collective views of the members of the Group and the content of each Report will contribute to the formulation of the 14th Five-Year Plan. The Report has been finalised after several rounds of discussions and consultations held between September to December 2021.

This document is the Report of the Working Group on "Cooperative Banking in Kerala: Revamping the role of Kerala Bank" The Co-Chairpersons of Working Group were Dr.Pallavi Chavan and Ms.Mini Antony IAS. Dr.R.Ramakumar, Member of the State Planning Board co-ordinated the activities of the Working Group. Sri.S.S.Nagesh, Chief, Agriculture Division was the Convenor of the Working Group and Smt.G. C. Roshni, Agronomist, Agriculture Division was Co-Convenor. The terms of reference of the Working Group and its members are in Appendix 1 of the Report.

Member Secretary

PREFACE

As part of formulation of the 14th Five Year Plan, the Kerala State Planning Board had constituted working groups of experts in all the major sectors. In Agriculture and Allied Sectors, 6 working groups were constituted viz. Agriculture and Cooperation, Animal Husbandry and Dairy, Inland and Marine Fisheries, Forest and Environment, Water Resources and Regional Packages. To discuss and frame policies in each of these sectors, the working groups were further divided into 28 Expert Sub-Groups (ESG) with specific mandates.

Each Expert Subgroup held at least three meetings beside one focused group meeting before finalising the report. We, the Co-Chairs, place our deep appreciation and gratitude to all the esteemed members of the ESG for their valuable contributions in preparing the report. We are extremely grateful to Dr. V. K. Ramachandran, the Honourable Vice-Chairperson, Kerala State Planning Board, Dr. R. Ramakumar, Member, Kerala State Planning Board, Shri. S. S. Nagesh, Chief, Agriculture Division for their consistent guidance and suggestions in preparing the report. The support provided by Sri. R.Jayakrishnan, Research Assistant in bringing out this report is appreciated. The drafting team put in commendable work in bringing together all the views and opinions of the members. We sincerely hope the recommendations in the report can lead to important changes in the public policy on agricultural development in the State.

Dr.Pallavi Chavan
Expert co-chairperson

Ms.Mini Antony IAS
Official co-chairperson

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- Credit cooperatives are an important source of rural credit in Kerala.
- Between 2012 and 2018, the share of credit cooperatives in total household debt in Kerala declined sharply from 41 per cent to 33 per cent.
- In 2019-20, credit cooperatives provided about 16 per cent of total agricultural credit flow in the State, much lower than 21 per cent in 2012- 13.
- Fifty measures have been listed to propose measures such that the involvement of credit cooperatives in Kerala's economic growth can be stepped up.

COOPERATIVE BANKING IN KERALA: REVAMPING THE ROLE OF KERALA BANK

Executive Summary

Credit cooperatives continue to be an important source of credit, particularly rural credit, in Kerala. About 33 per cent of the total household debt in Kerala was raised from credit cooperatives in 2018; the corresponding share was only 8 per cent at the all-India level. The three main institutions involved in the provision of agricultural credit in Kerala are (a) commercial banks, (b) credit cooperatives, including Kerala Bank, PACSs, Farmers' Service Societies (FSSs), KSCARDB and Primary Cooperative Agriculture and Rural Development Banks (PCARDBs), and (c) Kerala Gramin Bank.

Between 2012 and 2018, the share of credit cooperatives in total household debt in Kerala declined sharply from 41 per cent to 33 per cent. This decline was largely taken up by commercial banks and RRBs, whose combined share increased from 35 per cent to 45 per cent during this period. Secondly, the share of credit cooperatives in total agricultural credit in Kerala has been on a steady decline. In 2019-20, credit cooperatives provided about 16 per cent of total agricultural credit flow in the State, much lower than 21 per cent in 2012-13. Thirdly, the interest rates associated with cooperative credit are much higher than the comparable rates charged by other formal institutions. As a result, 84 per cent of the total household debt raised from credit cooperatives in 2018 was at interest rates ranging above 10 per cent per annum, while the remaining 16 per cent was raised at rates lower than 10 per cent.

The institutional and sectoral distribution of credit, interest costs of cooperative credit, methods to strengthen the two-tier cooperative credit structure, establishment of Kerala Bank as a rural development FC, etc. are examined in detail.

Focus areas for Kerala Bank are delineated, namely, CASA and NPA management. Since the reduction in the NNPA ratio below 5 per cent is critical for the Bank in getting various regulatory clearances, particularly for declaring dividends to the primary cooperative societies, the Bank needs to continue its efforts in aggressively reducing the burden of legacy NPAs and reducing fresh slippages.

Fifty recommendations have been provided by the committee that encompasses all these areas.

1. INTRODUCTION

Credit cooperatives, including cooperative societies and banks, were India's first formal institution of rural credit introduced to countervail the moneylender. Despite their rich history, credit cooperatives find themselves marginalized in India's contemporary commercial bank-led financial system. Kerala is one of the few States in India where credit cooperatives continue to be an important source of credit, particularly rural credit.

About 33 per cent of the total household debt in Kerala was raised from credit cooperatives in 2018; the corresponding share was only 8 per cent at the all-India level, underlining the importance of cooperative credit in Kerala as compared to the other States (see Appendix 1 for details).

The importance of cooperatives for Kerala, however, cannot be measured by their role in credit provision alone. Alongside Panchayati raj institutions, cooperatives of all types, including credit and non-credit cooperatives, have been forces of socio- economic change in the State given their democratic and decentralized character.

The State was the first in India to delayer its three-tier short-term rural cooperative structure to form a two-tier structure to create Kerala Bank in 2019. The two years since the creation of Kerala Bank have been eventful owing to the floods in 2019 along with the outbreak of the COVID-19 pandemic in 2020. Notwithstanding these challenges, Kerala Bank has managed to meet most of the conditionalities laid down by the Reserve Bank of India (RBI) for its migration to a merged entity.

Yet, there are aspects relating to the business process reengineering of the Bank, such as its human resource allocation and technological upgradation, that need a careful assessment. The path for the Bank to emerge as the leader in Kerala's cooperative sector needs to be laid out. Kerala Bank can take a lead in the field of cooperative banking only by strengthening its linkages with (a) the second tier, namely the primary agricultural credit societies (PACSs) and urban cooperative banks (UCBs); and (b) the panchayats; and aligning its operations with the planned socio-economic objectives of the State. Its ability to lead also depends on its coordination with the other constituents of the cooperative sector, namely, the long-term cooperative credit institutions and non-credit cooperative societies.

As regards the primary credit cooperatives, including PACSs, there are certain issues that need immediate attention. First, although these societies remain an important source of ground-level credit in Kerala, they are ceding space to commercial banks. Between 2012 and 2018, the share of credit cooperatives in total household debt in Kerala declined sharply from 41 per cent to 33 per cent ***(Appendix 1)***. This decline was largely taken up by commercial banks and RRBs, whose combined share increased from 35 per cent to 45 per cent during this period.

Secondly, the share of credit cooperatives in total agricultural credit in Kerala has been on a steady decline. In 2019-20, credit cooperatives provided about 16 per cent of total agricultural credit flow in the State, much lower than 21 per cent in 2012- 13.

Thirdly, the interest rates associated with cooperative credit are much higher than the comparable rates charged by other formal institutions. As a result, 84 per cent of the total household debt raised from credit cooperatives in 2018 was at interest rates ranging above 10 per cent per annum, while the remaining 16 per cent was raised at rates lower than 10 per cent ***(Appendix 1)***. At the all-India level, about 64 per cent of the debt from cooperatives was at rates exceeding 10 per cent per annum; the remaining 36 per cent was at rates lower than 10 per cent.

The rates associated with credit cooperatives are, in fact, higher than the commercial bank rates; about 50 per cent of the household debt raised from commercial banks in Kerala was at interest rates exceeding 10 per cent with the remaining half being at rates lower than 10 per cent per annum. The moot question is whether such high rates have been responsible for credit cooperatives losing their share and how their share in agricultural credit can be revived, going forward.

To address questions such as these and to propose measures such that the involvement of credit cooperatives in Kerala's economic growth can be stepped up, an Expert Sub-Group (ESG) has been set up by the Kerala State Planning Board. The following Terms of Reference (ToRs) have been laid down for the Group:

a. To suggest broad measures to deepen and expand the participation of cooperative sector in the process of economic growth of the State and to involve youth in the cooperative movement in the State.
b. To suggest measures to upgrade the use of technology in the functioning of primary cooperatives, such as the introduction of unified software.
c. To suggest measures to improve professionalism in the functioning of cooperative societies in State.
d. To prepare a guidance note on business process reengineering of the Kerala Bank to serve as a key provider of resources to the productive sectors, such as agriculture, MSMEs as well as tourism.

The Group has been convened by the Kerala State Planning Board to help in the preparation of the 14th Five Year Plan (2022-2027) for Kerala. However, as scope of most of its ToRs goes beyond the next five years, the Group has followed a medium to long-term approach in its recommendations. The Secretariat to the ESG was provided by the Department of Agriculture, Kerala State Planning Board.

THE APPROACH OF THE GROUP

The Group adopted the following methodology for its work:

a. Interaction with stakeholders – The Group interacted with various stakeholders including the Kerala Bank, PACSs, UCBs, consultants associated with past committees on cooperatives in Kerala, and representatives of the supervisory institutions for credit cooperatives;
b. Data analysis – The Group analyzed data on PACSs collected from the Registrar of Cooperative Societies (RCS), Department of Cooperation, Kerala; National Bank for Agriculture and Rural Development (NABARD); Kerala Bank; Kerala State

Agriculture and Rural Development Bank (KSCARDB) and Kerala Gramin Bank apart from relying on the Basic Statistical Returns of Scheduled Commercial Banks of the RBI.

c. Sample survey – Through the RCS, the Group canvassed information from a sample of PACSs. The information was canvassed using a questionnaire containing data heads relevant to the ToRs of the Group. The data were called for from a set of 10 PACSs (one belonging each of the nine categories of PACSs, namely, Class 1 Special Grade, Class 1 Super Grade, Class 1, and Classes 2 to 7, and one Farmers' Service Society) from each district. The final data were received from 131 PACSs/FSSs constituting about 8 per cent of the total number of PACSs/FSSs in Kerala (see details in Appendix 2).

The Group has used the 13th Five Year Plan period so far (2017-2021) as the reference period for its recommendations. While the Group's efforts have been to cover the most recent developments in the cooperative credit sector, it is constrained by the non-availability of audited data on PACSs for 2019-20 and 2020-21. Hence, most of its analysis for PACSs is up to 2018-19. However, the survey data were canvassed for a three-year period from 2017-18 to 2019-20 and hence, some indicators have been provided up to 2019-20.

In forming its recommendations, the Group is guided by the key concerns highlighted in the Kerala Cooperative Policy, namely (a) fall in agricultural credit; (b) weaknesses in the two-tier cooperative credit structure, including mounting NPAs and slow progress in modernization; and (c) weak linkage with local self-government institutions. The Group has added another concern to the list, namely weak coordination between the credit and non-credit cooperatives and suggested measures to enhance this coordination.

2. REVIVING THE FLOW OF AGRICULTURAL CREDIT THROUGH CREDIT COOPERATIVES

FEATURES OF AGRICULTURAL CREDIT IN KERALA WITH SPECIAL REFERENCE TO COOPERATIVES

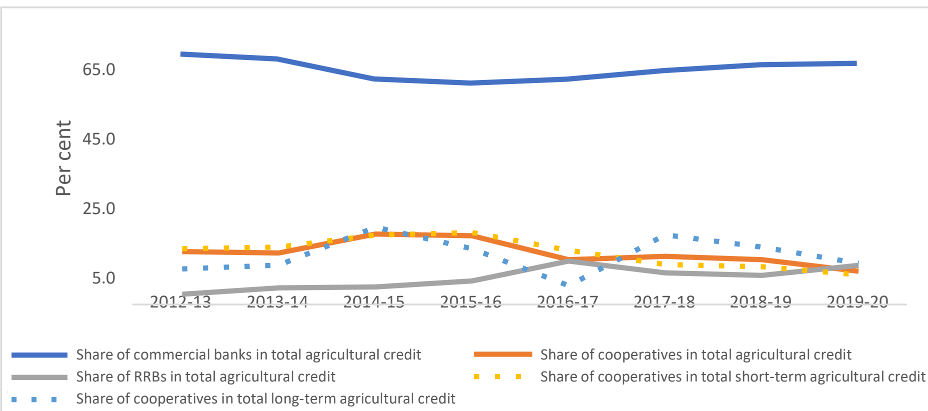
This section provides the key features of agricultural credit in Kerala during the 13th Five-Year Plan period so far (2017-2021). This period witnessed the COVID-19 pandemic outbreak in 2020-21, creating an almost structural break (in terms of a drop) in credit growth across the country (RBI, 2021). In the specific context of Kerala, the creation of Kerala Bank in 2019 marked another significant change, rendering the Plan period not strictly comparable. Hence, trends across the Plan period need to be interpreted with some caution.

Distribution of agricultural credit by institutions

The three main institutions involved in the provision of agricultural credit in Kerala are (a) commercial banks, (b) credit cooperatives, including Kerala Bank, PACSs, Farmers' Service Societies (FSSs), KSCARDB and Primary Cooperative Agriculture and Rural Development Banks (PCARDBs), and (c) Kerala Gramin Bank.[1]

As noted in Chapter 1, credit cooperatives are an important source of agricultural credit in Kerala as compared to the other States, but they are losing their share in the State's total agricultural credit flow ***(Figure 1)***. In 2019-20, credit cooperatives accounted for the lowest share of 16 per cent in the total agricultural credit flow in the State.

Figure 1: Share of institutions in annual agricultural credit flow, Kerala



Source: NABARD, state focus paper, various issues

[1]*Apart from these, UCBs and Small Finance Banks (SFBs) too are providers of agricultural credit with relatively small shares, and hence, are not listed separately here. In 2017-18, only 1 per cent of the total credit by UCBs was for agriculture.*

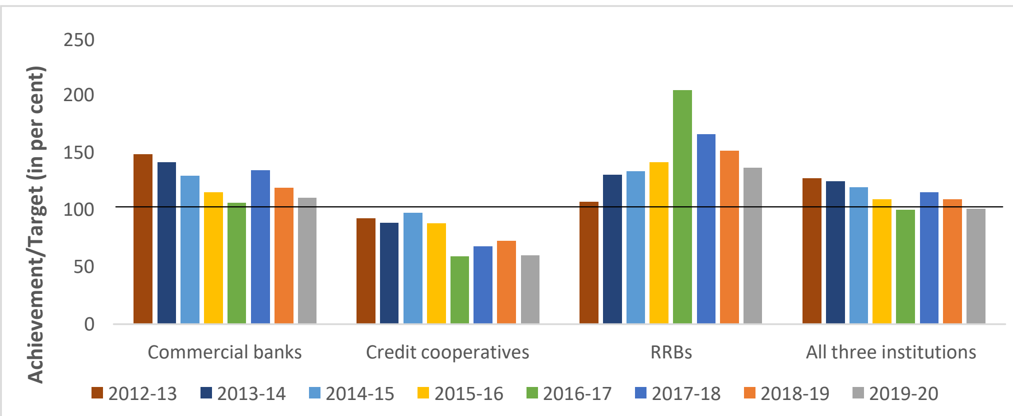
Another trend of concern has been the failure on the part of credit cooperatives to achieve their annual credit targets. NABARD prepares the potential-linked credit plans every year for each district. These plans are based on an estimation of the potential for total agricultural credit, including the short-term (crop loan), long-term (investment) and allied activities' components. The estimation of the potential is based on various factors, including cropping pattern, land use, water resources and farm mechanization.[2]

The planned credit need for the district is then apportioned between commercial banks, credit cooperatives and RRBs, the three main institutions based on their existing and planned infrastructure for credit provision. Hence, the target set out for each institution can be taken as an indication of the envisaged need for agricultural credit from that institution. While the total target for agricultural credit is being achieved for Kerala, the institutional break up suggests that there has been a continued shortfall for credit cooperatives in meeting their targets. In 2019-20, credit cooperatives achieved only 60 per cent of the targeted agricultural credit flow, posting a shortfall of 40 per cent ***(Figure 2)***.

As noted earlier, the 13th Five-Year plan period witnessed the creation of Kerala Bank. While the Bank began its operations in November 2019, the groundwork towards the merger had started much before. This merger, like any other merger, could have created uncertainty for all stakeholders, such as PACSs, erstwhile District Central Cooperative Banks (DCCBs) and erstwhile Kerala State Cooperative Bank.

Hence, the non-achievement of credit target by cooperatives could be partly linked to the developments leading up to the merger. However, the inability to reach the potential is a concern that undoubtedly needs to be addressed, going forward.

Figure 2: Percentage of the annual credit targets achieved, by institutions, Kerala



Source: NABARD, state focus paper, various issues

Note : The line at 100 per cent indicates no shortfall.

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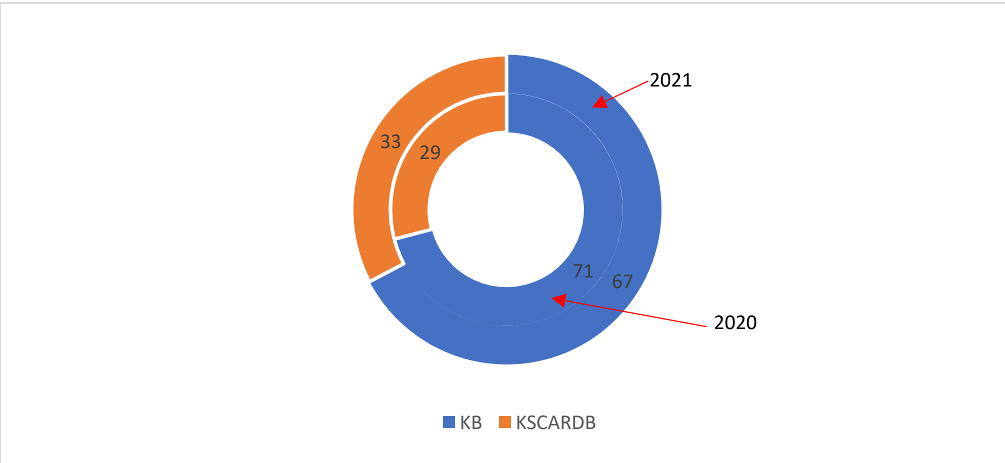
[2] *See illustration of various district-level plans for Kerala at https://www.nabard.org.*

Distribution of agricultural credit by tenure

In recent years, credit cooperatives in Kerala have lost their shares in both short-term and long-term agricultural credit flow, although the decline has not been quite continuous for the latter ***(Figure 1).*** Clearly, there is a need to revive both the shares.

The main agency for disbursing long-term agricultural credit in Kerala is the KSCARDB supported by 79 PCARDBs. However, KSCARDB accounted for only about one-third of the total agricultural credit (including refinance to lower tiers and direct finance to individual borrowers) supplied by the two apex institutions, namely Kerala Bank and KSCARDB in 2021 ***(Figure 3).*** Therefore, there is a scope and need for Kerala Bank to meet not just the short-term but also the long-term agricultural credit requirements in the State.

Figure 3: Share of Kerala Bank and KSCARDB in apex-level agricultural credit outstanding, Kerala



Source: Kerala Bank and KSCARDB accounts.

SECTORAL DISTRIBUTION OF CREDIT BY KERALA BANK AND PACSS

One of the factors responsible for a declining share of credit cooperatives in agricultural credit in Kerala is the marginalisation of agriculture in the credit portfolios of these institutions. The sectoral distribution of total credit of both Kerala Bank and PACSs reveals a significantly low share of agriculture.

Agricultural credit by Kerala Bank

In 2021, the second year of its existence, the credit to agriculture (and allied activities) by Kerala Bank to individual borrowers accounted for only 4 per cent of its total credit ***(Figure 4).***

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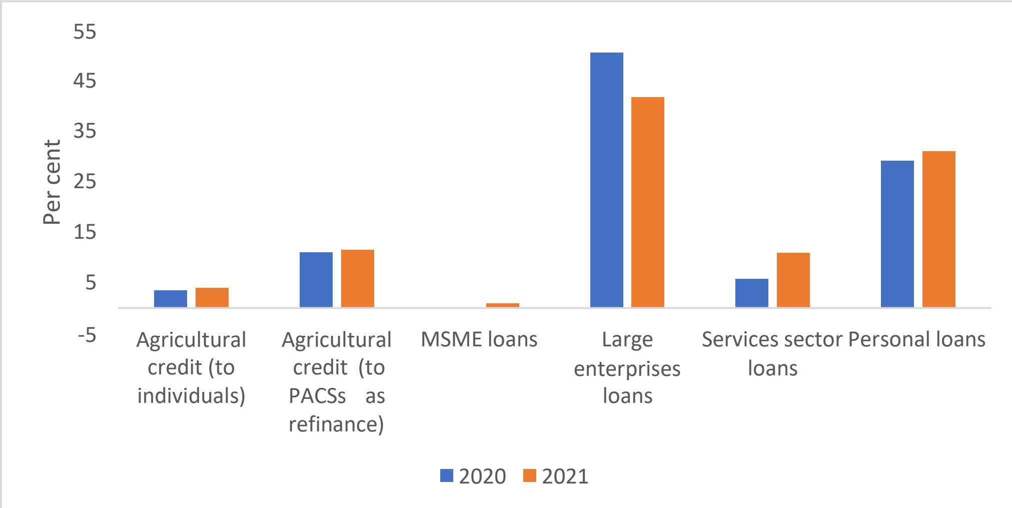
[3] *To illustrate, 2020-21, Kerala Bank did not receive any long-term refinance from NABARD on account of a drop in its capital to risk-weighted assets ratio (CRAR) below the stipulated minimum.*

Figure 4: Sectoral shares in total credit outstanding of Kerala Bank, in per cent



Source: Kerala Bank Accounts

Kerala Bank has consciously avoided entering into a direct competition with PACSs, following the recommendations by the Expert Committee on the Formation of Kerala Bank (Chair: M. S. Sriram) (GoK, 2017). This is one of the main reasons for a low representation of individual agricultural credit in its portfolio. The PACSs traditionally have had a stronghold over short-term agricultural credit (disbursed primarily through Kisan Credit Cards (KCCs)), which is either self-financed by PACSs or refinanced by the NABARD through Kerala Bank. Hence, a better yardstick to determine Kerala Bank's performance in agricultural credit may be the extent of its refinance to PACSs. However, even on that count, Kerala Bank's performance has not been promising so far.

Agricultural refinance (both short and long-term) accounted for only 11 per cent of total credit of Kerala Bank in 2021 rising marginally from the previous year (Figure 4). Refinance is either sourced through NABARD or provided by Kerala Bank through its own funds. Refinance from NABARD is dependent on the soundness parameters of Kerala Bank along with the Bank's past record of actual disbursal of the refinance.[3] Even if refinance from NABARD is constrained on account of these conditionalities, Kerala Bank can support PACSs/FSSs through its own funds.

Yet, short-term refinance even through its own funds constituted barely 5 per cent of its total credit in 2021; the corresponding share of long-term refinance was even lower, at 2 per cent. Hence, even if there are limits to Kerala Bank's lending to individual agriculturists and limits to its raising refinance from NABARD, it is recommended that the Bank significantly expand its refinance to PACSs/FSSs for agriculture using its own funds. It is also recommended that the Bank correct its lopsided distribution of refinance and increase the share of long-term refinance. An increase in refinance will also help in reviving the dwindling credit to deposit ratio of the Bank, which had fallen to just 59 per cent in 2021.

Agricultural credit by PACSs

In 2018-19, agriculture (and allied activities) accounted for only 12.6 per cent of the total credit disbursed by PACSs, increasing moderately from 9.7 per cent in 2015-16 ***(Table 1).***

The surveyed data too showed a largely similar picture. In fact, the survey data indicated that among all classes, Class 1 Super and Special grade societies had the lowest share of agricultural credit in their credit portfolios ***(see Appendix 3)***.

Table 1: Percentage share of agricultural credit in total loans issued by PACSs, Kerala

Category	2014-15	2015-16	2016-17	2017-18	2018-19
Short-term agricultural credit	6.9	5.7	5.3	8.6	9.0
Medium-term agricultural credit	4.2	3.7	4.4	3.9	3.3
Long-term agricultural credit	0.2	0.3	0.7	1.0	0.3
Total agricultural credit	11.2	9.7	10.5	13.5	12.6

Source: Economic Review, Government of Kerala, various issues.

Within agricultural credit, the share of long-term agricultural credit, which includes investment credit to agriculture and allied activities, was less than even 1 per cent in 2018-19.

It has been claimed that one of the reasons for the declining share of agricultural credit for PACSs has been the strict policy of converting agricultural gold loans into KCC loans (GoK, 2020a). The Group closely examined this claim. Agricultural gold loans (AGLs) have been an important feature of the agricultural credit system in the southern States. In the period following the nation-wide policy of "doubling of agricultural credit" (2004-07), AGLs increased significantly in the southern States, notably Tamil Nadu and Kerala (Nair et al., 2015). In fact, the Government of India's guidance to banks to design schemes with relaxed norms, including lending against gold/silver for agriculture, such that farmers could avail quick finance to meet their short-term agricultural credit needs, encouraged AGLs further. AGLs were popular among banks as they enabled meeting the priority sector lending targets easily and offered greater security in the form of gold in situations of default. As a result, the proliferation of AGLs was seen more in commercial banks (in a bid to meet their priority sector targets) than credit cooperatives (ibid.). However, this did not mean that credit cooperatives did not engage in AGLs. Credit cooperatives too, owing to the security of gold, extended AGLs.

AGLs gave rise to several concerns. First, the loans did not involve any documentary evidence of area under cultivation. Second, the loan amount was linked to the value of gold pledged and not to the area under cultivation or the scale of finance. Thirdly, it was observed that borrowers often claimed interest subvention benefit for AGLs and then diverted the loan to non-agricultural uses. Fourthly, it gave an impression of increased ground level credit flow to agriculture but owing to the diversion, the credit was not actually reaching genuine farmers. Finally, it titled the balance of agricultural credit in favour of the economically stronger sections, which had gold to pledge, notably salary earners and families with overseas remittances (ibid.).

Given these concerns, the RBI and NABARD have issued repeated guidance to commercial banks, RRBs and credit cooperatives to scrupulously follow the scale of finance while sanctioning agricultural credit. Since KCC loans involve a short-term revolving credit limit for agriculture and allied activities defined by the scale of finance, the thrust in recent years has been on converting AGLs into KCC loans. To prevent a diversion of interest subsidy, RBI has stipulated that only KCC loans are eligible for interest subvention scheme and prompt repayment incentive.[4]

The claim that the policy of converting AGLs into KCC loans has resulted in a fall in the share of agricultural credit for PACSs is not strongly backed by evidence. First, credit cooperatives, including PACSs, did not engage in AGLs as much as commercial banks. In fact, their share of genuine KCC holders was much higher as per the survey by NABARD (Nair et al., 2015). Secondly, the insistence on AGL conversion to KCC loans applies only to short-term agricultural credit, which involves interest rate subvention. However, PACSs' shares of medium and long-term agricultural credit too have been rather low. Finally, the RBI and NABARD's insistence on KCC loans is not new but can be seen from the early 2010s. The question that begs an answer is why then the PACSs have not been able to reorient their loan portfolio away from AGLs towards KCC loans over the span of almost a decade and why they continue to report such low shares of agricultural credit. Hence, the conversion of AGLs into KCC loans is not a credible explanation for the low share of agricultural credit for PACSs. PACSs need to go back to their basic function of being an "agricultural" credit society and give primary importance to financing agriculture.[5]

PACSs can lend to agriculture either using their own funds or through refinance from the Kerala Bank. One of the reasons cited by Kerala Bank for a low share of agricultural refinance in its portfolio is the limited demand for refinance from PACSs. Our sample data indeed suggests that there is a limited usage of short-term refinance by PACSs. Between 2017-18 and 2019-20, the share of short-term agricultural credit of PACSs sourced through refinance from Kerala Bank/DCCBs ranged between 25 per cent and 27 per cent of their total short-term agricultural credit, with the ratio being low for both Classes 5-7 and Class 1 Special and Super grade societies (Appendix 4). For the latter group, it reflected self-sufficiency in terms of own funds. It is recommended that PACSs may be encouraged by Kerala Bank, through targeted training and outreach programmes, to make greater use of agricultural refinance from the Bank, as it will prompt PACSs to lend more to agriculture and also have a disciplining effect on their interest rates (see Section 2B in this chapter for a discussion on interest rates). As noted earlier, this will also enhance Kerala Bank's credit supply to agriculture and help in stepping up its credit to deposit ratio.

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[4] *RBI circular "Short-term crop loans eligible for ISS and PRI through KCC" dated February 26, 2020.*

[5] *As per the Kerala Cooperative Societies' Act, 1969, a primary agricultural credit society means "a service co-operative society, service cooperative bank, a Farmers Co-operative Bank and a Rural Bank, the principal object of which is to undertake agricultural activities and to provide loans and advances for agricultural purposes, the rate of interest on such loans and advances shall be the rate fixed by the Registrar and having its area of operation confined to a village, panchayath or municipality" (GoK, 2020c) (emphasis added).*

It is often argued that drop in the area under paddy, the main food crop of Kerala, has affected the demand for crop credit for paddy. As there is no separate estimate for demand for paddy loans, it is difficult to test this claim. However, going by the continued rise in annual credit plans of NABARD based on potential-linked credit plans referred to earlier, lack of demand does not seem to be a tenable explanation for a poor offtake of cooperative credit. In fact, the inability of credit cooperatives to meet the targets each year points to the deficient supply of agricultural credit from cooperatives. Addressing the following issues can help in reviving the supply of cooperative credit to agriculture in the State.

Tapping non-traditional forms of agriculture

Even if there is a shift away from traditional crops in Kerala as discussed earlier, it is important for PACSs to tap allied sectors, such as dairy, poultry, fishery and livestock, and other agricultural activities, such as plantation, horticulture and floriculture. The Group recommends diversification of short-term and long-term agricultural credit by PACSs to newer agricultural areas as identified by the State Planning Board as part of its 14th Five Year Plan, including developing inland fisheries, commercial dairy farms and livestock ventures, supporting agri-smart villages in high-value poultry and other livestock activities, among others. Being the apex cooperative bank, it is also recommended that Kerala Bank identify new areas of financing under agriculture in line with the Five-Year Plan objectives and credit potential in these areas and impart training to PACSs to meet this potential.

Changing classification criteria for PACSs to support agricultural credit

At present, PACSs in Kerala are classified into the following nine categories by the Registrar of Cooperative Societies (RCS): Class 1 Special Grade, Class 1 Super Grade, Class 1, and Classes 2 to 7. The criteria used for classification of the societies were last revised in 2013 based on seven financial and balance sheet parameters, including working capital, deposits, loans, audit classification, etc.[6] This classification mainly forms the basis of salary fixation for PACSs' employees. While size of total credit is one of the criteria for classification, a criterion that is conspicuously missing is the distribution of credit. Given that the classification was last revised in 2013, the Group recommends the RCS, Kerala to (a) revisit the classification; and (b) include the share of agricultural credit as one of the criteria for the classification.

The RCS, Kerala had issued a circular to PACSs in 2007 to extend at least 40 per cent of their credit to agriculture.[7] There was also a circular in 2006, which stipulated a limit of 20 per cent of agricultural credit to be achieved by PACSs either in the ongoing or previous year for obtaining permission for opening new branches.[8] Despite these circulars, the Group finds that the actual share of agricultural credit has been generally quite low, and there is a wide differential across PACSs in the share of agricultural credit. Hence, the Group recommends a change in the classification of PACSs.

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[6] *RCS circular no. 32/2013 dated April 2, 2013.*

[7] *RCS circular no. 4/2007 dated January 20, 2007.*

[8] *RCS circular no. 39/06 dated September 2, 2006.*

One of the ways to classify the PACS can be the following

Class	Minimum percentage of agricultural credit in total annual credit issued by PACSs
Class 1 Super Grade	30
Class 1 Special Grade	25
Classes 1 and 2	20
Classes 3-7	18*

** Given the characterisation of PACSs as agricultural societies, a basic minimum percentage of credit needs to be given by these societies to agriculture. Hence, for classes below 3, no variation in the percentage share of agricultural credit is recommended.*

The maximum share of 30 per cent recommended by the Group is higher than the share currently being reported by PACSs, but it is lower than the limit of 40 per cent already stipulated by the RCS, Kerala. Hence, achieving this share should not be very difficult for PACSs. However, the Group recommends that the share of 30 per cent should be stipulated as a floor/minimum and not as a ceiling, and the RCS, Kerala, needs to ensure that this share is increased over time in a manner such that lending to agriculture becomes the principal business of PACSs across all categories.

For this classification, agricultural credit should include Kisan Credit Cards (KCC) loans, long-term loans for agriculture, and loans for all allied activities. There has been an insistence by the supervisory authorities, including the RBI and NABARD, on converting all short-term agricultural loans, including AGLs, into KCC loans, as already noted. Hence, KCC loans can be taken as an all-inclusive category for short-term agricultural loans, and an important part of the new criterion of "share of agricultural credit" recommended by the Group.

Expediting the settlements of debt-related claims of societies

The delayed claim settlement by the State Government following the passing of the award by the State Farmers' Debt Relief Commission was highlighted as a factor for the hesitancy among PACSs to lend to agriculture. It was also argued by some PACSs that following the creation of the Commission, there was a tendency among farmers to not pay back their dues reflective of moral hazard.

The Commission was set up by the Government of Kerala in 2007 and is aimed at providing relief to distressed farmers through arbitration and award about their debt dues. The Group recommends an expedited claim settlement by the State Government to address the hesitancy among PACSs to lend to agriculture. However, it also recognises the valuable contribution of the Commission in controlling farmers' suicides in the State. Given the uncertainty in agriculture due to the rising incidence of extreme weather events, the role of the Commission needs to be only strengthened, going forward. The argument of moral hazard cannot be used by PACSs as a reason for not lending adequately to agriculture, since these are member-driven and people-centric institutions.

Adopting the increased limit of collateral-free agricultural credit
One of the ways to step up the agricultural credit demand in the State is to adopt the revised limit of collateral-free agricultural loans of Rs. 1.6 lakhs. The limit was revised from Rs. 1 lakh in 2019 by the Reserve Bank of India (RBI) in a bid to enhance the flow of agricultural credit to small and marginal farmers.[9] The earlier revision was in 2010 from Rs. 50,000 to Rs. 1 lakh.[10]

Following the first revision in 2010, the RCS had advised PACSs in 2011 to change their bye-laws to ensure provision of collateral-free agricultural loans of up to Rs. 1 lakh.[11] However, there has not been a similar advice from the RCS raising the limit further to Rs. 1.6 lakhs. Consequently, many PACSs continue to extend only up to Rs. 1 lakh of collateral-free loans to agriculture. The Group recommends that the RCS, Kerala advise the PACSs to change their bye-laws in light of the new revision in collateral-free agricultural loans by the RBI. The Group also learnt that while PACSs were aware of the change in collateral-free loan limit, they were reluctant to change their bye-laws, as it may compel them to extend collateral-free loans at the increased limit not just for agriculture but for any other purpose. This is because they may not be able to make any sectoral distinction in their bye-laws and hence, the increased collateral-free loan limit will become applicable to all types of loans irrespective of the sector to which they are extended. To address this concern, either the RCS can advise PACSs to change their bye-laws by making the increased limit of collateral-free loans applicable only to agriculture or alternatively, it can advise PACSs to extend collateral-free agricultural loans as per the increased limit outside their bye-law provisions if the loans are refinanced by Kerala bank.

Cost of Agricultural Credit from Cooperatives
In reviving the flow of agricultural credit through credit cooperatives, another factor that needs to be addressed is the interest costs of cooperative credit. The interest rates charged and margins available to Kerala Bank and PACSs on agricultural credit are illustrated in (***Table 2.)***

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[9] *"Credit flow to agriculture – Collateral free agricultural loans", RBI circular dated February 7, 2019.*

[10] *As per RBI guidelines, banks are advised to extend collateral-free loans (against the hypothecation of crop) up to Rs. 1.6 lakhs and above this limit, collateral security can be sought at banks' discretion, see "Credit flow to agriculture – Collateral free agricultural loans", RBI circular dated February 7, 2019 and "Master Circular - Kisan Credit Card (KCC) Scheme" dated July 3, 2017.*

[11] *RCS circular 49/2011 dated August 27, 2011.*

Table 2: Current interest rates on agricultural credit, Kerala Bank and PACSs, in per cent per annum

Institution	Short-term agricultural credit			Long-term agriculturalcredit	
	Credit through refinance	Credit through own funds		Credit through refinance	Credit through own funds**
		Upto Rs. 3 lakhs	Above Rs.3 lakhs		
Kerala Bank					
Interest rate paid to NABARD/Deposit rate paid to PACSs	4.50	6.75^	6.75^	2.90	6.75^
Interest rate charged to PACSs for on-lending	5.25	5.25	8.50	4.90	4.90
Interest margin	0.75	0.50$	1.75	2.00	-1.85
PACSs					
Interest rate paid to Kerala Bank/ Deposit rate paid to depositors	5.25	6.75^	6.75^	4.90	6.75^
Interest rate charged toborrowers	6.00	7.00	7.00*	6.90	7.00-9.00*
Interest margin	0.75	2.25$	0.25	2.00	0.25-2.25
Effective rate paid byborrowers	6.00 (3.00 as prompt repayment incentive)	7.00 (4.00 as prompt repayment incentive)*^	7.00	6.90	7.00-9.00

^ Rate on fixed deposits of maturity ranging between 1 and 2 years offered by Kerala Bank. For PACSs also, a representative rate of 6.75 per cent has been shown here. However, in reality, the rates offered by PACSs can be higher than the rates they get from Kerala Bank on their deposits (see Appendix 5).
* Modal rate based on survey of PACSs
$ After interest subvention from Central Government of 2 per cent
** At present, about 85 per cent of Kerala Bank's lending under long-term agriculture is through refinance with the remaining 15 per cent through own funds.
*^ In 2013, the State Government had announced a provision of 4 per cent interest subvention up to Rs. 3 lakhs on short-term agricultural credit yielding 0 per cent interest on ground for farmers. The RCS had issued a circular to PACSs on these lines. However, many PACSs reported lack of clarity about the validity of the circular and inability of pass on the benefit to the farmers. Hence, the ground rate reported here is 7 per cent for all farmers and 4 per cent for prompt paying farmers

The key observations from Table 2 are as follows:

a. The margin available to Kerala Bank under short-term agricultural credit, whether through refinance or own funds, is thin. Since the idea of refinance is to provide low-cost funds to agriculture, the margin of 0.75 per cent need not come as a surprise. However, even under credit through own funds up to Rs. 3 lakhs (eligible for interest subvention), Kerala Bank gets a thin margin of 0.50 per cent, and this thin margin too is possible due to the interest subvention scheme. In fact, without the scheme, the margin for Kerala Bank under this category would be negative;

b. The PACSs operate on a thin margin of 0.75 per cent on their short-term agricultural credit that is financed through refinance from Kerala Bank. However, they get a higher margin of 2.25 per cent on short-term agricultural credit of up to Rs. 3 lakhs extended through their own funds on account of the interest subvention scheme. Even without the scheme, their margin would be positive under this category, unlike the Kerala Bank.

c. The margins of both Kerala Bank and PACSs on the refinanced component of long-term agricultural credit is comparable, at 2 per cent. However, the margin of PACSs on self-financed long-term agricultural credit can go up to 2.25 per cent. The margin of Kerala Bank on its self-financed component is negative, at 1.85 per cent, as its lending rate to PACSs is much lower than the deposit rate it pays to them. However, at present, Kerala Bank relies heavily on refinance for its long-term agricultural credit (about 85 per cent of its total long-term agricultural credit is refinanced). Hence, even if there is a hit at its margin on the self-financed component, it is expected to not significantly affect the Bank's long-term lending operations. However, in years when NABARD's long-term agricultural refinance is limited, Kerala Bank may find itself constrained to lend to long-term agriculture given this negative margin. For instance, in 2020-21, due to a drop in its CRAR (See Section 2A.3.1 earlier), Kerala Bank did not receive any long-term refinance, and this showed up in a negative growth of 17 per cent in its long-term agricultural credit during the year.

Considering the above observations, the Group recommends the following:

I. The deposit rate paid by Kerala Bank may be aligned to the prevailing market rates on deposits. At present, the interest rates for Kerala Bank and PACSs are fixed by a committee comprising the RCS officials, representatives from the Kerala Bank and PACSs.[12] The extant deposit rate of 6.75 per cent fixed by the committee is considerably higher than the prevailing market rates.[13] To illustrate, commercial banks offer rates ranging between 4.9 per cent to 5.5 per cent on their term deposits exceeding one year, while the rates offered on their savings deposits range between 2.7 per cent and 3 per cent. The Kerala Gramin Bank – a bank with entirely Kerala-based business similar to Kerala Bank – offers interest

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[12] *The committee meets as and when required to make changes in the interest rates. Circulars about interest rates are issued by Kerala Bank for its depositors, and then by RCS, Kerala for PACSs.*

[13] *6.75 per cent is the highest rate paid on deposits of maturity between 1 and 2 years. For deposits with maturity above 2 years, the rate is 6.50 per cent.*

rates ranging between 5.25 per cent and 5.40 per cent on deposits with maturity ranging between 1 and 10 years, and less than 4.75 per cent on deposits with maturity of less than one year.

Given that PACSs are key depositors for Kerala Bank ***(see Table 3 in Chapter 3)***, any market-linked adjustment in deposit rates of Kerala Bank will affect the earnings of the PACSs closely. Hence, the Group recommends a gradual reduction in the interest rate over a period of three years as suggested below:

Financial year	Term deposit rates of Kerala Bank
2022-23	Fixed at 50 bps above the comparablemarket rate prevailing at the time of rate fixation
2023-24	Fixed at 25 bps above the comparable market rate prevailing at the time of ratefixation
2024 onwards	Fixed at the comparable market rateprevailing at the time of rate fixation

The Group also recommends revisions in the interest rate paid by PACSs to their depositors in line with the market rates, as this will bring down lending rates charged by PACSs and can also help in shoring up the narrow net interest margin for these societies. There is an apprehension that such a reduction may lead to an outflow of deposits from PACSs. The extent of outflow can be reduced by developing an appropriate technological interface between PACSs and Kerala bank and provision of various value- added services by PACSs to their depositors. The availability of such services can make banking with the PACSs more attractive for depositors.

The Group also recognises that deposits with PACSs are the most accessible means of savings for members of cooperative societies in the State. And hence, it recommends that rate paid by PACSs to their depositors can be fixed slightly higher than the rate paid by the Kerala Bank to PACSs on the latter's deposits. In any case, PACSs are seen offering a slightly higher rate to their depositors than the rate they receive from the Kerala Bank. To illustrate, in 2019-20, the rate offered by Kerala Bank was 7.25 per cent to PACSs on their deposits.[14] As per the survey data for 2019-20, the modal interest rate on fixed deposits offered by PACSs to their depositors ranged between 7.25 per cent and 7.8 per cent in 2019-20, with the Class 1 societies offering a higher modal rate of 7.8 per cent ***(Appendix 5)*** [15].Hence, it is recommended that the societies can be allowed offer a rate slightly higher than the rate they receive from Kerala Bank. However, the rates certainly need to be more closely aligned to the market rates than at present.

[14] As noted earlier, the committee to fix the interest rates meets as and when necessary. The last change was made by the committee in January 2021. The two changes before that were in May 2020 and October 2019. The rate on deposits of maturity between 1 and 2 years was 7.25 per cent in October 2019, which was kept unchanged in May 2020 and then reduced to 6.75 per cent in January 2021.

[15] This was, in fact, in contravention of the Kerala Bank guidance, which advised PACSs to offer any rate that is equal to or lower than the rate they received from the Bank. It was also in contravention of the advice given to auditors in the Audit manual by the RCS, Kerala (GoK, 2020c).

The reduction in interest rates by PACSs will help in reorienting their balance sheet and financial operations towards credit than investments in deposits with the higher tier. The credit to deposit ratio of PACSs has been on a decline across all districts; it was 59 per cent in 2017-18 ***(Appendix 6).*** Also, the percentage of borrowing members in total members of PACSs was low, at 40 per cent. It ranged between 20 per cent and 50 per cent across districts, underlining the scope for expanding the reach of PACSs' credit ***(Appendix 7).***

High deposit rates can have several debilitating effects on PACSs' operations:

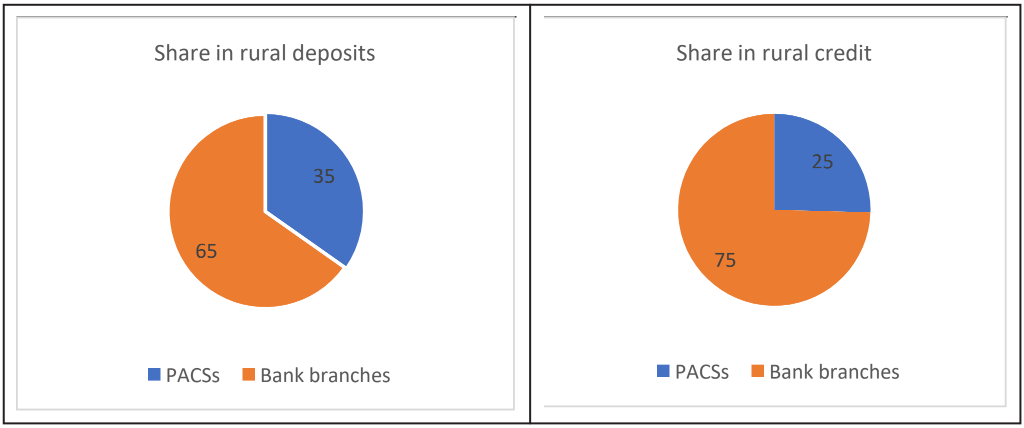
a. **High lending rates –** High deposit rates can prompt PACSs to increase their lending rates in a bid to protect their margins. For instance, long-term agricultural credit financed through their own funds for most Class 1 societies surveyed by the Group was around 9 per cent (Table 2 and Appendix 5). Such higher rates can discourage farmers from seeking cooperative credit.

b. **Disturbing the member-centric nature of PACSs – PACSs are member-** centric institutions that mobilise deposits from members and give credit to members. However, on average, about 26 per cent of the fixed deposits of PACSs were from non-members in 2019-20, with the percentage being 35 for Class 1 Super and Special grade societies (see Appendix 8). Thus, by offering high rates of interest on deposits and by charging high rates on their loans, PACSs are possibly protecting the interests of their depositors (non- members and members) at the cost of their member-borrowers.

c. **Hampering the interests of weak PACSs –** Given that financially weaker PACSs depend more on the refinance from Kerala Bank, they are bound by the refinance rates on their loans but have to pay higher deposit rates to compete with the stronger PACSs in mobilising deposits. As a result, the interests of the weaker PACSs may get hampered on account of high deposit rates.

d. **Disturbing the credit to deposit ratio in the cooperative segment –** The credit to deposit ratio of PACSs was 59 per cent in 2017-18 despite being the ground-level credit institutions. One reason for this could have been the deposit load on these institutions. In fact, the share of PACSs in total rural (fixed) deposits was 35 per cent in 2017-18 as compared to their share in total rural credit of only 25 per cent (Figure 5). While deposits have been a strength of the cooperative movement in Kerala unlike other States, a perpetuation of high deposit rates may further tilt the balance for PACSs in favour of deposits but against credit.

Figure 5: Shares of PACSs and commercial bank branches in rural (fixed) deposits and credit, 2017-18 Source: RCS data and BSR, RBI



Source : RCS data and BSR, RBI

Note: Bank branches refer to rural and semi-urban bank branches taken together, given Kerala's semi-urban nature of settlement. Deposits refer to fixed deposits.

e. **Disturbing the deposit base of PACSs –** Given their inability to provide value-added digital services, PACSs may be constrained in mobilizing current and savings accounts (CASA). However, the lucrative interest rates may disturb the deposit balance further, increasing the share of fixed deposits in the total deposit base of these institutions. The average share of fixed deposits for the surveyed PACSs was about 76 per cent in 2019-20 with the share being much higher, at 84 per cent, for Super and Special grade PACSs (Appendix 9). CASA provide not just a stable but also a cheaper source of funds for any financial institution. The recommendations of the Group (see Chapter 4) of making PACSs the banking partners of the local self-government institutions (LSGIs) and other ground-level institutions in rural areas can help in mobilising CASA for PACSs. Changes in deposit rates, as recommended by the Group, can also help in addressing the deposit imbalance of PACSs to an extent.

II. Refinance from Kerala Bank needs to be made more widely accessible and all PACSs may be encouraged to seek refinance from the Bank. As noted earlier, at present, the recourse to refinance among PACSs is limited (see sub-section 2A.3.2 earlier). Greater and wider access to refinance will help in bringing down the overall cost of agricultural credit at the ground level. The Group recommends that Kerala Bank needs to formulate outreach and training. Programmes for farmers and producers in allied activities to popularise the refinance schemes further.

III. The provision of long-term agricultural credit needs immediate and special attention of all stakeholders, including Kerala Bank, RCS, Kerala, and PACSs. The interest subvention scheme inadvertently creates an imbalance in favour of short-term agricultural credit, which needs to be corrected. The alignment of deposit rates offered to and by PACSs with market rates will certainly help in bringing down the ground level cost of long-term agricultural credit. However, even with such a reduction, PACSs may continue to charge higher rates of interest on their long-term agricultural credit financed through own funds to protect their margins. Hence, the Group recommends that PACSs may extend long-term agricultural credit at the same rate irrespective of whether they lend through refinance or through their own funds; the Group recommends the RCS to issue guidance to PACSs about their lending rates on long-term agricultural credit on these lines. This will also take away the undue arbitrage for PACSs between refinance and own funds and encourage them more to tap the refinance window for their long-term agricultural credit needs.

3. STRENGTHENING THE TWO-TIER COOPERATIVE CREDIT STRUCTURE

The two tiers of the short-term cooperative credit structure, namely Kerala Bank and PACSs/FSSs, not just need to be individually strong, but also need to work together along with other ground-level institutions, such as UCBs, to support the larger cause of cooperatives in the State. This chapter first discusses Kerala Bank's steps till now towards establishing its new identity. It looks at the challenges that the Bank faces and suggests possible measures to address these challenges. It then discusses the issues concerning the primary credit cooperative societies and UCBs, excluding the issue of agricultural credit, which has already been covered in Chapter 2. The chapter also suggests ways for a greater integration of the operations of these two tiers.

KERALA BANK

Vision

The broad objectives behind the creation of Kerala Bank are to (a) provide a modern and stronger cooperative banking alternative to the people of Kerala, particularly to the sections that are usually under-represented in the traditional clientele of commercial banks, such as farmers, women and youth; (b) extend financial, technical and developmental support to primary cooperative credit societies and UCBs without entering into a direct competition with them, and thereby reach out to the members of these societies/banks; (c) provide financial and developmental support also to the other segments in the credit and non-credit cooperative segments, such as dairy, traditional industries, consumer, labour and other sectors.

Fulfilment of the regulatory conditions

In its in-principle approval for the merger of the erstwhile Kerala State Cooperative Bank with the DCCBs to create Kerala Bank, the RBI had laid down 19 conditions, to which four more were added while granting the final approval in 2019. Kerala Bank has till now met all conditions except three:

a) "Kerala Bank must get its technology in place for a smooth transfer of services to the existing clients with carefully configured software to enable the system integration with all DCCBs" – The Bank has issued purchase orders for core banking solutions (CBS), data centre (DC), disaster recovery (DR), near- disaster recovery (NDR) and allied solutions as well as for digital banking (omni-channel) in September 2021.[16] An IT integration and monitoring sub-committee has been constituted under the chairmanship of a Board of Management (BoM) member to supervise the timely completion of the CBS and IT Integration process. A 30-member in-house team has been constituted to look after the work at the command centre.

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[16] *The data centre will be located in Bangalore, and DC and NDR in Hyderabad. The project management office and the command centre will be located in Ernakulam.*

The data migration to the new CBS from the CBS of the erstwhile DCCBs will take place in a phased manner, while simultaneously onboarding the digital banking channels.

The implementation of CBS and IT integration is a key milestone for Kerala Bank as it will enable the Bank to provide all technology-enabled banking services to the public and primary cooperative societies. These will include net and mobile banking, RuPay debit cards and KCC smart cards, various retail banking channels, such as Aadhaar Payment Bridge System (APBS), Direct Benefit Transfer (DBT), Unified Payments Interface (UPI), Cheque Truncation System (CTS), etc. The CBS and IT integration will help in developing the ATM network of the Bank. In fact, the Bank floated a request for proposal for providing the ATM Switch services in January 2021.

Most importantly, the digital and IT integration will pave the way for the next round of reforms involving PACSs' digital integration with Kerala Bank enabling the provision of digital banking services to PACSs;

b) "Nomination of one representative of non-credit co-operatives on rotation basis as a special invitee without voting rights to address their concerns" – It is learnt that this issue is under consideration of the Bank's Board;

c) "The swap ratio for shares in the amalgamated bank shall be based on real net worth of DCCBs" – It is learnt that the Government of Kerala has expressed its reservations to this condition on the grounds that the valuation of shares based on swap ratio cannot be used for deciding the share allocation of Kerala Bank, as it is not a banking company. Such allocation may run counter to the cooperative principle of one member, one vote, and may be in violation of the Kerala Cooperative Societies' Act, 1969.

The Government of Kerala has requested an extension for meeting the unmet conditions up to December 31, 2021. While Kerala Bank has satisfactorily met most of the conditions, it is recommended that the Bank expedites fulfilling conditions

(a) and (b). It is also recommended that the Bank seeks clarity about (c) such that its fulfilment does not violate the Kerala Cooperative Societies' Act 1969 in any manner because strict adherence to the Act and its provisions has, in fact, been the first and foremost condition laid down by the RBI while granting the in- principle approval for the creation of the Bank.

CHALLENGES

Credit to deposit (CD) ratio

Raising the CD ratio is a key challenge for Kerala Bank. The ratio was only 59 per cent in 2021 dropping steeply from 66 per cent in the previous year ***(Table 3).*** The erstwhile Kerala State Cooperative Bank too suffered from a low CD ratio (GoK, 2017). Most

[17] *See the data on comparative positions of credit and deposits of the three tiers in RBI (2020).*

Table 3: Key balance sheet parameters of Kerala Bank, in Rs. crores

	Variable	March2020	March2021
1	Paid up capital and reserves	1,808	2,202
2	Deposits	61,038	66,732
2.1	Individual deposits	17,182	17,234
		(28.1)	(25.8)
2.2	Institutional deposits (including PACSs/FSSs)	43,855	49,498
		(71.8)	(74.2)
2.2.1	Institutional deposits of PACSs/FSSs	39,196	45,217
		(64.2)	(67.8)
	Of the total deposits,		
2.3	CASA	8,915	9,017
		(14.6)	(13.5)
2.4	Term deposits	52,123	57,715
		(85.4)	(86.5)
2.4.1	Term deposits of PACSs/FSSs	37,171	43,026
		(94.8)*	(95.2)*
3	Loans	40,157	39,665
4	Investments	27,581	34,036
5	Branches	769	769
6	Credit processing centres (one in all districts except one)	13	13
7	CD Ratio	65.8	59.4

Source: Kerala Bank accounts
Note: Figures in brackets indicate percentage share in total deposits.
* Figures relate to percentage share of total deposits of PACSs/FSSs.

State cooperative banks across the country report a much lower CD ratio than DCCBs or PACSs, since they operate primarily through their lower tiers and have limited ground-level connect through their own branches.[17] However, Kerala Bank, with a wide branch network at its disposal, stands at a different footing than other State cooperative banks.

Credit needs to be the area of focus for the new Bank. The Bank needs to have a five-year Plan for the expansion of its operations. The Plan must identify targeted sectors to be financed; (b) specific self-set targets linked to these sectors; (c) deposits and borrowed resources, and capital planning needed for such an expansion; (d) Other challenges and ways to address these challenges, if any. The Plan must be broken down into annual plans laying down the incremental targets and achievements for each year.

In formulating the Plan, the Bank needs to be mindful of the following:

1. Priority sector targets of the RBI – These targets are applicable to commercial banks and they relate broadly to agriculture and allied activities, micro, small and medium enterprises, affordable housing, economically weaker sections, renewable energy and social infrastructure. Kerala Bank must keep these sectors in mind while designing its five-year Plan and annual targets. Being a cooperative bank, Kerala Bank needs to set higher targets for itself concerning these sectors.
2. Regional credit requirements – Although Kerala is geographically a small State with high credit penetration, there are bound to be differentials between districts/regions in terms of credit penetration. The Bank needs to identify such pockets of under-penetration and incorporate a region-specific dimension in its Plan;
3. Avoiding any direct competition with PACSs – While having the sectoral and regional dimensions in mind, the Bank also needs to steer clear of any direct competition with PACSs in terms of both credit and deposit mobilisation. This may seem as a limitation, but it may not be so for the following reasons: First, Kerala Bank has a strong institutional deposit base comprising mainly PACSs' deposits. It needs to make a foray into tapping deposits of other State-owned and private institutions, NRI deposits, and retail deposits from urban/semi- urban centres. Second, it has inherited the base of depositors who were loyal to the erstwhile DCCBs. The Bank needs to preserve the loyalty of these customers by building public confidence through its brand name and public outreach. The expedited implementation of the digital and IT integration will help in retaining these customers. Third, as regards credit, the Bank needs to rapidly diversify into long-term agriculture, rural and social infrastructural sectors. Given PACSs' focus on meeting retail short-term and long-term agricultural credit needs, Kerala Bank needs to focus on long-term and large- scale investment projects primarily in rural centers.

   There is scope for long-term credit for agricultural and rural infrastructure development in Kerala. Commercial banks, the financial institutions with the largest loan portfolio in the State, are increasingly diversifying into retail loans. In fact, their share of retail loans is now significantly higher than their share in core industrial and infrastructural financing in the State (Table 4).

Table 4: Size of long-term loan portfolios of various financing institutions, Kerala, 2019-20, in Rs. crores

Institution	Size of loan portfolio
KFC portfolio	3,351
KSCARDB total credit	7,118
Total commercial bank credit	3,60,892
Commercial bank retail credit	1,32,779 (37.0)
Commercial bank credit to core industries andinfrastructure	10,165 (2.8)

Source: BSR, RBI; KFC and KSCARDB accounts
Note: Figure in brackets indicate percentage share in total credit of commercial banks.
Core industries and infrastructure includes cement, iron and steel, mining and quarrying and infrastructural construction.

Kerala has the Kerala Financial Corporation (KFC), operational since 1953 under the aegis of the State Financial Corporations Act, 1951, with a very modest portfolio size of Rs. 3,351 crores. Moreover, KFC is geared towards financing the infrastructural and other needs in the industrial sector. Kerala also has the KSCARDB (along with PCARDBs) specialising in long-term agricultural credit. However, as noted earlier, the size of its total loan portfolio (as well as agricultural loan portfolio) is relatively small (see Table 4 along with discussion in Section 2A.2 in Chapter 2). Also, these banks specialise in retail long-term agricultural credit for minor irrigation, plantation and allied activities, etc. (GoK, 2020). Evidently, the State needs a financial institution that can providelong-term finance for agricultural rural and social infrastructural development. Kerala Bank canstep in to meet this demand.

Large-scale infrastructural needs in agriculture can include macro-irrigation, land development, storage/warehousing and marketing of agricultural produce, investments in food processing and traditional industries, financing farmer producer organisations (FPOs), particularly farmer producer companies (FPCs) (see Section 5E in Chapter 5 for a discussion on FPOs). There is a priority given to the primary processing of cash crops but equal thrust needs to be given on secondary processing. Hence, the number of warehouses and cold storages in each district needs to be increased significantly, such that its benefits can be reaped by small farmers and allied producers. As regards developing social infrastructure in rural areas, Kerala Bank can partner with the LSGIs (see Chapter 4 for a detailed discussion on this issue).

Kerala Bank also needs to expand its refinance to PACSs/FSSs significantly. As noted in Chapter 2, its short- and long-term agricultural refinance portfolio is rather small at present (see Section 2A.3.1). If required, Kerala Bank has to fund agricultural credit needs of PACSs using its own funds, and go beyond the extent of refinance that it can source from NABARD.

Another major area of lending that the Bank can tap is financing KSCARDB and PCARDBs. Cooperative agriculture and rural development banks in India are generally constrained in terms of sources of funds (RBI, 2012). The provision of credit support to the KSCARDB and PCARDBs over and above the refinance from NABARD may help these institutions in addressing the financing constraints to an extent.

In sum, even without entering the areas of operations of PACSs, Kerala Bank has adequate means at its disposal for deposit mobilisation and credit provision.

4. Not imitating commercial banks – While formulating its Plan for business expansion, Kerala Bank must never forget its identity as a cooperative bank and not try to imitate commercial banks. This should reflect in the extent of finance it gives to priority sectors; the terms of finance including interest rates and its commitment to its members, namely PACSs and UCBs, and to the planned socio-economic objectives of the State.

   Commercial banks across India are aggressively moving into retail lending after the limitations of the universal banking experiment have come to the fore. Saddled with NPAs in the infrastructure and industrial sectors, retail loans have become their focus area in recent years. This has created a vacuum in large- scale infrastructural funding, prompting a renewed discussion around development financial institutions. Kerala Bank can establish itself as a rural development financial institution. Competing with commercial banks to acquire a size of the retail pie should not be the main concern of Kerala Bank. Retail loans can be a constituent but not the focus of its Plan for expansion.

The Board of the Bank needs to be involved in preparing the five-year Plan for the Bank. The yearly plans with the incremental targets and achievements must be approved by the Board such that (a) they become binding for the management; (b) any external interference in setting or achieving these targets can be avoided.

While the Bank needs to align its operations with the State's planned objectives, its own Plan and associated targets must not be dictated in a top-down manner, such that the Bank can be managed professionally. The Board also needs to be vigilant that in a bid to achieve the targets, the management and decision-making staff does not let down their guard of due diligence, and that they follow the standard operating procedures for credit sanction and monitoring, and risk management.

Given the Group's recommendation of Kerala Bank specialising in infrastructure financing, the function of credit sanction assumes a greater importance for the Bank. Hence, the Bank needs to set up an internal technical team that specialises in project evaluation and financing (see 3A.4 for a detailed discussion on this issue). The Group also recommends that the internal team establish a tie- up with a competent external agency, which can provide an objective and professional view on project evaluation and financing-related issues.

The Plan is a self-driven exercise by the Kerala Bank, guided and approved by its Board. However, this Plan can be taken as the basis for judging the performance of Kerala Bank by the Government and deciding about future recapitalisation support to the Bank.

Apart from expanding its credit portfolio, the Bank also needs to manage its deposit base in order to increase the CD ratio. About three-fourth of the current deposit base of the Bank comprises institutional deposits, including deposits of PACSs (Table 3). Furthermore, 95 per cent of the total deposits of PACSs are term deposits. A recommendation made by the Group about aligning the interest rate paid by Kerala Bank to its depositors, including PACSs, will help in addressing the interest servicing pressures on Kerala Bank ***(see Section 2B in Chapter 2).***

Although profit maximisation is not the primary goal for cooperatives, there is no denying that Kerala Bank in its early stages needs to make adequate profits to generate capital internally. Addressing the interest servicing pressures will help the Bank to shore up its net interest margin. Aligning the interest rates more closely to market rates may also nudge PACSs and other institutional depositors to hold more of short-term deposits/CASA with the Bank.

CAPITAL

Capital is another challenge for the Bank such that it is able to sustain its capital to risk-weighted assets ratio (CRAR) above the regulatory minimum of 9 percent, and is able to expand its credit portfolio. The Bank managed to reach a CRAR of 10.2 per cent in 2021, which was, in fact, one of the conditions laid down by the RBI while granting its in-principle approval (Table 5). The RBI had also noted that any shortfall in meeting the minimum CRAR should be met by the State Government. Accordingly, the Government of Kerala infused Rs. 400 crores through budgetary allocation in March 2021 along with an infusion of Rs. 1 crore by the RCS, Kerala, which helped the Bank in achieving the regulatory minimum in 2021.

Considering the NPA burden from the erstwhile DCCBs, the Bank may be constrained in internally generating adequate capital in near future; its net non- performing assets (NNPA) ratio was high, at 10.8 per cent in 2021 (Table 5). And hence, it may need recapitalisation support to sustain the CRAR. However, recapitalisation support should not become a norm or a given for the Bank. The Bank must adopt prudent capital planning to meet its capital needs. The planning must involve stepping up the internal generation of capital and tapping more capital from its existing shareholders.

Being a cooperative bank, Kerala Bank has all PACSs and UCBs as its A Class shareholder. Furthermore, the non-credit cooperative societies are included as its C Class shareholders. Since its net NPA and CRAR have been below the stipulated minimum, the Bank has not been able to declare dividends to its shareholders till now[18]. Unlike commercial banks, profit maximisation is not the primary goal of credit cooperatives. However, they

[18] See NABARD circular No.85 /DoS-11/2012 dated April 10, 2012 which stipulates the conditions to be met by State and district central cooperative banks for declaring dividends. Among the various conditions, these banks have to ensure CRAR above 7 per cent and net NPA ratio below 5 per cent.

are member-centric institutions and ensuring minimum returns to their shareholders or members to cover at least their cost of capital may be necessary for a smooth functioning of these institutions. Accordingly, the Government of Kerala may consider amending the Kerala Cooperative Societies' Act, 1969 for giving incentives/minimum assured dividends when either profit is not sufficient, or the Bank is unable to declare dividend.

Table 5: Key soundness and financial parameters of Kerala Bank, in per cent

End-March	Total CRAR	Tier 1CRAR	NNPA ratio	Net profits (Rs. crore)	Net interestmargin
2020	7.3	5.2	11.8	375	-
2021	10.2	7.2	10.9	62	1.3

Source: Kerala Bank accounts
Note: NIM is defined as net interest income/average total assets

CASA

Given the Group's recommendation for Kerala Bank to function as a rural development financial institution with long-term infrastructural loans, the Bank may have to build a matching liability structure involving long-term deposits. Its strong term deposit base from PACSs may help in this direction.

However, the Bank also needs a reasonable percentage of CASA. CASA accounted for barely 13 per cent of its total deposit base in 2021 ***(Table 3).*** The percentage of CASA for Kerala Gramin Bank was significantly higher, at 41 per cent, in 2020-21. Of course, Kerala Gramin Bank is a commercial bank and is more well- established than the newly created Kerala Bank, but it is also a bank exclusively focused on Kerala like Kerala Bank, and hence, has been referred to here for a limited comparison.

The increased percentage of CASA can bring down the cost of funds for the Kerala Bank. At present, its net interest margin (net interest income/average total assets) is narrow; it was 1.3 per cent in 2020-21 ***(Table 5).***

NPA Management

Management of NPAs is another critical challenge for Kerala Bank. It is learnt that the Bank has managed to bring down the gross NPA ratio from 20.2 per cent as on the date of the merger to 14.5 per cent in March 2021. Notwithstanding the progress, the GNPA and NNPA ratios are still high. The NPA composition also shows ageing of NPAs with a rise in the share of doubtful assets ***(Table 6).***

Table 6: NPA details, Kerala Bank, in per cent

Variable	2020	2021
GNPA ratio	15.3	14.5
NNPA ratio	11.8	10.9
Share of sub-standard assets in GNPAs	72.3	65.9

Share of doubtful assets in GNPA	26.4	32.9
Share of loss assets in GNPA	1.3	1.2
Actual provision coverage ratio	25.8	27.9
Required provision coverage ratio	50.7	55.6

Source: Kerala Bank accounts
Note: Provision coverage ratio refers to NPA provisions/Gross NPAs.

An important concern for the Bank is the legacy NPAs from the erstwhile DCCBs. The two key strategies adopted by the Bank for addressing the legacy NPAs include a one-time settlement (OTS) policy and recovery through asset reconstruction companies (ARC) and Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI), 2002.

Furthermore, the Bank has laid down an action plan for preventing fresh slippages. Branches are instructed to continuously track all special mention accounts (SMA0, SMA1 and SMA2; SMA0 – Repayment overdue for up to 30 days; SMA1 – Overdue from 31 days to 60 days; and SMA2 – Overdue from 61 days to 90 days) to avoid any further downgrades.[19] Branch-wise targets have been fixed for the reduction in SMA2 and NPAs, and a daily monitoring at the headquarters is conducted through teams specifically constituted for this purpose. The head office and corporate office closely monitor large-value NPAs exceeding Rs. 50 lakhs.

Since the reduction in the NNPA ratio below 5 per cent is critical for the Bank in getting various regulatory clearances, particularly for declaring dividends to the primary cooperative societies, the Bank needs to continue its efforts in aggressively reducing the burden of legacy NPAs and reducing fresh slippages. The recommendations of the Group for the Bank to expand its credit portfolio will also help in reducing the NNPA ratio.

FUTURE DEVELOPMENT

HR planning

It is learnt that following the merger, the human resource (HR) related integration with the erstwhile DCCBs was completed peacefully without major disagreements among the staff and a combined seniority list of employees was prepared. Following this, draft recruitment rules and staff pattern have been laid down. Since the recruitment rules have major implications for HR planning in the Bank, the Group recommends that these rules are expeditiously finalised and implemented.

At present, the Bank has six major departments at the head office and six departments also at its seven regional offices ***(Appendix 10).*** In light of the Group's recommendations of specialising in long-term agricultural and rural infrastructural finance, the Bank may need

[19] SMA0 – Repayment overdue for up to 30 days; SMA1 – Overdue from 31 days to 60 days; and SMA2 – Overdue from 61 days to 90 days.

to focus on the following areas:

- Internal capabilities in the business planning and cooperative credit; and credit, credit monitoring and recovery departments need to be strengthened in the form of two new technical units that can identify business opportunities for projects financing, and undertake project evaluation;
- Internal capabilities in internal audit function may also need to be strengthened as project financing will require a stronger assurance function.

At present, the powers for financial and administrative audits of PACSs/FSSs rest with the Director of Cooperative Audit, Kerala. Similarly, the powers for regulation and supervision/ inspection are with the RCS, Kerala. As per Section 66 of the Kerala Cooperative Societies' Act, 1969, the right for supervision/inspection can also be exercised by the apex society, federal cooperative society or financing bank. In fact, this right used to be exercised by the erstwhile DCCBs, although occasionally and in a limited manner. With the creation of the Kerala Bank, this right can be exercised by Kerala Bank as permissible under Section 66, as and when it deems necessary. Towards exercising this right, however, the Bank may need to bolster its internal capabilities in supervision. It is recommended that the Bank constitute and develop an internal team having supervisory expertise.

Data collection and management

As a prerequisite for rendering its financial, developmental and supervisory functions, the Kerala Bank needs to develop a complete database on the financial and non-financial operations of all primary cooperative credit societies and UCBs. The Group recommends collection, digitisation, and annual updation of such a database. The audited data on primary cooperative credit societies are being collected by the RCS, Kerala, supported by the Joint Registrar in each district. The RCS may share the data with Kerala Bank on a periodic basis. Alternatively, Kerala Bank can design an internal mechanism to collect and update the data. However, care should be taken that (a) the data are accurate, (b) they are not at variance with the RCS data leading to erroneous decisions; (c) there is no additional burden on the primary cooperative credit societies and UCBs of submitting data to multiple authorities.

Primary Cooperative Credit Societies

Among the primary cooperative credit societies in Kerala, PACSs are the most dominant in terms of number and size of membership. They derive their strength from (a) an outstanding touchpoint network; (b) strong membership base; and (c) strong deposit base; and (d) strong net worth.

In 2018-19, there were 1,606 PACSs across the State. They had an average membership size of 15,748 persons. There were in all 4,325 touchpoints with an average of 3 touchpoints per PACS in that year ***(Appendix 11).***

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[20] Based on data from National Federation of State Cooperative Banks Limited (NAFSCOB) for 2015. There is no source providing State-level data on PACSs other than NAFSCOB. Hence, NAFSCOB data have been used here, although there are concerns about their quality. To minimise the data quality issues, normalisation using the number of PACSs has been done instead of a direct comparison of absolute amounts across States.

Interestingly, the average size of deposits and net worth of PACSs was the highest in Kerala among all States in India ***(Appendix 12).*** To put it in perspective, the average size of deposits of PACSs in other States barely came up to 5 per cent of the size of PACSs in Kerala, despite Kerala being geographically and demographically a small-sized State.[20] Evidently, the size of deposits handled by PACSs in Kerala is substantial.

However, there are concerns about the working of PACSs that need to be addressed so that these societies can lend more to productive sectors. These societies have made such a significant contribution to the State's socio-economic development that they cannot be squandered away.

CONCERNS ABOUT PACSS' OPERATIONS

Credit to productive sectors

As noted in Chapter 2, despite being agricultural credit societies, the percentage of finance given to agriculture and allied activities by PACSs has been on a decline in recent years. As argued in Chapter 2, this decline cannot be explained simply by the policy decision to convert the agricultural gold loans into KCC loans. The decline in the share of agricultural credit indicates a more deep-rooted problem in the working of PACSs. The Group has looked into the issue of agricultural credit in detail in Chapter 2 and has suggested certain measures to ensure that PACSs give due attention to agricultural financing at reasonable rates of interest.

Agriculture is clearly the most important productive sector that PACSs need to focus on. However, other productive sectors, such as MSMEs and services, are also not adequately represented in the loan portfolios of PACSs and need attention. From the survey data collected by the Group, consumption credit is the most dominant feature of the loan portfolios of PACSs. To analyse the importance of consumption loans, a ratio of gold (consumption) loans to total agricultural loans was worked out. Gold loans were 15 times the agricultural loan portfolio in 2019-20 for the surveyed PACSs ***(Appendix 13).*** [21] The ratio was at a staggeringly high level of 48 for the Class Super and Special Grade societies. While meeting consumption demands of members against the security of gold or otherwise is not a problem per se. However, if it happens at the cost of credit to productive sectors, then it is a worrying trend.

To revive cooperative credit to productive sectors, the Group reiterates the need to increase

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[21] *The figure reported in the survey was of total gold loans. Gold loans are given for agricultural and consumption purposes. Given the policy thrust on converting all gold loans into KCC loans, a reasonable assumption was made that the gold loan portfolio was entirely for consumption purposes. If in case, the gold loans also included agricultural gold loans, then it suggests that despite the policy directive, PACSs were still extending agricultural gold loans. However, there is a considerable diversion of the agricultural gold loans towards non-agricultural/consumption purposes, as discussed in Chapter 22. Hence, the conclusion of consumption loans outweighing agricultural loans may not change much. Based on data from National Federation of State Cooperative Banks Limited (NAFSCOB) for 2015. There is no source providing State-level data on PACSs other than NAFSCOB. Hence, NAFSCOB data have been used here, although there are concerns about their quality. To minimise the data quality issues, normalisation using the number of PACSs has been done instead of a direct comparison of absolute amounts across States.*

the flow of cooperative credit to agriculture. PACSs can also diversify into certain under-explored services, such as financing tourism at the local level. The innovative options of financing farm tourism, village tourism, pilgrim and health tourism can be explored by PACSs.

While the Group has identified large-scale agriculture and rural infrastructure loans as the domain of specialisation for Kerala Bank, in case the PACSs are interested in financing any large project, they can take recourse to the consortium lending scheme as permitted under the Kerala Cooperative Societies' Act, 1969. The scheme entails the formation of a consortium of PACSs specifically for extending loans for infrastructure development.[22]

Deposit mobilisation

Deposits have been a source of strength for PACSs in Kerala, which have made them self-reliant and less dependent on the upper tiers unlike their counterparts from other States (GoK, 2017). However, there is a need to relook at the extent and type of deposits being mobilised by PACSs in Kerala.

First, the primary objective of deposit mobilisation should be credit supply. A modest CD ratio of 59 per cent indicates the inability of PACSs to adequately deploy the deposits towards credit. Second, about three-fourth of the deposits by PACSs are fixed deposits, with the share being much higher, at 84 per cent, for Class 1 Super and Special grade PACSs (see Appendix 9). Clearly, the share of CASA, which offers a cheaper and more stable source of funding, is considerably low for these institutions.

As noted earlier, the inability of PACSs to offer value-added services to their depositors may be a reason for their weak CASA base. Moreover, the fluid resource requirement stipulated for PACSs is expected to help them in meeting their cash outflows effectively even when their shares of CASA are low.[23] However, CASA undoubtedly affects cost of funding. Hence, till such time the proposal to integrate the PACSs with Kerala Bank using a technological interface materialises (see Section 3D.2 in this chapter), PACSs may be encouraged by the RCS to maintain a minimum of 25 per cent of their total deposits as CASA. The share of CASA recommended by the Group is purposely kept low given the difficulties that PACSs reportedly encounter in mobilising CASA.

As discussed in Chapter 2, fixed deposits increase the interest servicing pressures on PACSs. The deposit interest rates offered by PACSs are much higher than the comparable market rates.[24] This can compress their margins significantly. The survey data showed that the average net interest margin (NIM), calculated as the gap between interest received (on loans) and interest paid by PACSs, was about 1.1 per cent (Appendix 14). It was the lowest for Class 5-7 societies. High deposit rates can push the PACSs into charging higher lending

[22] See Section 57C of the Kerala Cooperative Societies' Act, 1969.

[23] As per the Kerala Cooperative Societies' Rules, 1969, PACSs need to maintain the full value of fixed deposits matured and due for payment at the close of business on a day and 20 per cent of its demand and time liabilities at the close of business on a day as fluid resources.

[24] The Class 1 Super and Special Grade PACSs surveyed by the Group, in fact, offered even higher rates than what they earned on their deposits with the Kerala Bank.

rates to protect their narrow margins. Alternatively, it can push them towards parking their deposits with banks to earn interest income. In fact, when the interest earned by PACSs on their bank deposits was added to interest earned on loans, their NIM more than doubled. The NIM for all surveyed PACSs increased from 1.1 per cent to 2.6 per cent in 2019-20. The difference in the NIM due to interest earned on bank deposits was substantial for Class 5-7 societies and also for Class 1 Super and Special grade societies.

Clearly, the deposit-centric model of PACSs has served them right till now in making them self-reliant but it may need a modification, if the PACSs have to be nudged into (a) lending more in general, (b) lending more to productive sectors, and

(c) lending to productive sectors at reasonable rates of interest. PACSs need to lay down targets for deposit mobilisation based on their credit plans. The deposit targets need to also factor in the CASA target laid out earlier, such that load of servicing high- cost fixed deposits can be reduced. The Group's suggestion of aligning PACSs' deposit rates more closely with the market rate (albeit at a slightly higher level than the market rate) may help in this direction ***(see Section 2B in Chapter 2).***

Overdues management

According to PACSs, overdues often constrain them from lending more to productive sectors, particularly agriculture (for a similar discussion see 2A.3.2 (c)). Overdues is indeed a concern for PACSs. In 2017-18, their total overdues were 14 per cent of the total demand (Appendix 15). However, there was a differential across districts in the overdue positions. In Palakkad, Thiruvananthapuram, Wayanad, and Alappuzha, the overdue percentages were much higher, particularly when compared with the shares of these districts in total credit of PACSs.

Financial assistance is extended by the State Government to potentially viable but weak PACSs to rehabilitate them. Apart from financial assistance, targeted efforts towards the revival of weak PACSs can also help. In 2010, NABARD had initiated a PACS Development Cell (PDC) programme for handholding and development of PACSs. These cells were operational in certain districts under the erstwhile DCCBs. They were instrumental in reviving the health of PACSs in a targeted manner, and for undertaking certain developmental initiatives, such as computerisation (Karthika and Shaji, 2021). It is recommended that Kerala Bank rejuvenate these cells with support from NABARD across all districts of Kerala. These cells can specifically focus on PACSs with weak financial health in their jurisdictions, identify the reasons for the weak health and initiate targeted measures for their revival.

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[25] *See RCS circular 40/2007 dated December 10, 2007.*

[26] *As per the income recognition, asset classification and provisioning guidelines by the RBI, a loan granted for short duration crops will be treated as NPA, if the instalment of principal or interest thereon remains overdue for two crop seasons. A loan granted for long duration crops will be treated as NPA, if the instalment of principal or interest thereon remains overdue for one crop season, see https://rbidocs.rbi.org.in/rdocs/notification/PDFs/MCIRACP535F1B4DE5494B4F82F69AB36B11538E.PDF*

There is another issue concerning overdue classification that may need attention. As per the guidance from the RCS, Kerala, a one-year norm is followed in overdue recognition after which overdue provisioning is made applicable on the loans.[25]The period for recognition of overdues is, thus, longer for PACSs than the 90- day NPA norm applicable to commercial and cooperative banks. Keeping the PACSs at a differential footing is justified given that (a) they are not banks; (b) they are in principle agricultural societies, and agriculture has, in fact, been accorded a longer repayment period ever under asset classification guidelines issued to commercial and cooperative banks.[26]

However, there can be a differentiated overdue recognition period across sectors even for PACSs similar to commercial and cooperative banks. While the one- year norm for agriculture (and allied activities) can be retained, irrespective of the type of crop for which agricultural credit is given, a shorter duration, possibly of 180 days, can be introduced for all other sectors/activities. A differentiated overdue recognition period will space out the provisioning for agriculture as compared to other sectors and may encourage PACSs to lend more to agriculture. The Group recommends that the RCS to examine the idea of differentiated overdue recognition period for PACSs.

Representation of farmers

An adequate representation of farmers in the managing committees of PACSs can bring issues concerning agriculture to the centrestage in the working of these institutions. An average of about one-third of the Managing Committee members of the surveyed PACSs were reported as farmers in 2019-20 (Appendix 16). However, the percentage varied widely across various categories of PACSs. While the Class 1 Super and Special grade societies reported a share of 46 per cent, the shares ranged between 25 and 28 per cent for all other classes.

Notably however, an average of about 34 per cent of the surveyed PACSs did not report even a single farmer in their Managing Committees. Hence, the Group recommends that RCS issue guidance to PACSs about ensuring a (minimum) representation of 25 per cent for individuals who are "farmers" by profession, and in particular, the small and marginal farmers, in their Managing Committees.

Some PACSs that interacted with the Group expressed their inability to lend to agriculture as they were located in areas where cultivation was limited. This concern may also apply in the case of representation of farmers in the Managing Committees of PACSs. However, the definition of farmer here includes not just cultivators but also producers in allied activities. Hence, PACSs, which are in areas where cultivation activity is limited, can find suitable representation from among the producers in allied activities in their Managing Committees.

ISSUES CONCERNING SUPERVISION AND DEVELOPMENT OF PACS

Supervision and regulation-related issues of PACSs

The recent episodes of frauds in certain cooperative credit societies underscore the need for an effective supervision of these societies. A well-defined supervisory framework helps in effective supervision, which in turns builds public trust in the financial institution and lends credibility to its operations.

The Group recommends that the RCS, Kerala set up an expert working group to study the current international best practices for supervision of credit cooperatives and recommend a well-defined indicator-based framework for the supervision of primary cooperative credit societies in Kerala, including PACSs. In the case of PACSs, at present, the separation between financial audit and supervision is blurred and needs to be clearly defined. Laying out a supervisory framework that is distinct from the audit function will pave the way towards this separation. In fact, apart from the three internal lines of defence for any financial institution, including business functions, risk management and internal audit, there are two important external, but separate, controls in the form of external audit and supervision.

As noted earlier, as per Section 66 of the Kerala Cooperative Societies' Act, 1969, Kerala Bank has a right to supervision of PACSs and can report to the RCS about the action to be taken against the supervised society. It is recommended that RCS take into consideration the supervisory findings of Kerala Bank about a given society while deciding about the general classification of societies and giving regulatory sanctions and approvals to the societies. This may be similar to the RBI's approach when it takes into consideration the supervisory findings of NABARD while granting regulatory approvals to the State and district central cooperative banks.

Database development and publication

In most States of India, the availability to accurate and updated data for the cooperative sector is a challenge. NABARD used to publish data on the cooperative sector through its flagship national publication called "Statistical Statements relating to Cooperative Movement in India". The publication suffered from a considerable lag and was, in fact, discontinued in the 2000s. The National Federation of State Cooperative Banks Ltd. (NAFSCOB) also publishes data on various tiers of credit cooperatives. However, there are concerns about the accuracy of the NAFSCOB data for PACSs. For instance, a comparison of the NAFSCOB data on total credit by PACSs in Kerala with the audited figures by the RCS, Kerala for the last five years renders a differential ranging between (+) 1 and (-) 25 per cent of the RCS figures; the differential is generally negative indicating a downward bias in the figures reported by NAFSCOB.[27]

[27] *For the year 2014-15 (for which the data are expected to be finalised and not provisional anymore), PACSs credit by NAFSCOB was reported as Rs. 62,494 crores as against the figure by the RCS, Kerala of Rs. 83,308 crores.*

Data is extremely important not just for informed discussions among various stakeholders but also for informed policy making. Hence, the Group recommends the RCS, Kerala to provide data on financial and non-financial operations on all cooperatives in Kerala through an annual publication. At present, the RCS, Kerala provides data on various cooperatives through the annual Economic Review published by the State Planning Board. While these data are useful, they need to be substantiated with more granular sectoral and district-level information. Given the vast expanse of the sector, there could be delays initially in compiling and releasing the audited figures for the entire sector. The RCS, Kerala can try to bring down the lag in publication over time.

URBAN COOPERATIVE BANKS

Kerala had 59 UCBs with an impressive spread of 468 branches in 2018-19. Like the UCBs from other States, the banking functions of UCBs in Kerala are regulated and supervised by the RBI under the aegis of the Banking Regulation Act, 1949 (AACS) with their administrative control held by the RCS, Kerala.[28]

In 2020, the RBI increased the priority sector targets for UCBs from 40 per cent to 75 per cent to be achieved by end-March 2024 (in a phased manner).[29] It is recommended that UCBs in Kerala focus on increasing their priority sector lending in accordance with the revised targets.

Given their urban orientation, these institutions are not bound by the agricultural/small or marginal farmer credit targets under the priority sectors, but they have a sub-target for micro enterprises. Also, being cooperatives themselves, they are prohibited from lending to other cooperatives, including farmer producer cooperatives.

Being the apex financing institution with UCBs as its members, Kerala Bank may consider providing refinance support to UCBs for lending to the MSMEs sector. The Bank may consider designing suitable scheme at concessional rates the UCB sector.

The expert standing group in Kerala Bank recommended by the Group for giving guidance to PACSs in selection of businesses and technical support can also the extend its support to UCBs ***(see 3D.1).***

One of the concerns raised by UCBs was the overlap between the areas of operations of UCBs, PACSs and Kerala Bank reducing the individual space of each institution to lend. The Group has already noted that PACSs need to revive their agricultural (and allied sector) lending of both short- and long-term nature to their individual members. Given their priority sector obligations, UCBs may make industrial and services sector MSMEs as their focus area, with a special focus on micro enterprises. Kerala Bank may focus on

[28] With the recent amendment to the BR Act, 1949 through the BR (Amendment) Act, 2020, the scope of RBI's regulatory and supervisory powers over UCBs has been further widened.

[29] See "Master Directions – Priority Sector Lending – Targets and Classifications", September 4, 2020.

[30] Malappuram DCCB did not merge with the Kerala Bank. An ordinance was issued by the State Government enforcing the merger which was upheld by the Kerala High Court. The decision was challenged by the DCCB in the Supreme Court; the issue is, at present, subjudice.

(a) refinancing these two institutions in their respective areas of operations; (b) long-term large-scale agricultural/rural and social infrastructural lending; (c) funding LSGIs' own fund-based projects; and (d) financing non-credit cooperative societies (see discussions in Chapters 4 and 5 on LSGIs and non-credit cooperative societies).

COORDINATION BETWEEN KERALA BANK AND PRIMARY COOPERATIVE CREDIT SOCIETIES/UCBS

There are three major aspects to the coordination between Kerala Bank and primary cooperative credit societies/UCBs: financial, human resource development- related and technological. Of these, financial aspects have been discussed in the chapter till now. Hence, this section focuses on the human resource-related and technological coordination.

Coordination for training, HR and project development

During interactions with the Group, PACSs expressed discontent about the training and HR development-related support from Kerala Bank. PACSs had traditionally interacted with the erstwhile DCCBs. The merger of DCCBs with the Kerala State Cooperative Bank, thus, created a vacuum at the district level and a sense of disconnect for PACSs.

In order to bridge this gap, Kerala Bank may need to create a district-level forum for its interactions with PACSs. At present, Kerala Bank has a credit processing centre (CPC) in each district except Malappuram.[30] These CPCs are, at present, entrusted with the responsibility of sanctioning loans ranging between Rs. 10 lakhs and Rs. 40 lakhs, while the loans below this amount are sanctioned by the Kerala Bank branches in the district. The CPCs do not have any other power or responsibility. It is recommended that Kerala Bank strengthen these CPCs as district development centres that may be responsible for identifying training needs, organising training and other outreach programmes for PACSs. Alternatively, the earlier recommendation about rejuvenating the PACSs development cell by Kerala Bank in collaboration with NABARD can also help in its outreach and development of PACSs ***(see 3B.1.3).***

PACSs also expressed the need to have an expert standing group in the Kerala Bank for business support and product diversification or differentiation. At present, PACs are venturing into newer non-credit areas but are competing in the same locality and effectively reducing the market share for themselves. The Group recommends Kerala Bank to consider constituting an expert standing group to offer guidance to PACSs in the selection of businesses and technical support. The Department of Cooperation may also design a suitable rule to avoid giving approvals to different societies in close proximity for the same product.

Technological coordination

As noted earlier, Kerala Bank is in the process of implementing the CBS and IT integration of the systems of the erstwhile DCCBs. This is an important step for data integration and provision of digital banking services by the Bank to its individual customers and primary cooperative societies.

However, the second step in the IT integration is about technologically connecting all the primary cooperative credit societies with the Kerala Bank. This integration will revolutionise the two-tier cooperative credit system in Kerala because customers and members of PACSs will be able to use Kerala Bank as their Bank through their existing accounts with the PACSs.

Importantly about 92 per cent of the PACSs in Kerala were computerised in 2019-20 (GoK, 2020a). Furthermore, the efforts to unify PACSs' computerisation is also underway, which will be extremely useful for developing any technological interface between Kerala Bank and PACSs. This is because Kerala Bank can then link all PACSs to its CBS for providing the digital banking services to PACSs' members/customers.

However, certain points about PACSs integration need to be noted. First, PACSs are not members or sub-members in the payments system since they are not banks. Hence, PACSs' CBS cannot be connected directly to the CBS of Kerala Bank and the accounts maintained by members/customers with PACSs cannot be used for issuing KCC/RuPay debit cards. Second, as per RBI regulations, an online hit for digital/virtual transactions in the accounts that are outside the payments system is not allowed. Only Kerala Bank can authenticate and authorise card transactions and other digital transactions using the 2FA (two-factor authentication).

Considering these regulatory issues, the Group has provided a possible proposal for the technological integration of PACSs with the Kerala Bank. The proposal by the Group is purely technological and needs to be backed up by an economic assessment about the monetary costs, time and other resources involved.

Proposal for technological coordination

(a) Card transactions

The following steps are involved in developing a technological interface between PACSs and the Kerala Bank for card transactions (see Appendix 17 for a flow chart representation of the proposal).

- Kerala Bank needs to develop a KCC/RuPay debit card module for the issue of these cards for PACSs' members/customers.
- PACSs members/customers will open a zero-balance account in Kerala Bank by complying the Know Your Customer (KYC) norms. This account will be mapped with respective parent KCC/savings bank account of these customers with their own PACSs. Thus, the account at Kerala Bank will act as a mirror account for these customers.
- Each PACS will open a KCC borrowing account/current account with Kerala Bank for the issuance of the KCC/ RuPay debit cards.
- When any PACS's customer uses the KCC/ RuPay debit cards in the ATM, the amount will be debited from the KCC borrowing account/current account of the PACS, as the case may be, held with Kerala Bank and credited to customer's mirror account held with Kerala Bank. The customer's mirror account will then be debited, and cash will be disbursed to the customer through the ATM.
- The KCC/ RuPay debit card transactions will be transmitted to the concerned PACS through a secured network or public IP in an encrypted mode at intervals with a pre-

scheduled time gap, as no online hit is permitted.

- The interface at the PACS's end will decrypt the transmission and debit the customer's actual KCC/savings bank account, and credit the KCC borrowing account/current account of the PACS held with Kerala Bank for reconciliation.
- A per-day withdrawal limit can be fixed based on the overall KCC limit/SB balance but within the daily limit permissible by the National Payments Corporation of India (NPCI) or any other limit preferred by the customer, whichever is lower. This limit is marked in Kerala Bank's mirror account. An amount equal to this limit will be frozen in the customer's parent account with the PACS and will not be available for counter withdrawals. This limit can be modified or cancelled as per request from the customer through the PACS. Under no circumstance, this limit will exceed the KCC limit that is sanctioned by the PACS to the customer or the balance in the parent SB account held by the customer with the PACS, as the case may be.
- An SMS will be sent to the PACS's customer for every transaction.
- At the end of every day, the transaction limit/balance of KCC/SB ac
counts will be updated in Kerala Bank's CBS based on the Text file shared by the PACS's CBS interface in an encrypted mode through a secured network or public IP. This will ensure an updation of the latest limit available in the mirror accounts of the customers with Kerala Bank.
- The responsibility of card management and grievance redressal will be with the Kerala Bank.
- Besides ATM withdrawals, the KCC/ RuPay debit cards can also be used at point of sale (PoS) terminals for shopping. The flow of transaction will be similar to that of the ATM withdrawals.
- Mobile banking facility can also be extended to this mirror account for undertaking various online banking transactions.

(b) Digital fund transfers

- For this purpose, PACSs will have to maintain a current account with the Kerala Bank. Kerala Bank can extend a corporate account facility to PACSs. PACSs can use this account to transfer funds through RTGS/NEFT/IMPS from their own offices, using a specific user ID and password allotted to them by Kerala Bank.
- Kerala Bank can also provide the mobile banking facility to PACSs using its mobile application with enhanced features such as joint operations, additional security, etc.
- The mirror account opened for the issue of KCC/RuPay debit cards can be used for receiving money transferred to the account of the customers from other banks. However, the mirror account will always be a zero-balance account. Whenever an amount will be transferred to the mirror account through any of the digital payments channels, such as RTGS/NEFT/IMPS, the same will be debited automatically and credited to the KCC borrowing account/current account of the PACSs and a message will go to the PACSs to that effect in an encrypted mode through public IP.
- PACSs' CBS interface will then decrypt the message and credit the customer's parent

SB/KCC account held with the PACSs and debit their own KCC borrowing account/ current account held with the Kerala Bank.

- Under the IT Act, 1961, PACSs face certain restrictions on their handling of cash. To overcome these restrictions, Kerala Bank can take care of all the bulk receipts and payments of cash through its counters by crediting/debiting the mirror account of customers and current account of PACSs, and subsequently posting messages to PACSs on similar lines as discussed earlier in the context of KCC/RuPay debit cards.

The above proposal is conditional on (a) Kerala Bank's completion of its own CBS and IT integration; and subsequent to the integration, Kerala Bank's applying for and obtaining an internet banking license from the RBI; (b) Completion of the unification of PACSs' computerisation by the State Government. It is only then Kerala Bank can consider the technological onboarding of PACSs. Hence, the Group recommends that both these tasks need to be prioritised and expeditiously completed by Kerala Bank and the State Government, respectively. A practical but definite timeline needs to be set for the completion of these two tasks.

The prioritisation of the two tasks above is a must. The non-integration of PACSs and their inability to provide value-added services to their members/customers can expose them to serious risks, going forward. This is because Aadhaar seeding has been made mandatory for the payment of DBT, including prompt repayment incentive under the interest subvention scheme.[31] At present, PACSs register the Aadhaar details of their customers in their records and give a certificate to Kerala Bank to that effect, which enables the Bank to claim the amount from NABARD on behalf of the PACSs' customers. Going forward, being outside the national network, PACSs may not be able to deliver the interest subvention, prompt repayment and other incentives to their customers, and may be at a serious risk of losing their customers to other banks. Hence, not only that the CBS and IT integration need to be accorded highest priority, the CBS and IT platforms of Kerala Bank have to be designed keeping in mind the requirements of the customers of PACSs and other primary credit cooperatives, who may have to be onboarded on these platforms, going forward.

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[31] *See NABARD circular 63/2020 dated July 8, 2020 titled "Compliance of Aadhaar Linkage for Short- term Agri Loans – Interest Subvention Scheme and Prompt Repayment Incentive – Benefits".*

4. COLLABORATION BETWEEN LOCAL SELF-GOVERNMENT INSTITUTIONS AND CREDIT COOPERATIVES

Decentralised planning has been a major strength of economic planning in Kerala. Panchayati Raj or local self-government institutions (LSGIs) have been the pillar of decentralised planning in the State. The LSGIs were strengthened as institutions for democratic decentralisation following the 73rd amendment to the Constitution of India in 1992. In comparison, cooperatives, aligned to the democratic principle of one member, one vote, have been active in the State in meeting the credit and non-credit needs of their members since as early as the 1960s. Although individually, LSGIs and cooperatives have contributed significantly to Kerala's local self-development, the synergy between the two has often been under-appreciated and under-utilised.

The Kerala Cooperative Policy emphasises on the need to develop such a synergy. In its approach to the 14th State Five-Year Plan, the State Planning Board too has reiterated the need for LSGIs to play a leading role in planning for agriculture and allied activities at the ground level and it is but obvious that such a planning cannot happen without a direct collaboration with cooperatives (GoK, 2020b). The collaboration may be mutually beneficial for both institutions. It may help cooperatives in expanding their outreach and local participation, and it may help the LSGIs in achieving their developmental goals more efficiently.

There are various reasons why it may be easy to develop a collaboration between these two institutions: (a) they work at the ground level through people's participation; (b) they work in close proximity with each other, as every panchayat in Kerala has either one or more cooperatives; (c) they have sufficient autonomy and independence in their operations; (d) they are elected bodies having representation from economically weaker sections and backward classes.

In this chapter, the Group discusses some of the ways in which a collaboration between LSGIs and cooperatives can be developed. As the focus of this Group is on credit cooperatives, the discussion here relates to the collaboration between LSGIs and credit cooperatives.

DEVELOPMENTAL PLANNING WITH THE INVOLVEMENT OF CREDIT COOPERATIVES

The first step towards a collaboration between the LSGIs and PACSs can be a continuous exchange of information and interaction between the two. The LSGIs are entrusted with several responsibilities, including local administration, creation and maintenance of local infrastructure, management of critical institutions of public service, such as hospitals, schools and anganwadis and krishi bhawans. Given the wide gamut of their responsibilities, they are aware of the local developmental concerns. Being member-driven financial institutions, PACSs too have insights about the local needs of credit and savings/payments. Hence, periodic interactions between LSGIs, PACSs, and other local stakeholders can be useful in identifying sectors/activities and projects for local development and funding/banking needs for the same. The Group recommends creating such a platform by the LSGIs for a periodic interaction with the PACSs and other local stakeholders in their jurisdiction. This platform can take the shape of a joint committee consisting of presidents and secretaries of LSGIs and PACSs along with representatives from other related departments, including agriculture, rural development, dairy, and fisheries. The platform will help in not just Identifying the sectors/activities and projects but also help PACSs in their assessment of the financial viability of these projects and pave the way for actual financing of these activities and projects.

The platform or committee can also be extended to the district/State level involving Kerala Bank representatives, such that the coordination between LSGIs and credit cooperatives can be strengthened at all levels of their individual operations.

Agriculture and allied activities can be the key focus area in such interactions given that LSGIs are expected to spend for agriculture through their planned allocations, and PACSs too are essentially societies geared towards meeting agricultural credit needs. The focus on agriculture by both LSGIs and PACSs is necessary also because State's agricultural growth performance in recent years has not been commensurate with the planned funding to agriculture by LSGIs (GoK, 2020b). A lot also needs to be desired from PACSs in their funding of agriculture, as already shown in ***Chapter 2.***

Another area of interest for both LSGIs and PACSs can be financing of local entrepreneurs, particularly young entrepreneurs with start-up or other business ideas. As part of Kerala Start-up Mission, a number of incentives are being offered for start- ups. The involvement of the LSGIs can further help in identifying viable ideas and promoting them. While LSGIs can recommend such activities/projects to PACSs, PACSs need to exercise due diligence in their lending decisions.

COOPERATIVE FUNDING OF LOCAL PROJECTS IN PRODUCTIVE SECTORS

LSGIs are funded through planned allocations. At present, the productive sector expenditure of these institutions forms less than 20 per cent of their total expenditure. There is clearly a need to increase this share further (GoK, 2020b). Apart from the planned allocations, as per law, the LSGIs can borrow to support certain projects.[32] However, these projects need to be funded and serviced from their own funds.

As discussed in Chapter 2, a direct competition between PACSs and Kerala Bank in financing agriculture needs to be avoided. Accordingly, short-term and long- term agricultural credit to individual borrowers needs to be the domain of PACSs. However, Kerala Bank can be roped in for financing the long-term large-scale agricultural projects of LSGIs. Typically, such projects may involve longer gestation periods and larger funding needs making them suitable for support from Kerala Bank. Some examples of such projects can be post-harvest management (warehousing) projects, agricultural marketing projects, etc. Finance for such projects can be provided against State Government guarantees.

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[32] *See Section 197 of Kerala Panchayat Raj Act, 1994.*

Kerala Bank can either avail refinance from NABARD or use its own funds to finance the projects of LSGIs depending on their nature. Partnering with LSGIs for long-term financing can help Kerala Bank consolidate its loan portfolio and increase its low credit to deposit ratio.

CREDIT COOPERATIVES AS BANKING PARTNERS OF LSGIS

Credit may be one, but not the only, banking need of LSGIs. LSGIs also need banking facilities for meeting their payment requirements. Till now, LSGIs have shown a preference for commercial banks in holding their deposits and meeting their payment needs. This trend needs to be changed such that LSGIs are encouraged to bank with PACSs. For this to happen, PACSs need to offer value-added services, as discussed in Chapter 3. The deposit portfolio of PACSs is skewed towards fixed deposits. To rebalance this portfolio and to access cheaper sources of funds, PACSs need to build a stronger current and savings accounts (CASA) base. By becoming banking partners of LSGIs, PACSs can strengthen their CASA base.

As per a recent notification from the Ministry of Finance, Government of Kerala, LSGIs have been advised to hold their own funds with the State treasury savings bank with effect from April 1, 2022.[33] The issue of LSGIs holding their accounts with the State treasury is outside the purview of this Group. However, according to the Group, PACSs acting as bankers to LSGIs can be beneficial for both institutions. Given the decentralised character of LSGIs, their fund management can be handled better at the local level by PACSs.

DIRECTING LSGI'S SERVICES THROUGH PACS

PACSs are now being promoted as multi-service centres (MSCs) by Kerala Bank through the financial assistance from NABARD. The idea is to enhance the bouquet of services that PACSs can offer to their members in the form of not just credit but also storage, agro-services, etc. Going forward, it may be possible for LSGIs to leverage on MSCs and their services; it may also be possible to direct some of LSGI's services through MSCs. PACSs are member-centric institutions providing services only to their members. Collaborating with the LSGIs and providing services on their behalf will enable PACSs to expand their membership base.

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[33] *Order no. 80/2021 dated September 18, 2021.*

5. CREDIT COOPERATIVES' SUPPORT TO NON-CREDIT COOPERATIVES AND OTHER GROUPS

Given that non-credit cooperatives are as much an integral part of the cooperative system in Kerala as credit cooperatives, coordination between the two can serve the interest of the entire cooperative sector. This will uphold principle of "cooperation among cooperatives".

In 2019, there were 12,155 primary non-credit cooperative societies (excluding the apex, federal or central societies) as compared to 3,715 credit cooperatives, including 1,643 PACSs. Although non-credit cooperatives outnumbered credit cooperatives, the percentage of "working" societies was much larger in the credit segment, making it more active than the non-credit segment (Appendix 18). Also, given that finance, both for working capital and long-term investment needs, is the common feature defining every cooperative, credit cooperatives find themselves at the centre of the cooperative sector. Hence, support from the credit cooperatives to the non-credit ones can connect the entire sector together.

This chapter looks at the ways in which Kerala Bank can extend support to non- credit cooperatives. It also extends the inquiry to other groups that are being supported by primary cooperative credit societies, namely, self-help groups (SHGs), neighbourhood groups (NHGs) and joint liability groups (JLGs). Although these are not cooperatives, they work on the principle of self- and mutual help and have received considerable financial support from credit cooperatives.

NON-CREDIT SOCIETIES AS MEMBERS OF KERALA BANK

The basic coordination between credit and non-credit societies can come through membership. As already noted, Kerala Bank, being the apex cooperative credit institution, has non-credit cooperative societies as its C Class members. In 2020, 5 per cent of its paid up capital was from C class members, including all primary cooperative credit societies/ banks (excluding PACSs and UCBs) and other non-credit societies. However, as already noted, the Bank has not been able to declare dividend till now as it is yet to meet the stipulated conditions for dividend declaration (see Section 3A.3.2). Clearly, meeting the conditions expeditiously will help the Bank to bring in more capital from various categories of shareholders. The recommendation made by the Group about an assured dividend option may help the Bank in tapping additional capital from the credit and non-credit segments.

DEPOSIT AND PAYMENTS NEEDS OF NON-CREDIT SOCIETIES

About 87 per cent of the total deposits of Kerala Bank in 2021 were term deposits and one of the concerns for the Bank was mobilisation of CASA (see Section 3A.3.3). Non-credit cooperative societies can be instrumental in stepping up the CASA base of Kerala Bank, going forward. The non-credit societies, including marketing, consumer, processing and other types of societies need banking facilities to meet their regular cash inflows and outflows. In the absence of the value-added services from Kerala Bank, these societies may be tapping other banking institutions for their current and savings deposits and fund transfer needs till now. Kerala Bank needs to reach out to the primary non-credit societies for becoming their banking partners such that these societies do not have to approach any other bank for their banking needs. The Cooperation Department organises deposit mobilisation campaign every year to attract more deposits for the cooperative sector. In similar spirit, Kerala Bank too can organise regular outreach programmes to build banking relations with the non-credit cooperative societies.

CREDIT SUPPORT TO NON-CREDIT SOCIETIES

The most important way for Kerala Bank to build coordination with non-credit societies is to provide them credit support. The credit needs of certain types of non- credit societies, including processing and marketing societies, are significant. It is true that only a small percentage of these societies are working at present (Appendix 18). However, Kerala Bank can reach out to the viable ones among the processing and marketing societies and extend credit support to them through tailor-made schemes designed keeping their cash flow and credit needs in mind. As most processing and marketing societies in Kerala are associated with marketing/processing of agricultural produce, this will enable Kerala Bank to broad-base its flow of credit to agriculture.

As part of its board-approved five-year Plan and annual plans/targets discussed earlier (see Section 3A.3.1), Kerala Bank may set a separate but composite credit target for financing women's, SC/ST and the newly started youth cooperatives. Some of the SC/ST societies are fishermen's cooperatives, out of which only a small percentage are into inland fishing. Kerala's fisheries sector is marked by a predominance of marine production over inland production. Inland fisheries have been identified as a targeted sector by the State Planning Board (GoK, 2020c). Hence, Kerala Bank can specifically promote fishermen's societies involving inland fishing.

In financing non-credit societies, Kerala Bank may arrive at an all- inclusive limit considering not just the working capital and physical investment needs but also the need for marketing/branding of cooperative products, particularly the newly introduced ones. Special schemes for financing the traditional industries, such as cashew and coir, need to be designed by Kerala Bank. If they already exist, then they need to be popularised such that non-credit societies can benefit from these schemes. To help the traditional industries, which are facing challenges, such as the cashew industry, the Department of Cooperation in collaboration with Kerala Bank can formulate district-level plans to revive a specific sector in a given district.

For the promotion of products and activities by both credit and non-credit societies, the Department of Cooperation may conduct an annual trade fair giving cooperatives the opportunities to interact with bulk purchasers from other States and countries.

OTHER FORMS OF SUPPORT BY CREDIT COOPERATIVES TO NON-CREDIT COOPERATIVES

Given the thrust on multi-service centres, there is a considerable diversification by PACSs in recent years into non-credit areas of activity, through Neethi stores, manure depots, consumer stores, etc. In fact, 27 per cent of the total surveyed PACSs reported non-zero turnover from their non-credit activities in 2019-20 (Appendix 19). Given their non-credit set up, PACSs can lend support to non-credit cooperative societies in display, sales and marketing of the produce of the latter through their own branches or store outlets. This can further enhance the cooperation between PACSs and non-credit cooperatives.

CREDIT COOPERATIVES AND FPOS

FPOs are entities formed for primary producers in agriculture. An FPO can be registered either as a cooperative society, company or a trust. While farmer producer cooperatives have been operational for long in the country, farmer producer companies are being promoted since the 2000s. Northern Kerala has some FPOs in coconut cultivation that have been performing well but there is a need to replicate this experiment elsewhere involving not just coconut but also other agricultural products (GoK, 2020b). NABARD has released a guidance note for banks for financing FPOs/FPCs. On those lines, Kerala Bank may start new a scheme for FPCs, and as part of its five-year Plan and annual plans/targets, set a separate target for the promotion and financing of such companies.

CREDIT COOPERATIVES AND SHGS/NHGS/JLGS

The State Government has extensively used the SHG model to provide all forms of support to women's groups through its Kudumbasree scheme. SHGs, or NHGs as they are known under the scheme, are also being promoted by credit cooperatives outside the ambit of Kudumbasree.

Since PACSs are into financing SHGs/JLGs, Kerala Bank may focus on collaborating with Kudumbasree by becoming its banking partner once it is able to provide various value-added digital banking services. Kudumbasree has started a new initiative to set up agricultural producer companies identifying one product per district. NABARD provides these companies some promotional assistance. Kerala Bank may consider collaborating with Kudumbasree and financially supporting these FPCs itself. This may be one of the ways for the Bank to meet its self-set target for financing FPCs.

The survey data showed considerable involvement of PACSs in financing SHGs or JLGs. About 67 per cent of the PACSs reported linkage with SHGs during the survey period (Appendix 20). Credit to SHGs formed about 5 per cent of the total credit of the surveyed PACSs.

However, the extent of credit given to SHGs far outweighed the deposits mobilised from these groups. In 2019-20, SHG credit was 10 times that of SHG deposits (Appendix 21). Notably, in the case Class 1 Super and Special grade societies, the ratio went up to as high as 25. Such high proportions of credit over deposits possibly indicated the use of SHGs just as a vehicle of lending and not as a means of thrift-based lending as they are supposed to be. NABARD has started an initiative called E-Shakti for digitisation of SHGs, which is operational in some districts of Kerala. The initiative is aimed at digitising credit histories and savings reports of SHGs such that financial institutions may find it easier to deal with these groups. Kerala Bank may ensure that SHGs formed by PACSs are covered under this scheme; it may assist PACSs in SHG promotion and lending, while giving greater credibility to their efforts.

6. LIST OF RECOMMENDATIONS

Chapter - 2

- Recommendation 1: There is a scope and need for Kerala Bank to meet not just the short-term but also the long-term agricultural credit requirements in the State. Even if there are any self-set limits for Kerala Bank on lending directly to individual agriculturists, and regulatory limits on its refinance from NABARD, it is recommended that the Bank significantly expand its refinance to PACSs/FSSs for agriculture using its own funds. It is also recommended that the Bank correct its lopsided distribution of refinance and increase the share of long-term refinance
- Recommendation 2: PACSs need to go back to their basic function of being an "agricultural" credit society and give primary importance to financing agriculture
- Recommendation 3: It is recommended that PACSs may be encouraged by Kerala Bank, through targeted training and outreach programmes, to make greater use of agricultural refinance from the Bank, as it will prompt PACSs to lend more to agriculture (para no. 2
- Recommendation 4: It is recommended that PACSs diversify their short-term and long-term agricultural credit to newer agricultural areas as identified by the State Planning Board as part of its 14th Five Year Plan, including developing inland fisheries, commercial dairy farms and livestock ventures, supporting agri-smart villages in high-value poultry and other livestock activities. Being the apex cooperative bank, it is recommended that Kerala Bank identify new areas of financing under agriculture in line with the Five-Year Plan objectives and credit potential in these areas and impart training to PACSs to meet this potential
- Recommendation 5: Given that the criteria for classification of PACSs were last revised in 2013, it is recommended that the RCS, Kerala (a) revisit the classification; and (b) include the share of agricultural credit as one of the criteria for the classification. A minimum share of agricultural credit of 30 per cent may be stipulated for Class 1 Super grade societies, 25 per cent for Class 1 Special grade, 20 per cent for Classes 1 and 2, and 18 per cent for Classes 3 to 7 societies. These shares may be set as floors/minimum, and the RCS, Kerala, needs to ensure that these shares are increased over time in a manner such that lending to agriculture becomes the principal business of PACSs across all categories. For this classification, agricultural credit should include KCC loans, long-term loans for agriculture, and loans for all allied activities
- Recommendation 6: It is recommended that the State Government expedites the claim settlement based on the awards passed by the State Farmers' Debt Relief Commission to address the hesitancy among PACSs to lend to agriculture. The argument of moral hazard cannot be used by PACSs as a reason for not lending adequately to agriculture, since these are member-driven and people-centric institutions
- Recommendation 7: It is recommended that the RCS, Kerala advise the PACSs to change their bye-laws in light of the revision in the collateral-free agricultural loan limit by the RBI. The RCS, Kerala can either advise PACSs to change their bye-laws by making the increased limit of collateral-free loans (of Rs. 1.6 lakhs) applicable only

to agriculture or alternatively, it can advise PACSs to extend collateral-free agricultural loans as per the increased limit outside their bye-law provisions if these loans are refinanced by the Kerala Bank

- Recommendation 8: The deposit rate paid by Kerala Bank may be gradually aligned to the prevailing market rates on deposits
- Recommendation 9: Revisions in the interest rate paid by PACSs to their depositors in line with the market rates is also recommended. PACSs may be allowed to offer a rate slightly higher than the rate they receive from Kerala Bank
- Recommendation 10: It is recommended that Kerala Bank formulate outreach and training programmes not just for PACSs but also for farmers and producers in allied activities to popularise its refinance schemes
- Recommendation 11: It is recommended that PACSs extend long-term agricultural credit at the same rate irrespective of whether they lend through refinance or through their own funds; it is recommended that the RCS, Kerala issue guidance to PACSs about their lending rates on long-term agricultural credit on these lines

Chapter - 3

- Recommendation 12: (a) "Kerala Bank must get its technology in place for a smooth transfer of services to the existing clients with carefully configured software to enable the system integration with all DCCBs"; (b) "Nomination of one representative of non- credit co-operatives on rotation basis as a special invitee without voting rights to address their concerns"; (c) "The swap ratio for shares in the amalgamated bank shall be based on real net worth of DCCBs". It is recommended that the Bank expedites fulfilling conditions (a) and (b). It is also recommended that the Bank seeks clarity from RBI about (c) such that its fulfilment does not violate the Kerala Cooperative Societies' Act 1969 in any manner because strict adherence to the Act and its provisions has, in fact, been the first and foremost condition laid down by the RBI while granting the in-principle approval for the creation of the Bank
- Recommendation 13: Credit needs to be the area of focus for Kerala Bank. It is recommended that the Bank lay down a five-year Plan for the expansion of its operations. The Plan must be broken down into annual plans specifying the incremental targets and achievements for each year
- Recommendation 14: While designing the five-year Plan and annual plans, being a cooperative bank, Kerala Bank needs to set higher priority sector targets for itself than those applied to commercial banks by the RBI. The definition of priority sectors can be broadly the same as commercial banks viz., agriculture and allied activities, micro, small and medium enterprises, affordable housing, economically weaker sections, renewable energy, and social infrastructure
- Recommendation 15: Kerala needs a financial institution that can provide long-term finance for agricultural/rural and social infrastructural development. Kerala Bank can step in to meet this demand
- Recommendation 16: Kerala Bank needs to set up an internal technical team that

specialises in project evaluation and financing. The internal team may establish a tie-up with a competent external agency, which can provide an objective and professional view on project evaluation and financing-related issues

- Recommendation 17: The five-year Plan of Kerala Bank and its achievements under the annual plans/targets can be used by the Government for deciding about future recapitalisation support to the Bank
- Recommendation 18: Recapitalisation support should not become a norm or a given for Kerala Bank. The Bank must adopt prudent capital planning to address its capital needs
- Recommendation 19: The Government of Kerala may consider amending the Kerala Cooperative Societies' Act, 1969 for giving incentives/minimum assured dividends when either profit of Kerala Bank is not sufficient, or the Bank is unable to declare dividend
- Recommendation 20: Kerala Bank needs to continue its efforts in aggressively reducing the burden of legacy NPAs and reducing fresh slippages. Expanding its credit portfolio will also help in reducing the NNPA ratio
- Recommendation 21: Since the recruitment rules have major implications for HR planning in Kerala Bank, it is recommended that these rules are expeditiously finalized and implemented
- Recommendation 22: Internal capabilities in the business planning and cooperative credit; and credit, credit monitoring and recovery departments need to be strengthened in the form of two new technical units that can identify business opportunities for projects financing and undertake project evaluation. Internal capabilities in internal audit function may also need to be strengthened as project financing will require a stronger assurance function
- Recommendation 23: It is recommended that the Bank constitute and develop an internal team having supervisory expertise
- Recommendation 24: It is recommended that Kerala Bank create a system to collect, digitise, and annually update a database on the institutions that it refinances, including PACSs (para no. 3.27).
- Recommendation 25: PACSs may be encouraged by RCS, Kerala to maintain a minimum of 25 per cent of their total deposits as CASA
- Recommendation 26: It is recommended that Kerala Bank rejuvenate the PACSs Development Cells (PDCs) with support from NABARD across all districts of Kerala. These cells can specifically focus on PACSs with weak financial health in their jurisdictions, identify the reasons for the weak health and initiate targeted measures for their revival
- Recommendation 27: It is recommended that RCS, Kerala examine the idea of differentiated overdue recognition period for PACSs
- Recommendation 28: It is recommended that RCS, Kerala issue guidance to PACSs about ensuring a (minimum) representation of 25 per cent for individuals who are "farmers" by profession, and in particular, the small and marginal farmers, in their

Managing Committees

- Recommendation 29: The Group recommends that the RCS, Kerala set up an expert working group to study the current international best practices for supervision of credit cooperatives and recommend a well-defined indicator-based framework for the supervision of primary cooperative credit societies in Kerala, including PACSs. In the case of PACSs, at present, the separation between financial audit and supervision is blurred and needs to be clearly defined
- Recommendation 30: It is recommended that the RCS, Kerala take into consideration the supervisory findings of Kerala Bank about a given society while deciding about the general classification of the society and giving it regulatory sanctions and approvals
- Recommendation 31: It is recommended that the RCS, Kerala provide data on financial and non-financial operations on all cooperatives in Kerala through an annual publication
- Recommendation 32: It is recommended that UCBs in Kerala focus on increasing their priority sector lending in accordance with the revised targets set by the RBI
- Recommendation 33: Being the apex financing institution with UCBs as its members, Kerala Bank may consider providing refinance support to UCBs for lending to the MSMEs sector Recommendation 34: The expert standing group in Kerala Bank recommended for giving guidance to PACSs in the selection of businesses and technical support can also extend its support to UCBs
- Recommendation 35: It is recommended that Kerala Bank strengthen its Credit Processing Centres (CPCs) as district development centres that may be responsible for identifying training needs, organising training and other outreach programmes for PACSs
- Recommendation 36: Kerala Bank may consider constituting an expert standing group to offer guidance to PACSs in the selection of businesses and technical support
- Recommendation 37: The Department of Cooperation may design a suitable rule to avoid giving approvals to different societies in close proximity for the same product
- Recommendation 38: The proposal recommended by the Group for developing a technological interface between Kerala Bank and PACSs is conditional on (a) Kerala Bank's completion of its own CBS and IT integration; and subsequent to the integration, Kerala Bank's applying for and obtaining an internet banking license from the RBI; and (b) Completion of the unification of PACSs' computerisation by the State Government. Hence, it is recommended that tasks (a) and (b) are prioritised and expeditiously completed by Kerala Bank and the State Government, respectively. A practical but definite timeline needs to be set for the completion of these two tasks. Not only that the CBS and IT integration need to be accorded highest priority, the CBS and IT platforms of Kerala Bank have to be designed keeping in mind the requirements of the customers of PACSs and other primary credit cooperatives, who may have to be onboarded on these platforms, going forward

Chapter - 4

- Recommendation 39: It is recommended that a platform be created by the LSGIs for a periodic interaction with PACSs and other local stakeholders in their jurisdictions. This platform can take the shape of a joint committee consisting of presidents and secretaries of LSGIs and PACSs along with representatives from other related departments, including agriculture, rural development, dairy, and fisheries
- Recommendation 40: Kerala Bank can be roped in for financing long-term agricultural projects of LSGIs that are being funded from LSGIs' own funds
- Recommendation 41: It is recommended that PACSs become banking partners of LSGIs

Chapter - 5

- Recommendation 42: The recommendation made by the Group about an assured dividend option may help Kerala Bank in tapping additional capital from the credit and non-credit segments
- Recommendation 43: Kerala Bank needs to reach out to the primary non-credit societies for becoming their banking partners such that these societies do not have to approach any other bank for their banking needs. Kerala Bank can organise regular outreach programmes to build banking relations with the non-credit cooperative societies
- Recommendation 44: Kerala Bank may reach out to the viable processing and marketing societies and extend credit support to them through tailor-made schemes designed keeping their cash flow and credit needs in mind
- Recommendation 45: As part of its board-approved five-year Plan and annual plans/ targets, Kerala Bank may set a separate but composite credit target for financing women's, SC/ST and the newly started youth cooperatives
- Recommendation 46: In financing non-credit societies, Kerala Bank may arrive at an all-inclusive limit considering not just the working capital and physical investment needs but also the need for marketing/branding of cooperative products, particularly the newly introduced ones. Special schemes for financing the traditional industries, such as cashew and coir, need to be designed by Kerala Bank. If they already exist, then they need to be popularised such that non-credit societies can benefit from these schemes.
- Recommendation 47: To help the traditional industries, which are facing challenges, such as the cashew industry, the Department of Cooperation, Kerala in collaboration with Kerala Bank can formulate district-level plans to revive a specific sector in a given district
- Recommendation 48: For the promotion of products and activities by credit and non-credit societies, the Department of Cooperation, Kerala may conduct an annual trade fair giving opportunities to cooperatives to interact with bulk purchasers from other States and countries
- Recommendation 49: Kerala Bank may start new a scheme for FPCs, and as part of

its five-year Plan and annual plans/targets, set a separate target for the promotion and financing of such companies

- Recommendation 50: Kerala Bank may consider collaborating with Kudumbasree and financially supporting the FPCs which Kudumbasree is promoting (para no. 5.14).

APPENDICES

Appendix 1: Select indicators of indebtedness in Kerala

Source-wise distribution of total debt, all households, Kerala, 2012 and 2018

Source	2012	2018
Commercial banks and RRBs	35.0	45.0
Cooperative societies and banks	40.5	32.7
Other formal sources	6.5	7.8
All formal sources	82.0	85.5
Landlords	0.04	-
Professional moneylenders	10.3	3.0
Relative and friends	7.3	9.5
Other informal sources	0.3	2.0
All informal sources	18.0	14.5

Source-Unit level data from NSO

Source-wise distribution of total debt, all households, Kerala and India, 2018

Source	Kerala	India
Commercial banks	42.8	55.3
Cooperative societies and banks	32.7	8.4
RRBs	2.2	3.5
Other formal sources	7.8	9.5
All formal sources	85.5	76.7
Landlords	-	0.6
Agricultural moneylenders	-	3.3
Professional moneylenders	3.0	11.7
Input dealers	-	0.2
Relative and friends	9.5	5.4
Market agents	-	0.4
Other informal sources	2.0	1.4
All informal sources	14.5	23.3
All sources	100.0	100.0

Source-Unit level data from NSO

Source-wise distribution of total debt, rural households, Kerala, 2012 and 2018

Source	2012	2018
Commercial banks and RRBs	24.8	44.1
Cooperative societies and banks	47.4	33.3
Other formal sources	5.8	9.3
All formal sources	77.9	86.8
Landlords	0.01	-
Professional moneylenders	14.1	3.4
Relative and friends	7.6	8.5
Other informal sources	0.4	1.3
All informal sources	22.1	13.2
All sources	100.0	100.0

Source: Unit level data from NSO

Interest rate category-wise distribution of total debt from credit cooperatives, all households, Kerala and India, 2018

Interest rate categories (inper cent per annum)	Share in debt, Kerala	Share in debt, India
Less than 6 per cent	1.9	9.0
6 per cent to 10 per cent	14.4	27.5
Less than 10 per cent	16.3	36.5
Above 10 per cent	84.0	63.5
Between 10 per cent and 20per cent	82.4	62.1
Above 20 per cent	1.3	1.4
Total	100.0	100.0

Source: Unit level data from NSO

Interest rate category-wise distribution of total debt from commercial banks, all households, Kerala, 2018

Interest rate categories (in per cent per annum)	Share in debt, Kerala
Less than 6 per cent	4.3
6 per cent to 10 per cent	45.2
Less than 10 per cent	49.5
Above 10 per cent	51.6
Between 10 per cent and 20 per cent	50.4
Above 20 per cent	0.2
Total	100.0

Source: Unit level data from NSO

Appendix 2: Sample size of PACSs/FSSs surveyed

Total numberof PACSs/FSSs	Class 1 Super grade	Class 1 Special grade	Class1	Class 2	Class 3	Class 4	Class 5-7	FSS
131	11	21	17	16	14	13	29	10

Appendix 3: Average share of agricultural credit in total credit of surveyed PACSs, Kerala, in per cent

Category	2017-18	2018-19	2019-20
Class 1 Super and Special grade	12	12	12
Class 1	16	22	18
Class 2-4	18	18	17
Class 5-7	21	19	22
All PACSs	17	18	17

Source: Survey data
Note: The nine categories of PACSs have been reduced to four for ease of analysis. The four categories are derived by clubbing the adjoining categories based on their similar features

Appendix 4: Average share of short-term refinance from Kerala Bank/DCCBs in short-term agricultural credit of surveyed PACSs, Kerala, in per cent

Category	2017-18	2018-19	2019-20
Class 1 Super and Special grade	22	24	20
Class 1	36	35	42
Class 2-4	27	27	31
Class 5-7	17	15	15
All PACSs	26	25	27

Source: Survey data

Appendix 5: Modal rates of interest on deposits and select categories of loans of surveyed PACSs, Kerala, in per cent per annum

Category	2017-18	2018-19	2019-20
Fixed deposits rates			
Class 1 Super and Special grade	8.5	8.3	7.8
Class 1	8.0	8.3	7.5
Class 2-4	8.25	8.25	7.25
Class 5-7	8.25	8.25	7.25
Gold loans rates			
Class 1 Super and Special grade	11.0	9.0	9.0
Class 1	12.0	11.0	11.0
Class 2-4	11.5	11.5	11.0
Class 5-7	12.0	11.5	11.5
Rates on short-termagricultural loans			
Class 1 Super and Special grade	7.0	7.0	7.0
Class 1	7.0	7.0	7.0
Class 2-4	7.0	7.0	7.0
Class 5-7	7.0	7.0	7.0
Rates on long-term agriculturalloans			

Class 1 Super and Special grade	7.0	7.0	7.0
Class 1	9.5	9.5	9.0
Class 2-4	7.0	7.0	7.0
Class 5-7*	-	-	-

Source: Survey data

* On account of incomplete information, interest rates for this category have not been reported. Fixed deposits refer to medium-term fixed deposits.
See note under Appendix 3.

Appendix 6: Average credit to deposit ratio of PACSs, all districts, Kerala, in per cent

District	2016-17	2017-18
Alappuzha	115	69
Ernakulam	77	68
Idukki	114	111
Kannur	76	73
Kasaragod	118	64
Kollam	70	68
Kottayam	82	61
Kozhikode	77	23
Malappuram	64	58
Palakkad	83	55
Pathanamthitta	50	56
Thiruvananthapuram	66	43
Thrissur	65	61
Wayanad	157	78
Kerala	76	59

Source: RCS, Kerala.
Note: Data relate to PACSs and FSSs.

Appendix 7: Average share of borrowing members in total members of PACSs, all districts, Kerala, in per cent

District	2016-17	2017-18
Alappuzha	26	28
Ernakulam	44	42
Idukki	48	47
Kannur	51	38
Kasaragod	84	55
Kollam	30	29
Kottayam	39	40
Kozhikode	44	39
Malappuram	45	44
Palakkad	62	46
Pathanamthitta	33	23
Thiruvananthapuram	32	41
Thrissur	44	65
Wayanad	39	45
Kerala	43	41

Source: RCS, Kerala.
Note: Data relate to PACSs and FSSs.

Appendix 8: Average percentage of non-member fixed deposits in total fixed deposits of surveyed PACSs, Kerala

Category	2017-18	2018-19	2019-20
Class 1 Super and Special grade	36	36	35
Class 1	28	24	22
Class 2-4	23	24	24
Class 5-7	28	25	24
All PACSs	29	27	26

Source: Survey data
See note under Appendix 3

Appendix 9: Average share of fixed deposits in total deposits of surveyed PACSs, Kerala, in per cent

Category	2017-18	2018-19	2019-20
Class 1 Super and Special grade	83	83	84
Class 1	71	75	76
Class 2-4	76	76	77
Class 5-7	65	66	67
All PACSs	74	75	76

Source: Survey data
See note under Appendix 3.

Appendix 10: Present administrative set-up of Kerala Bank

The head office of Kerala Bank is located at Thiruvananthapuram with the corporate business and liaison office at Ernakulam and seven regional offices in Thiruvananthapuram, Alappuzha, Kottayam, Thrissur, Palakkad, Kozhikode and Kannur. There is a credit processing centre at each district headquarter except in Malappuram. The head office of the bank consists of the following six departments: general administration; HR and law; credit, credit monitoring and recovery; business planning and co-operative credit; general banking and treasury; audit, inspection and marketing; IT and digital banking. The regional offices have the following departments: banking operations; PACSs development and cooperative credit; credit department; credit monitoring, recovery and legal; general administration, HR and IT; and inspection and internal audit.

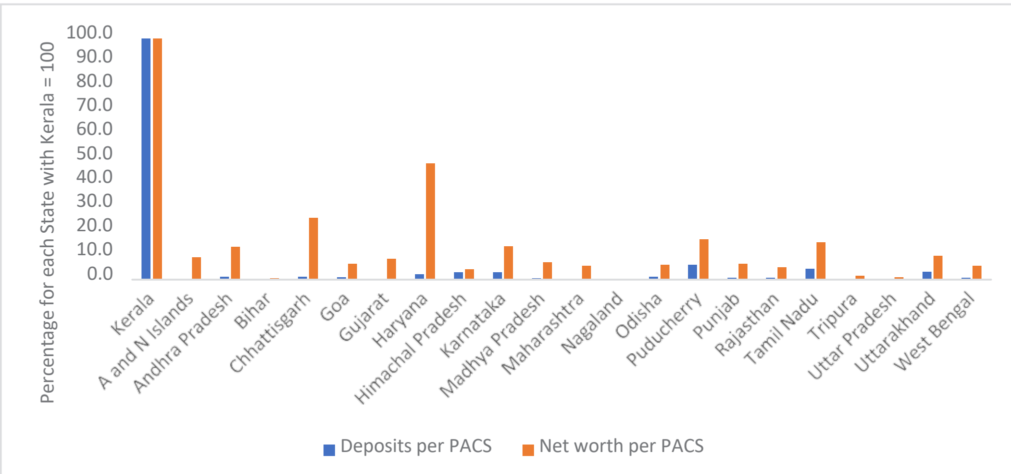
Appendix 11: Number, average membership size, and touchpoints per PACSs, 2018-19

District	Number of PACSs	Average number of members per PACS	Average number of touch points per PACS
Alappuzha	188	9,109	1
Ernakulam	165	12,933	3
Idukki	72	10,874	3
Kannur	127	25,046	5
Kasaragod	61	11,559	4
Kollam	129	14,567	2
Kottayam	136	11,296	3
Kozhikode	103	25,681	2

Malappuram	124	21,928	3
Palakkad	98	29,335	3
Pathanamthitta	104	11,873	2
Thiruvananthapuram	112	15,799	3
Thrissur	151	11,869	3
Wayanad	36	9,013	2
Kerala	1,606	15,748	3

Source: RCS Kerala

Appendix 12: Deposits and net worth per PACS in Kerala compared with other States, in per cent



Source: NAFSCOB
Note: The average size of deposits and working capital per PACS in Kerala is taken as 100, and the average sizes in other States are represented as percentages to the size in Kerala

Appendix 13: Average ratio of gold (consumption) loans to agricultural credit of surveyed PACSs, Kerala

Category	2017-18	2018-19	2019-20
Class 1 Super and Special grade	17	22	48
Class 1	4	3	4
Class 2-4	6	4	3
Class 5-7	3	3	4
All PACSs	8	8	15

Source: RCS Kerala

Note: Data for gold loans relate to total gold loans as reported by PACSs. It is taken as gold loans for consumption given the policy of converting all agricultural gold loans into KCC loans.

Appendix 14: Average net interest margin of surveyed PACSs, Kerala, in per cent

Category	2018-19	2019-20
NIM based on loans		
Class 1 Super and Special grade	0.9	1.0
Class 1	0.9	0.9
Class 2-4	2.4	2.0
Class 5-7	0.2	0.3
All PACSs	1.1	1.1
NIM based on loans and bank deposits		
Class 1 Super and Special grade	3.5	3.2
Class 1	2.3	2.2
Class 2-4	3.8	3.3
Class 5-7	1.4	1.7
All PACSs	2.8	2.6

Source: Survey data

Notes: 1. NIM on loans = ((Interest received and receivable on loans – Interest paid and payable) / Average total assets)

2. NIM on loans and bank deposits = ((Interest received and receivable on loans + Interest earned bank deposits) – Interest paid and payable) / Average total assets)

3. Due to certain data issues, total assets were proxied by paid up capital + total deposits + total borrowings.

Appendix 15: Overdues to demand positions, PACSs, Kerala, in per cent

District	Overdues to demand		Share in total loans outstanding	
	2016-17	2017-18	2016-17	2017-18
Alappuzha	17	17	4	4
Ernakulam	10	7	13	15
Idukki	8	13	3	4
Kannur	9	9	10	11
Kasaragod	9	10	5	4
Kollam	14	14	8	9
Kottayam	11	11	10	10
Kozhikode	5	10	11	4
Malappuram	6	10	7	8

Palakkad	15	45	8	7
Pathanamthitta	25	4	3	3
Thiruvananthapuram	17	20	6	7
Thrissur	5	8	9	11
Wayanad	14	13	1	1
Kerala	12	14	100	100

Source: RCS Kerala

Appendix 16: Average share of farmers in the Managing Committees of surveyed PACSs, Kerala, in per cent

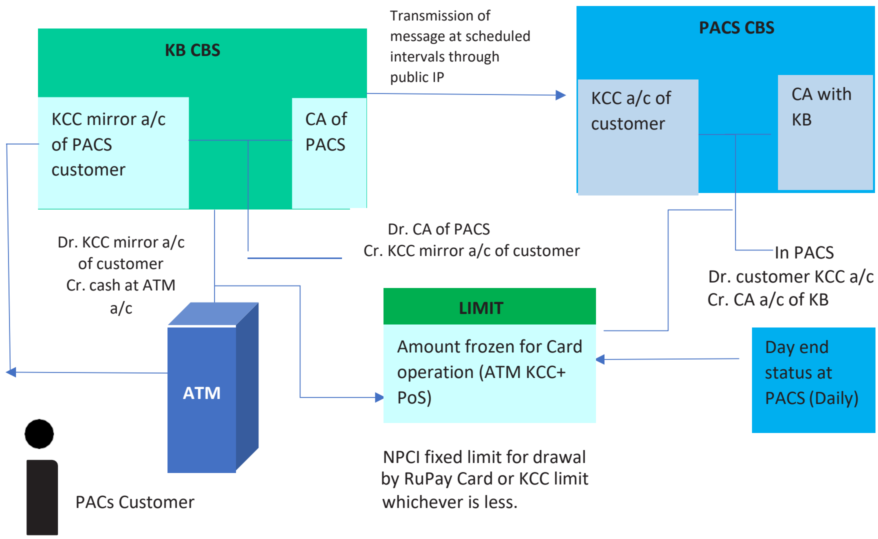
Category	2017-18	2018-19	2019-20
Class 1 Super and Special grade	43	45	46
			(21)
Class 1	27	27	27
			(44)
Class 2-4	28	29	28
			(38)
Class 5-7	24	25	25
			(38)
All PACSs	31	32	32
			(34)

Source: Survey data

Note: This percentage is worked out as Number of farmers in the Managing Committee / 15. This is because the legally permissible maximum size of a Managing Committee is 15.

Figures in brackets indicate percentage share of surveyed PACSs that did not have a single farmer in their Managing Committees.

Appendix 17: A flow chart representation of the provision of KCC/Rupay debit cards to PACSs' customers by Kerala Bank



Appendix 18: Number of primary cooperatives under the Department of Cooperation, Kerala, 2019

	Type	Total number of societies	Total numberof working societies	Percentage of working societies
1	Credit Cooperatives	3,715	3,369	91
1.1	Primary Agricultural Credit Societies	1,643	1,592	97
2	Marketing Cooperatives	585	222	38
3	Consumer Cooperatives	4,626	3,807	82
4	Processing Cooperatives	35	14	40
5	Housing Cooperatives	399	292	73
6	SC/ST Cooperatives	826	414	50
7	Health Cooperatives	200	103	52
8	Women Cooperatives	1221	935	77
9	Other Co-operatives (Miscellaneous)	4,263	2,875	67
	Total	15,870	12,031	-

Source: GoK (2020b)
Note: The number excludes apex, central and federal societies.
There is a slight variation in the number of societies reported here and in Appendix 11, as this number includes FSSs.

Appendix 19: Average ratio of turnover from non-credit activities to total credit portfolio of surveyed PACSs, Kerala, in per cent

Category	2017-18	2018-19	2019-20
Class 1 Super and Special grade	2	1	1
			(36)
Class 1	0.5	0.6	0.5
			(28)
Class 2-4	0.7	0.6	0.6
			(27)
Class 5-7	0.3	0.2	0.2
			(14)
All PACSs	0.9	0.6	0.6
			(27)

Source: Survey data
Note: Figures in brackets indicate percentage of the number of PACSs reporting non-zero turnover from their non-credit activities in total number of PACSs in a given category

Appendix 20: Average share of credit to SHGs/JLGs in total credit of surveyed PACSs, Kerala, in per cent

Category	2017-18	2018-19	2019-20
Class 1 Super and Special grade	1.4	1.5	1.5
			(79)
Class 1	8	9	8
			(72)
Class 2-4	4	4	5
			(73)
Class 5-7	7	9	7
			(45)
All PACSs	5	6	5
			(69)

Source: Survey data
Note: Figures in brackets indicate percentage share of PACSs having an SHG/JLG linkage.

Appendix 21: Average ratio of SHG loans to SHG deposits for surveyed PACSs, Kerala

Category	2017-18	2018-19	2019-20
Class 1 Super and Special grade	20	20	25
Class 1	8	8	9
Class 2-4	6	6	6
Class 5-7	1	2	2
All PACSs	9	9	10

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APPENDIX I

PROCEEDINGS OF THE MEMBER SECRETARY

STATE PLANNING BOARD

(Present: Sri. Teeka Ram Meena IAS)

Sub: - Formulation of Fourteenth Five Year Plan (2022-27) – Constitution of Working Group on Agriculture and Cooperation – Revised Proceedings - reg.

Read: 1. Note No. 297/2021/PCD/SPB dated: 27/08/2021
2. Guidelines on Working Groups
3. This Office order of even number dated 08.09.2021

ORDER No. SPB/342/2021-Agri(1) Dated:14.09.2021

As part of the formulation of Fourteenth Five Year Plan, it has been decided to constitute various Working Groups under the priority sectors. Accordingly, the Working Group on **Agriculture and Cooperation sector** is constituted. For the smooth functioning of the Sectoral Working Group (SWG), it is decided to split the Working Groups into Expert Sub Groups (ESG). Hence the Working Group is categorized into eleven Expert Sub Groups as indicated in the proceedings. The names of the members of the SWG are indicated under each ESG. The Working Group shall also take into consideration the guidelines read 2nd above in fulfilling the tasks outlined in the ToR for the Working Group.

1. A PLAN TO IMPROVE THE EFFICIENCY OF WORKING OF KRISHI BHAVANS

Co-chairperson

- Dr C. Bhaskaran, Professor of Agricultural Extension (Retd), Kerala Agricultural University
- Mr T. V. Subash IAS, Director, Agriculture

Members

- Dr P. Jayaraj, Programme Coordinator, KVK, Kannur
- Dr Sreevalsan J. Menon, Associate Director of Extension, Directorate of Extension, KAU
- Mr V. G. Sunil, Assistant Professor, Agricultural Extension, Communication Centre, Kerala Agricultural University
- Mr P. V. Jinraj, Assistant Director, Agmark Laboratory, Thiruvananthapuram
- Ms Asha K. Raj, Assistant Director of Agriculture, Small Farmers Agribusiness Consortium, Thiruvananthapuram
- Mr Kariyam Ravi,115 Journalist colony, NCC Nagar, Peroorkada
- Mr G. K. Manivarnan, Agricultural Officer, Pallikkal Grama Panchayath
- Mr R. Ajith Kumar, Assistant Professor, IIITM-K

- Mr Joy Sebastian, MD, VCONSOL
- Mr Sidharthan A.K, Assistant Director of Agriculture (Q C),Kozhikkodu

Terms of Reference

- To assess the present functioning of Krishi Bhavans in Kerala and suggest how to improve their effectiveness.
- To identify advanced technologies for use in Krishi Bhavans to ensure better delivery of services and their convergence with LSGIs, Cooperatives, FPOs, and KAU.

2. A PLAN TO EXPAND AND MODERNIZE SUPPLY CHAINS IN AGRICULTURE

Co-chairperson

- Dr Poornima Varma, Faculty, Centre for Management in Agriculture, IIM-Ahmedabad
- Dr A. Prema, Professor & Head, Department of Agricultural Economics, College of Horticulture, Vellanikkara, Thrissur

Members

- Ms L. R. Arathi IES, Mission Director, State Horticulture Mission, Kerala
- Dr A. Suresh, Principal Scientist, CIFT, Kochi
- Dr S. Jayasekhar, Senior Scientist, Social Science Division, CPCRI, Kasaragod
- Mr Valsan Panoli, Kerala Karshaka Sangham, Vapushas, Koothuparamba, Kannur
- Mr.V. P. Unnikrishnan, MFH Flat No.2003, Vrindavan Garden, Pattom Palace P O Thiruvananthapuram
- Ms Deepthi S. Nair, Deputy Director, Marketing, Coconut Development Board, Kochi
- Dr S. Asharaf, Professor, IIITMK
- Mr Mathew Abraham, Assistant Director, Marketing, Department of Agriculture
- Dr Sangeetha K. Prathap, Assistant Professor, School of Management Studies, Cochin University of Science and Technology, Kochi.
- Ms Chitra K. Pillai, Assistant Director of Agriculture, Agricultural Urban and Wholesale Market, Maradu
- Mr L. Subhash Babu, Deputy Director (Retd.), Department of Agriculture and Farmer's Welfare
- Mr Joy Sebastian, MD, VCONSOL
- Mr Ashar Thattarath, PGP IIM, Ahmedabad
- Mr Manu K.G, Public Relations Officer, Directorate of AD & FW

Terms of Reference

- To suggest a design of a unified supply chain for farm inputs and outputs with specific reference to aggregation/procurement, storage, and marketing.

- To suggest a framework where LSGIs, Cooperatives and FPCs can be effectively integrated into the unified supply chain.
- To suggest ways to ensure that the supply chains are integrated with the objectives of trade, value addition and processing - domestic and global – as well as agricultural finance institutions.
- To suggest ways in which the private agencies in procurement, trade and marketing are integrated with the supply chains.
- To ensure that the supply chains meet the requirements of *niche* sectors, such as organic farming, in certification and traceability.
- To suggest the major technological changes and infrastructural investments required to equip the State's supply chain systems to meet the needs of the farming community as well as domestic and international trade.

3. HOW CAN KERALA DOUBLE ITS VEGETABLE PRODUCTION IN THE NEXT FIVE YEARS?

Co-chairperson

- Ms C. A. Letha. IAS, Secretary, Agriculture, Government of Kerala
- Dr T. Pradeep Kumar, Director (Planning), Kerala Agricultural University, Thrissur

Members

- Dr P. Rajasekharan, Chairperson, State Agricultural Prices Board
- Mr V. Sivaramakrishnan, CEO, VFPCK
- Mr J Sajeev, Managing Director, Horticorp
- Ms L. R. Arathi IES, Mission Director, State Horticulture Mission
- Dr K. M. Sreekumar, Professor of Entomology, College of Agriculture, Padannakkad
- Mr Sridhar Radhakrishnan, Thirunelly Agri Producer Company (TAPCo)
- Mr Reghulal, Deputy Director of Agriculture (Rtd)
- Dr K. Mini, Deputy Manager, VFPCK, Idukki
- Mr Prakash Puthanmadathil, Assistant Director of Agriculture, Vengara
- Ms S. K. Preeja, Kerala Karshaka Sangham, Pallichal, Nemom, Trivandrum
- Mr R Balachandran, Chithiramangalam, Ulloor Medical CollegePO, Thiruvananthapuram,
- Mr Reji Jacob, Kunnamkotu House, Nediyassala PO, Thodupuzha, Idukki
- Ms Bindu.J, Assistant Engineer, Office of the Assistant Executive Engineer, Malampuzha, Palakkad

Terms of Reference

- To assess the progress achieved in increasing area, production, and productivity of vegetables in Kerala over the past five years.
- To suggest a roadmap to double vegetable production in Kerala over the next five years with special focus on increasing productivity and farmer's income.

- To examine the ways in which the institutions of LSGIs, Cooperatives and FPCs can be utilised to participate in vegetable production efforts.
- To suggest ways in which existing systems of vegetable production are modernised and integrated with the different schemes of the government as well as post-production activities.
- To review the existing procurement and distribution systems, including government initiatives, and suggest a transparent, technology-driven platform with the active support of LSGIs, Cooperatives and FPCs.
- To suggest ways to reform the existing government schemes to support vegetable production.

4. CONSTRAINTS TO TECHNOLOGY ADOPTION AND THE POTENTIAL TO RAISE PRODUCTIVITY IN KERALA AGRICULTURE

Co-chairperson

- Dr C. Chandra Babu, Vice Chancellor, Kerala Agricultural University
- Dr K. C. Bansal, Former Director, National Bureau of Plant Genetic Resources, Indian Council of Agricultural Research (ICAR), New Delhi

Members

- Dr M.N. Sheela, Director, CTCRI, Sreekaryam
- Dr C. Thampan, Principal Scientist, CPCRI, Kasargod
- Dr Madhu Subramonian, Director of Research, KAU
- Dr Jacob John, Professor & Head, Integrated Farming Systems Research Station, Karamana, KAU
- Dr P. Indira Devi, Director of Research (Retd), KAU
- Dr R. Beena, Assistant Professor, College of Agriculture, Vellayani
- Dr Archana Sathyan, Assistant Professor, Agricultural Extension, CoA, Vellayani, KAU
- Dr P. Rajeev, Principal Scientist, IISR
- Adv. Thomas V T, Varacheriyil, Pala PO, Kottayam
- Dr Nishanth K. Raman, Assistant Professor, CoA, Padannakkad, KAU
- Mr Rijish Rajan, CEO, Simplified Enterprises Management, Palakkad
- Dr Thomas Aneesh Johnson, Soil Survey Officer, Office of the Deputy Director and Soil Survey, Thrissur (North)

Terms of reference

- To assess the status of productivity of major crops of Kerala and estimate yield gaps.
- To identify linkages between the adoption and use of modern technology and the gaps in yield in major crops.

- To examine the potential for raising productivity in major crops with the existing technologies.
- To identify gap in the availability of technology and suggest measures to hasten the development of these technologies.
- To suggest measures to improve the research-extension linkages in Kerala's agriculture.
- To suggest a policy framework to transform homesteads into profit centres through the practice of technology-driven agriculture.

5. PREPARATION OF SOIL AND LAND USE PLANS IN LSGIs FOR AGRICULTURAL GROWTH

Co-chairperson

- Dr Srikumar Chattopadhyay, Faculty, GIFT
- Mr S. Subramanian IIS, Director, Soil Survey & Soil Conservation, Trivandrum

Members

- Mr T. Gangadharan, Extension Faculty, KILA, KSSP
- Mr K. S. Hiroshkumar, Scientific Officer, IFSRS, Karamana, KAU
- Mr B. P. Murali, Member, Nagaroor, Kilimanoor Block (KBPA)
- Mr R. Sukhalal, Swararagam,Cherthala South PO, Alappuzha
- Mr A. Nizamudeen, Land Use Commissioner, Kerala State Land Use Board
- Mr K.P. Abdussamad, District Soil Conservation Officer, Kannur
- Mr Anand Vishnu Prakash, Agricultural Officer, Manakkad Krishibhavan, Idukki

Terms of reference

- To critically assess the status of preparation of land use plans by LSGIs in Kerala over the past five years and identify the reasons for the poor performance of LSGIs in this regard.
- To suggest and prepare a guidance note for the effective preparation and development of land use plans, and its integration with watershed plans and agricultural production systems.
- To suggest ways to integrate and converge the objectives and activities of multiple government agencies possessing data on land ownership, land use and agriculture to facilitate regular updating of land use plans prepared by LSGIs.
- To suggest a road map for a State-level people's campaign to complete the preparation of land use plans at the LSGI-level over a period of six months.

6. WATERSHED-BASED PLANNING AND AGRICULTURE: THE POTENTIAL IN KERALA

Co-chairperson

- Dr Ishita Roy IAS, Agriculture Production Commissioner
- Mr I. B. Satheesh, MLA, Kattakada Constituency

Members

- Dr K. K. Sathiyan, Dean, KCAET, Thavanur
- Dr Celine George, Senior Principal Scientist & Head, CWRDM, Manimalakunnu
- Dr Anu Mary C. Philip, Assistant Director, Soil Conservation; IWDMK, Chadayamangalam
- Mr S. U. Sanjeev, Assistant Director of Agriculture (Rtd.)
- Mr U. Janardanan, CEO, Mayyil Rice Producer Company Ltd., Kannur
- Dr A. R. Durga, Assistant Professor, Department of Agricultural Economics, College of Agriculture, Vellayani, KAU
- Mr M. Prakasan Master, Kerala Karshaka Sangham, Pranavam, Azheekode South, Kannur
- Mr T. K. Rajan Master, Nini Nivas, Edachery PO, Kozhikode
- Mr Jo Jose, Assistant Principal Agricultural Officer, PAO Office, Kottayam
- Mr Mohanachandran, Deputy Director (Retd), Kollam

Terms of reference

- To critically assess the status of preparation of watershed plans by LSGIs in Kerala over the past five years and identify the reasons for the poor performance of LSGIs in this regard.
- To suggest and prepare a guidance note for the effective preparation and development of watershed plans, and its integration with land use plans and agricultural production systems with active support of geospatial technologies.
- To suggest ways to integrate and converge the objectives and activities of multiple government agencies possessing data on water, water use, land use and agriculture to facilitate regular updating of watershed plans prepared by LSGIs.
- To suggest a road map for a State-level people's campaign to complete the preparation of watershed plans at the LSGI-level over a specified minimum period.
- To study the different successful models of watershed plans prepared by LSGIs in the State and study the possibilities of replications, and preparation of a set of best practices.
- To provide guidance on linking the existing schemes of the government with a broader watershed-based strategy of development planning.

7. A PROGRAMME TO MODERNIZE AND UPDATE STATISTICAL DATABASES IN AGRICULTURE

Co-chairperson

- Dr Madhura Swaminathan, Professor, Indian Statistical Institute, Bengaluru
- Mr P. V. Babu, Director, Dept of Economics & Statistics

Members

- Dr U. S. Mishra, Professor, Centre for Development Studies, Trivandrum
- Ms L. R. Arathi IES, Mission Director, State Horticulture Mission
- Dr Brigit Joseph, Professor, Dept of Agricultural Statistics, CoA, Vellayani
- Dr K. P. Chandran, Senior Scientist, CPCRI, Kasargod
- Mr T. Paul Lazarus, Assistant Professor, Agricultural Economics, CoA, Vellayani
- Dr Pratheesh Gopinath, Assistant Professor, Agricultural Statistics, CoA, Vellayani
- Mr Deepak Mercy Johnson, Senior Fellow, Indian Statistical Institute, Bangalore
- Mr S. Ajayghosh, Vrindavan, Vadakkan Mainagapally PO, Kollam
- Mr Ramesh P K, TA to Director of Agriculture, Directorate of AD and FW

Terms of reference

- To critically assess the status and robustness of Kerala's statistical databases in agriculture and identify areas of concern.
- To suggest measures to improve the design, collection, analysis and dissemination of statistical data, such as area, production, yield, costs of cultivation, trade, farm harvest prices, wholesale prices, retail prices, market arrivals and so on, related to agriculture.
- To provide a framework for a better use of new technologies to improve the statistical system related to agriculture.
- To suggest ways in which Kerala's statistical system in agriculture should be geared towards meeting the challenges posed by integrated multiple-/inter-cropping based in homesteads and garden lands, apart from wetlands.
- To examine the possibilities of integrating all data on agriculture collected by different agencies in a single electronic platform.

8. A PLAN FOR VALUE ADDITION AND INDUSTRIAL INVESTMENT IN KERALA'S POST-HARVEST AGRICULTURE

Co-chairperson

- Dr K. P. Sudheer, Professor & Head, Department of Agricultural Engineering, College of Horticulture, KAU
- Mr Manu George, Strategist, Agency for the Development of Food Processing Industries in Kerala (ADFIK), KINFRA

Members

- Mr Rajeev Bhushan Prasad, Chief Coconut Development Officer, Coconut Development Board
- Dr E. Jayashree, Senior Scientist, ICAR-Indian Institute of Spices Research (IISR), Kozhikode
- Dr Lijo Thomas, Senior Scientist, ICAR-Indian Institute of Spices Research (IISR), Kozhikode
- Dr M. R. Manikantan, Principal Scientist, Harvest & Post Harvest Technology, CPCRI, Kasargod
- Mr K. K. Rajendrababu, Kunnath Veedu, Alappad PO, Thrissur
- Mr R. Manikuttan,Santhivila, Vandanmedu PO, Idukki,
- Dr V. R. Sinija, Professor & Head, Business Incubation Unit, IIFPT, Thanjavur
- Dr M. S. Sajeev, Principal Scientist & Head Crop Utilization Division, CTCRI, Sreekaryam
- Dr P. R. Geethalakshmi, Assistant Professor, Department of Post-Harvest Technology, College of Agriculture, Vellayani
- Ms K. Thulasi, Kerala Karshaka Sangham, Novelty, Matoor, Kalady, Ernakulam
- Dr P. Nisha, Principal Scientist, CSIR-National Institute for Interdisciplinary Science and Technology, Trivandrum
- Mr Abraham John Tharakan, Chairman, Amalgam Foods
- Mr Madathiveetil Ramesh, Director, Brahma Indic Nutriments Private Limited
- Mr Appu Anitha Muraleedharan, Theeram Agro World
- Ms Mini Srinivasan, Annam Flour and Batter Solutions, Coimbatore
- Mr Ajoy Sukumaran, Assistant Director of Agriculture, Directorate of AD and FW

Terms of reference

- To prepare a roadmap for the development of an entrepreneurship-driven system post-harvest value addition in agriculture while ensuring the generation of employment and skills.
- To suggest measures to effectively integrate the functioning of LSGIs, Cooperative institutions, including FPCs, and line departments towards the development of value chains in post-harvest agriculture.
- To suggest measures to ensure facilities for investment, quality control, traceability, logistics and export, including the necessary arrangements for payment systems.
- To suggest measures to augment Kerala's export of processed products, particularly in high value and *niche* segments.

9. EASE OF ENTREPRENEURSHIP IN AGRICULTURE: REFORMS IN POLICY AND ADMINISTRATION

Co-chairperson

- Mr S. Harikishore IAS, Director, Industries & Commerce Department
- Dr K. J. Joseph, Director, Gulati Institute of Finance and Taxation, Trivandrum

Members

- Dr Binoo P. Bonny, Professor & Head, Department of Agricultural Extension, CoA, Vellanikkara, KAU
- Dr K. P. Sudheer, Professor & Head, Department of Agricultural Engineering, College of Horticulture, KAU
- Mr G Prakash, Joint Director, MSME Institute, Thrissur
- Mr Roshan Kynadi, Agripreneur, Kynadi Plantations
- Mr T. Thulasidasa Menon, Krishnakripa,Thrithalangode PO, Malappuram,
- Mr M. Ramesh, Industry Expert, RABI-KAU Incubation Committee
- Mr Saji George, CEO, BIONEST
- Mr Shan Kadavil, MD, Fresh to Home Foods Private Ltd
- Mr Jamsheed, Agricultural Officer, Kannamangalam, Malappuram

Terms of reference

- To suggest a broad quantitative framework to regularly assess ease of entrepreneurship in agriculture in Kerala.
- To identify the constraints to the flow of entrepreneurial capital into the processing and value addition segments in agriculture.
- To suggest short-term, medium-term, and long-term measures to improve the ease of entrepreneurship in agriculture.
- To suggest legal and administrative measures to be initiated at different levels of governance, including LSGIs, to improve the ease of entrepreneurship in agriculture.

10. HOW CAN KERALA USE THE POWER OF COOPERATION TO RAISE AGRICULTURAL GROWTH?

Co-chairperson

- Mr P B Nooh IAS, RCS, Kerala
- Mr James Mathew, Ex- MLA, Taliparamba

Members

- Dr P. S. Geethakutty, Professor (Retd.), KAU
- Mr Salin Thapasi, Project Leader, SFAC

- Mr Paleri Ramesan, Chairman, ULCCS
- Mr James, Perambra Coconut FPC
- Fr John Choorapuzhayil, Chairman, BIOWIN, Mananthavady, Wayanad
- Dr J. Thomas, PDS Organic Spices, Kuttikanam, Idukki
- Mr G. R Rajeev, Kollam
- Mr Bimalghosh, MD, Aralam Farming Corporation
- Ms Rema K. Nair, Deputy Director of Agriculture (Retd.), Department of Agriculture
- Mr V Ravindran, Senior Manager, Kerala Bank

Terms of reference

- To critically assess the role and position of Cooperative institutions in Kerala's agricultural development pattern.
- To identify weaknesses in the cooperative institutional framework with respect to their contribution to the agricultural production processes.
- To chart out a pathway to effectively leverage Kerala's historical strengths in cooperative action – including both cooperatives and farmer producer companies (FPC) – to improve agricultural growth and farmer's income.
- To critically assess the performance of Kerala's cooperative credit system to finance agricultural activities.
- To suggest measures to modernise the functioning of Cooperatives in the State.
- To suggest measures on how cooperatives can contribute to the development of supply chains and value addition in agriculture.
- To suggest measures to improve coordination across line departments, LSGIs, Cooperatives and FPCs to contribute to agricultural growth.
- To suggest measures for transforming Kerala Bank to support the resource needs of the productive sector of the State.

11. COOPERATIVE BANKING IN KERALA: REVAMPING THE ROLE OF KERALA BANK

Chairperson

- Ms Mini Antony IAS, Secretary, Corporation

Co-Chairperson

- Dr Pallavi Chavan, Director, Reserve Bank of India, Mumbai

Members

- Mr Sasikumar M V,Director, Institute of Co-operative Management, Parasinikkadavu, Kannur
- Mr Jose T Abraham, Additional Private Secretary to the Finance Minister

- Mr K. C. Sahadevan, Chief General Manager, Kerala Bank
- Mr V. Raveendran, Senior Manager, PACS Development Department, Kerala Bank
- Mr Raja Kurup, Board Member, Kadirur PACS, Kannur
- Mr Anoop Kishore, Development Standing Committee Chairman, Wadakkanchery Municipality and District Facilitator of Decentralised plan
- Mr Romio Kattapana, President, Thankamony Service Co-operative Bank
- Mr K.C.S Nambiar, Director, Ancharakandy FSC Bank and Sahakari Coconut Processing facility
- Mr P. R. Sanjeev, Managing Director (Retd.), MILMA
- Mr R K Bhoodes Pillai, Chairman, Federation of Indian Cashew Industries, Former CEPCI
- Mr Sudheer K, Additional Director of Industries and Commerce
- Mr Damodhar, President, Kerala State Small Industries Association

Terms of reference

- To suggest broad measures to deepen and expand the participation of the cooperative sector in the process of economic growth of the State, and to involve youth in the cooperative movement in the State.
- To suggest measures to upgrade the use of technology in the functioning of primary cooperatives, such as the introduction of unified software.
- To suggest measures to improve professionalism in the functioning of cooperative societies in the State.
- To prepare a guidance note on Business Process Reengineering of the Kerala Bank to serve as a key provider of resources to the productive sectors, such as agriculture and MSMEs as well as tourism.

Convener

Sri. S S Nagesh, Chief, Agriculture Division, State Planning Board

Co- Convener

Smt. G C Roshini, Agronomist, State Planning Board

Terms of Reference (General)

1. The non-official members (and invitees) of the Working Group will be entitled to travelling allowances as per existing government norms. The Class I Officers of GoI will be entitled to TA as per rules if reimbursement is not allowed from Departments.

2. The expenditure towards TA, DA and Honorarium will be met from the following Head of Account of the State Planning Board “3451-00-101-93”- Preparation of Plans and Conduct of Surveys and Studies.

The order read as reference 3 is modified to this extent.

(Sd/-)
Member Secretary

Forwarded By Order

14/09/21

Chief,
Agriculture Division

To

The Members concerned

Copy to

PS to Vice Chairperson
PA to Member Secretary
CA to Member (Dr.Ramakumar.R)
Economic Advisor to VC
Chief, PCD,SPB
Sr. A.O, SPB
The Accountant General, Kerala
Finance Officer, SPB
Publication Officer, SPB
Sub Treasury, Vellayambalam
Accounts Section
File/Stock File