



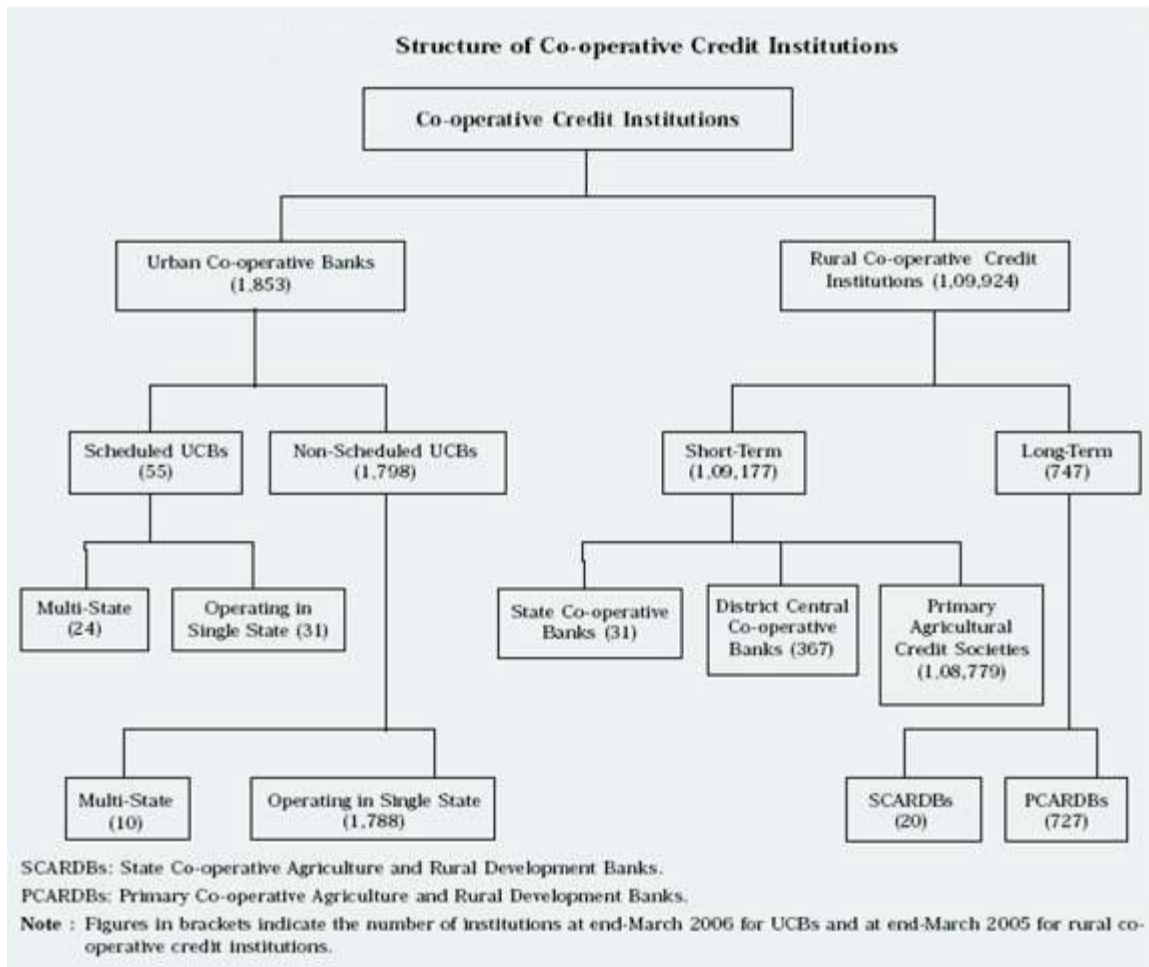
Rising NPAs in Kerala cooperative banking sector call for tighter regulation, and less political interference

Co-operative banks in Kerala have reported high levels of non-performing assets at the end of December 2021. Figures released by the State Level Bankers' Committee (SLBC) suggest that as much as 88 per cent of advances of the Kerala State Cooperative Agricultural and Rural Development Bank Ltd were NPAs, These numbers are disturbing.

Reasons:

1. The agriculture sector in Kerala, reeling under consecutive years of devastating floods, reported negative growth in 2019-20 and '20-21. This and the pandemic may have contributed to the rising NPAs.
2. But two other factors are also key: One, political control and patronage; and two, the absence of regulation. In fact, both are connected.
3. Much of the activity of the Kerala State Cooperative Agricultural and Rural Development Bank Ltd, with primary agricultural credit societies as basic units, escape the oversight of regulators such as the RBI and the income tax department.
4. Light regulation and lax supervision have benefited various stakeholders, including customers, promoters and underwriters, in this case, the state government.
5. Unlike public and private sector banks, cooperative institutions have the leeway to extend credit to local consumers, often on the basis of trust or compassion or due to pressure from local social or political groups.
6. In the best scenario, they provide a protective net against usury and a compassionate helping hand in times of distress. In the worst scenario, these institutions become instruments in the hands of politicians to dispense privilege or to park black money.
7. The nexus between the promoters (the elected representatives of the cooperative) and their political patrons (parties) is not unique to Kerala: A similar pattern of political patronage is widespread in states such as Maharashtra and has often been the cause of banks going bust.

A case can be made for the state government to step in with necessary regulation and address the governance issues linked with the cooperatives.



Importance of Cooperative sector:

1. The cooperative sector has been a key player in mobilising and circulating capital in the state.
2. The agricultural credit societies and cooperative banks enjoy high levels of trust among the people.
3. It is essential that they build on that trust. These institutions are a lifeline for the middle and lower-middle classes and their financial health is of utmost importance to the state economy.