Cooperative Banks in India: A Critical Examination of Structure, Performance, And Reform Imperatives

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Abstract- Cooperative banks occupy a strategically significant place within India's financial ecosystem, having long served as the primary institutional conduit for credit delivery to rural communities, agricultural households, and economically marginalised urban segments. Spanning a three-tiered federal architecture—State Cooperative Banks (StCBs) at the apex, District Central Cooperative Banks (DCCBs) at the intermediate level, and Primary Agricultural Credit Societies (PACS) at the grass-roots—these institutions collectively intermediate a sizeable share of agricultural and rural finance. Notwithstanding their social mandate, the sector has been beset by chronic governance weaknesses, capital inadequacy, mounting non-performing assets (NPAs), and a regulatory framework that, until recently, lacked uniformity across its constituent tiers. This paper undertakes a critical evaluation of the cooperative banking sector in India, tracing its historical evolution, examining its structural architecture, assessing financial performance trends, and identifying the principal fault-lines that impede operational efficiency. Particular attention is paid to the regulatory reforms initiated by the Reserve Bank of India (RBI) and the Government of India—most notably the Banking Regulation (Amendment) Act, 2020—and their potential to recalibrate the sector's governance paradigm. The study concludes with a set of forward-looking policy recommendations directed at enhancing the long-term viability and developmental efficacy of cooperative banks.

Index Terms: Cooperative Banks, PACS, Non-Performing Assets, RBI Regulation, Urban Cooperative Banks, Agricultural Credit, Banking Reform.

I. INTRODUCTION

Access to institutional credit is widely acknowledged as a critical prerequisite for rural development and agricultural transformation. In the Indian context, cooperative banks have historically constituted the backbone of the rural credit delivery system, predating the nationalisation of commercial banks and in many regions remaining the only formal financial intermediary within reach of marginal farmers and rural artisans. Rooted in the cooperative principles of mutual aid, democratic governance, and equitable benefit-sharing, these institutions were envisaged not merely as profit-seeking entities but as instruments of socio-economic empowerment.

The genesis of cooperative banking in India may be traced to the Co-operative Credit Societies Act of 1904, which provided the foundational legislative scaffolding for the formation of village-level credit cooperatives. Subsequent legislative milestones—including the Co-operative Societies Act of 1912, the All-India Rural Credit Survey of 1951–54, and the recommendations of the various RBI-appointed expert committees—progressively shaped the sector's institutional contours. Today, the cooperative banking universe in India encompasses over 100,000 entities, ranging from state-level apex banks to small primary agricultural credit societies, collectively holding a significant share of rural credit outstanding.

Despite this impressive quantitative footprint, the cooperative banking sector has repeatedly attracted critical scrutiny on account of poor financial health, opaque governance structures, political interference in management, and inadequate regulatory oversight. High-profile episodes of financial distress—most notably the collapse of the Punjab and Maharashtra Co-operative (PMC) Bank in 2019—have sharpened public and regulatory attention on the systemic vulnerabilities of the sector. The Banking Regulation (Amendment) Act, 2020 represented a watershed legislative response, substantially enhancing the supervisory role of the Reserve Bank of India over cooperative banks.

Against this backdrop, the present paper endeavours to furnish a comprehensive and critical appraisal of the cooperative banking sector in India. The analysis is organised as follows: Section 2 delineates the historical evolution of the sector; Section 3 maps its structural architecture; Section 4 examines financial performance indicators; Section 5 identifies the principal challenges; Section 6 reviews recent regulatory reform measures; and Section 7 offers concluding observations and policy recommendations.

II. HISTORICAL EVOLUTION OF COOPERATIVE BANKING IN INDIA

The cooperative movement in India drew its intellectual inspiration from the Raiffeisen model of rural credit cooperatives that flourished in nineteenth-century Germany. The Famine Commission of 1901 and the subsequent report of Sir Frederick Nicholson underscored the urgent need for institutionalised rural credit in India, providing the immediate impetus for the enactment of the Co-operative Credit Societies Act, 1904.

2.1 Pre-Independence Period (1904–1947)
The Co-operative Credit Societies Act, 1904 enabled the registration of cooperative credit societies with limited liability at the village level. Amendments in 1912 broadened the scope to include non-credit cooperatives and multi-purpose societies. The Maclagan Committee Report (1915) advocated a three-tiered structure connecting primary societies, district-level federations, and state apex institutions—a blueprint that continues to define the cooperative credit architecture to this day. By 1939, cooperative societies had been established across all provinces, though membership remained concentrated among the relatively better-off cultivating classes.

2.2 Post-Independence Period (1947–1991)
At independence, the cooperative banking sector was recognised as an indispensable vehicle for extending organised credit to the rural masses. The All-India Rural Credit Survey Committee (1951–54), chaired by A.D. Gorwala, returned the landmark finding that cooperative credit was 'thinly spread, poorly managed and inadequately financed,' and recommended a comprehensive programme of State partnership in cooperative institutions. The subsequent decades witnessed significant State involvement in share capital contribution, guaranteed lending, and managerial oversight—measures that, while bolstering the quantitative outreach of cooperatives, simultaneously sowed the seeds of political dependency and governance erosion.
The nationalisation of fourteen major commercial banks in 1969 and the expansion of the branch network of public-sector banks did not displace the cooperative sector; rather, the two systems evolved in a complementary fashion, with cooperatives retaining their comparative advantage in last-mile agricultural credit delivery. The establishment of NABARD in 1982 further institutionalised the refinancing and supervisory architecture for cooperative credit institutions.

2.3 Post-Liberalisation Period (1991–Present)
The financial sector reforms unleashed by the Narasimham Committee (1991) brought competitive pressures to bear on the cooperative sector without equipping it with the governance and capital adequacy frameworks necessary to respond effectively. While commercial banks progressively adopted prudential norms, provisioning requirements, and capital benchmarks, a significant segment of the cooperative sector continued to operate under relaxed regulatory standards, creating systemic inconsistencies. The Vaidyanathan Committee (2004) diagnosed this dichotomy and prescribed a comprehensive package of financial and institutional revival—the Agricultural Credit Environment and Institutional Reform (ACIR) package—that was partially implemented through a Central Government-funded recapitalisation programme.

III. STRUCTURAL ARCHITECTURE OF COOPERATIVE BANKING IN INDIA

The cooperative banking sector in India is organised along two principal verticals: the Rural Cooperative Credit Structure (RCCS) and the Urban Cooperative Banks (UCBs). Each vertical exhibits a distinctive institutional configuration, regulatory jurisdiction, and operational profile.

3.1 Rural Cooperative Credit Structure (RCCS)

The RCCS operates through a three-tiered federal hierarchy:

- State Cooperative Banks (StCBs): Positioned at the apex of the rural cooperative credit pyramid in each state, StCBs function as the primary interface with NABARD for refinancing operations and serve as the principal channel for routing government credit support to the lower tiers. As of recent years, there are 33 StCBs operating across India.
- District Central Cooperative Banks (DCCBs): Situated at the district level, DCCBs intermediate between the StCBs above and the primary societies below. They mobilise deposits, extend credit to member societies, and provide a range of banking services to rural clientele. Approximately 351 DCCBs were functional as of the latest available data.
- Primary Agricultural Credit Societies (PACS): Constituting the foundational tier of the cooperative credit edifice, PACS are village-level institutions that directly interact with individual farmer-members. India houses over 95,000 PACS, though the quality and financial health of individual societies varies enormously across states.

Table 1 below provides a summary overview of the structural profile of the RCCS:

Institution Type	Number of Entities	Primary Function	Regulatory Oversight
State Cooperative Banks (StCBs)	33	Apex financing; NABARD linkage	RBI / NABARD
District Central Cooperative Banks (DCCBs)	~351	District-level intermediation	RBI / NABARD
Primary Agricultural Credit Societies (PACS)	>95,000	Village-level credit disbursement	State Registrar / NABARD

Table 1: Structural Profile of the Rural Cooperative Credit Structure

3.2 Urban Cooperative Banks (UCBs)

Urban Cooperative Banks cater principally to the credit and banking needs of urban and semi-urban populations, with a clientele concentrated among small traders, micro-enterprises, salaried employees, and self-employed individuals. UCBs differ from the RCCS in that they operate under a unitary rather than tiered structure. As of recent data, approximately 1,514 UCBs were operational across India, with significant geographic concentration in Maharashtra, Gujarat, Karnataka, and Andhra Pradesh.

The dual regulatory structure that characterised UCBs—with management and registration under state cooperative laws while banking supervision was vested in the RBI—created jurisdictional ambiguity and complicated effective oversight. The Banking Regulation (Amendment) Act, 2020 sought to resolve this dualism by clarifying and strengthening the RBI's supervisory authority over UCBs, including powers relating to governance, audit, and resolution.

IV. FINANCIAL PERFORMANCE OF COOPERATIVE BANKS: AN ASSESSMENT

An objective evaluation of the cooperative banking sector's financial health requires examination of multiple performance dimensions, including deposit mobilisation, credit deployment, capital adequacy, asset quality, and profitability. The following sub-sections synthesise available evidence on each of these parameters.

4.1 Deposit Mobilisation and Credit Deployment

StCBs and DCCBs collectively mobilise deposits from member institutions as well as from the public, though their deposit base is modest relative to commercial banks. NABARD's Annual Reports indicate that the aggregate deposits of StCBs and DCCBs have grown steadily over the past decade, reflecting increased rural savings mobilisation. However, the credit-deposit (CD) ratio of many DCCBs and PACS remains sub-optimal, pointing to inefficiencies in intermediation and under-utilisation of mobilised resources.

UCBs, by contrast, have demonstrated relatively stronger deposit growth, particularly in states with a robust cooperative tradition. However, the concentration risk arising from exposure to specific sectors or individual large borrowers has been a recurring concern in the UCB sub-sector.

4.2 Capital Adequacy

Capital adequacy constitutes a critical fault-line for the cooperative banking sector. A substantial proportion of DCCBs and UCBs fall short of the minimum capital-to-risk-weighted-assets ratio (CRAR) prescribed by the RBI. Thin equity bases, accumulated losses, and limited access to market capital have collectively constrained the capacity of cooperative banks to absorb credit losses and sustain growth. The Vaidyanathan package provided some capital infusion for the short-term cooperative credit structure, but structural capital deficiency remains unresolved for many institutions.

4.3 Asset Quality

Non-performing assets represent perhaps the most acute symptom of financial distress in the cooperative banking sector. Gross NPA ratios for several categories of cooperative banks significantly exceed those of scheduled commercial banks. In the case of DCCBs, weak credit appraisal, inadequate collateral documentation, political loan waivers, and borrower wilful defaults have historically contributed to elevated NPA levels.

Table 2 provides a comparative snapshot of NPA trends across selected categories of cooperative institutions:

Category	Gross NPA Ratio (%)	Net NPA Ratio (%)	Benchmark (SCBs)
StCBs	~8–12%	~5–8%	<5%
DCCBs	~12–20%	~8–14%	<5%
UCBs (Scheduled)	~7–10%	~4–7%	<5%
UCBs (Non-Scheduled)	~10–15%	~6–10%	<5%

Table 2: Indicative NPA Ratios — Cooperative Banks vs. Scheduled Commercial Banks (Approximate, Recent Years)

4.4 Profitability

Profitability indicators for cooperative banks present a mixed picture. While a subset of well-managed UCBs and StCBs report positive returns on assets (RoA) and returns on equity (RoE), a significant proportion of DCCBs and PACS operate at a loss. High operating costs, elevated provisioning requirements, low fee income, and thin net interest margins collectively suppress profitability. The absence of scale economies and the limited scope for cross-selling financial products further impede the earnings potential of smaller cooperative entities.

V. PRINCIPAL CHALLENGES CONFRONTING THE COOPERATIVE BANKING SECTOR

5.1 Governance Deficits

Governance failure is widely regarded as the most fundamental and pervasive challenge facing cooperative banks. The democratic governance model—wherein elected boards drawn from the membership govern the institution—has in practice frequently given rise to managerial inexpertitude, factional politics, and susceptibility to political influence. Board members often lack the requisite financial literacy and banking expertise to discharge their fiduciary responsibilities effectively. The absence of transparent selection criteria for management, combined with weak accountability mechanisms, creates fertile conditions for insider lending, loan evergreening, and misappropriation.

5.2 Regulatory Fragmentation

Prior to the 2020 amendments, the cooperative banking sector was governed by a bifurcated regulatory structure: banking operations were regulated by the RBI under the Banking Regulation

Act, 1949, while institutional matters—including management, elections, audit, and liquidation—were governed by state-specific cooperative societies laws. This division of regulatory jurisdiction produced supervisory gaps, enforcement difficulties, and inconsistent standards across states. In particular, the RBI's limited powers over cooperative banks in areas such as supersession of boards and appointment of administrators constrained its crisis-management capabilities.

5.3 Capital Inadequacy and Viability Concerns

As noted in the preceding section, widespread capital inadequacy undermines the solvency buffers of cooperative banks and limits their capacity for balance-sheet expansion. The limited avenues available to cooperative institutions for raising tier-1 capital—owing to restrictions on transferability of shares and the prohibition on listing—place them at a structural disadvantage relative to joint-stock commercial banks. Recapitalisation from government sources is both fiscally constrained and potentially distortionary, potentially inducing moral hazard by attenuating market discipline.

5.4 Technology Gap

The digital transformation of banking has bypassed large segments of the cooperative banking sector. Many DCCBs and PACS continue to operate on legacy systems or entirely manual processes, impeding transaction efficiency, data integrity, and regulatory reporting. The technological deficit is particularly pronounced at the PACS level, where basic core-banking connectivity is often absent. This gap not only disadvantages cooperative banks competitively but also limits their capacity to leverage digital channels for financial inclusion objectives.

5.5 Operational Inefficiencies and Overstaffing

High staff-to-business ratios, archaic work practices, and limited process automation combine to produce elevated cost-to-income ratios in many cooperative banks. Voluntary retirement schemes have been implemented in some institutions, but structural cost rationalisation remains incomplete. The political sensitivities associated with workforce reduction in cooperative institutions—which often function as significant local employers—further complicate efficiency-enhancement efforts.

VI. REGULATORY REFORMS AND POLICY INTERVENTIONS

6.1 Banking Regulation (Amendment) Act, 2020

The enactment of the Banking Regulation (Amendment) Act, 2020 marked the most consequential regulatory development for the cooperative banking sector in recent decades. The legislation substantially extended the RBI's supervisory perimeter over cooperative banks, conferring upon the central bank expanded powers across the following domains:

1. Supersession of boards and appointment of administrators in cases of financial distress or governance failure, without necessitating prior state government approval.

2. Reconstruction or amalgamation of cooperative banks to manage resolution of failing institutions.
3. Audit oversight, enabling the RBI to direct special audits of cooperative banks.
4. Regulatory approval requirements for senior management appointments in Tier-3 and Tier-4 UCBs.
5. Restrictions on loans to directors and related parties, addressing a key channel of insider abuse.

Multistate cooperative banks were already within the RBI's purview; the 2020 amendments extended equivalent oversight to state-level UCBs, closing a significant regulatory lacuna. Importantly, the amendments explicitly preserved the democratic character of cooperative institutions by clarifying that the RBI's enhanced powers pertain to banking regulation and supervision rather than the management of cooperative societies per se.

6.2 RBI's Revised Regulatory Framework for UCBs (2022)
Building on the 2020 legislative foundation, the RBI released a revised regulatory framework for UCBs in 2022, introducing a four-tier classification system based on deposit size. This tiered approach calibrated regulatory requirements—including capital adequacy norms, board governance standards, and exposure limits—proportionally to institutional scale, thereby reducing compliance burden on smaller UCBs while imposing appropriately rigorous standards on systemically significant ones.

6.3 NABARD Initiatives for the Short-Term Cooperative Credit Structure
NABARD continues to serve as the principal development finance institution for the RCCS, providing refinancing support, capacity-building programmes, and technical assistance to StCBs, DCCBs, and PACS. The Cooperative Banks Computerisation and e-linkage (CBCEL) initiative has sought to expand core-banking connectivity across the cooperative credit tier. Additionally, NABARD's support for the computerisation of PACS represents a significant step towards integrating the grass-roots tier into the formal digital financial infrastructure.

6.4 Vaidyanathan Revival Package—Assessment
The Vaidyanathan Committee revival package, implemented from 2006–07, sought to rehabilitate the short-term cooperative credit structure through a combination of government-funded capital infusion, institutional reforms, and legal amendments. States that signed Memoranda of Understanding (MoUs) with the Central Government and NABARD received capital support conditional on the implementation of governance and legislative reforms. While the package produced measurable improvements in the capitalisation of StCBs in participating states, its impact at the DCCB and PACS levels was uneven, and structural governance weaknesses persisted in many institutions.

VII. CONCLUSIONS AND POLICY RECOMMENDATIONS

The foregoing analysis reveals a sector of considerable developmental significance but persistent structural fragility. Cooperative banks in India remain indispensable to the financial inclusion agenda, particularly in rural and semi-urban geographies where commercial bank penetration is limited. At the same time, the accumulated evidence of governance failures, capital inadequacy, asset quality deterioration, and technological backwardness demands urgent and sustained policy attention.

On the basis of the foregoing analysis, the following policy recommendations are advanced:

1. Governance Professionalisation: Mandating minimum educational qualifications and banking expertise for board members of UCBs and StCBs, while strengthening the role of professional independent directors on cooperative bank boards.
2. Capital Augmentation Mechanisms: Exploring innovative mechanisms for cooperative capital raising—such as the issuance of perpetual debt instruments, subordinated bonds, and differential voting share structures—consistent with the cooperative character of institutions.
3. Technology Adoption: Accelerating the roll-out of core-banking solutions across all DCCBs and PACS, leveraging the Jan Dhan–Aadhaar–Mobile (JAM) infrastructure to expand digital service delivery at the grass-roots tier.
4. Proportional Regulation: Retaining the RBI's tiered regulatory framework for UCBs and extending a similar calibrated approach to the RCCS, ensuring that regulatory burden is commensurate with institutional size and systemic significance.
5. Resolution Framework: Developing a specialised and expeditious resolution framework for distressed cooperative banks, drawing on international best practices in cooperative bank restructuring, to minimise depositor losses and systemic contagion risks.
6. Strengthening NABARD's Oversight: Empowering NABARD with more explicit supervisory and enforcement authority over DCCBs and PACS, complementing the RBI's supervisory role over StCBs.
7. Awareness and Financial Literacy: Investing in member education and financial literacy programmes to enable cooperative members to exercise meaningful governance oversight, reinforcing the democratic accountability that is central to the cooperative form.

In sum, the cooperative banking sector stands at an inflection point. The legislative and regulatory reforms of recent years have laid a more robust supervisory foundation. Translating these regulatory advances into tangible improvements in governance, financial health, and member welfare will require sustained institutional effort, adequate resource commitment, and a coherent long-term vision for the sector's role within India's evolving financial landscape.

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