REPORT OF THE STUDY GROUP
ON
INTEREST RATES IN THE CO-OPERATIVE CREDIT STRUCTURE

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RESERVE BANK OF INDIA
AGRICULTURAL CREDIT DEPARTMENT
BOMBAY

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INTRODUCTION

WITH the entry of commercial banks in the field of agricultural credit on the one hand and organization of Regional Rural Banks (RRBs) on the other, to supplement the co-operative credit agencies for the provision of agricultural credit, wide variations have been observed in the interest rates charged to the ultimate borrowers on agricultural loans issued by the different agencies. Such disparities in interest rates have been found to obtain even in respect of loans to small and marginal farmers. These apart, even within the co-operative credit structure itself, interest rates have varied from state to state and some times, even from district to district within the same state. Besides, in view of the general direction of the Steering Committee on Regional Rural Banks set up by the Government of India that the lending rates to the ultimate borrowers of the RRBs should be the same as those adopted by co-operatives in the concerned areas, wide disparity exists also in the rates of interest charged by the commercial banks on the one hand and the RRBs sponsored by them on the other. Against this background, there has been a growing feeling for some time that the interest rate structure on agricultural loans to the ultimate borrower needs to be rationalized. The question assumed considerable significance in the light of the observations made by the Prime Minister in September 1977 while addressing the conference of land development banks convened to celebrate five decades of their service that rates of interest on agricultural loans were on the high side. This issue has also been coming up often for discussion at several forums such as the meetings of the Working Group on Agricultural Credit for the Sixth Plan and of the Reserve Bank's Agricultural Credit Board.

2. In the above context, the Reserve Bank of India (RBI), following a suggestion made by the Government of India in the Ministry of Agriculture and Irrigation (Department of Rural Development), appointed in October 1977, a Study Group under the chairmanship of Shri K. Madhava Das, Executive Director, RBI, to examine in detail the present interest rate structure of

co-operatives in the country. The composition of the Study Group was as follows:

1.	Shri K. Madhava Das Executive Director Reserve Bank of India Bombay	Chairman
2.	Smt S. Satyabhama Joint Secretary to the Government of India Ministry of Agriculture and Irrigation Department of Rural Development New Delhi	Member
3.	Shri Nripendra Misra, I.A.S.[1] Registrar of Co-operative Societies Government of Uttar Pradesh Lucknow	Member
4.	Shri G. Kumaraswamy Reddy, I.A.S. Registrar of Co-operative Societies Government of Andhra Pradesh Hyderabad	Member
5.	Shri L. P. Bhargava Chairman All-India State Co-operative Banks' Federation Bombay	Member
6.	Dr W. C. Shrishrimal Managing Director Maharashtra State Co-operative Bank Bombay	Member
7.	Shri J. Sengupta Managing Director West Bengal State Co-operative Bank Calcutta	Member

[1] Shri Misra has since been transferred to the Finance Department of the Government of Uttar Pradesh as Joint Secretary.

8. Dr M. V. Hate[2]
Chief Officer
Agricultural Credit Department
Reserve Bank of India
Bombay — Member

9. Dr H. B. Shivamaggi[3]
Adviser
Economic Department
Reserve Bank of India
Bombay — Member

10. Shri C. V. Nair
Joint Chief Officer
Agricultural Credit Department
Reserve Bank of India
Bombay — Member-Secretary

TERMS OF REFERENCE

3. The terms of reference of the Study Group were as follows:

(a) to review the present structure of interest rates obtaining in the co-operative banks dealing with short-term and medium-term credit at all levels;

(b) to suggest appropriate margins which may be retained at various levels of the short-term and medium-term co-operative credit structure and the rates of interest to be charged to the ultimate borrowers after taking into account factors such as the cost of raising resources, cost of administration, supervision and other services;

(c) to determine whether a differential rate can be charged in favour of small farmers;

(d) to examine any other issue incidental to the above terms of reference.

[2] Dr Hate has since taken over as Chief Accountant of the Reserve Bank of India, Bombay.

[3] The second and third meetings of the Study Group were attended by Dr S. S. Madalgi, Director, Division of Rural Economics, Economic Department, Reserve Bank of India, Bombay, on behalf of Dr Shivamaggi who has taken up an assignment abroad.

Meetings of the Study Group

4. The Study Group held three meetings, all in Bombay. The first meeting was held on 12 January 1978. This was soon after the RBI, through its circular letter CPC. No. BC. 27/279A-77 dated 12 December 1977, offered to commercial banks refinance at the Bank Rate up to 50 per cent of their total advances to small farmers defined as those availing themselves of loans in each case not exceeding Rs 2500 whether for short, medium, or long-term purposes and also advised commercial banks to charge a rate of interest not exceeding 11 per cent per annum to such borrowers. In the light of this development, there was a consensus at this meeting that while necessary data could be collected and some field studies undertaken to examine how the existing rates of interest, both on the short-term and medium-term advances could be brought down, a satisfactory solution of the issues referred to the Study Group was not possible unless in the first instance the RBI agreed to step up the concessional rate of interest on the refinance made available by it to state co-operative banks (SCBs) and the state co-operative banks were also exempted from the tax on interest earned, introduced by the Government of India in 1974.

5. Subsequently, in terms of the Union Budget proposals for 1978-9 announced on 28 February 1978, the interest tax itself was discontinued with effect from 1 March 1978. Simultaneously, the RBI also announced a reduction in the rates of interest paid on deposits by banks, including co-operative banks. Following this, and after his discussions with the chief executives of the SCBs held on 6 March 1978, the Governor, RBI, announced a reduction in the Reserve Bank's refinance rate to SCBs for short-term agricultural loans from 2 per cent to 3 per cent below the Bank Rate and in the case of medium-term agricultural purposes from 1½ per cent to 2½ per cent below the Bank Rate. Also, the RBI, in part modification of its earlier circular letter CPC. No. BC. 27/279A-77 dated 12 December 1977 advised commercial banks, through its circular letter DBOD. BP. BC. 67/C-453(K) GEN-78 dated 17 May 1978, that only such of the advances for amounts up to Rs 2500 which were to small farmers made in each case at a rate not exceed-

ing 11 per cent, will come under the purview of the refinance scheme.

6. The above developments have, in effect, narrowed down the scope of enquiry by the Study Group to examining, on the basis of available data and studies undertaken, how best the benefit of the concessions referred to in paragraph 5 above, could be passed on to the ultimate borrowers, more particularly the small and economically weak farmers and some parity brought about in the interest structure of co-operative banks and commercial banks. These and other related issues were discussed at the second meeting of the Study Group held on 27 April 1978 on the basis of a discussion paper prepared by the Secretariat of the Study Group. The third and final meeting of the Group was held on 2 June 1978 in Bombay to consider the draft report. The Group's Report was finalized and signed on the same day i.e., 2 June 1978 in Bombay.

Collection of Data and Field Studies

7. Meanwhile certain additional data which were considered necessary were collected from all the SCBs and a representative sample of 70 central co-operative banks (ccbs) in different states.

8. Due to the limited time available, only two field studies could be undertaken, one in Tamil Nadu which covered the Tamil Nadu State Co-operative Bank, the Kancheepuram Central Co-operative Bank and four primary agricultural credit societies (pacs) and the other in Kolhapur District of Maharashtra covering the Kolhapur District Central Co-operative Bank and a few societies in its area of operation. The study in Maharashtra was undertaken specifically in regard to the differential interest rate scheme for economically weak farmers introduced by the SCB.

Pattern of the Report

9. Our Report is divided into five chapters, followed by a summary of recommendations as under:

Chapter 1	Interest Rate Structure of Co-operative Banks
Chapter 2	Some Special Problems
Chapter 3	Appropriate Interest Margins
Chapter 4	Lending Rates of Commercial Banks on Agricultural Advances
Chapter 5	Lending Rates on Agricultural Advances at the Primary Level and Related Issues

Acknowledgements

10. We are extremely grateful to the SCBs and ccbs concerned for their co-operation in furnishing the required data and their assistance to the Officers of the Reserve Bank who undertook the field studies. We are also equally grateful to the staff of the RBI's Agricultural Credit Department consisting of Shri R. Sundaravaradan, Deputy Chief Officer, Shri B. K. Godbole, Assistant Chief Officer and Smt S. Aiyer, Rural Credit Officer who were actively associated with the work of the Group. They have put in hard work of good quality. Finally, the rest of the members should like to record our appreciation of the excellent contribution made by our Member-Secretary, Shri C. V. Nair, to the preparation of our Report.

CHAPTER 1

INTEREST RATE STRUCTURE OF CO-OPERATIVE BANKS

SINCE 1942, when the Reserve Bank introduced the scheme of providing refinance at concessional rates of interest to the SCBs, the objective has been to enable the co-operative credit structure to provide loans to cultivators at reasonable rates of interest. The RBI has, however, refrained from giving any specific direction either regarding the interest that should be charged to the ultimate borrowers or placing any ceiling on the margins at different levels of the co-operative credit structure i.e., from the SCB to the ultimate borrower, although following a recommendation of its Standing Advisory Committee on Agaricultural Credit (now re-constituted as the Agricultural Credit Board) made in 1956, the RBI had advised that the SCBs, ccbs and pacs should, irrespective of the source of funds, charge to their borrowers a 'pooled' rate i.e., the same rate of interest, on loans for agricultural operations. It was, however, left to the concerned state governments and co-operative banks to ensure that the objective of charging a reasonably low rate of interest to the cultivator was reached as early as possible.

Factors determining rates of interest

2. The extent of interest margin retained at each of the three levels of the co-operative credit system, viz., the SCBs, ccbs and pacs, depends on a variety of factors. The more important of these are: (i) the size of owned funds; (ii) the cost of raising resources by way of deposits and borrowings which in turn would depend on the level of dependence on refinance at concessional rates from the higher financing agency and the composition of deposits; (iii) minimum margins necessary to meet the administrative costs and the costs of raising resources on the one hand and of servicing the loans on the other; (iv) the proportion of agricultural advances to the total advances; (v) the extent of government subsidies or assistance, if any; and (vi)

minimum net profit necessary for the institution to pay a reasonable level of dividend and build up reserves. Since the conditions under which the co-operative credit institutions operate differ widely not only from state to state but also from area to area within a state, the impact of each of the above factors varies widely in determining interest rates at each level and hence the interest charged to the ultimate borrower also. This, mainly, is the reason for the wide diversity in the interest rate structure of co-operatives obtaining so far in various states in the country and why it has not been possible to have uniform interest rates or margins.

State-wise position

3. In the wake of the acceptance of the multi-agency approach in the sphere of agricultural credit since the early seventies and the introduction of a differential rate for weaker sections of the rural community by commercial banks since 1972, the question of lowering the rate of interest on agricultural loans to the ultimate borrower and adopting a differential rate for the economically weak farmer, to the extent feasible, engaged the special attention of the authorities connected with co-operative credit. In some states, certain positive steps were taken in this direction. Thus, while in Gujarat, Karnataka, Maharashtra, Madhya Pradesh, Punjab and Rajasthan, differential interest rate schemes were introduced with or without government assistance, the rate of interest generally on all short-term agricultural loans at the primary level was reduced in several states. For instance, it was lowered by about 1.25 per cent to 2 per cent with effect from 1 November 1977 in Andhra Pradesh leading to a reduction in the ultimate borrower's rate to 12.50 per cent per annum throughout the state from the earlier rate ranging from 13.75 per cent to 14.50 per cent. In Uttar Pradesh, the rate to the ultimate borrower on short-term loans was similarly brought down to 13 per cent per annum in 1976-7. These developments do point to the fact that-apart from the benefit accruing from the recent concessions available with effect from 1 March 1978 relating to lowering of the RBI's refinance rate, exemption from interest tax and the reduction in deposit rates-the co-operative credit structure in other states also may be in a posi-

tion to absorb, in varying degrees, some reduction in the rate of interest to the ultimate borrower.

4. The state-wise position as at the end of December 1977 of the rates of interest on short-term and medium-term agricultural loans, including conversion loans, charged by the co-operative credit institutions at the different levels, is given in Annexure 1. This is in relation to the current costs and existing pay structure of the personnel engaged by co-operative credit institutions. Further, the same includes the burden of interest tax, following the Interest Tax Act of 1974, which was passed on by the scheduled state co-operative banks, down the line, in most cases, to the ultimate borrowers. The tax on interest earned on loans and advances by the scheduled banks has since been withdrawn with effect from 1 March 1978. It will, therefore, be useful to find out the effective rate of interest on short-term and medium-term agricultural loans charged to the ultimate borrower by the co-operatives, exclusive of the burden of interest tax. The position in this regard is shown in Annexure 2 and is summarised in Table 1 on page 10. The following important points emerge from the data available in Annexure 1 read with Table 1:

(i) If the burden of interest tax is ignored, the rate of interest on short-term agricultural loans charged to the ultimate borrower is below 12.50 per cent in a majority of the States/Union Territories. Interest at a rate higher than 12.50 per cent and rising up to 14 per cent is charged in areas where the co-operative credit structure is relatively under-developed.

(ii) In Assam, Gujarat, Haryana, Nagaland, Punjab, Pondicherry, Rajasthan and Uttar Pradesh, almost a uniform rate of interest is charged to the ultimate borrowers on short-term as well as medium-term agricultural loans. In the remaining States/ Union Territories, barring a few exceptions, the rate of interest in respect of medium-term loans is higher by about 0.50 per cent than on short-term agricultural loans. It is reported that this position exists because the refinance from the RBI for medium-term agricultural purposes is costlier by 0.50 per cent than the refinance from the Bank for financing seasonal agricultural operations. But the rate of interest on medium-term loans

TABLE 1

Rates of Interest on Short-term and Medium-term Agricultural Loans charged to the ultimate Borrower by Co-operatives in various States/Union Territories

Rates of Interest (exclusive of the burden of Interest Tax shown in cols. 2b and 3b of Annexure 2)	Names of States/Union Territories	
	Short-term Loans	Medium-term Loans
(1)	(2)	(3)
14.50	—	Tripura@
14.00	Assam@ Nagaland@	Assam@ Nagaland@
13.50 and above but below 14.00	—	Orissa (13.87)
13.00 and above but below 13.50	Haryana (13.44), Orissa (13.39) Tripura@ (13.00)	Andhra Pradesh (13.10) Bihar (13.10) Haryana (13.37) Madhya Pradesh (13.40) Tamil Nadu (13.17) West Bengal (13.40) Goa@ (13.00)
12.50 and above but below 13.00	Bihar (12.64) Madhya Pradesh (12.94)	Maharashtra (12.92)
12.00 and above but below 12.50	Gujarat (12.00) Maharashtra (12.44) Rajasthan (12.37) Tamil Nadu (12.03) Uttar Pradesh (12.43) West Bengal (12.44) Pondicherry@ (12.00)	Gujarat (12.00) Karnataka (12.40) Kerala (12.40) Rajasthan (12.34) Uttar Pradesh (12.40) Pondicherry@ (12.00)
11.50 and above but below 12.00	Andhra Pradesh (11.92) Karnataka (11.94) Kerala (11.94) Punjab (11.92)	Punjab (11.89)
11.00	Goa@	

Note: (1) @indicates states/union territories with a two-tier structure.

(2) In Gujarat, the burden of interest tax was borne by the ccbs which were required to pay for the purpose additional interest at 0.50 per cent to the SCB.

(3) In West Bengal, the burden of interest tax was borne by the SCB and was not passed on to the lower tiers or the ultimate borrowers.

(even excluding the burden of interest tax) is higher by about 1 per cent or more (as compared with short-term loans) in Andhra Pradesh (1.18 per cent), Goa (2 per cent), Tamil Nadu (1.14 per cent), Tripura (1.50 per cent) and West Bengal (0.94 per cent).

(iii) In some districts e.g., Kutch, Panchmahals and Surat in Gujarat; Mysore and Bijapur in Karnataka; Raipur in Madhya Pradesh; Batala in Punjab (on medium-term loans only), Gorakhpur in Uttar Pradesh and Malda in West Bengal, the rates of interest charged to the ultimate borrower are higher than those obtaining elsewhere in the respective states. This is largely due to the relatively higher margins retained at the level of the ccbs. In contrast, in the Kurukshetra District of Haryana and Ahmednagar District of Maharashtra due to smaller margins retained at their level, the ultimate borrowers paid interest at a lower rate than elsewhere in the respective states.

(iv) Interest rates charged to the ultimate borrowers are high in some instances due to the retention of higher margins at both the levels of ccbs and pacs or at the level of pacs. For instance, in Kutch District of Gujarat, higher interest margins are available both to the ccbs and pacs. In Bijapur District of Karnataka and Raipur District of Madhya Pradesh, however, higher interest rates prevailed because of the correspondingly higher interest margin retained by the pacs.

(v) The higher rates of interest charged in some states or districts in a state have resulted from the relatively higher interest margin in relation to the refinance rate retained at the level of one or more tiers of the co-operative credit structure. Broadly, three reasons can be attributed to this position, viz., (a) financial weakness of the institutions; (b) their inability to avail themselves of the benefit of concessional refinance from RBI; and (c) excessive burden on the institutions for meeting the cost of personnel from the cadre of key officers for ccbs or the cadre of secretaries of pacs provided to them.

(vi) The existence of a two-tier structure of co-operative credit has not necessarily helped in lowering of the rate of interest to the ultimate borrower as may be seen from the position obtaining in Assam, Nagaland and Tripura wherein the highest rate of interest is charged.

Existing interest margins

5. We may next turn to an examination of the interest margins (over the refinance rate and, in relation, as stated earlier, to the existing costs and pay structure) retained at each tier of the co-operative credit system in various states. The state-wise position in this regard as at the end of December 1977 is given in Annexure 3. The position in regard to the interest margins (exclusive of the burden of interest tax) retained at the level of SCBs is summarised in Table 2 on page 13. Among the non-scheduled SCBs serving as apex banks for the two-tier structure in the respective States/Union Territories, the highest interest margin of 4 per cent over the RBI's refinance rate is being retained by some SCBs in the north-eastern region as against the lowest margin of 2 per cent on short-term loans retained by the Goa SCB and of 2.50 per cent, both on short-term and medium-term lendings, retained by the Pondicherry SCB. In so far as the scheduled SCBs are concerned, if the burden of interest tax is ignored, almost all the banks serving major states in the country are retaining an interest margin of about 0.50 per cent or less over the RBI's refinance rate on short-term loans with the exception of Rajasthan SCB (1.37 per cent), Bihar SCB and Orissa SCB (1.14 per cent each) and Punjab SCB (0.72 per cent). However, among the scheduled SCBs, some banks like Madhya Pradesh and Tamil Nadu charge an extra interest of 1 per cent or 2 per cent per annum (equivalent to 0.93 per cent or 1.86 per cent exclusive of the burden of interest tax) on the short-term lendings to ccbs out of their internal resources.

6. In so far as medium-term agricultural loans including conversion loans are concerned, the scheduled SCBs of eight states, viz., Bihar, Gujarat, Karnataka, Kerala, Madhya Pradesh, Rajasthan, Uttar Pradesh and West Bengal were retaining almost the same interest margin over the relevant refinance rate of the RBI

TABLE 2

Interest Margin at the Apex Level

Interest Margin (exclusive of the burden of Interest Tax) over the RBI's Refinance Rate (per cent)	Names of SCBs	
	Short-term Loans	Medium-term Loans
(1)	(2)	(3)
4.00	Meghalaya[1] Nagaland	Meghalaya[1] Nagaland[1] Tripura[1]
3.50	—	Goa[1]
3.00	Assam[1] Himachal Pradesh[1] Tripura[1]	Himachal Pradesh[1]
2.50	Pondicherry[1]	Assam[1] Pondicherry[1]
1.50 to 2.00	Goa[1] (2.00)	—
1.00 to 1.50	Bihar (1.14) Orissa (1.14) Rajasthan (1.37)	Andhra Pradesh (1.10) Bihar (1.10) Rajasthan (1.24)
Above 0.50 and up to 1.00	Punjab (0.72) Tamil Nadu (0.53) Uttar Pradesh (0.53)	Haryana (0.87) Orissa (0.87) Punjab (0.59) Tamil Nadu (0.82)
0.50 or less	Andhra Pradesh (0.44) Gujarat (0.50) Haryana (0.44) Karnataka (0.44) Kerala (0.44) Madhya Pradesh (0.44) Maharashtra (0.44) West Bengal (0.50)	Gujarat (0.50) Karnataka (0.40) Kerala (0.40) Madhya Pradesh (0.40) Maharashtra (0.17) Uttar Pradesh (0.50) West Bengal (0.50)

[1] Non-scheduled SCBs exempt from Interest Tax Act 1974 serving as apex bodies of two-tier structure.

as in the case of their short-term lendings to the ccbs. In three other states, the interest margin (exclusive of the burden of interest tax) retained at the level of the SCB in respect of medium-term loans is in fact lower than in the case of short-term loans. These states are Maharashtra and Orissa (0.27 per cent each) and Punjab (0.13 per cent). But, on the other hand, a higher interest margin on medium-term loans *vis-a-vis* the short-term loans is being retained by three other SCBs, viz., Andhra Pradesh (0.66 per cent), Haryana (0.43 per cent) and Tamil Nadu (0.29 per cent).

7. The state-wise position of interest margins generally retained (i.e. barring exceptional cases of higher or lower interest margins) at the intermediate level i.e., at the level of ccbs, in states wherein the three-tier structure operates is given in Table 3 on page 15. Broadly, the interest margins retained at the level of ccbs over the respective apex bank's refinance rate ranged between 2 per cent and 2.50 per cent in the case of both short-term and medium-term loans. A slightly lower interest margin than 2 per cent is being retained by the ccbs in Punjab, Rajasthan and Uttar Pradesh in respect of medium-term loans.

8. It is only in Haryana that the ccbs are retaining a high margin of 3.25 per cent and 3 per cent on short-term and medium-term loans respectively. However, it is learnt that higher margins are necessary for the ccbs in the state as they are called upon to meet the deficits arising in maintaining a cadre of trained managers for the reorganized pacs in the state (known as mini banks). In Haryana, the pacs were reorganized in 1975-6 into 2054 mini banks and each mini bank has been provided with a trained manager whose annual salary, etc. works out to Rs 6000. Each mini bank is required to contribute at the rate of 1.5 per cent of the average loans outstanding towards the cost of the manager provided to it and in case of any shortfall, the deficit is required to be made good by the concerned ccb. The deficit arises if the average loan business of the mini bank concerned is less than Rs 3 lakhs. In Haryana, about two-thirds of the 2054 mini banks had an average loan business of less than Rs 3 lakhs each in 1976-7. As a result, eleven out of the

TABLE 3

Interest Margins at the Intermediate Level

Interest Margins over the concerned SCB's Refinance Rate (per cent)	Names of States	
	Short-term Loans	Medium-term Loans
(1)	(2)	(3)
3.25	Haryana	—
3.00	Gujarat[1]	Haryana West Bengal
2.50	Andhra Pradesh[2] Madhya Pradesh West Bengal	Andhra Pradesh[2] Madhya Pradesh Orissa
Over 2.00 and up to 2.40	Karnataka (2.25) Orissa (2.25) Punjab (2.20) Uttar Pradesh (2.40)	Gujarat (2.25) Karnataka (2.25) Maharashtra (2.25) Tamil Nadu (2.35)
2.00	Bihar Kerala Maharashtra Tamil Nadu	Bihar Kerala
Below 2.00	—	Punjab (1.80) Rajasthan (1.56) Uttar Pradesh (1.90)

[1] Inclusive of the burden of additional interest which was collected from the ccbs in Gujarat towards interest tax liability of the SCB and, therefore, the net margin would work out to around 2.50 per cent.

[2] The SCB in Andhra Pradesh made an additional recovery of 0.25 per cent from the ccbs towards cadre fund and, therefore, the effective interest margin for the ccbs worked out to 2.25 per cent.

twelve ccbs in the state had to meet an aggregate deficit of Rs 30.72 lakhs for the year 1976-7 for supporting the cadre of managers for the reorganized pacs or mini banks. It is only the ccb of Kurukshetra District which had not to meet any deficit and it is only in this District that the ultimate borrower is charged a lower rate of interest by 0.75 per cent than elsewhere in the state. In fact, in all other districts in Haryana, the deficit arising from the constitution of district-wise cadres of managers for mini banks is being passed on to the ultimate borrowers in the form of higher rate of interest.

9. The position of the margins retained at the level of pacs over the lending rates of the respective ccbs/SCBs is given in Table 4.

TABLE 4
Interest Margins retained at the Primary Level

Interest Margin over the Lending Rates of the respective ccbs/ SCBs (per cent)	Names of State/Union Territory	
	Short-term Loans	Medium-term Loans
(1)	(2)	(3)
4.00	Assam[1]	Assam[1]
3.00	Madhya Pradesh	Madhya Pradesh
	Maharashtra	Maharashtra
	Orissa	Orissa
	Nagaland[1]	Meghalaya[1]
	Tripura[1]	Tripura[1]
2.75	Haryana	—
2.50	Bihar	Bihar
	Himachal Pradesh[1]	Himachal Pradesh[1]
	Uttar Pradesh	Kerala
	Tamil Nadu	Tamil Nadu
	West Bengal	Uttar Pradesh
	Meghalaya[1]	West Bengal
	Pondicherry[1]	Nagaland[1]
2.25	Karnataka	Gujarat
		Karnataka
2.00	Andhra Pradesh	Andhra Pradesh
	Gujarat	Haryana
	Kerala	Punjab
	Punjab	Rajasthan
	Rajasthan	Goa[1]
	Goa[1]	Pondicherry[1]

[1] States/Union Territories having a two-tier credit structure.

The margins retained at the primary level ranged between 2 per cent and 3 per cent with the exception of Assam wherein the highest margin of 4 per cent is available to the pacs. The general trend indicates that the same interest margin as in the case of short-term loans is available to the pacs on medium-term loans. However, while a higher interest margin is retained at the primary level on medium-term loans in Gujarat, Kerala and Meghalaya, the position is just the opposite in Haryana, Nagaland and Pondicherry wherein the pacs retain a lower interest margin in respect of their medium-term agricultural loan business.

Overall Position

10. A comparative study of the total spread of interest margins between the rates charged to the ultimate borrower and the RBI's refinance rates obtaining in the co-operative credit structure in each State/Union Territory would be useful from the view point of the issues referred for our examination. The position at a glance in this regard (exclusive of the burden of interest tax in the case of scheduled SCBs) is indicated in Table 5 on page 18. Out of the fourteen major states served by scheduled SCBs and where the three-tier structure operates, in as many as ten states the total interest margin retained on short-term loans over the RBI's refinance rate by the co-operative credit system exclusive of the burden of interest tax is (i.e. before realignment of interest rates structure yet to be done in most of these states) 5.50 per cent or below. One of these states is West Bengal wherein the overall interest margin retained by the credit structure, though at 6.00 per cent, can be brought down to 5.50 per cent following the withdrawal of the interest tax. Another state included in the above ten states is Rajasthan where the apex bank itself retains a net interest margin of 1.37 per cent on short-term loans as against 2 per cent each retained at the level of the ccbs and pacs in the state. The remaining four states are Bihar and Orissa wherein the net interest margin retained at the apex level is relatively higher at 1.14 per cent each, Haryana wherein the margin retained at the intermediate level is high at 3.25 per cent for the reason indicated earlier in para-

TABLE 5

Total Interest Margins retained by the Co-operative Credit Structure

Total Interest Margin over the RBI's Refinance	Names of State/Union Territory	
	Short-term Loans	Medium-term Loans
7.00	Assam Nagaland	Meghalaya Tripura
6.50	Meghalaya	Assam Nagaland West Bengal
6.00 to 6.50	Haryana (6.44) Orissa (6.39) West Bengal (6.00)	Orissa (6.37)
5.50 to 6.00	Bihar (5.64) Madhya Pradesh (5.94)	Andhra Pradesh (5.60) Bihar (5.60) Goa (5.50) Haryana (5.87) Madhya Pradesh (5.90) Tamil Nadu (5.67) Pondicherry (5.50)
5.00 to 5.50	Gujarat (5.00) Maharashtra (5.44) Rajasthan (5.37) Tamil Nadu (5.03) Uttar Pradesh (5.43) Pondicherry (5.00)	Maharashtra (5.42)
Below 5.00	Andhra Pradesh (4.94) Karnataka (4.94) Kerala (4.94) Punjab (4.92) Goa (4.00)	Gujarat (4.50) Karnataka (4.90) Kerala (4.90) Punjab (4.40) Rajasthan (4.80) Uttar Pradesh (4.90) Pondicherry (4.50)

graph 8 and Madhya Pradesh wherein the lower two-tiers comprising the ccbs and pacs together retain a higher interest margin of 5.50 per cent. While in the case of Bihar and Orissa, the relatively higher interest margin retained at the apex level may be partly justified inasmuch as the SCBs in these states are called upon to absorb the shocks originating from the weaknesses of the ccbs and the pacs in the respective states, the higher interest margins retained by the ccbs in Haryana and by the ccbs and the pacs in Madhya Pradesh are for reasons such as the institutions being called upon to bear more than their normal share of the burden of the cost of the key personnel or the secretaries of pacs.

11. In five of the above fourteen major states, viz., Gujarat, Haryana, Punjab, Rajasthan and Uttar Pradesh, the net interest margin on medium-term agricultural loans retained by the credit structure as a whole was lower by about 0.50 per cent *vis-a-vis* the net interest margin available on short-term loans. In these states, therefore, the higher rate of interest (by 0.50 per cent) charged by the RBI on its refinance for medium-term agricultural purposes including conversion loans is absorbed by the co-operative credit system, the rate of interest paid by the ultimate borrower remaining the same irrespective of whether the loan is short-term or medium-term. In six other states, viz., Bihar, Karnataka, Kerala, Madhya Pradesh, Maharashtra and Orissa, the co-operative credit structure is retaining the same interest margin in respect of medium-term loans as on short-term loans with the result that the ultimate borrower in these states paid additional interest of 0.50 per cent on medium-term loans *vis-a-vis* short-term loans. But in the remaining three states, viz., Andhra Pradesh, Tamil Nadu and West Bengal, the difference between the rates of interest on medium-term loans and short-term loans for the ultimate borrower is by about 1.00 per cent or more because of the higher interest margin on medium-term loans retained by the co-operative credit structure in these states. It may be pointed out in this context that when co-operative credit institutions transact medium-term loan business as supplementary to their main business of purveying short-term agricultural credit, there is no reason why the co-operatives should not be in a position to ensure that a slightly lower interest margin is retained by them on medium-term agricultural loans *vis-a-vis* their loans for financing seasonal agricultural operations.

12. As for the States/Union territories wherein the two-tier credit structure operates, the net interest margin available to the

credit system exceed 5.50 per cent only in the north-eastern states, the SCBs of which, bogged down as they are with heavy overdues, did not get refinance or were able to avail themselves of only token refinance at concessional rates of interest from the RBI.

CHAPTER 2

SOME SPECIAL PROBLEMS

WHILE the brief reference to the position of interest rates and margins of the co-operative credit structure made in the previous chapter has no doubt helped to arrive at some broad conclusions, it is necessary to examine some of the major operational problems encountered at the field level before any specific suggestions or recommendations could be made about the interest spread over the refinance rate which should be available to each tier of the co-operative credit structure particularly in the context of the withdrawal of the interest tax and reduction in the deposit rates made effective from 1 March 1978. Broadly, these special problems relate to the burden of additional interest on the co-operative credit institutions and the demand from their constituents for introduction of a differential rate of interest for marginal and economically weak farmers. Thus, at our instance, two field studies were undertaken to examine these problems—one in Tamil Nadu and the other in Maharashtra—by the officers of the RBI's Agricultural Credit Department.

2. The study in Tamil Nadu of the Tamil Nadu State Co-operative Bank, the Kancheepuram Central Co-operative Bank and 4 pacs affiliated to the ccb was undertaken for the purpose of assessing the burden of additional interest on the institutions functioning at different levels while that in Maharashtra (in Kolhapur District) was made with a view to making a broad assessment of the differential interest scheme for economically weak farmers introduced by the co-operatives in Maharashtra in 1975-6. A summary of the broad findings of these studies is given below.

Additional interest burden: Study in Tamil Nadu

(i) The lending rate of the Tamil Nadu State Co-operative Bank in respect of medium-term agricultural loans was higher by 0.85 per cent *vis-a-vis* the short-term loans because in addition to the higher rate by 0.50 per cent charged by the Reserve Bank of India on its refinance for this purpose, the SCB itself was retaining a higher interest margin by 0.35 per cent on medium-term loans. Besides, at the level of central banks again, a higher interest margin by 0.35 per cent was being retained on medium-term loans. As a result, the ultimate borrower had to pay interest at 13.80 per cent on medium-term loans as against 12.60 per cent on short-term loans. Even if the burden of interest tax is excluded, the rate of interest for the ultimate borrower on medium-term loans would work out to 13.17 per cent. The SCB has pointed out in this context that it was not relying on the RBI's refinance to any substantial extent for advancing medium-term loans for agricultural purposes.

(ii) While the SCB's rate of interest on short-term loans to ccbs stood at 8.10 per cent, this rate was, in actual fact, applicable to loans up to the aggregate level fixed for each ccb under the scheme of linking borrowings from RBI with efforts for deposit mobilization by the ccbs. Loans to the ccbs above the aggregate level were charged an additional interest at 1.60 per cent by the SCB so that after setting off the liability towards interest tax therefrom, it could pay the additional interest at 1.50 per cent charged by the RBI on such lendings. The ccbs were, however, not passing on the burden of additional interest to the pacs. In Tamil Nadu, the scheme of linking borrowings from the RBI with the efforts at deposit mobilization by the ccbs was applicable in the case of 15 out of 16 ccbs (i.e. all with the exception of the Madras Central Co-operative Bank). Additional interest of Rs 2.62 lakhs from 6 banks in 1975-6 and of Rs 0.62 lakh again from 6 ccbs in 1976-7 was collected and passed on to the RBI under this scheme.

(iii) Besides, the SCB was also charging additional interest of 2 per cent on that portion of short-term borrowings of the ccbs which was not backed by non-overdue cover at their level and, therefore, ineligible for reimbursement from the RBI. This burden also was being absorbed by the concerned ccbs.

(iv) Penal interest at 2 per cent over and above the normal rate on the defaulted loans was being charged by the SCB to the ccbs and at 3 per cent each by the ccbs to pacs and by the pacs to the ultimate borrower. The penal rate at all levels operated with effect from the date of default.

3. The SCB was of the view that further reduction in the interest margins (over the relevant refinance rate) available to each tier of the co-operative credit system in the state was not feasible, as already, only the bare minimum margins were being retained at each level. The higher interest margin on medium-term loans retained by the ccbs was, in the SCB's opinion, justified as these banks were absorbing the burden of additional interest on their borrowings above the aggregate level as also on that portion of borrowings not backed by adequate non-overdue cover. Both the SCB and the Kancheepuram Central Co-operative Bank stated that the policy of levying additional interest on a portion of the refinance made available if the success of a ccb in undertaking a larger lending programme was not matched by corresponding favourable results in the sphere of deposit mobilization, might in the ultimate analysis act as disincentive to increased lending unless the ccbs were allowed to transfer the burden of additional interest to the ultimate borrower. It was, therefore, urged that the failure of a ccb in reaching the needed level of deposits might not be penalised by levy of additional interest but could be a factor in fixing the bank's lending programme or in deciding upon its short-term credit limit from the RBI. Further, the feeling was that if the scheme of levying additional interest on borrowings above the aggregate level was withdrawn, it might be possible for the SCB and the ccbs in Tamil Nadu to retain the same interest margin on their short-term as well as medium-term loan business.

4. As for the penal interest on defaulted loans, it was indicated that the penal rate operated from the date of default at each level of the credit structure in the light of the general policy advice given by the RBI and, therefore, the RBI itself should reconsider its decision to charge interest at penal rate on the defaults committed by the SCBs right from the original date of advance. It may be mentioned incidentally that there has so far been no default by the SCB to the Reserve Bank.

5. In the context of the above, it was felt that the SCB's policy

of treating the defaulted loans and the loans not backed by adequate non-overdue cover on the same footing in so far as the levy of additional interest was concerned, needed reconsideration.

6. The SCB stated that the loss of income it sustained in deploying deposits raised at a relatively higher cost in short-term agricultural loans to ccbs had to be compensated by ensuring that its involvement out of its internal resources in short-term agricultural loans to ccbs did not exceed a specific level and that the balance of internal resources available for lending were gainfully employed in non-agricultural loans yielding a better return. Its capacity to do so, however, was narrow in view of the limitations to lend to other sectors in the co-operative field. The SCB, therefore, urged that it might be allowed to involve its funds up to specified levels in meeting the credit needs of certain government sponsored undertakings or allied organizations with a view to enabling it to achieve the necessary diversification in its loans and advances portfolio.

Differential rate: Study in Maharashtra

7. The salient features of the scheme of differential rate of interest for economically weak farmers introduced by co-operatives in Maharashtra in 1975-6 are given below.

(i) For the purpose of this scheme, an economically weak farmer is defined as one: (a) who cultivated only foodgrain crops; (b) whose size of holding is not more than 5 acres; and (c) whose off-farm income does not exceed Rs 2400 per annum.

(ii) All the ccbs are expected to ensure that their affiliated pacs advance short-term loans to the above category of farmers at 9 per cent per annum as against 13 per cent per annum for all other borrowers.

(iii) The pacs were not allowed any additional interest margin to sustain the above loss of income. Instead, soon after the expiry of the due dates for repayment of short-term loans, they were required to make a list of economically weak farmers covered by the scheme indicating the difference between the interest at 13 per cent which should have been normally recovered and the interest at 9 per cent which had been actually recovered.

(iv) After due scrutiny of these lists, the ccb concerned was paying subsidy to the pacs for the amount of the above difference before the close of the concerned co-operative year.

(v) The ccbs on their part were expected to settle such subsidy claims out of additional interest margin of 0.25 per cent allowed to them on short-term loans over and above the normal margin of 1.75 per cent. In short, at the time the field study was undertaken i.e. in February 1978, the ccbs were advancing short-term loans to the pacs at 10 per cent instead of the rate of 9.75 per cent which was in vogue before the introduction of the differential rate scheme for economically weak farmers and they were earmarking 1/40 part (or 2.50 per cent) of the total interest received from the pacs on agricultural loans advanced to them for meeting the subsidy claims.

(vi) If the amount of subsidy claims exceeded the amount earmarked for the purpose as indicated in item (v) above, the concerned ccb was expected to apply for reimbursement to the SCB for the excess subsidy claims settled. In order to meet such claims of the ccbs, the Maharashtra State Co-operative Bank was appropriating annually Rs 25 lakhs out of its net profit for the purpose.

(vii) The scope of the scheme was limited inasmuch as among the cultivators with holdings up to 5 acres, only those depending on dry cultivation of foodgrain crops were deemed as economically weak farmers. Among the latter, only the non-defaulters received the benefit of the differential rate.

(viii) Of the short-term agricultural loans of Rs 16.95 crores issued at the primary level in Kolhapur District in 1976-7 (from 1-4-76 to 31-3-77), those amounting to Rs 5.95 crores were issued to about 75,000 farmers with holdings of 5 acres or less. As against this, cultivators receiving the benefit of the differential rate numbered 14,319 and the loans taken by them amounted to Rs 36.93 lakhs.

8. No doubt, the scheme introduced in Maharashtra is very

limited in scope. But it is undoubtedly a welcome beginning and its scope could be widened, if necessary, after a review in due course. The procedure adopted is also simple enough and does not involve any accounting intricacies. We note that differential interest rates for economically weak farmers have been introduced somewhat on similar lines by co-operatives in few other states also viz., Gujarat, Karnataka, Madhya Pradesh, Punjab and Rajasthan.

Certain related aspects

9. One related aspect which the two field studies have brought into focus is that unlike commercial banks whose lendings at relatively lower rates of interest to priority sectors were restricted to about a third of their total advances and of this, only a third were agricultural advances, such agricultural advances constituted the largest portion ranging between 34 per cent in Maharashtra to 98 per cent in Rajasthan of the total advances of the respective SCBs. Thus, the internal capacity of the SCBs and ccbs to absorb the loss of income arising from charging lower rates of interest on agricultural loans and advances, was rather limited as compared with the commercial banks. We, therefore, feel that while deciding on the question of adoption of uniform rates of interest on agricultural lendings by all institutional sources, this basic unremunerative aspect of co-operative advances *vis-a-vis* that of the commercial banks will have to be given due weightage and compensatory measures devised so as to take care of the relatively unfavourable position in which the co-operative banks are placed. It thus seems obvious that it may not be possible for the co-operative system to maintain parity with commercial banks in so far as rates of interest on agricultural loans and advances are concerned unless refinance at concessional rate is made available by the RBI to co-operative banks at least to the extent of a certain minimum proportion of their agricultural lendings. This and other related aspects discussed earlier in this chapter have been considered by us at length later in Chapter 5 of this Report.

CHAPTER 3

APPROPRIATE INTEREST MARGINS

AGAINST the background of the structure of interest rates of co-operatives given in Chapter 1 and some special problems in this regard mentioned in Chapter 2, we propose in this Chapter to examine the subject of the appropriate interest margins on short-term and medium-term agricultural loans that should be available to each tier of the co-operative credit structure. It must, however, be mentioned at the very outset that we have, for this purpose, proceeded on the basis of: (i) the present level of functions and responsibilities entrusted to the co-operative credit institutions, particularly at the primary level, (ii) the need to ensure parity in the interest rates on agricultural loans charged by various other institutional sources and in particular in the light of the developments arising from opening of the small farmer's window of refinancing by the RBI for commercial banks; and (iii) the obligation on the part of banks to appropriately bring down the rates of interest charged to the ultimate borrower, more particularly to the small and economically weak farmers. Needless to say, the validity of the conclusions and the recommendations made by us based thereon would call for appropriate modification to the extent there are variations in the premises adopted or even a shift of emphasis in regard to any of the assumptions. Further, due weightage has also to be given to the factors which determine interest rates in the light of the existing position obtaining at each level of the co-operative credit system. This is rendered complex on account of the uneven pattern of development and financial strength of the co-operative credit institutions operating in different parts of the country. We are, therefore, left with no alternative but to proceed on the basis of the average position of the institutions at the three levels and be content with specifying an appropriate range (separately for the SCBs, ccbs and the pacs) within which interest margins might be retained by the institutions functioning at each level of the co-operative credit system.

3

Apex level

2. A statement showing the size of owned funds, their proportion to total loans and advances, the size of deposits, of total borrowings and of total loans and advances with break-up into agricultural and non-agricultural advances as on 30 June 1977 of the scheduled SCBs is given in Annexure 4. It will be seen therefrom that the proportion of owned funds to loan business of the SCBs ranged from 9 per cent for the Tamil Nadu SCB to 25 per cent for the Maharashtra SCB, the average proportion being 15 per cent. The balance of the resources required for loaning after maintaining the optimum liquidity have been raised by way of deposits and borrowings. On an average, the reliance of the SCBs on borrowings from the RBI and on the internal resources for transacting their agricultural loan business (both short-term and medium-term, including conversion loans) is in the proportion of 2 : 1. The proportion of non-agricultural advances to total loans and advances ranged from as low as 2 per cent for the Rajasthan SCB to as high as 66 per cent for the Maharashtra SCB. The relevant proportion ranged between 15 per cent and 20 per cent in the case of five SCBs, viz., Andhra Pradesh, Bihar, Madhya Pradesh, Punjab and West Bengal. It is a little over 30 per cent in the case of the Orissa SCB and the Tamil Nadu SCB. For the remaining six SCBs, viz., Gujarat, Haryana, Karnataka, Kerala, Maharashtra and Uttar Pradesh, the percentage of non-agricultural advances to total loans and advances exceeds 40. On an average, about 30 per cent of the total loans and advances of the SCBs are for non-agricultural purposes.

3. An SCB is expected to pay a dividend of at least 6 per cent on its shares. This will be possible if its net profit is to the extent of 12 per cent of its paid-up capital, for about one-half of the total net profit will have to be utilized for making the necessary appropriations to statutory reserve (25 per cent), agricultural credit stabilization fund (15 per cent) and other reserves like bad debt reserve, etc. (10 per cent). In effect this means that if the cost of raising share capital for an SCB is assumed at 12 per cent, it will be in a position to pay a dividend of 6 per cent on its shares.

4. A statement showing the average cost of raising deposits (exclusive of the liquidity cost and the cost of administration of deposits) in respect of scheduled SCBs for the year 1976-7 is given in Annexure 5. It will be seen therefrom that the interest cost of raising deposits for the SCBs had in 1976-7 ranged between 5.5 per cent for the Haryana SCB and 9.5 per cent for the Orissa SCB. But most of the scheduled SCBs had been, in 1976-7, successful in keeping the interest cost of deposits within 7.5 per cent. In view of the fact that the scheduled SCBs will hereafter (i.e. with effect from 1 March 1978) pay interest on deposits at reduced rates *vis-a-vis* the position which obtained in 1976-7 as the comparative rates given in Table 1 below shows, it is expected that an SCB, on an average, should be in a position to limit the interest cost of its deposits to about 6.75 per cent or less especially when the reduction effected in the rates of interest on longer duration deposits based on RBI directions is somewhat sizeable. It has, however, to be noted that the reduction expected as above in the average interest cost of deposits may not fully accrue for some time i.e., until the bulk of the term deposits accepted prior to 1 March 1978 at higher rates of interest do not reach their maturity.

TABLE 1

Rates of Interest on Deposits applicable to the Scheduled SCBs

Type of Deposits	Rate of Interest in per cent applicable	
	in 1976-7	With effect from 1-3-1978
(1)	(2)	(3)
Current Deposits	0.25	0.25
Savings Deposits	5.50	4.75
Fixed Deposits		
Up to 1 year	Up to 7.25	Up to 5.25
1-3 years	8.25	6.25
3-5 years	9.25	7.75
Above 5 years	10.25	9.25

The rates of interest on the refinance made available by the RBI have been reduced with effect from 1 March 1978 to 6.00

per cent in respect of short-term agricultural loans and 6.50 per cent in respect of medium-term agricultural loans including conversion loans. Here again the full benefit on this reduction in the RBI's refinance rates will not accrue so long as the loans borrowed by the SCBs prior to 1 March 1978 are not repaid or fall due for repayment which period should not, by and large, go beyond the end of 1978.

5. Based on (i) the average position of resources available to an SCB, (ii) the average cost of raising such resources to a bank once the full benefit of the reduction in deposit rates and the RBI's refinance rates accrues to it; and (iii) the average position of deployment of the available resources in optimum liquid assets and in agricultural and non-agricultural loans, it will be useful to find out the quantum of interest margin on agricultural loans (in per cent) necessary for an SCB to ensure such level of gross earnings as would, after setting of there—against the cost of raising share capital (i.e., minimum net profit expected) and the cost of raising deposits and borrowings, leave with it adequate surplus to meet all establishment and other expenses including the cost of servicing deposits and meeting the cost of supervision. This exercise has been attempted in a typical balance sheet showing the average position of an SCB given in Table 2 on page 31. In Table, on basis of the average position obtaining in the SCBs, of the total owned funds (which form 15 per cent of the loans and advances) two-thirds have been assumed to be invested in assets and investments other than loans and the balance of one-third in loan business. One-third of the total deposits are shown to have been utilised to maintain optimum liquidity and the balance invested in loan business. The proportion of agricultural advances to non-agricultural advances is kept at 70 : 30 according to the present average position. The bank's own involvement out of its internal resources in agricultural loans has been kept at around 35 per cent of the total agricultural loans again in accordance with the existing trend.

6. Proceeding on the above basis, it will be seen from Table 2 that if agricultural loans, whether short-term or medium-term, are advanced at 6.75 per cent, an SCB, on an average, will be in

	Item	Amount raised	Cost	
			in per cent	in amount
		Rs		Rs
	(1)	(2)	(3)	(4)
1.	Share capital	10	12	1.20
2.	Reserves	5	—	—
3.	Deposits	75	6¾	5.06
4.	Borrowings from RBI—Short-term agricultural	40	6	2.40
	Medium-term agricultural	5	6½	0.32
		135		8.98

	Item	Amount deployed	Return	
			in per cent	in amount
		Rs		Rs
	(5)	(6)	(7)	(8)
1.	Cash and balance in current account including average daily balance with RBI	4.50	—	—
2.	Investments in govt. and other trustee securities	20.50	6	1.23
3.	Other Investments	3	4	0.12
4.	Loans and Advances — Agricultural	70	6¾	4.73
	Non-agricultural	30	15	4.50
5.	Other assets including premises, dead stock, etc.	7	—	—
		135		10.58

(A) Gross income	Rs 10.58
Less	
(B) Total interest paid plus return on share capital available for appropriation	Rs 8.98
(C) Amount available for establishment and all other expenditure	Rs 1.60
% of (C) to (A)	15.1

a position to earmark at least 15 per cent of its gross income for meeting all its establishment expenses (including the cost of servicing deposits and supervising loans) with the exclusion of interest on deposits and borrowings and the net profit necessary to pay a dividend of 6 per cent. As may be seen from Annexure 6, the SCBs have been, by and large, able to keep their establishment expenses within 15 per cent of their gross income. Thus, an SCB functioning as the apex body of the three-tier credit system should normally be in a position to function without difficulty, by retaining a net interest margin of not more than 0.75 per cent on short-term agricultural loans and 0.25 per cent on medium-term agricultural loans in relation to the respective refinance rates of the RBI. Further, the interest margin on short-term loans can be reduced to about 0.50 per cent (as is the position in the case of many SCBs at present) if the proportion of non-agricultural lendings to total loans and advances of the bank exceeds 30 per cent.

7. As for the SCBs with lower proportion of non-agricultural advances than the average position at 30 per cent, a higher interest margin on short-term loans than 0.75 per cent does not seem justified for two reasons, viz., (i) the reliance of most of such banks on the concessional refinance from the RBI is actually much more than 65 per cent of their agricultural advances which in turn means that their involvement out of the internal resources in agricultural loans is much less than the average position of 35 per cent and (ii) it would be desirable for such banks to pay a lower dividend on their shares than the normally expected level of 6 per cent rather than increase the cost of agricultural loans advanced by them. At best, such SCBs may retain a higher interest margin of 0.50 per cent in respect of their medium-term agricultural lendings.

8. Briefly, we are of the view that an SCB functioning as the apex body in a three-tier credit system can justifiably retain an interest margin in relation to the relevant RBI's refinance rate within the range of 0.50 per cent to 0.75 per cent in respect of short-term agricultural loans and within the range of 0.25 per cent to 0.50 per cent in respect of medium-term agricultural loans.

Intermediate level

9. From the review made earlier in Chapter 1, it will be noted that, broadly, central banks are retaining a net interest margin of 2 per cent to 2.50 per cent over the SCB's refinance rates in regard to their agricultural lendings. A statement showing the position as on 30 June 1977 of the owned funds, deposits, borrowings, and the proportion of agricultural and non-agricultural advances of some select ccbs operating in different states of the country is given in Annexure 7. It will be seen therefrom that the owned funds of these banks, on an average, form about 15 per cent of their loan business. The proportion of their non-agricultural advances to total loans and advances had at the end of June 1977 ranged between 2 per cent for the Barmer ccb operating in the arid zone of Rajasthan and 76 per cent for the Surat ccb operating in relatively prosperous south Gujarat. On an average, the non-agricultural advances of central banks formed around 20 per cent of the total loans and advances.

10. Under the scheme of linking borrowings from the RBI with efforts for deposit mobilisation made by the ccbs, every ccb in order to qualify for refinance at the concessional rate of interest from the RBI has to put in from its internal resources, Re 1 for every Rs 2 borrowed from the RBI. In other words, the ccb's contribution has to be one-third of the total short-term agricultural advances above the base level. Thus, for every Rs 100 of additional short-term loans advanced, the ccb has to invest Rs. 33 1/3 from its internal resources to qualify for concessional rate being charged on the borrowings amounting to the balance of Rs 66 2/3. The owned funds ordinarily contribute 5 per cent or Rs 5 leaving Rs 28 1/3 to be put in from deposit resources. Taking into account the optimum liquidity requirements, a ccb in order to invest Rs 28 1/3 in short-term loans, will have to mobilise deposits of Rs 45. In short, the level of deposits will have to be 45 per cent of the total short-term agricultural advances. If the proportion of agricultural and non-agricultural advances of the ccb is 80 : 20, the ccb will have to mobilise deposits of Rs 36 to sustain the agricultural lendings of Rs 80 and of Rs 30 to sustain the non-agricultural lendings of Rs 20. Thus, its deposits in the aggregate would have to be of

the order of Rs 66 or two-thirds of its total loans and advances comprising, on the basis of the existing general position, 80 per cent of agricultural loans and 20 per cent of non-agricultural loans. An average ccb which has issued one-fifth or 20 per cent of its total loans and advances for non-agricultural purposes and the balance for agricultural purposes will necessarily have to ensure a level of deposits to the extent of two-thirds or about 66 per cent to 67 per cent of its total loans and advances basically for two reasons, viz., (i) to keep its own involvement from internal resources in agricultural loans at not below 33 per cent in order to enjoy fully the benefit of concessional rate on refinance for the purpose from the SCB and (ii) to absorb a reasonable proportion of overdues.

11. The level of net profit in the case of a ccb can be broadly placed at 8 per cent of its paid-up share capital so that the ccb will be in a position to pay a dividend of not less than 4 per cent on its shares. The cost of borrowings from the SCB will be 6.75 per cent inasmuch as interest margin of not more than 0.75 per cent on short-term loans has been recommended for the SCBs earlier in this Chapter in para 8. As for the interest cost of deposits, a statement showing the average cost of raising deposits incurred by selected ccbs in 1976-7 is given in Annexure 8. It will be seen therefrom that barring a few exceptions, the other ccbs were in a position in 1976-7 to limit the interest cost of deposits (exclusive of the liquidity cost and the cost of administration of deposits) to about 6.75 per cent of the deposits mobilised. With the reduction in deposit rates made effective from 1 March 1978 *vis-a-vis* the position that obtained in 1976-7 (comparative position given in Table 3 below), it should be possible for a ccb to bring down the average interest cost of its deposits to about 6.25 per cent. The average interest cost of deposits for a ccb will be lower than in respect of an SCB in view of the fact that the proportion of longer duration fixed deposits for a ccb is much lower than for an SCB with which large deposits of longer duration of the affiliated ccbs. representing the statutory liquid assets of the latter banks, are normally kept.

TABLE 3
Rates of Interest on Deposits applicable to ccbs

Type of Deposit	Rate of Interest (per cent) applicable in 1976-7	With effect from 1-3-1978
(1)	(2)	(3)
Current Deposits	0.50	0.50
Savings Deposits	5.75	5.00
Fixed Deposits —		
Up to 1 year	Up to 7.50	Up to 5.50
1-3 years	8.50	6.50
3-5 years	9.50	8.00
Above 5 years	10.50	9.50

12. Based on the average position of different types of resources available for a ccb, the average cost of raising such resources and the deployment of the available resources for maintaining the optimum liquid assets and in agricultural and non-agricultural loans and advances in accordance with the existing average proportion, a typical balance sheet depicting the financial position of a ccb operating in normal conditions has been worked out as shown in Table 4 on page 36. It will be seen from Table 4 that if a ccb retains an interest margin or 2 per cent on its agricultural loan business, it should be in a position to earmark 27.5 per cent of its gross income for meeting its establishment expenses with the exception of interest on deposits and borrowings and also pay a dividend of 4 per cent on its shares. From Annexure 9, it will be observed that some ccbs like Eluru (West Godavari) in Andhra Pradesh, Surat in Gujarat, Sirsi in Karnataka, Kolhapur in Maharashtra, Batala in Punjab, Kota in Rajasthan, Kancheepuram and Thanjavur in Tamil Nadu and Purulia in West Bengal have been in a position to restrict their establishment expenses within 27.5 per cent of their respective gross incomes. But these are banks which have sizeable non-agricultural loan business or which serve relatively compact agricultural areas and are thus enabled to keep their cost of supervising loans and advances in relation to earn-

TABLE 4

Typical Balance Sheet of a ccb operating in normal conditions

Cost of Raising Resources				Return on Deployment of Resources			
Item	Amount raised Rs	Cost in per cent	Cost in amount Rs	Item	Amount deployed Rs	Return in per cent	Return in amount Rs
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Share capital	10	8	0.80	Cash reserve i.e., cash on hand or in current a/c with other banks	4	—	—
Reserves	5	—	—	Investments in shares of the SCB	3	6	0.18
Deposits	67	6¼	4.19	Investments for the purpose of statutory liquidity			
Borrowings from the SCB for agricultural purposes	51	6¾	3.44	(i) government and other trustee securities	9	6	0.54
				(ii) fixed deposits with the SCB	10	9¼	0.92
				Loans and Advances			
				(i) Agricultural	80	8¾	6.99
				(ii) Non-agricultural	20	15	3.00
				Other assets	7	—	—

ings by way of interest on them to a fairly low proportion. In the case of most of the other ccbs included in Annexure 9, the establishment and all other expenses have in 1976-7 ranged between 30 per cent and 35 per cent of their respective gross incomes. Such banks i.e., those having lower level of non-agricultural advances or operating in a relatively less compact agricultural area will need to maintain a higher interest margin of 2.25 per cent of their agricultural lendings so as to be in a position to allocate adequate share in their gross earnings for meeting the establishment and all other expenses with the exclusion of interest on deposits/borrowings and the net profit necessary to pay a dividend of at least 4 per cent. We would not, however, favour retention of a still higher margin on agricultural loans than 2.25 per cent even if it becomes necessary in a few ccbs operating under special conditions. In such cases, it is desirable for the concerned ccbs to pay a lower rate of dividend on their share capital rather than increase the cost of agricultural credit for the pacs and in turn to the ultimate borrowers.

13. Briefly, we are thus of the view that it should be possible for a ccb to function satisfactorily by retaining a net interest margin within the range of 2 per cent to 2.25 per cent (over the concerned SCB's refinance rate) in respect of its agricultural loan business, whether short-term or medium-term.

Primary level

14. The primary level institutions should obviously have a higher interest margin as they rely entirely on agricultural loan business and substantially on outside borrowings. The Working Group on Co-operation for the formulation of the Fifth Five Year Plan recommended as far back as in 1972 that the pacs in each state should be reorganized into viable units and each reorganized society should have potential to command a loan business of Rs 2 lakhs in order to employ a full-time paid secretary. Subsequently, a Group appointed by the Government of India in 1974 observed that only a viable, professionally managed multi-purpose co-operative society at the primary level would be in a position to cater for the package of services needed

by the farmer and, therefore, reorganization of the pacs was inevitable. Again, in the context of the issue of consumption loans, the Expert Committee on Consumption Credit (Sivaraman Committee, 1976) had expressed the view that this could be appropriately done by reorganized viable pacs having full-time paid secretaries. The need for such reorganization has since been widely accepted and in many states programmes of reorganization of the primary structure have been pushed through largely in accordance with the guidelines issued by the RBI in May 1976. We would, in the case of states/ union territories wherein the process of reorganization of pacs is incomplete or held over, strongly urge on the concerned authorities to take suitable follow-up action quickly inasmuch as the existence of uneconomic units at the primary level results in unduly pushing up the cost of credit for the ultimate borrower.

15. A viable primary credit society with average loan business of Rs 2 lakhs will need at least Rs 3600 per annum to maintain a full-time secretary. This would work out to 1.80 per cent of the loans outstanding. It may be safe to assume that the margin in the non-credit business of the society in fertilizers, controlled commodities, etc., will be adequate at least to meet the cost of the additional staff that may have to be employed to handle this business. No account need also be taken of the liability to pay dividend on shares after meeting the obligations towards reserves as these are expected to be met out of the earnings on the owned funds for which the society does not have to incur any cost. But in addition to the salary of the secretary, the society will have to incur expenditure towards audit fees, office rent, stationery, postage, meeting other expenses, etc, which together can be placed at Rs 1400 per annum or 0.70 per cent of the loans outstanding at Rs 2 lakhs. Thus, proceeding on the basis that the pacs would be in a position to keep all their establishment expenses with the exclusion of the cost of paid secretary within 0.70 per cent of the average loans outstanding, we consider that an interest margin of 2.50 per cent on loan business, whether short-term or medium-term, should be adequate for the credit institutions at the primary level to employ a full-time secretary and function as a viable unit. If however, the burden on the pacs on account of statutory contributions like audit fee,

caderisation fee, supervision fee, etc., is high or it is called upon to undertake a number of service functions, it would logically follow that the pacs will need a higher interest margin and this in turn would push up the cost of credit to the ultimate borrowers. We would, therefore, urge on the state governments to review the position in this behalf if necessary, and wherever necessary, provide suitable assistance so as to ensure that agricultural credit is provided at appropriately lower rates of interest to the ultimate borrowers. Similarly, if the employment of a better qualified secretary with a higher salary is considered necessary, the position will have to be reviewed and a suitable solution found. Further, until every reorganized society reaches the level of minimum loan business of Rs 2 lakhs needed for its viability, the deficit arising in meeting the cost of a full-time secretary for it, in our opinion, should in the normal course be borne by the higher level institutions in the credit structure, but their liability in this behalf should, in our view, be limited to the extent of their surplus earnings, if any, arrived at on the basis of interest margins suggested for them and the balance should appropriately be borne by the concerned state government by way of suitable managerial subsidy as part of the programme for strengthening the primary credit structure.

Structure as a whole

16. To sum up, in a three-tier structure, the institutions functioning at each level, should be allowed interest margins in respect of their agricultural loan business as shown in Table 5.

TABLE 5
Total Interest Margin for the Three-tier Credit Structure as a Whole

Type of Institution		Interest Margin in per cent on Agricultural Loans	
		Short-term	Medium-term
(1)		(2)	(3)
SCBs		0.50 to 0.75	0.25 to 0.50
ccbs		2.00 to 2.25	2.00 to 2.25
pacs		2.50	2.50
	Total	5.00 to 5.50	4.75 to 5.25

Briefly, therefore, our recommendation is that in areas where the three-tier co-operative credit system is operating, the total interest margin, up to the ultimate borrower, available to the credit structure as a whole, over and above the rates of interest on refinance available from the RBI, should be within the range of 5.00 per cent to 5.50 per cent in the case of short-term agricultural loans and within the range of 4.75 per cent to 5.25 per cent in the case of medium-term agricultural loans, including conversion loans. Besides, in states wherein the SCBs or the ccbs have significantly larger proportion of non-agricultural loan business in relation to the total loan business than the position normally obtaining in this behalf, there may be scope for a further reduction of the above suggested overall interest margins, which benefit, instead of being passed on to all categories of borrowers, should be utilised to charge a differential rate for the small farmers. We have dealt with this subject in some detail in Chapter 5 of this Report.

Two-tier structure

17. In a two-tier credit system, the SCB operates as a central financing agency like the intermediate level institution in the three-tier credit structure. Obviously, therefore, the SCBs functioning as federal bodies of the pacs should have at least the same interest margin as is available to the ccbs. But, unlike the ccbs, such SCBs do not have the advantage of investing their statutory liquid assets in the form of longer duration fixed deposits with the SCB in a three-tier credit system. Such deposits fetch a much higher return by about 3.25 per cent than on government and other trustee securities. This loss of income cannot be compensated unless the SCBs which are the apex bodies in a two-tier credit structure, retain an interest margin within the range of 2.50 per cent to 2.75 per cent on agricultural loans, whether short-term or medium-term as against the range of 2.00 per cent to 2.25 per cent suggested for the ccbs functioning as intermediate level institutions in three-tier credit system. The interest margin necessary for the primary level institutions will, however, be the same at 2.50 per cent. Thus, in a two-tier credit system, the total interest margin—up to the ultimate borrower—available to the credit structure as a whole will have to be between 5 per cent and 5.25 per cent in the case

of both short-term and medium-term agricultural loans. This means there may be a saving of about 0.25 per cent in the interest burden for the ultimate borrowers and that too in respect of short-term loans.

18. The point for consideration is whether in view of the above saving in the cost of agricultural credit or in the interests of free flow of credit, it would be advantageous to have a two-tier credit structure instead of the three-tier credit structure.

19. In this context, we may refer to the fact that the Committee on Integration of Co-operative Credit Institutions (1976) appointed by the RBI had no doubt recommended the integration of the two wings of the co-operative credit structure, but not so much from the view point of the cost angle as of operational convenience of both the banks and the farmer. Besides, the Committee had proceeded on the basis that even after integration, the three-tier pattern will, by and large, prevail in the near future and had, therefore, proposed establishment of an integrated unit at the district or the intermediate level except in the case of small states/ union territories. The Agricultural Credit Board of the RBI had, however, at its meeting held in Bombay on 3 December 1976, suggested deferring consideration of the main recommendation of the Committee regarding integration in view of the divergent opinions expressed. We would, therefore, confine our remarks to the subject of the integration of the ccbs with the SCB.

20. The question of integration of the ccbs with the SCB was examined in 1973 by the Study Team on the Two-tier Co-operative Credit Structure in Kerala appointed by the RBI with reference to the position of the concerned institutions in Kerala. This Study Team has observed as follows:

> It seems that the establishment of one unit by integrating the central co-operative banks with the state co-operative bank will enable that unit to present a better image of itself to the depositing public because the owned funds, deposits, loans and advances and the working capital of the unit will be comparable to that of a medium-sized commercial bank, but, at the same time, it will carry on its balance sheet the burden of higher overdues which may to some extent, tarnish its image. The unit will be in a position to

> declare a higher rate of dividend than most central banks in the state. This will help reduce the cost of borrowing to the societies directly or indirectly. We have to set off against these advantages the possible increase in the cost of establishment and the loss that will arise from having to maintain a higher percentage of liquid assets. Taking all these aspects into account, the two-tier structure may be able to reduce the cost of funds to primary societies by not more than 0.25 per cent. We feel that such a nominal reduction in the rate of interest charged to the ultimate borrower should not be the deciding factor on the question whether the central bank could be done away with. We consider that there are certain other factors which are far more important and which may, despite the possibilities of a reduction in the rate of interest, justify the continuance of the units at the intermediate level. (pages 40 to 41).

Besides, judged purely from the cost angle, it is doubtful whether the benefit which may accrue to the two-tier structure in a small territory would be available after introduction of the two-tier structure in bigger states, for, in that case, it would not be feasible for the head office of the SCB to deal directly with the wide network of branches and a district level or a regional office with an advisory committee may have to function to ensure convenience of the farmers and maximum operational efficiency in the disposal of loan applications, disbursement of loans and supervision over utilization of loans by the members.

21. At the same time, it is equally true that if the unit at the intermediate level is inefficient and uneconomic it would unduly push up the cost of credit to the ultimate borrower. Besides, in such an event, because of its inability to raise resources and sustain larger lending programmes, it will also not be able to meet adequately, the credit needs of the area served by it. It is, however, true that ccbs because of their local knowledge and contacts are better suited to (i) mobilize deposits in the district, (ii) serve adequately the credit needs of the area and (iii) ensure timely recovery of dues. The question whether the ccbs in a particular state or an area have adequately served these objectives would require a more detailed and closer examination and can itself form the subject matter for a separate study.

Concluding observations

22. We have made certain recommendations in this Chapter

regarding the appropriate interest margins which should be available to institutions functioning at each level of the co-operative credit structure. Before, however, making specific recommendations about the rates of interest which should be charged by the institutions at the primary level to different categories of farmers for short-term and medium-term agricultural loans, we have, in the next Chapter, referred to the position of the lending rates of commercial banks on agricultural advances because of the relevance of this subject in the context of the need to ensure uniform lending rates on agricultural advances to cultivators for the same purpose from different credit institutions either co-operative or commercial.

CHAPTER 4

LENDING RATES OF COMMERCIAL BANKS ON AGRICULTURAL ADVANCES

1. IN view of the vast and growing gaps in meeting agricultural credit needs a multi-agency approach to agricultural financing is now an accepted concept. An idea of the relative role so far played by the existing institutional sources in meeting the credit needs of the agricultural sector may be had from Table 1 below:

TABLE 1

Outstanding Agricultural Loans as at the end of June 1977

Rs Crores

I.	**Co-operatives**			
	Short-term	1172.19[1]		
	Medium-term	370.53[1]		1542.72[1]
II.	**Commercial banks**			
	(a) Direct finance			
	Short-term	379.52		
	Term loans	468.52	848.04	
	(b) Indirect finance through pacs		47.39	895.43
III.	**Regional rural banks**[2]			
	Direct finance		32.54	
	Indirect finance through pacs/FSS		3.84	36.36

[1] Provisional figures.
[2] Data relate to position as on last Friday of March 1978.

Each of the credit institutions, viz., the co-operatives, the commercial banks and the RRBs functioning in the field of agricultural credit are expected to play a complementary role. The fulfilment of this objective would, however, largely depend on overcoming the problems of overlapping and duplication and countering effectively any element of unhealthy competition. This naturally underlines, more than anything else, the need for rationalization of the interest rates, so that irrespective of the agency dispensing credit, the ultimate borrower is able to meet his credit needs at more or less the same rate of interest for the same purpose. It is against this background that we refer to the existing position of lending rates of commercial banks in respect of their agricultural advances.

Bank-wise position

2. A statement showing the rates of interest charged by the State Bank of India and the fourteen nationalised banks on their short-term and medium-term agricultural advances issued directly as at the end of June 1977 is given in Annexure 10. It will be seen therefrom that these banks had been charging varying rates of interest on their agricultural advances ranging between 10 per cent and 11 per cent in respect of small loans not only in amount but also in terms of the extent of the size of holding of the borrower and 13½ per cent to 16½ per cent in respect of loans for bigger amounts i.e., Rs 50,000 and above. However, in the case of four banks, the interest spreads within the above range were in relation to the amount of the loan borrowed and were not related to the extent of the size of holding of the borrower. In contrast, one of the banks was fixing the rate of interest depending on the size of holding of the borrower irrespective of the amount of the loan borrowed.

Recent developments

3. The above position existed until 12 December 1977 when the Reserve Bank of India as a measure of promoting farm investment by small farmers and of providing an inducement to the banks to lend to small farmers, opened a new small farmers' window offering the scheduled commercial banks refinance from the Bank at the Bank Rate i.e., at 9 per cent, up to 50 per cent of the loans advanced to small farmers—direct individual loans granted after 1 January 1978 not exceeding Rs 2500, whether extended as short

medium or long-term—and simultaneously advised the banks to charge a rate of interest not exceeding:

(i) 11 per cent on the above types of loans to small farmers irrespective of whether refinance is obtained from the Reserve Bank of India or not;
(ii) 10.5 per cent on term loans with maturity of not less than 3 years granted to farmers for purposes of minor irrigation and land development;
(iii) 11 per cent on term loans with maturity of not less than 3 years granted to farmers under the category 'diversified purposes' as defined by the Agricultural Refinance and Development Corporation which would include dairy farming, poultry, fisheries, horticulture, etc.

The rates of interest on term loans advised at items (ii) and (iii) above apply to all categories of farmers. The term 'minor irrigation' would include open dugwells, shallow tube-wells, pumpsets whether electric or diesel, persian wheels, deep tubewells and lift irrigation units. The term 'land development' would include land levelling, bunding and field drainage. Subsequently, i.e., on 17 May 1978, the RBI modified its earlier advice to commercial banks of 12 December 1977 to specify that refinance from it up to the extent already indicated in respect of loans for amounts not exceeding Rs 2500 in each case would be made available to scheduled commercial banks only in the case of such borrowers as are small farmers who should be charged interest at a rate not exceeding 11 per cent.

4. Following the above, the commercial banks—both public sector banks and others—were expected to realign their rates of interest on loans to medium and big farmers, i.e., other than small farmers, and on term loans for agricultural purposes other than those covered by the above advice. According to available information, banks have done so, though the exact position in this regard is not readily known. But as a sequel to the Union Budget for 1978-9, the Reserve Bank of India has, with effect from 1 March 1978, stipulated the maximum rates of interest on advances chargeable by the commercial banks as indicated in Table 2.

TABLE 2

	Rate of Interest in per cent per annum
Short period advances	
(a) Banks with demand and time liabilities of Rs 25 crores and above	15
(b) Banks with demand and time liabilities below Rs 25 crores	16
Term loans	
(a) Term loans of not less than 3 years for capital investment in priority areas	12.50
(b) Term loans of not less than 3 years for all other purposes	14

Recommendations of the Kamath Working Group (1978)

5. The question of variations in interest rates charged on agricultural advances by different institutional sources was one of the important issues considered by the Reserve Bank of India Working Group headed by Shri C. E. Kamath, Chairman and Managing Director, Canara Bank, on the problems arising out of the adoption of the multi-agency approach in agricultural financing. The Working Group was of the view that there was a strong case for the adoption of a uniform pattern of interest rates by commercial banks as well as the co-operatives and has proposed the adoption of the pattern of interest rates indicated in Table 3.

TABLE 3

Type of Loan	Rate of Interest in per cent per Annum
(i) Short-term loans—up to Rs 2500	Not exceeding 11
Rs 2501 to Rs 25000	Not exceeding 13
Above Rs 25000	No specific recommendation
(ii) Term loans	same as stipulated by the RBI, viz., minor irrigation and land improvement (10.50), diversified purposes (11.00) and other agricultural purposes (12.50)

Differential interest rate scheme

6. We may refer next to the fact that in pursuance of the policy decision announced in the Lok Sabha by the then Union Finance Minister in March 1972, a scheme of Differential Rate of Interest was introduced by the public sector banks which has since been extended to cover the entire country. Under this scheme, credit is extended at the concessional rate of interest of 4 per cent to weaker sections conforming to the following eligibility criteria:

(i) The family income of the borrower from all sources should not exceed Rs 3000 per annum in urban/semi-urban areas and Rs 2000 per annum in rural areas.
(ii) The size of holdings of the borrower should not exceed 1 acre in the case of irrigated land and 2.5 acres in the case of unirrigated land.
(iii) Members of scheduled castes and scheduled tribes are eligible for the facility irrespective of the size of their land holdings, provided they satisfy the income criteria.

While the public sector banks are required to lend under the scheme to the extent of at least one-half of one per cent of their aggregate advances as at the end of the previous year, the RRBs and co-operatives are outside the purview of the scheme which has so far covered only a small proportion of the total advances of the public sector banks. As at the end of December 1976, the total advances under the scheme inclusive of those to small artisans and craftsmen aggregated Rs 47 crores, the number of borrowal accounts being 10.05 lakhs.

7. The Kamath Working Group has pointed out a number of anomalies and practical difficulties encountered in the implementation of the scheme. The more important of these, which have a bearing on other lending institutions in the field, are briefly mentioned below:

(i) The benefit under the scheme is confined to direct loans sanctioned to individuals. Loans sanctioned by commercial banks or co-operative banks through the medium of primary agricultural credit societies/farmers' service societies/large sized multipurpose societies are not covered by the scheme. This has resulted in an anomalous situation for the borrowers who satisfy the eligibility criteria and who are otherwise entitled to the benefit of the lower rate of interest. If they happen to be members of pacs/FSSs/LAMPs financed either by the commercial banks or co-operative banks, they are required to pay the usual or higher interest rates, while other eligible borrowers in the same area will get the benefit of the lower interest rate if they approach commercial banks directly. In fact, this works as a d.sincentive to those who want to become members of co-operatives, as well as those who are already members of co-operatives to continue as such. This situation, therefore, if allowed to continue, would weaken the co-operatives over a period, which is not at all desirable.

(ii) Further, in areas where pacs/FSSs/LAMPs, are transferred to commercial banks with the avowed objective of revitalizing and strengthening the co-operatives and where commercial banks are consciously following a policy of routing their entire agricultural credit through the medium of these agencies, avoiding direct financing, there is no scope for implementing the Differential Interest Rate Scheme as it would directly come into conflict with the basic approach of strengthening the co-operative structure.

(iii) A very large proportion of co-operative lending to agriculture consists of loans to small and marginal farmers. An extension of the Differential Interest Rate Scheme to the co-operative sector, therefore, would involve the granting of a considerable amount of subsidy to the co-operative credit agencies, since they are unable to absorb the losses arising from such concessional lending.

(iv) Even the commercial banks, to which the scheme is applicable, are expected to lend half per cent of their total credit. Its impact has only been, therefore, marginal, inasmuch as the scheme covers not only agricultural loans but also other types of small loans of a varied character, all of which have necessarily to be within certain overall limits.

The Kamath Working Group has recommended a thorough review of the Differential Interest Rate Scheme. We would strongly endorse this recommendation and would suggest that RBI may initiate early action in the matter.

Indirect agricultural loans

8. Besides undertaking financing of farmers directly through their branches, commercial banks have also been implementing in certain states since 1970 the scheme of financing farmers through primary agricultural credit societies. At the end of June 1977, this scheme was in operation in 12 states (viz., Andhra Pradesh, Assam, Bihar.

Haryana, Jammu and Kashmir, Karnataka, Madhya Pradesh. Maharashtra, Orissa, Uttar Pradesh, Tripura and West Bengal) where 604 branches of 24 commercial banks had taken over 3488 pacs for financing. In accordance with the instructions of the RBI, the concerned commercial banks are charging rates of interest. as shown in Table 4, on the short-term and medium-term agricultural advances issued to pacs.

TABLE 4

Category of Primary Agricultural Credit Societies	Rate of Interest Per Cent Per Annum			
	Prior to 1-8-74 i.e., before introduction of the interest tax		Existing	
	Short-term loans	Medium-term loans	Short-term loans	Medium-term loans
(1)	(2)	(3)	(3)	(5)
(a) Pacs with loan business in the previous year of less than Rs 1.50 lakhs and having a full-time paid secretary	10	11	11	12
(b) Pacs as above but not having a full-time paid secretary	11	11	12	12
(c) Pacs with loan business in the previous year of over Rs 1.50 lakhs	11	11	12	12
(d) Farmers' Service Societies (FSS)	9½	10	10½	11

The pacs are in turn expected to retain a minimum interest margin of 1.50 per cent and so adjust their lending rates to the ultimate borrowers that they generally correspond to the lending rates of the societies financed by the ccbs of the districts or areas concerned. With the removal of the interest tax with effect from 1 March 1978, it may be assumed that the same rates of interest as were in force prior to 1 August 1974 (shown in columns (2) and (3) of Table 4 will be reintroduced. Even then and assuming that the pacs concerned retain an interest margin of only

1.50 per cent, they will not be in a position to so adjust their lending rates as to correspond to the lending rates of the societies financed by the ccbs of the districts or areas concerned in view of the recommendations in this behalf made by us later in Chapter 5 of this Report.

9. Moreover, we have already recommended in Chapter 3 of this Report that a primary credit society will need a minimum interest margin of 2.50 per cent to employ a full-time paid secretary and function as a viable unit. This recommendation has been made in relation to the pacs financed by the ccbs of the districts or areas concerned. These pacs are required to invest Rs 10 in the shares of the ccb of their area for every Rs 100 borrowed from the latter. The rate of interest charged by the ccb, therefore, though indicated in per cent works out in practice as the rate payable on a net borrowings of Rs 90. No doubt, the pacs in turn may expect a reasonable return by way of dividend on the shares of the ccb held by them. Even then, the net cost of borrowings from the ccb for them works out to more than the rate of interest actually indicated in loan documents by the ccb. This position has been illustrated in Table 5 in relation to the rate of interest of 8.50 per cent which would be charged by the ccbs to pacs if the interest margins at the lowest in the respective specified range is retained by the SCB as also the ccb.

TABLE 5

(i)	Rate of interest specified by the central co-operative bank	8.50 per cent
(ii)	Effective rate if the primary credit society derives the benefit of net borrowings of Rs 90 after investing Rs 10 in the shares of the central co-operative bank	9.44 per cent
(iii)	Return by way of dividend at 4 per cent available to the primary society on the central co-operative bank's shares of Rs 10 held by it	Rs 0.40
(iv)	Effective rate of interest for the society in respect of borrowings from the central co-operative bank [(ii) —(iii)]	9.04 per cent or say, 9 per cent

10. In view of the above position, we suggest that the RBI may advise commercial banks that short-term and medium-term

agricultural loans to pacs/FSS taken over for financing by them should be advanced at a rate of interest of 9 per cent so that the societies covered by the scheme are in a position to employ a full-time paid secretary and also adjust their lending rates to correspond with the lending rates of the societies financed by the ccbs of the districts or areas concerned. Once this is done, the commercial banks may insist on a full-time paid secretary being provided to every society taken over for financing by them. Besides, their share of liability in meeting the cost of paid secretary so provided should not exceed the extent of liability in this behalf borne by the ccb of the district or area concerned.

Lending rates of Regional Rural Banks

11. It follows from the above that to bring about a broad measure of parity between the lending rates to ultimate borrowers on agricultural advances of commercial banks and the RRBs on the one hand and the RRBs and the co-operatives operating in the same areas on the other, the RRBs, like commercial banks, should be enabled to finance the pacs/FSS attached to them at a rate of interest of 9 per cent and also issue direct agricultural loans at rates of interest which correspond to the lending rates charged to the ultimate borrowers by the co-operatives operating in the concerned areas. As against this position, the RRBs at present lend directly to individuals at a rate of interest of 13 per cent or 13.50 per cent and to the pacs/FSS financed by them at 10.50 per cent or 11 per cent so that the societies in turn can lend to the ultimate borrowers at 13 per cent or 13.50 per cent. The refinance to the RRBs from the RBI for financing seasonal agricultural operations is being made available at 2 per cent below the Bank Rate i.e., at 7 per cent. We would suggest in this connexion that the RBI may so re-adjust the refinance rate applicable to RRBs as would enable them to retain an interest margin equivalent to the interest margin proposed by us for the SCBs under a two-tier structure i.e., 2.50 per cent and lend to the societies attached to them at a rate of interest of 9 per cent as also issue direct agricultural loans at rates of interest which broadly correspond to the lending rates charged by co-operatives to the ultimate borrowers.

Overall position

12. Briefly, the general pattern of the rates of interest of commercial banks in respect of their agricultural loans issued directly is expected to be as indicated in Table 6.

TABLE 6

Type of Loans	Rate of Interest in per cent per annum	Remarks
(1)	(2)	(3)
Short-term loans		
Up to Rs 2500	11	As stipulated by RBI
Rs 2501 to Rs 25000	13	As proposed by the Kamath Working Group
Above Rs 25000	13 to 15	13% as proposed by the Kamath Working Group and 15% as stipulated by RBI
Term loans		
Minor Irrigation and Land Development	10.5	As stipulated by RBI
Diversified Purposes	11	-do-
Other Agricultural Purposes	12.5	-do-

Thus, the interest spreads in respect of short-term agricultural loans will be related to the amount of the loan borrowed and, in respect of term loans, to the agricultural purpose for which the loan is availed of. We may mention in this context that commercial banks, in the context of promoting the well-being of the weaker sections, have since been advised by the RBI to ensure that their priority sector lending should reach a level of not less than one-third of their outstanding credit by March 1979 and further that about 60 per cent of the total deposits mobilised in rural areas should be available for productive deployment in those areas.

Consequently, the quantum of agricultural finance provided by these banks is expected to show a higher rate of growth than hitherto. In view of this position, it would be particularly necessary for the co-operatives to ensure that the rates of interest charged by them on agricultural advances to the ultimate borrowers are in line with those of commercial banks. This subject of the lending rates on agricultural advances of co-operative banks to the ultimate borrowers is dealt with in the Chapter which follows.

CHAPTER 5

LENDING RATES ON AGRICULTURAL ADVANCES AT THE PRIMARY LEVEL AND RELATED ISSUES

WE have in the earlier Chapters of this Report made a brief review of the position of the interest margins retained by co-operative institutions and of lending rates of commercial banks on agricultural advances. We have also made certain recommendations regarding the range within which interest margins could be appropriately retained by the institutions functioning at different levels in the co-operative credit system, whether operating under the three-tier or the two-tier pattern. We now come to the crux of the issues referred to us, viz., what should be the lending rates on agricultural advances of the co-operatives at the primary level for the ultimate borrower.

Need for parity

2. While there is agreement that the co-operative credit structure is the most appropriate agency for meeting adequately the credit needs of the agricultural sector, the other credit institutions also, in view of the dimensions of the problem, do have a supplementary role to play. In order to ensure that each of the institutional sources, viz., the co-operatives, commercial banks and the RRBs, are assigned their due place in this task, a co-ordinated approach on their part not merely to overcome the problems of overlapping and duplication but also as regards adoption of uniform financial disciplines and lending norms, is essential. It is against this background that both the Government of India and the RBI have been for quite sometime among others, devoting considerable attention to the problem of rationalising the interest rate structure in respect of agricultural lendings so as to ensure a broad measure of parity between the rates of interest charged by different institutional sources. There has also been a general desire that rates of interest on agricultural loans charged to the ultimate borrowers, particularly the small farmers should to the extent possible, be reduced. The abolition of interest tax by Government, RBI's direction for reduction in rates on deposits as well as the new

small farmers window for commercial banks and the lowering of RBI refinance rates to the co-operative banks were all aimed at bringing about such a general reduction in the interest rates on lendings and more particularly lendings to the small farmers. At the meeting with the Chief Executives of the SCBs convened on 6 March 1978, the Governor, RBI, had therefore, specifically indicated that the benefit now accruing to co-operative banks from various concessions and incentives should be passed on by the banks to the ultimate borrowers and in particular, to the small farmers. He had further clarified that the RBI's advice to commercial banks to issue loans at not more than 11 per cent to the small farmers was in fact an obligation on these banks and that the co-operatives should treat this as an opportunity and a challenge for doing something better. In the context of this advice and in view of the need for uniformity in approach under the multi-agency concept, we are strongly of the view that there has to be a parity between the interest rates on agricultural advances charged to ultimate borrowers by the co-operatives, commercial banks and RRBs.

Short-term loans

3. In so far as loans for seasonal agricultural operations or crop loans are concerned, we have recommended in Chapter 3 of this Report that in states where the three-tier co-operative credit structure exists, the total interest margin—up to the ultimate borrower—available to the credit structure as a whole over and above the rate of interest at 6 per cent on refinance for the purpose available from the RBI, should be within the range of 5.00 per cent to 5.50 per cent. This recommendation has been made on the basis that the interest margin available to the SCBs should be within the range of 0.50 per cent to 0.75 per cent, to the ccbs within the range of 2.00 per cent to 2.25 per cent and to the pacs at 2.50 per cent.

4. From the review made in Chapter 3 of this Report, of the interest margins as at the end of December 1977 at different levels, it will be observed that, excluding the burden of interest tax, the SCB and the ccbs in Kerala, Maharashtra and Tamil Nadu were, even before the announcement of the recent reduction in the RBI's refinance rates and in deposit rates, between them together

retaining an interest margin of 2.50 per cent only. With the enhancement of the concession in the rate of interest on RBI's refinance for short-term agricultural purposes, it should be possible for the co-operative credit structure in these three states to continue to function within an overall interest margin of 5.00 per cent and charge to the ultimate borrowers at the primary level a uniform rate of interest of 11 per cent on all short-term agricultural loans irrespective of the amount of loan advanced.

5. In addition to the above three states, the three-tier co-operative credit structure in four other states, viz., Andhra Pradesh, Gujarat. Karnataka, and Punjab has been already retaining an overall interest margin (exclusive of the burden of interest tax) of 5 per cent. In these states also, therefore, it should be possible for the co-operatives to charge to the ultimate borrowers a uniform rate of interest of 11 per cent on all short-term agricultural loans irrespective of the amount of the loan advanced. In these four states, however, the sharing of the overall interest margin of 5 per cent between the institutions functioning at the three levels is not in conformity with our recommendation in this behalf. For instance, the interest margin allowed to be retained by the pacs in Andhra Pradesh, Gujarat and Punjab is 2 per cent and in the case of Karnataka it is 2.25 per cent. As against this, we have proposed in Chapter 3 that an interest margin of 2.50 per cent on agricultural loans would be necessary for the institutions at the primary level to employ a full-time paid secretary and function as a viable unit. In view of this position, we would urge on the SCBs in these four states to review the whole position so as to ensure that the pacs are allowed to retain an interest margin of 2.50 per cent on their agricultural loan business.

6. This would leave out seven states, viz., Bihar, Haryana, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh and West Bengal in which a three-tier co-operative credit system with a scheduled SCB functioning as the apex body is presently operating. Out of these seven states, in two states, viz., Rajasthan and Uttar Pradesh, while the overall interest margin presently retained by the credit structure is within the range specified by us, a higher margin is being retained by the SCB in Rajasthan and ccbs in Uttar Pradesh. Besides, the pacs in Rajasthan are allowed a

lower interest margin of 2 per cent. In the remaining five states, viz., Bihar, Haryana, Madhya Pradesh, Orissa and West Bengal, the overall interest margin retained by the credit structure has been in excess of the maximum ceiling of 5.50 per cent specified by us because of the higher margin allowed to one tier or the other when compared with our recommendations. However, in the light of the detailed analysis made by us in this behalf in the context of reduction in deposit rates and in the RBI's refinance rates made effective from 1 March 1978 and in view of our recommendation that co-operative credit institutions should not be unduly burdened with the cost of key personnel for ccbs or secretaries for pacs from the respective cadres provided to them, we suggest adoption of the interest margins shown in columns (6) to (8) of Table 1 below for the institutions functioning at the three levels in the seven states with the overall interest margin shown in column (9) of the same Table for the credit structure as a whole.

TABLE 1

Existing and the proposed interest margins for the co-operatives in Bihar, Haryana, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh and West Bengal

State	Existing Interest Margin (exclusive of the interest tax burden) retained				Proposed Interest Margin for			
	SCB	ccbs	pacs	Structure as a whole	SCB	ccbs	pacs	Structure as a whole
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Bihar	1.14	2.00	2.50	5.64	0.75	2.00	2.50	5.25
Haryana	0.44	3.25	2.75	6.44	0.50	2.25	2.50	5.25
Madhya Pradesh	0.44	2.50	3.00	5.94	0.50	2.25	2.50	5.25
Orissa	1.14	2.25	3.00	6.39	0.75	2.00	2.50	5.25
Rajasthan	1.37	2.00	2.00	5.37	0.75	2.00	2.50	5.25
Uttar Pradesh	0.43	2.40	2.50	5.33	0.50	2.25	2.50	5.25
West Bengal	1.00	2.50	2.50	6.00	0.75	2.00	2.50	5.25

7. On the above basis, the ccbs in Bihar, Haryana, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh and West Bengal would be in a position to advance short-term agricultural loans to the pacs at a rate of interest of 8.75 per cent. If the pacs in turn are to be allowed a uniform interest margin of 2.50 per

cent on their agricultural loan business, their average rate of interest on short-term loans of the ultimate borrowers would have to be 11.25 per cent. However, in order to maintain parity with the commercial banks in the matter of the rate of interest for the ultimate borrower which is essential we recommend that the pacs in these states should advance short-term agricultural loans for amounts upto Rs 2500 to such ultimate borrowers as are small farmers at 11 per cent and, in order to make up the loss of margin of 0.25 per cent on such loans, they should charge a higher rate of interest not exceeding 13 per cent to other farmers whose loans in each case exceed Rs 2500.

8. How far the pacs in the seven states concerned would be in a position to make up for the loss of margin on short-term loans upto Rs 2500 by charging a higher rate not exceeding 13 per cent on loans for amounts above Rs 2500 would depend on the proportion in amount of loans up to Rs 2500 to total loans issued by them. A statement showing the classification in terms of amount of the loans issued in 1975-6 by the pacs in different states and union territories is given in Annexure 11. The relevant position in respect of the seven states in question is given in Table 2.

TABLE 2

State	Percentage in amount to total short-term loans issued in 1975-6 of	
	Loans up to Rs 2500	Loans above Rs 2500
Bihar	90	10
Haryana	75	25
Madhya Pradesh	78	22
Orissa	87	13
Rajasthan	86	14
Uttar Pradesh[1]	100	—
West Bengal	90	10

[1] In Uttar Pradesh, loans for sugarcane cultivation which were until 1976-7 being issued by the cane unions, are now being routed through the pacs. Such loans normally are in bigger amounts. This should, therefore, result in reducing somewhat the proportion of loans for amounts up to Rs 2500 at the level of pacs to about 90 per cent of the total loans issued by them.

5

In states wherein the proportion of loans upto Rs 2500 is within 87 per cent, the loss of interest margin would be fully compensated even if the rate of interest on loans for higher amounts is restricted to 13 per cent. The problem would arise in states like Bihar, Uttar Pradesh, and West Bengal wherein the proportion of loans for amounts above Rs 2500 is as low as 10 per cent or less. The appropriate solution to this problem, in our view, is for the concerned state government to come to the aid of the pacs by allowing them suitable interest subsidy for the loss of income which cannot be made good by charging a sufficiently high rate of interest to bigger borrowers who are not small farmers. We would recommend strongly this measure for adoption by the concerned state governments until the SCB/ccbs in the respective states are in a position to reduce the interest margin available to them by 0.25 per cent, in view of the urgent need for uniformity in the interest rate structure in respect of agricultural loans irrespective of whether the lending institution is a co-operative or a commercial bank or an RRB.

9. As for the states and union territories with a two-tier co-operative credit system, we have observed earlier in paragraph 17 of Chapter 3 that in normal conditions it should be possible for the credit structure to advance short-term agricultural loans by an interest margin of 5 per cent being shared equally (i.e. 2.50 per cent each) by the institutions functioning at the apex and primary levels. In other words, in these states and union territories, the lending rate on short-term agricultural loans to all categories of farmers, irrespective of the loan amount, should be 11 per cent. We commend this suggestion for immediate adoption by the SCBs of all the states and union territories where a two-tier credit structure is now obtaining.

10. In brief, our recommendation is that the rate of interest on short-term agricultural loans charged to the ultimate borrowers by the co-operatives in the country for small farmers shoud not be more than 11 per cent if the loan amount is Rs 2500 or less. Further, the SCBs should in consultation with the Registrars of Co-operative Societies of their respective states and union territories, determine the rate of interest to be charged to other borrowers on short-term loans for amounts above

Rs 2500 which in no case should exceed the maximum ceiling of 13 per cent. No subsidy from the government, except to the extent indicated in paragraph 8 above in regard to the few states where the proportion of loans for amounts above Rs 2500 is 10 per cent or less, or further concession in the refinance rate of the RBI for short-term agricultural loans is necessary to enable the co-operative banks and societies to achieve this objective immediately, viz., lending to small farmers for loans up to Rs 2500 at a rate of interest of not more than 11 per cent per annum. But if the pacs are called upon to take up more activities (e.g. financing of artisans) and the level of their paid secretaries is to be raised, some reconsideration as regards provision of subsidy or other concessions may be necessary if the pacs are to lend at not more than 11 per cent to small farmers borrowing loans up to Rs 2500 in each case.

North-Eastern states

11. Our above recommendation would hold good in the case of Manipur also where the SCB has been enjoying the facility of concessional refinance in respect of its short-term agricultural loan business from the RBI. But a problem would arise in the case of the remaining north-eastern states, viz., Assam, Meghalaya, Nagaland and Tripura, where presently a rate of interest ranging between 13 per cent and 14 per cent on the short-term agricultural loans is being charged to the ultimate borrowers and the institutions on their own have no capacity to effect any reduction. This is because the SCBs in these four states are not in a position to satisfy the minimum eligibility standard, viz., that the percentage of overdues to demand should be below 60, stipulated by the RBI for sanction of short-term credit limits for financing seasonal agricultural operations at the concessional rate of interest. For instance, none of the SCBs of the above four states has so far been sanctioned a credit limit for the year 1977-8. One of these banks, viz., Tripura SCB, which functions as the central financing agency, has been covered by the centrally sponsored scheme for the rehabilitation of weak ccbs. In Assam, all the seven ccbs which are proposed to be merged with the SCB, have been covered by the above scheme and the assistance from the Government of India for writing off irrecoverable

dues in respect of them is expected to be released to the Assam SCB.

12. We understand in the above context that the RBI, on its part, has informally indicated in the case of some of these banks that it may relax the minimum eligibility standard for consideration of sanction of a credit limit to them provided a clear programme is chalked out for the recovery of their past overdues and actual results are shown by recovery of at least a part thereof before a specified date. This is no doubt a welcome gesture. However, the main origin of the deficiencies of the credit structure in these areas lies in the very weak position of the pacs which is reflected in the financial position of the respective higher financing agencies, viz., the SCBs. What is necessary, therefore, is a detailed study of the co-operative credit institutions at the two levels in these states so that a long-term solution could be found to their problems. We suggest that the Government of India in the ministry of Agriculture and Irrigation, Department of Rural Development and the RBI should accord due priority for this item of work.

13. Meanwhile, the RBI may consider sanctioning suitable credit limits to the SCBs concerned provided that the portion of overdues of these institutions over 60 per cent of the demand is matched by equivalent additional share capital contribution to the SCBs by the respective governments so that the credit structure is in a position to meet the demands for loans of at least the non-defaulters and new members. We would also suggest the sanctioning of suitable assistance from the RBI's Long-Term Operations Fund to the concerned governments for this purpose. Simultaneously, the respective governments may allow suitable interest subsidy to the SCBs in question in respect of fresh finance made available by them to the affiliated pacs to compensate for the difference between the economic lending rate which the banks are in a position to sustain and the rate of interest of 8.50 per cent at which they are expected to lend to the pacs so that the latter, after retaining a margin of 2.50 per cent, are in a position to finance non-defaulters and new members at a rate of interest of 11 per cent. The Government of India in

turn may consider allowing necessary plan allocation to the state governments for this purpose, as a very special case.

Medium-term loans

14. As we have observed earlier, the medium-term agricultural loan business of co-operatives is largely incidental to their short-term agricultural loan business and, generally, no extra establishment expenditure is required to be incurred by them at present for medium-term lending. It is in this context that we have proposed in Chapter 3 that the SCBs functioning as apex bodies in a three-tier structure may retain an interest margin of 0.25 per cent to 0.50 per cent in respect of their medium-term agricultural lendings to the affiliated ccbs. The ccbs would, however, require a minimum interest margin of 2 per cent as they have to look after field level work which may necessitate the appointment of extra supervisory staff. Further, the minimum interest margin necessary for the ccbs in respect of their short-term business has been worked out on the basis of a net return of 2 per cent for them on their medium-term loan business and for the reason, the pacs also would need to maintain an interest margin of 2.50 per cent on the medium-term loans provided through them. In a two-tier credit system, the SCBs can afford to maintain a lower margin by 0.25 per cent on their medium-term loans *vis-a-vis* short-term loans which would work out to 2.25 per cent as against the aggregate interest margin of 2.25 per cent to 2.50 per cent available to the SCBs and ccbs together in a three-tier credit system.

15. Thus, irrespective of whether the co-operative credit system has two or three-tiers, the total interest margin—up to the ultimate borrower—on medium-term agricultural loans necessary for the co-operatives over the RBI's refinance rate of 6.50 per cent would work out to 4.75 per cent to 5.00 per cent. In other words, co-operatives at best will be in a position to advance medium-term agricultural loans to the ultimate borrowers at a rate of interest of 11.25 per cent to 11.50 per cent. As against this position, in order to maintain parity with the rates of interest charged by commercial banks which is very essential, they should be enabled to advance medium-term loans at 10.50 per cent for

minor irrigation and land development, 11 per cent for diversified agricultural purposes and 12.50 per cent for other agricultural purposes. Further, loans in the last category for amounts up to Rs 2500 to small farmers will have to be advanced at 11 per cent. Loans for other agricultural purposes in the case of co-operatives, in fact, form a negligible proportion and a majority of loans are for amounts up to Rs 2500.

16. The matter needs to be looked at from another angle also. Co-operative land development banks advance long-term loans to the ultimate borrower for minor irrigation works, land development and diversified purposes at the same rates of interest as are applicable to commercial banks.. If the co-operatives in the short-term credit structure were to charge a higher rate of interest, even such of these farmers who are otherwise in a position to repay their loans for investment purposes within a medium-term of five years would go to land development banks, thereby denying others who may require a longer period of repayment than five years, the benefit of loans from the long-term credit structure.

17. In view of the foregoing and in the interests of the plan priority which has been accorded to minor irrigation works, dairying and allied activities in the agricultural sector, we are of the view that there is a strong case for the short-term co-operative credit system advancing medium-term loans for agricultural purposes to the ultimate borrowers at the same rates of interest as are charged by commercial banks and the land development banks. This proposition may not, however, be feasible for the co-operatives unless the RBI agrees to step up its concession in the rate of interest on refinance for medium-term agricultural purposes by a further one-half per cent so as to bring it on par with the concession in the rate of interest on its refinance for short-term agricultural purposes. We would, therefore, suggest that the RBI may review the position in this regard. In this context it may be stated that until October 1960 the RBI was providing refinance for medium-term agricultural purposes at the same concessional rate of interest as in the case of short-term loans for seasonal agricultural operations. It was, however, felt at that time that medium-term loans were not loans which were required

urgently and in most respects were devoted to permanent improvements to land as was the case with long-term loans and the concession in the rate of interest on such loans was reduced from 2 per cent to 1½ per cent below the Bank Rate by the RBI in 1960. This position, in the present context, has ceased to be of relevance since medium-term loans are now granted mostly for financing activities allied to agriculture such as dairying, poultry farming, sheep breeding, in order to provide a source of supplementary income to the cultivator or gainful occupation in the case of landless labourer. However, once the RBI has agreed to step-up the concession in the rate of interest on refinance for medium-term agricultural purposes by a further one-half per cent, the SCBs of all states and union territories should immediately so readjust the lending rates of the institutions at the different levels so as to ensure that the rates of interest for the ultimate borrowers on medium-term loans for various agricultural purposes are the same as those adopted by the commercial banks, viz., minor irrigation and land improvement (10.50%), diversified purposes (11%) and other agricultural purposes (12.50%). If this is not done, the additional concession should be withdrawn.

Uniform pattern of interest rates

18. The implementation of the above recommendations regarding the rates of interest on short-term and medium-term agricultural loans which may be charged to the ultimate borrowers by co-operatives should help in bringing about broad uniformity in the pattern of interest rates on agricultural advances adopted by commercial banks as well as co-operative banks. But the point for consideration is whether the desired objective will be realised fully. It seems that complete uniformity in the rates of interest on agricultural advances even in respect of loans to small farmers may not be feasible unless some further measures are taken. This is because, in terms of the circular letter CPC. No. BC. 27/279A-77 dated 12 December 1977 referred to in paragraph 3 of Chapter 4, the RBI has specified the maximum rates up to which interest may be charged by commercial banks on different types of agricultural advances. This means that it is open to each individual commercial bank to prescribe its own rate of interest within the respective maximum ceiling

specified by the RBI. The realigned rates of interest on agricultural advances introduced by one of the public sector banks are given in Table 3 below:

TABLE 3

Realigned Rates of Interest on Agricultural Advances introduced by one of the public sector banks

Type of Agricultural Advance	Rate of Interest in per cent effective from 1-3-1978	1-1-1978
(1)	(2)	(3)
Short-term Agricultural or Crop Loans		
Up to Rs 2500	10	
Rs 2500 — Rs 10,000	10½	
Rs 10,000 — Rs 50,000	11½	
Above Rs 50,000	12½	
Medium-term Agricultural Loans		
Minor irrigation		10½
Diversified purposes		11
Farm Mechanization—		
Up to Rs 2500	10½	
Rs 2500 — Rs 10,000	12	
Above Rs 10,000	12½	

It is evident from the above Table that the bank concerned would be charging interest at 10 per cent on short-term loans issued directly to small farmers i.e., farmers availing themselves of loans in each case up to Rs 2500. Even if a further charge of 0.50 per cent is levied by the bank, which is its existing practice, towards the Credit Guarantee Corporation's commission fee, the effective rate would work out to 10.50 per cent.

19. As against the above position, the co-operatives, even after implementation of our recommendations in this Report, would be charging interest at 11 per cent on short-term agricultural loans for amounts up to Rs 2500 issued to small farmers. We are of the view that the objective of bringing about parity in the interest rates on agricultural advances charged by commercial banks and the co-operatives can be fully realised only if

the cost of agricultural credit for at least the small farmer is the same irrespective of the type of agency providing the funds i.e., whether a commercial bank or an RRB or a co-operative society. In the light of the above observation, we would urge that the RBI may obtain data about the realigned interest rates on agricultural advances charged by the different institutional sources with full details of the service charges, Credit Guarantee Corporation's commission fee etc. required to be borne by each borrower and thereafter take up the matter, wherever necessary, with the concerned institutions so as to ensure that the effective rate of interest charged on agricultural loans at least to small farmers is uniform irrespective of whether the financing institution is a commercial bank, or an RRB or a primary co-operative credit society.

Differential rate for small farmers

20. As a logical corollary to the above recommendations, the question arises whether, as under the Differential Interest Rate Scheme applicable to commercial banks, the co-operatives should also introduce a differential interest rate for the small farmers. In fact, a demand is often made that the co-operatives also should lend at 4 per cent to the economcally weaker sections.

21. While in the light of the analysis made by us, it will not be possible for the co-operative credit institutions to bring down their interest rates to as low as 4 per cent on even a part of the total agricultural loans issued by them, there may be justification for introduction of an element of differential rate for the economically weaker sections, depending upon the capacity of the co-operative credit structure to sustain such a rate or availability of external assistance for this specific purpose.

22. From the working of a scheme in this behalf introduced in Maharashtra, we observe that as against the rate of interest on short-term loans of 11 per cent to be charged at the primary level to the ultimate borrowers, the economically weak farmers will be charged interest at 7 per cent. Five other SCBs (viz., Gujarat, Karnataka, Madhya Pradesh, Punjab and Rajasthan)

have introduced somewhat similar schemes. The details in this regard are given in Annexure 12.

23. The analysis made by us in paragraphs 4, 5 and 8 of this Chapter would show that apart from the six states mentioned in paragraph 22 above, the co-operatives in Andhra Pradesh, Kerala and Tamil Nadu and the states and Union Territories, with the exclusion of the north-eastern states, would be in a position to advance short-term agricultural loans to all categories of farmers, whether big, medium, or small, at a uniform rate of 11 per cent. In such states and Union Territories, it should be possible for the co-operatives to advance short-term agricultural loans to bigger farmers for amounts above Rs 2500 in each case at a rate of interest which is above 11 per cent but does not exceed 13 per cent and utilise the excess return therefrom for introducing a differential rate for the weaker among the small farmers. But in states where the co-operatives would have already to charge, at least for sometime to come, a higher rate than 11 per cent on loans for amounts above Rs 2500 in order to maintain a rate of interest of 11 per cent for small farmers in respect of loans for amounts up to Rs 2500, the introduction of a differential rate for the weaker among the small farmers will not be feasible unless suitable subsidy for the purpose is made available by the concerned government. We would recommend, therefore, that the SCBs in consultation with the Registrars of Co-operative Societies of their states should initiate steps for introduction of a scheme of differential rate of interest for the weaker among the small farmers in their respective areas, assisted by suitable subsidy for the purpose, from the government, wherever it becomes necessary, in order to equip the co-operatives to introduce such a differential rate.

24. Nevertheless, it will not be possible for the co-operatives in any state or Union Territory to reduce their rates of interest to as low as 4 per cent even to the weaker among the small farmers unless very large assistance for the purpose is made available by the concerned government. This would necessarily mean that there will continue to be a large element of disparity between the interest rate structure of commercial banks and the co-operatives in respect of certain categories of economically weak

farmers. In this context, the Kamath Working Group had recommended a thorough review of the working of the Differential Interest Rate Scheme applicable since 1972 to public sector banks and we have in paragraph 7 of Chapter 4 of this Report, endorsed this view. We had also urged that such a review should be taken up urgently by the RBI. When this is done, the criteria for defining the weaker among the small farmers and the differential rate for such farmers should be so fixed as would be capable of adoption by the co-operatives as well and thus help bring about parity in the rates of interest charged by commercial banks as well as the co-operatives on loans to economically weak farmers.

Pooled rate system

25. As we have indicated earlier in paragraph 1 of Chapter 1, concessional refinance facilities for the co-operative credit institutions were introduced by the RBI on the understanding that these institutions in turn would charge a pooled rate of interest i.e., the same rate of interest on their agricultural advances, irrespective of the source of funds. However, some SCBs like those in Madhya Pradesh and Tamil Nadu are found to be charging interest at a higher rate on that portion of the short-term borrowings of their affiliated ccbs as is not covered by non-overdue loans outstanding against the pacs for the reason that such loans not backed by adequate non-overdue cover are not reimbursed by the RBI and, therefore, are in practice loans advanced out of their internal resources. In effect, this means that a higher rate of interest on a certain portion of short-term loans to ccbs is charged by these SCBs even though the corresponding demand has not fallen due for repayment merely because concessional refinance from the RBI is not available in respect of such loans. This practice does not seem a reasonable one because the SCBs which function as the federal bodies of and balancing centres for the affiliated ccbs, are expected to not only supplement the resources made available by the RBI in meeting the credit needs of the affiliated ccbs but also absorb the deficiencies in the working of the ccbs. There is, therefore, no justification for them to charge additional interest to ccbs on the loans not backed by non-overdue cover especially

when, if eventually a default occurs in the repayment of such loans, the SCB concerned would be charging a penal rate of interest on the defaulted amount to the defaulting ccb. We would, therefore, suggest that all the SCBs, whenever they do so, should give up the practice of charging additional interest on the loans not backed by adequate non-overdue cover at the level of ccbs. We would also suggest that the penal interest on overdue loans of ccbs charged by SCBs should not exceed 1 per cent from the date of default. Further, it is suggested that the RBI may prescribe a lower rate, say, 1 per cent over and above the normal rate which would be charged as penal rate of interest in the event of defaults in repayment by the SCBs. This will no doubt involve some modifications in the practice now being followed by the Reserve Bank in regard to the levy of penal interest on its advances to SCBs which, presently, is the difference between the effective rate of interest charged by the Reserve Bank to the SCBs and the Bank Rate viz., 3 per cent. Further, this penal rate, under the terms and conditions of loans sanctioned by the Reserve Bank, is payable from the date of original advance and not from the date of default, though in actual practice, as we understand, the Reserve Bank had in the past, taken a lenient view and where such occasions had arisen, charged penal rate only from the date of default. It would, however, follow from our above recommendation that if the state co-operative banks should not charge penal rate of more than 1 per cent from the date of default, the Reserve Bank should also bring down the penal rate of interest to this level viz., 1 per cent above the effective rate of interest and charge this, as a rule, from the date of default and not from the date of original advance.

Related issues

26. In order to ensure that agricultural credit to small farmers is advanced by the co-operatives at appropriately low rates of interest, we have specified in this Report a range (separately for the SCBs and the ccbs) within which interest margins may be retained by the SCBs/ccbs. While making this suggestion, we have proceeded on the basis that every SCB/ccb will be in a position to adequately compensate itself for the loss of income

arising out of agricultural lendings made out of their deposit resources by way of additional income accruing to them from their non-agricultural advances or by ensuring a certain degree of refinance at the lower 'pooled' rate from the SCB in the case of ccbs and at the concessional refinance rate from the RBI on behalf of the affiliated ccbs in the case of SCBs. It has, however, been brought to our notice that certain SCBs/ccbs are not in a position to obtain the needed degree of refinance from their higher financing agency mainly for two reasons, viz., (i) excess liquidity position of the banks and (ii) non-compliance with certain operational conditions stipulated by the RBI to regulate drawals on the credit limits sanctioned by it which results in either increasing the cost of refinance or a stoppage of concessional refinance facilities from the RBI. Some of the SCBs/ccbs have, therefore, represented to the RBI that as in the case of commercial banks which have since been made entitled to receive refinance from the RBI at the Bank Rate up to 50 per cent of their advances to small farmers for amounts up to Rs 2500 in each case and the RRBs which are as a rule entitled to refinance from RBI at 50 per cent of their total lendings under short-term agricultural loans, a certain proportion of concessional refinance from the RBI should be available to the SCBs on behalf of their affiliated ccbs irrespective of (i) the liquidity position of the concerned SCB/ccb and (ii) the inability of the banks to comply with the operational requirements stipulated by the RBI. The task assigned to us would, therefore, be incomplete without an examination of this aspect.

27. The problem of excess liquidity has arisen in the case of a few co-operatively developed states wherein the SCBs or some of the ccbs though flushed with funds are not in a position to find an outlet for such resources within the co-operative fold. It cannot be denied that the emergence of this situation is primarily due to inadequate development, for one reason or the other, of bankable co-operative ventures in different spheres and the inactive role played by SCBs and ccbs in formulation of local schemes which they could finance. For instance, with the exception of co-operative sugar industry, noticeable development has not taken place during the last decade in other sectors like marketing of agricultural produce on co-operative basis, cotton

ginning and pressing, processing of oil seeds, co-operative handloom units etc. The problem of reorganization or revitalization of pacs into viable units has not been given due weightage in certain major states nor have adequate steps been taken for the recovery of overdues and for providing loans to newly enrolled members. As a result, an anomalous situation has arisen in some states/districts that on the one hand there is no dearth of resources as such with the co-operative banking sector but still on the other hand, significant credit inadequacies exist in the sphere of agricultural credit.

28. A long-term solution to the problem of surplus liquidity in our view, would lie in the concerned banks taking energetic steps for building up demand for their deposit resources within the co-operative fold itself. For, it cannot be overlooked that deposit mobilization by these banks has been facilitated because of the recognition given to SCBs/ccbs as balancing centres and, therefore, the observance of the principle that the surplus resources of co-operative institutions should be deposited with these banks so that they could be utilized for the benefit of institutions needing funds. In this context, co-operative banks should explore the possibilities of a greater involvement of their lendable resources in more remunerative investments or higher interest bearing advances within the co-operative sector such as advances to co-operative sugar factories, co-operative spinning mills, marketing societies, consumers' stores etc. The Reserve Bank, on its part, we feel, may also take a more liberal view of the Credit Authorisation Scheme in allowing lending to affiliated co-operatives and of what is being called as 'legitimate charge' on the resources of co-operative banks in deciding upon the credit limit eligibility from the RBI. We would, therefore, recommend that the RBI should review its present policy in this regard and issue suitable instructions.

29. But, even as a temporary measure, some other solution has to be found in order to enable the concerned SCBs/ccbs to sustain the rates of interest proposed for them in respect of their agricultural lendings. The obvious outlet of such surplus funds would be by way of investment in call deposits with commercial banks particularly when such surpluses are of a temporary or

seasonal nature. However, such investments can be allowed up to such level as would help serve as cushion for the day-to-day operations of the concerned bank. It has been the practice of the RBI normally to permit SCBs to keep call deposits with commercial banks up to the extent of 3 per cent of their total demand and time liabilities and charge a penal rate on that portion of the borrowings of the SCB from the RBI, at concessional rate of interest which represents the excess call deposits placed by the SCB concerned with commercial banks over and above the ceiling specified by the RBI. This is done to ensure that the borrowings from the RBI at a concessional rate are not utilised to earn profits by way of return on call deposits. The need for the above discipline is, therefore, obvious. As against this position, it is often contended that in view of the increase in volume of operations of the SCBs and large credit facilities made available by some of them for financing various types of co-operative activities, the need for ready availability of liquid funds has increased, justifying an upward revision of the ceilings specified by the RBI for the various SCBs. We would suggest that the RBI may review the position and consider an upward revision of the general norm (i.e., 3 per cent of total time and demand liabilities) as also the bankwise ceilings fixed by it to regulate investments of the SCBs in call deposits with commercial banks giving due weightage to factors such as the contingency of a bank being suddenly called upon to meet large demand for funds from certain big borrowing units.

30. Another solution to the problem of excess liquidity or surplus funds would lie in allowing, even if it were to be a transitional measure, the concerned SCBs/ccbs to widen their scope for lendings to cover certain limited spheres outside the co-operative fold like financing of certain undertakings such as Dairy Development Corporations, Agro-Industries Corporations, Marketing Boards, Electricity Boards, etc., which provide or help the development of facilities for agricultural or rural production, processing or marketing. This will, however, be subject to such guidelines as the RBI may prescribe taking into account aspects such as (a) the nature and extent of surplus funds at the disposal of a bank; (b) the scope for further lending in the co-operative sector and (c) other relevant factors such as whether

the activities proposed to be financed are those which help rural production and marketing. Besides, no blanket permission in this behalf is envisaged. Again, the financial position of the borrowing institutions and the terms and conditions of the loans should be such as to ensure that the funds provided by the SCBs/ccbs are not locked up, but repaid in time. The RBI may decide the case of each SCB/ccb on merits i.e., on a bank by bank basis and when considered appropriate specify (i) the ceiling in amount up to which the bank concerned may invest its resources in loans and advances outside the co-operative fold; (ii) the period for which such diversion of resources outside the co-operative sector is permitted; (iii) the type of borrowers and purpose to be covered by the permission and (iv) the type of checks the SCBs/ccbs will exercise over the borrowing institutions to safeguard their interests. Once all this is done, we suggest that the investment of the concerned bank in advances covered by the RBI permission may be treated by the RBI as a legitimate charge on the bank's resources for the purpose of consideration of the sanction of a credit limit on behalf of the bank for financing seasonal agricultural operations.

31. We may turn next to some of the main operational requirements prescribed by the RBI to regulate drawals on the credit limits sanctioned by it on behalf of the ccbs. These are indicated briefly in Annexure 13. It will be seen therefrom that some of the main operational requirements prescribed by the Reserve Bank to regulate drawals on the credit limits sanctioned by it are (a) financing of small and economically weak farmers up to a certain specified percentage of total loans issued; (b) seasonality discipline governing the recovery of loans; and (c) linking borrowings from the RBI with efforts for deposit mobilisation made by the central banks. No doubt these measures are wholesome aimed at ensuring that (i) the co-operatives fulfil one of the main objectives for which they were organised viz., for meeting the credit requirements of weaker sections; (ii) the production loans issued by them are recovered in time; and (iii) the institutions pay adequate attention to mobilization of internal resources and thus gain in financial strength. At the same time, the question has to be viewed from another angle, i.e., from the point of view of the recom-

mendations made elsewhere in this Report about the margins to be retained at different levels of the co-operative credit system and the rate of interest to be charged to the ultimate borrower, particularly the small farmer. The ability of the system to lend at this recommended rate of interest to the ultimate borrower would depend to a considerable extent on the ability of the bank to draw upon the concessional refinance available from RBI. The above mentioned stipulations, particularly those relating to the seasonality condition and deposit mobilisation may, however, either tend to restrict, sometimes the quantum of credit that could be drawn against limits sanctioned by RBI or reduce the benefit of the concessional rate of interest on drawals from the sanctioned limits. We are, therefore, of the view that the RBI may undertake a review of these stipulations, as early as possible, so as to ensure that they do not become unduly restrictive and take away the benefit of the concessions extended by the RBI, particularly in regard to the rate of interest. It stands to reason that after such a review, whatever financial disciplines are enforced on co-operatives in regard to their agricultural lendings should be made equally applicable to the agricultural lendings made by commercial banks and RRBs. We recommend that the RBI may issue suitable instructions to commercial banks and RRBs in the matter.

32. Another related aspect to which we should like to make a reference in the above context is about the definition of a small farmer. Presently, widely varying definitions are followed by different agencies for identifying a small farmer for the purpose of financial assistance. For instance, the Government of India go by the acreage criterion and, accordingly, cultivators with landholding below 5 acres of unirrigated land or 2.5 acres of irrigated land as defined in the land ceiling legislation are classified as small farmers for assistance under the special programmes for such farmers. The ARDC, for the purpose of financing small farmers under the IDA aided projects, has defined a small farmer as one who is cultivating land that produces, before any improvements are made, a maximum annual net return to the farm family of Rs 2000, based on 1972 prices. The RBI, in the ACD, however, have, for the purpose of ensuring certain minimum level of lendings (20 per cent of the total)

to small and weak farmers, adopted yet another standard inasmuch as in areas other than those covered by the SFDA/MFAL projects, a small and marginal/economically weak farmer is defined as one having landholding up to 3 acres which ceiling has been raised depending upon the pattern of distribution of landholdings according to size in the area of operations of the central banks concerned. As against this position, most of the commercial banks, as we understand, go by the quantum of loan though some of them also take into account the acreage criterion. Since special programmes for small farmers and weaker sections will hereafter have a much wider spread than hitherto, it is essential that there is some uniformity in approach and certain common procedures evolved for the purpose of defining a small farmer. We would, therefore, urge that the Government of India in the Ministry of Agriculture and Irrigation, Department of Rural Development, and the RBI in the ACD should, after mutual consultation, evolve an appropriate common yardstick in this regard to be uniformly adopted by the concerned agencies for provision of credit facilities and assistance to small and marginal farmers.

Refinance for marketing of crops and fertilizers

33. At the meeting with the chief executives of the SCBs held on 6 March 1978, the Governor, RBI, had, in the context of a suggestion that a reduction in the rate of interest on refinance from the RBI for marketing of crops and distribution of fertilisers was necessary, indicated that the suggestion would be examined separately by the RBI and that if there was a case for reducing the rate of interest, it will be done, but in any event it cannot be below the Bank Rate. Since it is often argued that a significantly higher rate of interest on marketing finance *vis-a-vis* the rate of interest on production credit adversely affects the recovery of production loans through marketing of agricultural produce and that a higher rate of interest on refinance for distribution of fertilizers results in unduly increasing the cost of agricultural inputs, we have to consider the suggestion made at the meeting held on 6 March 1978.

34. Until September 1974, the credit limits for financing

marketing of crops were being sanctioned by the RBI at concessional rate of interest i.e., at the same rate of interest at which refinance was being made available by the Bank for financing seasonal agricultural operations. The rate of interest on marketing finance was, however, thereafter increased from 2 per cent below the Bank Rate to 3 per cent above the Bank Rate i.e., by 5 per cent. This increase was made in view of the fact that refinance from the RBI for financing marketing of crops was confined to two or three cash crops only and that too in a few states and, therefore, there was little possibility of concessional rate of interest on refinance for such purpose acting as incentive for linking recovery of production credit with marketing of produce. Simultaneously, the SCBs/ccbs were advised to charge a minimum rate of interest of 13 per cent on their advances to co-operative marketing societies so as to ensure a broad parity with the rate of interest charged by scheduled commercial banks on their advances against agricultural produce.

35. The position regarding the quantum of refinance provided by the RBI during the period 1972-3 to 1976-7 for marketing of crops is given in Table 4.

TABLE 4
Refinance for Marketing of Crops provided by the RBI

Rs Crores

Year	No. of applications sanctioned by the RBI	Amount sanctioned	Of col. (3), amount sanctioned for marketing of cotton and kapas
(1)	(2)	(3)	(4)
1972-3	11	52.83	52.80
1973-4	12	20.58	20.55
1974-5	15	40.30	39.65
1975-6	10	37.37	32.37
1976-7	10	31.48	31.40

Note: The above statement excludes limits sanctioned against repledge of sugar which are mainly utilised for making payments to cane growers.

Thus, the quantum of refinance provided for the purpose by the RBI has not been significant and the bulk of it has gone for the marketing of cotton and *kapas*. The main reason for this is the general weakness of co-operative marketing societies in several states and the absence of proper linking of marketing with production credit. The result has been that the number of ccbs eligible for sanction of marketing refinance by the RBI has so far been very small as may be seen from Table 4 above.

36. With the reduction in deposit rates and removal of interest tax made effective from 1 March 1978, a reduction on the lending rates of commercial banks on their advances for marketing of agricultural produce is inevitable. In view of this position and the present state of affairs indicated in paragraph 35 above, it seems necessary for the RBI to provide refinance for the marketing of agricultural produce undertaken on co-operative basis, if not at a concessional rate, at least at a rate which does not exceed the Bank Rate. This is especially so when the credit for marketing of crops by co-operatives stands on an entirely different footing from credit for trading in agricultural commodities and also in view of the fact that drawals under the marketing limits from the RBI are limited to the amount of production credit. Besides, each drawal is allowed to run for a maximum period of 90 days only and does not in any way facilitate hoarding of produce. We are, therefore, of the view that the Reserve Bank's refinance rate in respect of marketing credit should be such as would enable the beneficiary SCB/ccb to finance the marketing societies at a rate of interest which is more or less on par with the rate of interest that would be charged by the co-operatives on short-term production credit to the ultimate borrowers. We would thus for the time being favour the provision of marketing refinance by the RBI at the Bank Rate (which is at present 9 per cent) so that co-operative banks are enabled to finance marketing societies for their marketing business at a rate of interest of about 11 per cent.

37. In regard to fertilizer credit, it may be mentioned that following a shift in government policy regarding the supply of fertilizers on consignment basis from the Central Fertilizer Pool i.e., since 1967, the RBI has been sanctioning credit limits for financing fertilizer distribution to the SCBs on behalf of either the state level apex marketing federations or the affiliated ccbs to enable the latter banks to finance co-operative marketing societies,

Until about 1971, such refinance from the RBI was being provided at the Bank Rate. The RBI's policy regarding financing of fertilizer distribution was reviewed by the Agricultural Credit Board at its first meeting in April 1971 when it was decided that such refinance might in future be provided by the RBI on a very selective basis i.e., strictly as a lender of last resort, only when the marketing federations and societies were not in a position to obtain funds for the purpose from the commercial or co-operative banks from their own resources. Simultaneously, it was decided that even such refinance should be provided by the RBI on more stringent terms and the rate of interest thereon should be 2 per cent above the Bank Rate. In pursuance of this revised policy and in view of the comfortable liquidity position of commercial banks, no credit limits for fertilizer distribution were sanctioned by the RBI in 1973 as also until June 1974 when at the request of some SCBs like Gujarat, Karnataka, Madhya Pradesh and Maharashtra, the RBI agreed to sanction to the SCBs credit limits for fertilizer distribution to meet the gap between the estimated demand for credit for the purpose and the resources available from commercial banks as also from out of internal resources of the concerned SCB. The rate of interest was, however, again revised upwards to 3 per cent above the Bank Rate in 1974 in the interest of maintaining parity with the rate charged by commercial banks. State-wise meetings are arranged by the RBI at which the representatives of commercial banks, the concerned SCB and the state government are invited and at such meetings the share of each agency in the total credit requirements for fertilizer distribution is decided. The interest rate charged by the participating commercial banks and the SCBs to apex marketing federations is generally kept uniform.

38. A major portion of the credit for fertilizer distribution is presently provided by commercial banks as may be seen from Table 5 on page 80. The rate of interest charged by commercial banks on their loans for fertilizer distribution was around 14 per cent. The same is expected to be revised downwards following the reduction in deposit rates and removal of interest tax with effect from 1 March 1978. It is therefore, necessary for the co-operatives

TABLE 5

Limits Sanctioned for the Distribution of Fertilizers

Rs Crores

	1975	1976	1977
(1)	(2)	(3)	(4)
Commercial banks	101.00	114.15	104.62
SCBs (out of internal resources)	8.00	47.00	45.00
RBI	49.05	27.05	13.05
Total	158.05	188.20	162.67

also to fall in line. The question also needs examination from another angle. The demand for fertilizers is seasonal whereas the production and import thereof is throughout the year. The co-operative distribution system consisting of apex/primary marketing societies and a large number of pacs acting as their retail units and covering almost all interior centres, are thus required to bear storage and interest costs of fertilizers for long periods justifying increase of distribution margins for them. But sanction of higher distribution margins than at present would result in an increase in retail prices of fertilizers for the cultivation which, in the present context, is not desirable. In such circumstances, an appropriate solution would lie in reducing the rate of interest for distribution of fertilizers. We recommend that the RBI may consider revising downwards the rate of interest on its refinance for fertilizer distribution from 3 per cent above the Bank Rate to the Bank Rate i.e., 9 per cent.

Concluding observations

39. We have in this Report endeavoured to suggest the appropriate interest margins for each tier in the co-operative credit system and the rates of interest which might be adopted by the co-operatives in respect of their agricultural loans advanced to the ultimate borrowers. While recommending suitable steps needed to be taken in this behalf, two main objectives have been kept in view, viz., (i) the proposed rates of interest at various levels should prove economic for the institutions concerned and

(ii) there should be uniformity in the rates of interest on agricultural loans charged to the ultimate borrowers irrespective of the source of funds.

40. Following the announcement of the recent concessions with effect from 1 March 1978, the co-operatives in some states/ Union Territories have already realigned their interest rates on agricultural loans. It would be useful to find out how far these realigned rates conform to our recommendations. The position in this behalf in respect of states and Union Territories wherein the realignment has taken place and advised to us is given in Table 6 on page 82. The revised rate of interest on short-term agricultural loans in respect of the ultimate borrowers introduced or proposed to be introduced in Kerala, Maharashtra and Pondicherry generally conforms to the rate proposed by us. In Karnataka, the ultimate borrowers are to be charged a rate of interest of 11.25 per cent on short-term loans as against 11 per cent proposed by us for small farmers in respect of loans up to Rs 2500. This is because the SCB of Karnataka has now proposed to retain an interest margin of 0.75 per cent as against the net interest margin of about 0.50 per cent (exclusive of the burden of interest tax) so far retained by it. In Tamil Nadu also, the ultimate borrowers, with the exception of small farmers borrowing loans for the cultivation of foodcrops only, are proposed to be charged a rate of interest on short-term loans which is 1 per cent higher than that proposed by us because higher interest margins are proposed to be kept by the SCB and the ccbs. There is, therefore, no reason why the rate of interest in respect of short-term loans proposed by us cannot be adopted in Karnataka and Tamil Nadu. The position in the case of Uttar Pradesh is not different inasmuch as, despite withdrawal of the interest tax, the SCB has proposed to retain the same interest margin of 1.10 per cent as was enjoyed by it prior to 1 March 1978 and the same interest margin of 2.40 per cent would continue to be retained by the ccbs as against the margin of 2.25 per cent proposed by us for them in view of the reduction in deposit rates. Thus, it is not a difficult proposition for the co-operatives in Uttar Pradesh to advance, as suggested by us, short-term loans to the ultimate

TABLE 6

State/Union Territory	Realigned Rates of Interest in per cent	
	Short-term Loans	Medium-term Loans
(1)	(2)	(3)
Karnataka		
SCB to ccbs	6.75	7.25
ccbs to pacs	8.75	9.25
pacs to members	11.25	11.75
Differential rate for small and economically weak farmers	9.00	
Kerala		
SCB to ccbs	6.75	7.25
ccbs to pacs	8.50	9.00
pacs to members	11.00	11.50
Maharashtra		
SCB to ccbs	6.25	6.75
ccbs to pacs	8.00	8.50
pacs to members	11.00	11.50
Differential rate for small and economically weak farmers	7.00	
Orissa		
SCB to ccbs	6.75	7.25
ccbs to pacs	8.75	9.25
pacs to members	11.00	11.50
Tamil Nadu		
SCB to ccbs	6.66	7.50
ccbs to pacs	9.50 (8.00[1])	10.00
pacs to members	12.00 (10.50[1])	12.50
Uttar Pradesh		
SCB to ccbs	7.10	7.60
ccbs to pacs	9.50	10.00
pacs to members	12.00	12.50
Pondicherry[2]		
SCB to pacs	8.50	9.00
pacs to members	11.00	11.00

[1] Rate of interest in respect of credit to small farmers for cultivation of foodcrops only.

[2] Two-tier structure.

borrowers at a rate of 11 per cent in the case of loans to small farmers for amounts up to Rs 2500 each and a higher rate not exceeding 13 per cent in the case of loans for amounts above Rs 2500 to bigger cultivators.

41. In contrast, in the case of Orissa, as against our suggestion that the rate of interest charged by the co-operatives on short-term loans to the ultimate borrowers who are small farmers may be 11 per cent for loans up to Rs 2500 and above 11 per cent but not exceeding 13 per cent in respect of loans for amounts exceeding Rs 2500 so that an average interest margin of 2.50 per cent is available to the pacs, the SCB of Orissa has decided to introduce a uniform rate of interest of 11 per cent on short-term loans for all categories of farmers. In the process, the pacs will be allowed to retain an interest margin of 2.25 per cent as against the minimum margin of 2.50 per cent necessary for them to function as a viable unit and employ a full-time paid secretary.

42. In the case of medium-term agricultural loans, the ultimate borrowers will have to pay interest at a rate which is higher by 0.50 per cent than on short-term loans except in the case of Pondicherry wherein the interest will be charged at the same rate of 11 per cent irrespective of whether the loan is short-term or medium-term and irrespective of the purpose of the medium-term loan. This means in all the seven states and Union Territories wherein the revision of interest rates has taken place viz., Karnataka, Kerala, Maharashtra, Orissa, Tamil Nadu, Uttar Pradesh and Pondicherry, the co-operatives would charge a much higher rate on medium-term loans *vis-a-vis* the rates of interest according to the purpose of investment credit adopted by commercial banks and land development banks.

43. If the position explained in paragraphs 40 to 42 above is allowed to continue, the very objective of establishing a broad parity between the rates of interest on agricultural lendings of the co-operatives and commercial banks will be defeated. We would, therefore, urge on the SCBs and the governments of the states and Union Territories where the interest structure of co-operatives has been revised to review the position once again

in the light of our recommendations and make necessary changes so as to ensure that the rates of interest on agricultural advances adopted by the co-operatives in the respective areas conform to the rates of interest proposed by us. All other state governments/SCBs should also ensure speedy implementation of the various recommendations made by us in this Report so that the benefit of appropriately low rates of interest on agricultural loans percolates to the entire borrowing membership of pacs all over the country right from the *kharif* 1978 cultivation season itself.

SUMMARY OF RECOMMENDATIONS*

Chapter 3: *Appropriate Interest Margins*

1. An SCB functioning as the apex body in a three-tier credit system can justifiably retain an interest margin in relation to the relevant RBI's refinance rate within the range of 0.50 per cent to 0.75 per cent in respect of short-term agricultural loans and within the range of 0.25 per cent to 0.50 per cent in respect of medium-term agricultural loans. (8)

2. It should be possible for a ccb to function satisfactorily by retaining a net interest margin within the range of 2 per cent to 2.25 per cent, over the concerned SCB's refinance rate, in respect of its agricultural loan business, whether short-term or medium-term. (13)

3. Assuming that the pacs would be in a position to keep all their establishment expenses, with the exclusion of the cost of paid secretary, within 0.70 per cent of the average loans outstanding, an interest margin of 2.50 per cent on loan business, whether short-term or medium-term, should be adequate for the credit institutions at the primary level to employ a full-time secretary and function as a viable unit. If, however, the burden on the society of statutory contributions such as audit fee caderization fee, supervision fee, etc. is high or it is called upon to undertake a number of service functions, it would logically follow that the pacs will need a higher interest margin and this in turn would push up the cost of credit to the ultimate borrowers. It is, therefore, urged on the state governments to review the position in this behalf and, wherever necessary, provide suitable assistance so as to ensure that agricultural credit is provided at appropriately lower rates of interest to the ultimate borrowers. Similarly, if the employment of a better qualified secretary with a higher salary is considered necessary, the position will have to be reviewed and a suitable solution found. Further, until every reorganized society reaches the level

* The number in brackets at the end of each recommendation refers to paragraph number given in the concerned Chapter of the Report.

of minimum loan business of Rs 2 lakhs needed for its viability, the deficit arising in meeting the cost of a full-time secretary for it should, in the normal course, be borne by the higher level institutions in the credit structure, but their liability in this behalf should be limited to the extent of their surplus earnings, if any, arrived at on the basis of interest margins suggested for them and the balance should be borne by the concerned state government by way of suitable managerial subsidy as part of the programme for strengthening the primary co-operative credit structure. (15)

4. In areas where the three-tier co-operative credit system is operating, the total interest margin—up to the ultimate borrower—available to the credit structure as a whole, over and above the rates of interest on refinance available from the RBI, should be within the range of 5 per cent to 5.50 per cent for short-term agricultural loans and within the range of 4.75 per cent to 5.25 per cent for medium-term agricultural loans, including conversion loans. Besides, in states where the SCBs or the ccbs have significantly larger proportion of non-agricultural loan business in relation to the total loan business than the position normally obtaining in this behalf, there may be scope for a further reduction of the above suggested overall interest margins. This benefit, instead of being passed on to all categories of borrowers, should be utilized to charge a differential rate for the small farmers. (16)

5. In a two-tier credit system, the total interest margin—up to the ultimate borrower—available to the credit structure as a whole will have to be between 5 per cent and 5.25 per cent in the case of both short-term and medium-term agricultural loans. (17)

Chapter 4: *Lending Rates of Commercial Banks on Agricultural Advances*

6. The RBI may advise commercial banks to advance short-term and medium-term agricultural loans to pacs/FSS taken over for financing by them at a rate of interest of 9 per cent so that the societies covered by the scheme are in a position to

employ a full-time paid secretary and also adjust their lending rates to correspond to the lending rates of the societies financed by the ccbs of the districts or areas concerned. (10)

7. Once this is done, the commercial banks may insist on a full-time paid secretary being provided to every society taken over for financing by them. Besides, their share of liability in meeting the cost of paid secretary so provided should not exceed the extent of liability in this behalf borne by the ccb of the district or area concerned. (10)

8. The RBI may so re-adjust the refinance rate applicable to RRBs as would enable them to retain an interest margin equivalent to the interest margin proposed for the SCBs under a two-tier structure i.e., 2.50 per cent and lend to the societies attached to them at a rate of interest of 9 per cent as also issue direct agricultural loans at rates of interest which broadly correspond to the lending rates charged by co-operatives to the ultimate borrowers. (11)

Chapter 5: *Lending Rates on Agricultural Advances at the Primary Level and Related Issues*

9. There is a strong case for parity between the interest rates on agricultural advances charged to ultimate borrowers by the co-operatives, commercial banks or RRBs. (2)

10. With the enhancement of the concession in the rate of interest on the RBI's refinance for short-term agricultural purposes from 1 March 1978, it should be possible for the co-operative credit structure in Kerala, Maharashtra and Tamil Nadu to continue to function within an overall interest margin of 5 per cent and charge to the ultimate borrowers at the primary level a uniform rate of interest of 11 per cent on all short-term agricultural loans irrespective of the amount of loan advanced. (4)

11. The co-operative credit structure in Andhra Pradesh, Gujarat, Karnataka and Punjab has been already retaining an overall interest margin (exclusive of the burden of interest tax) of 5 per

cent and, therefore, it should be possible for the co-operatives in these states to charge to the ultimate borrowers a uniform rate of interest of 11 per cent on all short-term agricultural loans irrespective of the amount of loan advanced. In these four states, however, the interest margin allowed to be retained by the pacs is 2 per cent in Andhra Pradesh, Gujarat and Punjab and in the case of Karnataka it is 2.25 per cent as against the recommended interest margin of 2.50 per cent on agricultural loans necessary for the institutions at the primary level to employ a full-time paid secretary and function as a viable unit. In view of this position, it is urged on the SCBs in these four states to review the whole position so as to ensure that the pacs are allowed to retain an interest margin of 2.50 per cent on their agricultural loan business. (5)

12. In the context of reduction in deposit rates and in the RBI's refinance rates made effective from 1 March 1978 and in view of an earlier recommendation that co-operative credit institutions should not be unduly burdened with the cost of key personnel for ccbs or secretaries for pacs from the respective cadres provided to them, adoption of interest margins shown in columns (6) to (8) of the Table on page 89 for the institutions functioning at the three levels in Bihar, Haryana, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh and West Bengal with the overall interest margin shown in column (9) of the same Table for the credit structure as a whole, is suggested. (6)

13. On the above basis, the pacs in the above seven states should be in a position to advance short-term agricultural loans to the ultimate borrowers at an average rate of interest of 11.25 per cent. However, in order to maintain parity with the commercial banks in the matter of rate of interest for the ultimate borrower which is essential, it is recommended that the pacs in these states should advance short-term agricultural loans for amounts up to Rs 2500 to such ultimate borrowers as are small farmers at 11 per cent and, in order to make up for the loss of margin of 0.25 per cent on such loans, they should charge a higher rate of interest not exceeding 13 per cent to other farmers whose loans in each case exceed Rs 2500. (7)

TABLE 6

Existing and the proposed Interest Margins for the Co-operatives in Bihar, Haryana, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh and West Bengal

State	Existing Interest Margin (Exclusive of the Interest Tax Burden) Retained				Proposed Interest Margin For			
	SCB	ccbs	pacs	Structure as a whole	SCB	ccbs	pacs	Structure as a whole
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Bihar	1.14	2.00	2.50	5.64	0.75	2.00	2.50	5.25
Haryana	0.44	3.25	2.75	6.44	0.50	2.25	2.50	5.25
Madhya Pradesh	0.44	2.50	3.00	5.94	0.50	2.25	2.50	5.25
Orissa	1.14	2.25	3.00	6.39	0.75	2.00	2.50	5.25
Rajasthan	1.37	2.00	2.00	5.37	0.75	2.00	2.50	5.25
Uttar Pradesh	0.43	2.40	2.50	5.33	0.50	2.25	2.50	5.25
West Bengal	1.00	2.50	2.50	6.00	0.75	2.00	2.50	5.25

14. In states wherein the proportion of loans up to Rs 2500 is within 87 per cent of the total short-term loans issued, the loss of interest margin would be fully compensated even if the rate of interest on loans for higher amounts is restricted to 13 per cent. The problem would arise in states like Bihar, Uttar Pradesh and West Bengal wherein the proportion of loans for amounts above Rs 2500 is as low as 10 per cent or less. The appropriate solution for the problem is for the concerned state government to come to the aid of the pacs by allowing them suitable interest subsidy for the loss of income which cannot be made good by charging a sufficiently high rate of interest than 13 per cent to bigger borrowers who are not small farmers. This measure is strongly recommended for adoption by the concerned state governments until the SCB/ccbs in the respective states are in a position to reduce the interest margin available to them by 0.25 per cent, in view of the urgent need for uniformity in the interest rate structure in respect of agricultural loans irrespective of whether the lending institution is a co-operative or a commercial bank or an RRB. (8)

15. As for the states/Union Territories with a two-tier co-operative credit system, it is recommended that the lending rate on short-term agricultural loans to all categories of farmers, irrespective of the loan amount, should be 11 per cent, the interest margin of 5 per cent being shared equally (i.e., 2.50 per cent each) by the institutions functioning at the apex and primary levels. (9)

16. In brief, the rate of interest on short-term agricultural loans charged to the ultimate borrowers by the co-operatives in the country for small farmers should not be more than 11 per cent if the loan amount is Rs 2500 or less and that the SCBs should, in consultation with the Registrars of Co-operative Societies of their respective states and Union Territories, determine the rate of interest to be charged to other borrowers on short-term loans for amounts above Rs 2500 which in no case should exceed the maximum ceiling of 13 per cent. (10)

17. In the case of the north-eastern states of Assam, Meghalaya, Nagaland and Tripura, however, what is necessary is a

detailed study of the co-operative credit institutions at the two levels in these states so that a long-term solution could be found to their problems. It is suggested that the Government of India in the Ministry of Agriculture and Irrigation, Department of Rural Development and the RBI should accord due priority for this item of work. (12)

18. Meanwhile, the RBI may consider sanctioning suitable credit limits for the SCBs concerned provided that the portion of overdues of these institutions over 60 per cent of the demand is matched by equivalent additional share capital contribution to the SCBs by the respective governments so that the credit structure is in a position to meet the demands for loans of at least the non-defaulters and new members. It is also suggested that the RBI may sanction suitable assistance from its LTO Fund to the concerned governments for this purpose. Simultaneously, the respective governments may allow suitable interest subsidy to the SCBs in question in respect of the fresh finance made available by them to the affiliated pacs to compensate for the difference between the economic lending rate which the banks are in a position to sustain and the rate of interest of 8.50 per cent at which they are expected to lend to the pacs so that the latter, after retaining a margin of 2.50 per cent, are in a position to finance non-defaulters and new members at a rate of interest of 11 per cent. The Government of India in turn may consider allowing necessary plan allocations to the state governments for this purpose as a very special case. (13)

19. The co-operatives at best will be in a position to advance medium-term agricultural loans to the ultimate borrowers at a rate of interest of 11.25 per cent to 11.50 per cent. As against this position, in order to maintain parity with the rates of interest charged by the commercial banks which is very essential, they should be enabled to advance medium-term loans at 10.50 per cent for minor irrigation and land development, 11 per cent for diversified agricultural purposes and at 12.50 per cent for other agricultural purposes. Further, loans in the last category for amounts up to Rs 2500 to small farmers will have to be advanced at 11 per cent. (15)

20. In view of the above position and in the interest of plan priority that has been accorded to minor irrigation works, dairying and allied activities in the agricultural sector, there is a strong case for the short-term co-operative credit system advancing medium-term loans for agricultural purposes to the ultimate borrowers at the same rates of interest as are charged by commercial banks and land development banks. This proposition may not, however, be feasible for the co-operatives unless the RBI agrees to step up its concession in the rate of interest on refinance for medium-term agricultural purposes by a further one-half per cent so as to bring it on par with the concession in the rate of interest on its refinance for short-term agricultural purposes. It is, therefore, suggested that the RBI may review the position in this regard. (17)

21. Once the RBI has agreed to step up the concession in the rate of interest on refinance for medium-term agricultural purposes by a further one-half per cent, the SCBs of all states and Union Territories should immediately so readjust the lending rates of the institutions at the different levels so as to ensure that the rates of interest for the ultimate borrowers on medium-term loans for various agricultural purposes are the same as those adopted by the commercial banks. If this is not done, the additional concession should be withdrawn. (17)

22. The objective of bringing about parity in the interest rates on agricultural advances charged by commercial banks and co-operatives can be broadly realised only if the cost of agricultural credit for at least the small farmer is the same irrespective of the type of agency providing the funds i.e., whether a commercial bank or an RRB or a co-operative society. It is, therefore, urged that the RBI may obtain data about the realigned interest rates on agricultural advances charged by the different institutional sources with full details of the service charges, Credit Guarantee Corporation's commission fee, etc., required to be borne by each borrower and thereafter take up the matter with the concerned institutions so as to ensure that the effective rate of interest charged on agricultural loans, at least to small farmers, is uniform irrespective of whether the financing institution is a

commercial bank or an RRB or a primary co-operative credit society. (19)

23. In states where the co-operatives would have already to charge, at least for sometime to come, a higher rate than 11 per cent on loans for amounts above Rs 2500 in order to maintain a rate of interest of 11 per cent for small farmers in respect of loans for amounts up to Rs 2500, the introduction of a differential rate for the weaker among the small farmers will not be feasible unless suitable subsidy for the purpose is made available by the concerned government. It is recommended, therefore, that the SCBs in consultation with the Registrars of Co-operative Societies of their states should initiate steps for introduction of a scheme of differential rate of interest for the weaker among the small farmers in their respective areas assisted by suitable subsidy for the purpose, from the government, wherever it becomes necessary, in order to equip the co-operatives to introduce such a differential rate. (23).

24. Nevertheless, it will not be possible for the co-operatives in any state or Union Territory to reduce their rates of interest to as low as 4 per cent even to the weaker among the small farmers unless very large assistance for the purpose is made available by the concerned government. This would necessarily mean that there will continue to be a large element of disparity between the interest rate structure of commercial banks and the co-operatives in respect of certain categories of economically weak farmers. It is, therefore, urged that a review of the working of the Differential Interest Rate Scheme applicable since 1972 to public sector banks should be taken up urgently by the RBI. When this is done, the criteria for defining the weaker among the small farmers and the differential rate for such farmers should be so fixed as would be capable of adoption by the co-operatives as well and thus help bring about parity in the rates of interest charged by commercial banks as well as the co-operatives on loans to economically weak farmers. (24)

25. It is suggested that all SCBs, wherever they do, shoul give up the practice of charging additional interest on the loans not backed by adequate non-overdue cover at the level of ccbs.

20. In view of the above position and in the interest of plan priority that has been accorded to minor irrigation works, dairying and allied activities in the agricultural sector, there is a strong case for the short-term co-operative credit system advancing medium-term loans for agricultural purposes to the ultimate borrowers at the same rates of interest as are charged by commercial banks and land development banks. This proposition may not, however, be feasible for the co-operatives unless the RBI agrees to step up its concession in the rate of interest on refinance for medium-term agricultural purposes by a further one-half per cent so as to bring it on par with the concession in the rate of interest on its refinance for short-term agricultural purposes. It is, therefore, suggested that the RBI may review the position in this regard. (17)

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25. It is suggested that all SCBs, wherever they do, shoul give up the practice of charging additional interest on the loans not backed by adequate non-overdue cover at the level of ccbs.

It is also suggested that the penal interest on overdue loans of ccbs charged by SCBs should not exceed 1 per cent from the date of default. It would follow that the RBI should also bring down the penal rate of interest to this level, viz., 1 per cent above the effective rate of interest and charge this, as a rule, from the date of default and not from the date of original advance. (25)

26. A long-term solution to the problem of excess liquidity for SCBs or ccbs would lie in the concerned banks taking energetic steps for building up demand for their deposit resources within the co-operative fold itself. In this context, co-operative banks should explore the possibilities of a greater involvement of their lendable resources in more remunerative investments or higher interest bearing advances within the co-operative sector such as advances to co-operative sugar factories, co-operative spinning mills, marketing societies, consumers stores etc. The Reserve Bank, on its part, may also take a more liberal view of the Credit Authorisation Scheme in allowing lendings to affiliated co-operatives and of what is being called as 'Legitimate charge' on the resources of co-operative banks in deciding the credit limit eligibility from the RBI. It is, therefore, recommended that the RBI should review its present policy in this regard and issue suitable instructions. (28)

27. The RBI may consider an upward revision of the general norm (i.e., 3 per cent of total time and demand liabilities) as also bank-wise ceilings fixed by it to regulate investments of the SCBs in call deposits with commercial banks giving due weightage to factors such as the contingency of a bank being suddenly called upon to meet large demand for funds from certain big borrowing units. (29)

28. As a transitional measure, another solution to the problem of excess liquidity or surplus funds would lie in allowing the concerned SCBs/ccbs to widen their scope for lendings to cover certain limited spheres outside the co-operative fold like financing of certain undertakings such as Dairy Development Corporations, Agro-Industries Corporations, Marketing Boards, Electricity Boards, etc., which provide or help the development of faci-

lities for agricultural or rural production, processing or marketing. This will, however, be subject to such guidelines as the RBI may prescribe taking into account aspects such as (a) the nature and extent of surplus funds at the disposal of a bank; (b) the scope for further lending in the co-operative sector and (c) other relevant factors such as whether the activities proposed to be financed are those which help rural production and marketing. Besides, no blanket permission in this behalf is envisaged. Again, the financial position of the borrowing institutions and the terms and conditions of loans should be such as to ensure that funds provided by the SCBs/ccbs are not locked up, but repaid in time. The RBI may decide the case of each SCB/ccb on merits i.e., on a bank by bank basis and when considered appropriate specify (i) the ceiling in amount up to which the bank concerned may invest its resources in loans and advances outside the co-operative fold; (ii) the period for which such diversion of resources outside the co-operative sector is permitted; (iii) the type of borrowers and purpose to be covered by the permission; and (iv) the type of checks which the SCBs/ccbs will exercise on the borrowing institutions to safeguard their interests. Once this is done, the investment of the concerned bank in advances covered by the RBI permission may be treated by the RBI as a legitimate charge on the bank's resources for the purpose of consideration of the sanction of a credit limit on behalf of the bank for financing seasonal agricultural operations (30)

29. The three main operational requirements, viz., (a) financing up to certain specified percentage of total loans issued to small and economically weak farmers; (b) seasonality discipline governing the recovery of loans; and (c) linking borrowings from the RBI with efforts for deposit mobilization made by the ccbs, prescribed by the RBI to regulate drawals on the credit limits sanctioned by it on behalf of the ccbs, are wholesome measures. They are aimed at ensuring that (i) the co-operatives fulfil one of the main objectives for which they were basically organized, viz., for meeting the credit requirements of weaker sections; (ii) the production loans issued by them are recovered in time; and (iii) the institutions pay adequate attention to mobilization of internal resources and thus gain in finan-

cial strength. At the same time, the ability of the co-operative system to lend at the recommended rates of interest to the ultimate borrowers would largely depend on the extent of concessional refinance available from RBI. The above mentioned stipulations particularly those relating to the seasonality condition and deposit mobilization may, however, either tend to restrict sometimes the quantum of credit that could be drawn against limits sanctioned by RBI or reduce the benefit of the concessional rate of interest on drawals from the sanctioned limits. In view of this position, it is suggested that the RBI may undertake a review of these stipulations, as early as possible, so as to ensure that they do not become unduly restrictive and take away the benefit of the concessions extended by the RBI, particularly in regard to the rate of interest. (31)

30. It stands to reason that after such a review, whatever financial disciplines are enforced on co-operatives in regard to their agricultural lendings should be made equally applicable to the agricultural lendings made by commercial banks and RRBs and, therefore, the RBI may issue suitable instructions to commercial banks and RRBs in the matter. (31)

31. Since special programmes for small farmers and weaker sections will hereafter have a much wider spread than hitherto, it is urged that the GOI in the Ministry of Agriculture and Irrigation, Department of Rural Development, and the RBI in the ACD should, after mutual consultation, evolve an appropriate common yardstick to define a small farmer to be uniformly adopted by the different agencies for provision of credit facilities and assistance to small and marginal farmers. (32).

32. It is recommended that the RBI's refinance rate in respect of marketing credit should be such as would enable the beneficiary SCB/ccb to finance the marketing societies at a rate of interest which is more or less on par with the rate of interest that would be charged by the co-operatives on short-term production credit to the ultimate borrowers. Thus, the RBI may for the time being provide marketing refinance at the Bank Rate (which is at present 9 per cent) so that the co-operative banks are enabled to finance

the marketing societies for their marketing business at a rate of interest of about 11 per cent. (36)

33. The RBI may consider revising downwards the rate of interest on its refinance for fertilizer distribution from 3 per cent above the Bank Rate to the Bank Rate i.e., 9 per cent. (38)

34. With a view to establishing a broad parity between the rates of interest on agricultural lendings of the co-operatives and commercial banks, it is urged on the SCBs and the governments of the states and union territories where the interest structure of co-operatives has been revised to review the position once again in the light of the recommendations made in this Report and make necessary changes so as to ensure that the rates of interest on agricultural advances adopted by the co-operatives in the respective areas conform to the rates of interest proposed in this Report. The other state governments/SCBs should also ensure speedy implementation of the various recommendations made in this Report so that the benefit of appropriately low rates of interest on agricultural loans percolates to the entire borrowing membership of pacs all over the country right from *kharif* 1978 cultivation season itself. (43)

Chairman	:	K. Madhava Das
Members	:	S. Satyabhama M. V. Hate[1] Nripendra Misra G. Kumaraswamy Reddy[1] L. P. Bhargava W. C. Shrishrimal J. Sengupta S. S. Madalgi
Member-Secretary		C. V. Nair

Bombay
2 June 1978

[1] Dr M. V. Hate and Shri Kumaraswamy Reddy signed the Report on 24 June 1978 and 27 June 1978 respectively

ANNEXURE 1

Rates of Interest on Agricultural Loans charged by Co-operatives as on 31 December 1977

	Short-term Loans			Medium-term including Conversion Loans		
State/Union Territory	SCB to ccbs	ccbs to pacs	pacs to Member	SCB to ccbs	ccb to pacs	pacs to Member
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Andhra Pradesh	8.00	10.50	12.50	9.25	11.75	13.75
Bihar	8.75	10.75	13.25	9.25	11.25	13.75
Gujarat	7.50[1]	10.50	12.50	8.00	10.25	12.50
Haryana	8.00	11.25	14.00	9.00[2]	12.00	14.00
Karnataka	8.00[1]	10.25	12.50	8.50	10.75	13.00
Kerala	8.00	10.00	12.50	8.50	10.50	13.00
Madhya Pradesh	8.00[1,2]	10.50	13.50	8.50[2]	11.00	14.00
Maha-rashtra	8.00	10.00	13.00	8.25	10.50	13.50
Orissa	8.75	11.00	14.00	9.00	11.50	14.50
Punjab	8.30[1]	10.50	12.50	8.70	10.50	12.50
Rajasthan	9.00[1]	11.00	13.00	9.44	11.00	13.00
Tamil Nadu	8.10[2]	10.10	12.60	8.95	11.30	13.80
Uttar Pradesh	8.10	10.50	13.00	8.60	10.50	13.00
West Bengal	8.00	10.50	13.00	8.50	11.50	14.00
Assam	10.00	—	14.00	10.00	—	14.00
Goa, Daman and Diu	9.00	—	11.00	11.00	—	13.00
Himachal Pradesh	10.00	—	12.50	10.50	—	13.00
Megha-laya	11.00	—	13.50	11.50	—	14.50
Nagaland	11..00	—	14.00	11.50	—	14.00
Pondi-cherry	9.50	—	12.00	10.00	—	12.00
Tripura	10.00	—	13.00	11.50	—	14.50

[1] A lower rate is charged in respect of advances to small and marginal farmers.

[2] Lendings out of internal resources are charged a higher rate of interest.

ANNEXURE 2

Rates of Interest on Agricultural Loans generally charged to ultimate Borrowers prior to 1-3-1978

State/Union Territory	Short-term Agricultural Loans			Medium-term Agricultural Loans including Conversion Loans		
	Rate of interest inclusive of tax burden	Interest tax burden	Col. (2a) minus Col. (2b)	Rate of interest inclusive of tax burden	Interest tax burden	Col. (3a) minus Col. (3b)
(1)	(2a)	(2b)	(2c)	(3a)	(3b)	(3c)
Andhra Pradesh	12.5	0.58	11.92	13.75	0.65	13.10
Bihar	13.25	0.61	12.64	13.75	0.65	13.10
Gujarat	12.50	—	12.50	12.50	—	12.50
Haryana	14.00	0.56	13.44	14.00	0.63	13.37
Karnataka	12.50	0.56	11.94	13.00	0.60	12.40
Kerala	12.50	0.56	11.94	13.00	0.60	12.40
Madhya Pradesh	13.50	0.56	12.94	14.00	0.60	13.40
Maharashtra	13.00	0.56	12.44	13.50	0.58	12.92
Orissa	14.00	0.61	13.39	14.50	0.63	13.87
Punjab	12.50	0.58	11.92	12.50	0.61	11.89
Rajasthan	13.00	0.63	12.37	13.00	0.66	12.34
Tamil Nadu	12.60	0.57	12.03	13.80	0.63	13.17
Uttar Pradesh	13.00	0.57	12.43	13.00	0.60	12.40
West Bengal	13.00	—	13.00	14.00	—	14.00
Assam	14.00	—	14.00	14.00	—	14.00
Goa, Daman and Diu	11.00	—	11.00	13.00	—	13.00
Himachal Pradesh	12.50	—	12.50	13.00	—	13.00
Meghalaya	13.50	—	13.50	14.50	—	14.50
Nagaland	14.00	—	14.00	14.00	—	14.00
Pondicherry	12.00	—	12.00	12.00	—	12.00
Tripura	13.00	—	13.00	14.50	—	14.50

ANNEXURE 3

Interest Margins retained at various Levels prior to 1 March 1978

State	Short-term Agricultural Loans					Medium-term Agricultural Loans including Conversion Loans				
	Apex Bank Level margin			ccb level	pacs level	Apex Bank Level margin			ccb level	pacs level
	Inclusive of tax burden	Interest tax burden	Col. (2a) minus Col. (2b)			Inclusive of tax burden	Interest tax burden	Col. (5a) minus Col. (5b)		
(1)	(2a)	(2b)	(2c)	(3)	(4)	(5a)	(5b)	(5c)	(6)	(7)
Andhra Pradesh[1]	1.00	0.56	0.44	2.50	2.00	1.75	0.65	1.10	2.50	2.00
Bihar	1.75	0.61	1.14	2.00	2.50	1.75	0.65	1.10	2.00	2.50
Gujarat	0.50	—	0.50	3.00	2.00	0.50	—	0.50	2.25	2.25
Haryana	1.00	0.56	0.44	3.25	2.75	1.5[2]	0.63	0.87	3.00	2.00
Karnataka	1.00	0.56	0.44	2.25	2.25	1.00	0.60	0.40	2.25	2.25
Kerala	1.00	0.56	0.44	2.00	2.50	1.00	0.60	0.40	2.00	2.50
Madhya Pradesh[1]	1.00	0.56	0.44	2.50	3.00	1.00	0.60	0.40	2.50	3.00
Maharashtra	1.00	0.56	0.44	2.00	3.00	0.75	0.58	0.17	2.25	3.00
Orissa	1.75	0.61	1.14	2.25	3.00	1.50	0.63	0.87	2.50	3.00
Punjab	1.30	0.58	0.72	2.20	2.00	1.20	0.61	0.59	1.80	2.00
Rajasthan	2.00	0.63	1.37	2.00	2.00	1.90	0.66	1.24	1.56	2.00
Tamil Nadu	1.10	0.57	0.53	2.00	2.50	1.45	0.63	0.82	2.35	2.50
Uttar Pradesh	1.10	0.57	0.53	2.40	2.50	1.10	0.60	0.50	1.90	2.50
West Bengal	1.00	—	1.00	2.50	2.50	1.00	—	1.00	3.00	2.50
Assam	3.00	—	3.00	—	4.00	2.50	—	2.50	—	4.00
Goa, Daman and Diu	2.00	—	2.00	—	2.00	3.50	—	3.50	—	2.00
Himachal Pradesh	3.00	—	3.00	—	2.50	3.00	—	3.00	—	2.50
Meghalaya	4.00	—	4.00	—	2.50	4.00	—	4.00	—	3.00
Nagaland	4.00	—	4.00	—	3.00	4.00	—	4.00	—	2.50
Pondicherry	2.50	—	2.50	—	2.50	2.50	—	2.50	—	2.00
Tripura	3.00	—	3.00	—	3.00	4.00	—	4.00	—	3.00

[1] In case of Andhra Pradesh margin on medium-term conversion loans is higher by 0.75 at apex bank level and in case of Madhya Pradesh margin on medium-term conversion loans is higher by 1.00 at apex bank level.

[2] Margin upto 3% retained on loans made out of own resources.

ANNEXURE 4

Some financial Particulars of the Scheduled State Co-operative Banks as on 30 *June* 1977

Rupees Lakhs

Name of the State Co-operative Bank	Owned Funds	Deposits	Total borrowings	Advances			Percentage of (2) to (7)	Percentage of (5) to (7)	Percentage of (6) to (7)
				Agricul-tural	Others	Total			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Andhra Pradesh	1104.95	4601.60	5217.25	7151.59	1753.74	8905.33	12.4	80.3	19.6
Bihar[1]	471.34	2303.59	605.60	2055.04	412.38	2467.42	19.1	83.3	16.7
Gujarat	1605.40	8305.22	5314.43	7092.39	5542.86	12635.25	12.7	56.1	43.9
Haryana	567.57	2866..11	2327.28	2280.51	1835.88	4116.39	13.8	55.4	44.6
Karnataka									
Kerala	472.88	1918.10	966.22	1363.60	1151.23	2514.83	18.8	54.2	45.8
Madhya Pradesh	1449.51	3102.73	2375.88	4676.03	867.67	5543.70	26.1	84.3	15.7
Maharashtra	4545.52	23023.05	2300.04	5913.28	11876.12	17789.40	25.5	33.2	66.8
Orissa	365.16	1546.26	1486.42	1878.55	896.95	2775.50	13.1	67.6	32.4
Punjab	958.09	5001.15	881.70	3589.22	839.48	4428.70	21.65	81.1	18.9
Rajasthan	743.84	2190.81	2885.24	5230.13	108.71	5338.84	13.9	97.7	2.3
Tamil Nadu	1215.35	5611.06	8629.55	9406.94	4336.15	13743.09	8.8	68.4	31.6
Uttar Pradesh	1625.68	10466.12	1692.21	5807.17	4247.07	10054.24	16.2	57.8	42.2
West Bengal	518.74	2614.72	3052.43	4244.82	771.35	5016.17	10.3	84.5	15.5

[1] Figures as on 28 May 1976.

ANNEXURE 5

Average Cost of raising Deposits of Scheduled State Co-operative Banks for the year 1976-7

Rupees Lakhs

Name	Total Deposits as on 30-6-1976	30-6-1977	Column (2b) minus Column (2a)	50% of Column (3)	Column (2a) minus Column (4)	Interest paid on deposits	Percentage of Column (6) to Column (5)
(1)	(2a)	(2b)	(3)	(4)	(5)	(6)	(7)
Andhra Pradesh	4380.02	4601.60	221.58	110.76	4490.78	325.15	7.2
Bihar							
Gujarat	7359.08	8305.22	946.14	473.07	7832.15	701.84	8.9
Haryana	2278.23	2866.11	587.88	293.94	2572.17	141.57	5.5
Karnataka							
Kerala	1586.46	1918.10	331.64	165.82	1752.28	139.99	7.9
Madhya Pradesh	2506.56	3102.73	596.17	298.08	2804.64	178.21	6.3
Maharashtra	22491.86	23023.05	531.19	265.60	22757.46	1637.57	7.2
Orissa	1090.61	1546.36	455.75	227.87	1318.48	126.51	9.5
Punjab	4437.29	5001.15	563.86	281.93	4719.22	348.05	7.3
Rajasthan	1660.61	2190.81	530.20	265.10	1925.71	150.73	7.8
Tamil Nadu[1]	3988.08	5611.06	1622.98[2]	811.49	4799.57	382.76	7.9
Uttar Pradesh	5517.26	7529.83	2012.57	1006.28	6523.54	414.04[1]	6.3
West Bengal	2244.56	2614.72	370.16	185.08	2429.64	137.64	5.6

[1] for 1974-5. [2] for 1975-6.

ANNEXURE 6

Statement showing the proportion of all Establishment Expenses to total Gross Income for the year 1976-7 in respect of Scheduled State Co-operative Banks

Rupees Lakhs

Name of State Co-operative Bank	Total Gross Income for the year 1976-7	All Establishment Expenses with the exception of interest paid on deposits and borrowings	Percentage of (3) to (2)
(1)	(2)	(3)	(4)
Andhra Pradesh	926.44	85.89	9.3
Bihar	..	..	..
Gujarat	1426.65	137.61	9.1
Haryana	459.90	39.99	8.7
Karnataka	..	..	..
Kerala	312.57	43.59	13.9
Madhya Pradesh	566.38	99.02	17.4
Maharashtra	2536.81	300.08	11.8
Orissa	232.93	27.76	11.9
Punjab	640.11	51.67	8.1
Rajasthan	437.84	73.00	16.6
Tamil Nadu	1225.54	149.35	12.2
Uttar Pradesh	710.04	85.91	12.1
West Bengal	253.74	60.32	23.7

.. Particulars not received.

ANNEXURE 7

Financial particulars of some Central Co-operative Banks as on 30th June 1977

Rupees Lakhs

State	Name of central co-operative banks	Owned funds	Deposits	Outstanding borrowings	Outstanding Advances: Agricultural	Outstanding Advances: Non-agricultural	Outstanding Advances: Total	% of Col. (6a) to Col. (6c)	% of Col. (6b) to Col. (6c)
(1)	(2)	(3)	(4)	(5)	(6a)	(6b)	(6c)	(7)	(8)
Andhra Pradesh	Eluru	156.50	373.43	595.04	841.37	109.69	951.06	88.47	11.53
	Vizianagaram	247.12	637.22	624.16	681.83	562.31	1244.14	54.80	45.20
Bihar	Dumka	55.08	66.95	95.82	166.93	8.62	175.55	95.09	4.91
	Arrah	58.90	68.53	151.16	231.27	13.19	244.46	94.61	5.39
Gujarat	Jamnagar	264.32	274.50	564.05	762.67	153.63	916.30	83.24	16.76
	Panchmahals	110.23	702.39	39.82	338.42	200.05	538.47	62.85	37.15
	Surat	278.78	2051.60	54.25	390.52	1253.10	1643.62	23.75	76.25
	Kutch	58.01	75.64	18.26	74.28	18.51	92.79	80.05	19.95
	Banaskantha	174.83	596.82	99.15	336.11	244.94	581.05	57.85	42.15
Haryana	Sirsa	95.63	171.22	289.07	416.90	72.29	489.19	85.22	14.78
	Rohtak	77.74	347.18	178.73	273.24	210.29	483.53	56.51	43.49
	Kurukshetra	182.43	352.13	167.48	498.17	84.89	583.06	85.45	14.55
	Bhiwani	76.21	217.39	138.50	308.89	61.95	370.84	83.30	16.70
	Gurgaon	178.78	327.02	272.33	453.28	143.74	597.02	75.24	24.76
Karnataka	Bidar	218.59	220.69	509.39	721.17	137.49	858.66	83.99	16.01
	Kanara	147.01	500.04	165.93	354.08	289.48	643.56	55.01	44.99
	Mysore	142.66	213.22	554.27	505.99	278.68	784.67	64.48	35.52
	Bijapur	203.21	668.46	409.11	874.04	192.04	1066.08	81.98	18.02

ANNEXURE 7 (Contd.)

(1)	(2)	(3)	(4)	(5)	(6a)	(6b)	(6c)	(7)	(8)
Kerala	Malabar	110.11	506.81	189.73	310.01	320.66	630.67	49.56	50.44
	Quilon	203.91	496.41	326.00	466.37	339.56	805.93	57.67	42.33
	Idukki	76.09	202.93	123.23	256.86	59.77	316.63	81.13	18.87
	Palghat	168.81	485.78	255.60	303.88	442.71	746.59	40.71	59.29
Madhya Pradesh	Barwani	147.53	244.13	256.77	498.64	33.92	532.56	93.64	6.36
	Morena	116.03	177.94	5.52	163.17	13.78	176.95	92.22	7.78
	Raipur	244.03	271.20	455.18	823.74	100.31	924.05	89.15	10.85
	Mandla	50.98	87.16	127.17	204.72	10.35	215.07	95.19	4.81
	Shahdol	24.51	39.10	46.84	78.43	8.60	87.03	90.12	9.88
Maharashtra	Jalgaon	387.55	2039.33	415.64	1326.73	676.56	2003.29	66.23	33.77
	Kolhapur	459.48	2261.71	513.35	1694.65	805.15	2499.80	67.80	32.20
	Aurangabad	308.33	780.64	494.18	992.90	207.61	1200.51	82.71	17.29
	Akola	244.23	975.26	375.48	1180.72	75.13	1255.85	94.03	5.97
	Ahmednagar	623.58	2178.49	1759.10	1876.07	1711.80	3587.87	52.29	47.71
Orissa	Baudh	23.56	60.41	68.02	103.74	13.46	117.20	88.52	11.48
	Bhawani-patna	47.60	76.62	124.50	208.58	5.47	214.05	97.45	2.55
	Balasore	75.93	99.83	133.70	225.07	23.82	248.89	90.43	9.57
	Angul	78.11	101.95	248.60	348.62	16.45	365.07	95.50	4.50
Punjab	Patiala	263.56	637.45	135.83	510.92	242.35	753.27	67.83	32.17
	Batala	92.59	225.31	97.05	236.88	81.26	318.14	74.49	25.51
	Jullundur	131.64	1114.37	75.33	163.36	233.27	396.63	41.13	58.87
	Ropar	70.95	319.16	3.55	226.01	50.31	276.32	81.80	18.20
	Ferozepur	135.19	288.44	221.00	324.50	164.75	489.25	66.33	33.67

(1)	(2)	(3)	(4)	(5)	(6a)	(6b)	(6c)	(7)	(8)
Rajasthan	Kota	227.74	388.39	427.79	731.95	25.87	757.82	96.59	3.41
	Dungarpur	25.18	87.33	79.51	117.98	28.88	146.86	80.34	19.66
	Barmer	35.72	79.33	154.00	174.19	3.74	177.93	97.90	2.10
	Jodhpur	72.60	175.97	251.25	347.02	22.47	369.49	93.92	6.08
Tamil Nadu	Kanchee-puram	261.23	403.02	810.26	787.31	492.82	1280.13	61.51	38.49
	Tirunelveli	207.73	412.20	727.64	803.73	322.44	1126.17	71.37	28.63
	Thanjavur	235.00	301.32	739.28	1046.28	128.76	1175.04	89.43	10.57
	Madurai	458.47	1230.98	1586.67	1890.96	805.29	2696.25	70.14	29.86
	Nilgiris	107.84	259.99	133.03	303.44	84.11	387.55	78.30	21.70
Uttar Pradesh	Muzaffar-nagar	144.98	751.75	205.39	691.99	98.73	790.92	87.52	12.48
	Gorakhpur	106.68	301.49	95.95	327.20	47.59	374.79	87.31	12.69
	Allahabad	138.78	395.12	170.74	369.33	71.06	440.39	83.87	16..13
	Jhansi	63.70	147.19	107.55	157.55	17.12	174.67	90.20	9.80
West Bengal	Malda	30.86	89.27	134.19	186.24	10.12	196.36	94.85	5.15
	Burdwan	176.58	681.11	440.45	702.82	326.68	1029.50	68.18	31.82
	Purulia	39.95	69.09	35.24	55.33	13.64	68.97	80.30	19.70

ANNEXURE 8

Average Cost of raising Deposits of some Central Co-operative Banks for the year 1976-7

Sr. No.	Name of the Central Bank	Total Deposits as on 30-6-76	Total Deposits as on 30-6-77	Col. (3b) minus Col. (3a)	50% of Col. (4)	Col. (3a) plus Col. (5)	Interest paid on deposits	% of Col. (7) to Col. (6)
(1)	(2)	(3a)	(3b)	(4)	(5)	(6)	(7)	(8)
	Andhra Pradesh							
1.	Eluru	279.38	373.43	94.05	47.02	326.40	21.12	6.5
2.	Vizianagaram	542.18	637.22	95.04	47.52	589.70	39.47	6.7
	Bihar							
3.	Dumka	40.62	66.95	26.33	13.16	53.78	2.04	3.8
	Gujarat							
4.	Jamnagar	256.34	274.50	18.16	9.08	265.42	17.75	6.7
5.	Panchmahals	666.36	702.39	36.03	18.01	684.37	86.71	12.0
6.	Surat	1660.04	2051.60	391.56	195.78	1855.82	184.25	9.9
7.	Kutch	65.10	75.64	10.54	5.27	70.37	3.92	5.5
8.	Banaskantha	460.27	596.82	136.55	68.27	528.54	60.71	11.2
	Haryana							
9.	Sirsa	164.47	171.22	6.75	3.37	167.84	5.71	3.4
10.	Rohtak	245.37	347.18	101.81	50.90	296.27	16.42	5.6
11.	Kurukshetra	294.16	352.13	57.97	28.98	323.14	12.44	3.8
12.	Bhiwani	190.72	217.39	26.67	13.33	204.05	11.46	5.6
13.	Gurgaon	294.54	327.02	32.48	16.24	310.78	16.49	5.3
	Karnataka							
14.	Bidar	164.87	220.69	55.82	27.91	192.78	8.28	4.3

ANNEXURE 8 (Contd.)

(1)	(2)	(3a)	(3b)	(4)	(5)	(6)	(7)	(8)
15.	Sirsi	439.63	500.04	60.41	30.20	469.83	37.98	8.1
16.	Bijapur	555.81	668.46	112.65	56.32	612.18	40.74	6.6
	Kerala							
17.	Malabar	429.41	506.81	77.40	38.70	468.11	37.67	8.0
18.	Quilon	462.77	496.41	33.64	16.82	479.59	28.11	5.8
19.	Idukki	161.02	202.93	41.91	20.95	181.97	9.55	5.2
20.	Palghat	433.85	485.78	51.93	25.96	459.81	35.42	7.7
	Madhya Pradesh							
21.	Barwani	170.23	244.13	73.90	34.95	205.18	11.64	5.6
22.	Morena	155.76	177.94	22.18	11.09	166.85	10.76	6.4
23.	Raipur	218.01	271.20	53.19	26.59	244.60	17.46	7.1
24.	Mandla	58.05	87.16	29.11	14.55	72.60	3.84	5.3
25.	Shahdol	31.85	39.10	7.25	3.62	35.47	1.48	4.2
	Maharashtra							
26.	Kolhapur	1919.04	2261.71	342.67	171.33	2090.37	171.34	8.2
27.	Jalgaon	1783.57	2039.33	255.76	127.88	1911.45	105.92	5.5
28.	Ahmednagar	2029.06	2178.49	149.43	74.71	2103.77	134.41	6.4
	Orissa							
29.	Baudh	24.68	60.41	35.73	17.86	42.54	1.61	3.8
30.	Bhawanipatna	57.73	76.62	18.89	9.44	67.17	2.21	3.3
31.	Balasore	77.84	99.83	21.99	10.99	88.83	4.83	5.4
32.	Angul	84.24	101.95	17.71	8.85	93.09	7.79	8.3
	Punjab							
33.	Patiala	623.85	637.45	13.60	6.80	630.65	35.99	5.7

ANNEXURE 8 (Contd.)

(1)	(2)	(3a)	(3b)	(4)	(5)	(6)	(7)	(8)
34.	Jullundur	1098.52	1114.37	15.85	7.92	1106.44	62.87	5.7
	Rajasthan							
35.	Kota	323.02	388.39	65.37	32.68	355.70	22.82	6.5
36.	Dungarpur	65.12	87.33	22.21	11.10	76.22	7.73	10.1
37.	Barmer	49.67	79.33	29.66	14.83	64.50	3.93	6.1
38.	Jodhpur	104.17	175.97	71.80	35.90	140.07	6.46	4.6
	Tamil Nadu							
39.	Kancheepuram	303.89	403.02	99.13	49.56	353.45	25.19	7.1
40.	Tirunelvelli	328.85	412.20	83.35	41.67	370.52	26.75	7.2
41.	Thanjavur	231.59	301.32	69.73	34.86	266.45	19.42	7.2
42.	Madurai	1003.73	1230.98	227.25	113.62	1117.35	156.85	14.1
43.	Nilgiris	203.61	259.99	56.38	28.19	231.80	18.68	8.0
	Uttar Pradesh							
44.	Muzaffarnagar	601.87	751.75	149.88	74.94	676.81	32.65	4.8
45.	Gorakhpur	227.51	301.49	73.98	36.99	264.50	15.68	6.0
46.	Allahabad	300.41	395.12	94.71	47.35	347.76	19.55	5.6
47.	Jhansi	78.49	147.19	68.70	34.35	112.84	5.93	5.3
	West Bengal							
48.	Malda	66.22	89.27	23.05	11.52	77.74	3.57	4.6
49.	Burdwan	512.37	681.11	168.74	84.37	596.74	46.57	7.7

ANNEXURE 9

Proportion of various types of expenditures to Gross Income in respect of some Central Co-operative Banks for 1976-77

Name of State	Name of Central Co-operative Bank	Percentage to Gross Income of: Interest paid on deposits	Interest paid on borrowings	All other expenditure
(1)	(2)	(3)	(4)	(5)
Andhra Pradesh	Eluru	22.4	39.2	24.1
Gujarat	Jamnagar	17.6	47.9	29.5
	Surat	64.6	4.11	27.1
Haryana	Gurgaon	23.1	39.9	31.8
	Sirsa	10.3	49.1	32.7
	Rohtak	33.2	24.8	33.0
Karnataka	Bijapur	32.0	29.3	29.5
	Sirsi	44.8	17.2	22.2
Kerala	Malabar	41.0	22.0	36.0
Madhya Pradesh	Raipur	13.9	42.1	37.5
Maharashtra	Kolhapur	50.4	13.0	25.7
Orissa	Baudh	15.1	45.9	39.0
Punjab	Batala	17.2	51.7	19.3
	Patiala	35.1	23.8	38.8
Rajasthan	Barmer	24.2	40.3	31.6
	Dungarpur	37.7	29.9	30.4
	Kota	23.5	39.4	25.6
Tamil Nadu	Nilgiris	35.9	21.1	30.3
	Thanjavur	15.0	43.5	19.1
	Kancheepuram	18.0	47.0	23.0
Uttar Pradesh	Muzaffarnagar	34.2	21.7	34.1
West Bengal	Purulia	31.8	30.2	11.1

ANNEXURE 10

Rates of Interest charged by the State Bank of India and the nationalized banks on their Agricultural Advances issued directly as at the end of June 1977

Rupees Lakhs

Name of bank	Purpose	Rate of interest in per cent per annum	Extent of land holding of the borrower	Quantum of loans	
				Short-term	Medium term
(1)	(2)	(3)	(4)	(5)	(6)
State Bank of India	Crop and term loans	11	Upto 5AI or 1OAD	Upto 0.02	
		13	Above 5AI or 1OAD		
		12	Upto 5AI or 1OAD	0.02 to 0.05	
		13	Above 5A1 or 1AOD		
		14½	Not stipulated	Above 0.05	
Allahabad Bank	-do-	10	Upto 2.5A	Upto 0.01	Upto 0.02
		10½	2.5A to 5A	0.01 to 0.02	0.02 to 0.05
		11	Above 5A	Upto Rs 2500	0.05 to 0.07
		12	-do-	Rs 2500 to 0.15	0.07 to 0.15
		13	-do-	0.15 to 0.50	0.15 to 0.50
		13½	-do-	Above 0.50	Above 0.50
Bank of Baroda	-do-	11	—	Upto 0.10	Upto 0.10
		13½	—	0.10 to 0.50	0.10 to 0.50
		15	—	Above 0.50	Above 0.50

(1)	(2)	(3)	(4)	(5)	(6)
Bank of India	-do-	10*	—	Upto 0.025	0.025
		11½*	—	0.025 to 0.10	0.025 to 0.10
		12½*	—	0.10 to 0.50	0.10 to 0.50
		13½†	—	Above 0.50	Above 0.50
Bank of Maharashtra	Crop Loan	13½	Upto 7.5AD	—	—
		15	Upto 7.5AI	—	—
		14½	7.5AD to 18AD	—	—
		16	7.5AI to 18AI	—	—
		15½	Above 18AD	—	—
		16½	Above 18AI	—	—
	Allied Activities	15 (3 yrs)	—	—	Upto 0.10
		16 (3 yrs)	—	—	0.10 to 0.25
		16½ (3 yrs)	—	—	Above 0.25
		15 (3-7 yrs)	—	—	—
		14 (over 7 yrs)	—	—	—
Canara Bank	Crop Loan	12½	—	Upto 0.10	Upto 0.10
		14½	—	0.10 to 0.50	0.10 to 0.50
		15½	—	Above 0.50	Above 0.50
Central Bank of India	-do-	10½	Upto 2.5AI	Upto 0.02	—
		13½/15	Up to 5 AD	-do-	—
		11/14	2.5AI to 5AI	0.02 to 0.05	—
		15½	5AD to 10AD	-do-	—
		13½/15/	Above 5IA	0.05 to 0.50	—

* ½ per cent more for medium-term and long-term.

† ¾ per cent more for medium-term and long-term.

ANNEXURE 10 (*Contd.*)

(1)	(2)	(3)	(4)	(5)	(6)
		16	Above 10AD	-do-	—
		16½	—	Above 0.50	—
	Allied Activities	13	—	Upto 0.50	—
		16	—	0.05 to 0.50	—
		16½	—	Above 0.50	—
Dena Bank	Crop Loan	13	—	Upto 0.075	Upto 0.075
		14	—	0.075 to 0.12	0.075 to 0.012
		15	—	Above 0.12	Above 0.12
	Small Marginal Farmers	8½	3AI/5AD	—	Upto 0.02
		9½	3 to 5AI/5 to 10AD	—	-do-
		9½	3AI/5AD	—	0.02 to 0.05
		10	3 to 5AI½5 to 10AD	—	-do-
Indian Bank	Crop Loans	11	Upto 3A	Upto 0.50	Upto 0.50 ½% more
		12	3A to 5A	-do-	-do-
		14	5A to 10A	-do-	-do-
		14½	Above 10A	-do-	Upto 0.50 1% more
		15	—	Above 0.50	—
	Allied Activities	13	—	Below 0.02	—
		15	—	Above 0.02	—
Punjab National Bank	Crop Loans	10	Upto 2.5A	—	—
		11	2.5A to 7.5A	—	—

(1)	(2)	(3)	(4)	(5)	(6)
	Allied	12½	7.5A to 10A *OR*	Upto 0.20	—
	Activities	13	Above 10A *OR*	0.20 to 0.50	—
		14	—	Above 0.50	—
Syndicate	Crop Loans	12	—	Upto 0.05	—
Bank		13	—	0.05 to 0.10	—
		14	—	0.10 to 0.50	—
		15½	—	Above 0.50	
	Allied	16	—	Upto 0.50	—
	Activities	16½	—	Above 0.50	—
United	Crop/	11	Upto 2.5A	Upto 0.50	—
Commercial	Term	12	2.5AI to 7.5AI/ 5AD to 10AD		
Bank	Loans	13	Above 7.5AI/10AD		
		15	—	—	5.0
		16	—	—	Above 5.0
		15 (3-7 yrs)	—	—	-do-
		14 (Above 7 yrs)	—	—	-do-
United	Crop Loans	10	Upto 2.5A		
Bank		10½	Upto 5A		
		11	Upto 7.5A		
		12½	Upto 10A		
		13½	Above 10A		
		14½	—	Above 0.50	—

ANNEXURE 10 (Contd.)

(1)	(2)	(3)	(4)	(5)	(6)
	Allied	11	—	Upto 0.25	—
	Activities	12½	—	Upto 0.25	—
		14½	—	Above 0.50	—
Indian Overseas Bank	Crop Loan	11½	Upto 2.5AI/5AD		
		12½	2.5AI to 5AI/ 5AD to 10AD	Upto 0.50	
		13½	Above 5AI/ ,, 10AD		
		15½	—	Above 0.50	
		14½	—	—	Upto 0.50
		15½	—	—	Above 0.50
	Allied	13	—	Upto 0.03	—
	Activities	14	—	0.03 to 0.10	
		15	—	Above 0.10	
Union Bank	Crop Loan/ Allied Activities	10	Upto 3A		
		11	3 to 5A		
		12½	5 to 10A	Upto 0.50	
		14½	Above 10A		
		15	—	Above 0.50	

A — Acres of land.
AI — Acres of irrigated land.
AD — Acres of unirrigated land.

ANNEXURE 11
Primary Agricultural Credit Societies—Classification of Loans issued during 1975-6—By amount

Rupees Lakhs

State/ Union Territory	Total	Upto Rs 500	Rs 501 to 1,000	Rs 1,001 to 2500	Percentage of loans upto Rs 2500 to Total	Rs 2,501 to 5,000	Over Rs 5,000
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Andhra Pradesh	73,50.79	28,04.66 (38)	17,20.80 (23)	12,78.70 (18)	79	6,39.35 (8)	9,07.28 (13)
Bihar	22,00.00	13,65.74 (62)	4,19.08 (19)	2,01.05 (9)	90	1,00.52 (4)	1,12.71 (6)
Gujarat	132,61.76	19,20.79 (14)	15,12.64 (12)	34,22.03 (25)	51	17,11.01 (13)	46,95.29 (36)
Haryana	43,53,68	1,23.21 (3)	11,51.35 (27)	19,72.95 (45)	75	9,86.47 (23)	1,85.46 (2)
Himachal Pradesh	6,81.39	1,82.29 (31)	2,66.05 (46)	88.70 (15)	92	44.35 (8)	— (—)
Karnataka	81,60.38	22,51.76 (28)	18,94.82 (23)	18,91.57 (24)	75	9,45.78 (12)	10,21.40 (13)
Kerala	46,96.09	21,15.47 (45)	12,75.18 (27)	7,80.12 (17)	89	3,90.05 (8)	1,27.42 (3)
Madhya Pradesh	69,65.47	16,19.88 (23)	17,23.88 (25)	20,40.91 (30)	78	10,20.45 (14)	5,60.35 (8)
Maharashtra	170,00.92	27,53.60 (16)	36,18.17 (21)	47,26.94 (28)	65	23,63.47 (14)	35,38.74 (21)
Manipur	42.03	42.03 (100)	— (—)	— (—)	100	— (—)	— (—)
Nagaland	2.09	—	— (—)	0.50 (24)	24	0.25 (12)	1.34 (64)
Orissa	20,66.00	7,87.17 (38)	5,33.95 (26)	4,76.37 (23)	87	2,38.19 (12)	30.32 (1)
Punjab	74,97.57	7,87.51 (10)	24,60.04 (33)	23,65.50 (31)	74	11,82.75 (16)	7,01.77 (10)

ANNEXURE II (Contd.)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Rajasthan	59,64.88	22,01.53 (37)	15,86.23 (27)	13,26.11 (22)	86	6,63.06 (11)	1,87.95 (3)
Tamil Nadu	102,84.63	31,07.02 (30)	25,45.93 (25)	25,08.54 (25)	80	12,54.27 (12)	8,68.87 (8)
Tripura	50.80	33.43 (66)	12.43 (24)	3.08 (6)	96	1.54 (3)	0.30 (1)
Uttar Pradesh	95,09.00	54,55.00 (57)	38,55.83 (41)	1,32.11 (2)	100	66.06 (—)	—
West Bengal	21,26.89	10,60.99 (50)	6,69.08 (31)	2,41.99 (9)	90	1,21.00 (8)	30.98 (2)
Chandigarh	6.88	1.77 (26)	3.03 (44)	1.39 (20)	90	0.69 (10)	— (—)
Dadra & Nagar Haveli	8.28	2.66 (31)	1.32 (16)	2.38 (29)	76	1.19 (14)	0.83 (10)
Delhi	88.15	0.52 (1)	13.65 (15)	49.32 (56)	72	24.66 (28)	— (—)
Goa, Daman & Diu	30.66	8.39 (27)	7.27 (24)	8.55 (28)	79	4.28 (14)	2.17 (7)
Lakshad-weep	4.70	2.71 (58)	1.97 (42)	0.02 (—)	100	— (—)	— (—)
Mizoram	0.20	— (—)	— (—)	— (—)	—	— (—)	— (—)
Pondi-cherry	91.39	13.82 (15)	25.34 (28)	32.22 (36)	79	16.08 (18)	3.93 (4)
	1023,44.63	279,71.85 (27.3)	252,98.96 (24.7)	235,51.01 (23.1)	75.1	117,75.51 (11.5)	135,80.11 (13.4)

Note: Figures in bracket relate to percentage to total.

ANNEXURE 12

Particulars of the Differential Interest Rate Scheme introduced by Co-operatives

	Gujarat	Karnataka	Maha-rashtra	Madhya Pradesh	Punjab	Rajasthan
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Differential rate of interest for the small farmers	10% (12½%)	9% (13%)	9% (13%)	11% (13½%)	10% (12½%)	12% (13%)
2. Loss in income/ interest shared by	Apex bank bears the entire loss	2% by SCB 2% by CCBs	CCBs bear to the extent of incremental income and the balance by SCB	0.2% by SCB 2% by CCB 0.3% by pacs	Shared by SCB and CCB in ratio of 2:½%	Apex bank bears the entire loss
3. Parameters for identifying eligible borrowers	Parameters as fixed by RBI	1 acre of irrigated land or 3 acres of dry land, who borrow maximum amount of Rs 500/- and raise food crops	Income less than Rs 2400/- per annum unirrigated land of 5 acres	N.A.	N.A.	Parameters as fixed by RBI
4. Total amount advanced	Rs 13.50 crores	N.A.	N.A.	Rs 11,00 crores as on 31.12.77	Rs 6.46 crores	Rs 6.52 crores
5. Estimated loss of interest on advances	Rs 24.55 lakhs	N.A.	N.A.	N.A.	Rs 2.09 lakhs	Rs 6.52 lakhs

Note: Figures in brackets under item 1 refer to normal lending rate.

ANNEXURE 13

Some of the Main Operational Requirements prescribed by the RBI to regulate Drawals on Short-term Limits sanctioned on behalf of ccbs

Item	Objective	Nature of requirement to be fulfilled	Remarks
(1)	(2)	(3)	(4)
1. Financing of small and economically weak farmers	To ensure that small, marginal and economically weak farmers are encouraged to become members of pacs and that their credit requirements are met to the maximum extent possible.	A small, marginal or economically weak farmer is defined as one having land holding up to 3 acres which ceiling has been raised depending upon the distribution of land holdings according to size in the area of operations of the central bank concerned. Every ccb is expected to ensure that at least 20 per cent of short-term loans issued by it are for financing such farmers.	Seventy per cent of the short-term credit limit sanctioned to a ccb is treated as free portion of the limit. The SCB concerned can approach the RBI for drawals in excess of the free portion of the limit on behalf of the ccb only after ensuring that the concerned ccb has observed the condition regarding financing of small, marginal and economically weak farmers to the extent of 20 per cent of the total short-term loans issued. However, in practice, in order to give adequate time for enrolment of small farmers as members of the pacs, the percentage has been reduced wherever necessary, for a limited period.
2. Seasonality discipline	It is essential that the loaning operations of every ccb should broadly conform to a seasonal pattern, and, therefore, the recovery of crop	Every ccb is required to ensure that it has by 31 March recovered and remitted to the apex bank at least 40 per cent of the 'kharif' short-term demand constituting overdues as on 30 June of the previous year and the quantum of 'kharif'	Non-compliance with the requirement results in the ccb concerned being not permitted to make drawals on the short-term credit sanctioned on its behalf after 1 April or 1 July as the case may be. Suitable relaxations are being given by

(1)	(2)	(3)	(4)
	loans issued by it should synchronize broadly with the period of marketing of crops.	advances made during the previous year. Besides, the ccb has also to ensure by 30 June a minimum recovery of at least 50 per cent of the total short-term demand for the co-operative year ending on that date.	RBI in deserving cases.
3. Linking borrowings from the RBI with efforts for deposit mobilisation by ccbs	To encourage deposit mobilisation by the ccbs with a view to reducing their reliance on the refinance facilities from the RBI	Every ccb has to ensure that its involvement out of its internal resources in short-term loans above a specified base level is at least to the extent of 33 1/3 per cent of the loans issued above the base level. Thus, for every Rs 100 of additional short-term loans issued above the base level, the bank is expected to invest Rs 33 1/3 from its internal resources to qualify for Rs 66 2/3 from the RBI at the concessional rate of interest.	For the sake of administrative convenience, in practice, an aggregate level is fixed for each bank by adding to the base level either twice the increase in the bank's own involvement, out of its own resources in short-term agricultural loans over and above the base year plus involvement in conversion loans in excess of the stipulated level of 15 per cent plus involvement in consumption credit to weaker sections or the full increase in loans issued to small and marginal/economically weak farmers, whichever is higher. Borrowings from the RBI up to the aggregate level are allowed at the full concessional rate. Borrowings above the aggregate level are charged a rate of interest of 1½ per cent below the Bank Rate instead of 3 per cent below the Bank Rate.