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# Study Group on Deployment of Resources by State and Central Co-operative Banks

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AGRICULTURAL CREDIT DEPARTMENT

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**AGRICULTURAL CREDIT DEPARTMENT**

*First Published May 1982*

**Price Rs. 25/-**

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Printed by the Book Centre Ltd., Sion East, Bombay 400 022 and published by  
Dr. M. V. Hare, for the Reserve Bank of India, Agricultural Credit Department,  
Bombay-400 018.

## CONTENTS

<i>Chapter</i>	<i>Subject</i>	<i>Pages</i>
I	Introduction	1
II	Definition and origin of surplus resources— their causes and effects	9
III	Quantum of surplus resources—their pattern and duration	19
IV	Liquidity requirements	35
V	Profitable investment of loanable internal resources	44
VI	Avenues for deployment of surplus resources	57
VII	Summary of conclusions and recommendations	77
	Tables	94
	Graphs	
	Appendixes	117

## LIST OF ABBREVIATIONS

ARDC	: Agricultural Refinance & Development Corporation
B.R. Act	: Banking Regulation Act, 1949 (As Applicable to Cooperative Societies)
CCB	: Central Cooperative Bank
CP & BDC	: Credit Planning and Banking Development Cell
ICICI	: Industrial Credit & Investment Corporation of India
IDBI	: Industrial Development Bank of India
IFFCO	: Indian Farmers Fertiliser Cooperative Ltd.
IRDP	: Integrated Rural Development Programme
MARKFED	: Marketing Federation
NAFED	: National Cooperative Marketing Federation
NCCF	: National Cooperative Consumers Federation
PACS	: Primary Agricultural Credit Society
RBI	: Reserve Bank of India
RBI Act	: Reserve Bank of India Act, 1934
RRB	: Regional Rural Bank
SCB	: State Cooperative Bank
SLDB	: State Cooperative Land Development Bank
TDL	: Time and Demand Liabilities
UCB	: Urban Cooperative Bank

## CHAPTER-I

# INTRODUCTION

For some time past, quite a few state cooperative banks (scbs) and some of the central cooperative banks (ccbs) in the country had been representing to the Reserve Bank of India (RBI) that while some of them were faced with the problem of surplus resources, several others were unable to find avenues for profitable investment of their loanable internal resources. This was stated to be so mainly due to rapid growth in the deposits of cooperative banks during the last few years without corresponding increase in loans and advances on account of various inhibiting factors such as entry of commercial banks, in a big way, in the sphere of agricultural and rural credit as well as the provision of credit facilities by them to the co-operatives for procurement, processing and marketing of agricultural produce, restricting thereby the scope for lending by the cooperative banks; setting up of Regional Rural Banks (RRBs) which were taking away the legitimate business of cooperative banks; several disciplines imposed on cooperative banks by the RBI confining their activities to, by and large, within the cooperative fold; high level of overdues in respect of agricultural advances at members' level which arrested further growth of agricultural advances; etc. The National Federation of State Cooperative Banks had also been pursuing this matter with the RBI on behalf of state and central cooperative banks.

1.2 The RBI, on its part, had been attempting to find solutions to both these problems viz. the problem of surplus resources and that of profitable investment of loanable internal resources, by permitting/authorising the state and central cooperative banks which were convincingly faced with both or either of these problems, to undertake financing of non-agricultural activities within the cooperative fold on a larger scale, without detriment to the needs of the agricultural sector, and even to finance institutions outside the cooperative fold provided

these institutions were directly or indirectly connected with agricultural and/or rural development and provided further that the proposals were bankable and satisfied certain other essential norms of lending. A few such instances are: (i) the increasing involvement of cooperative banks in financing the working capital requirements of cooperative sugar factories particularly in Maharashtra and Uttar Pradesh, (ii) financing of Maharashtra cotton monopoly procurement scheme exclusively by the Maharashtra SCB, (iii) financing by Punjab SCB of the cotton procurement in Punjab State by Punjab State Cooperative Marketing Federation alongside the Cotton Corporation of India, (iv) financing of Indian Farmers' Fertilizer Cooperative (IFFCO) by Maharashtra SCB, (v) financing of cashew procurement by Kerala SCB in consortium with ccbs, (vi) financing of paddy procurement in Tamil Nadu by the Tamil Nadu SCB, (vii) financing of paddy procurement as well as procurement of 'tendu patta' and other minor forest produce in Madhya Pradesh by the Madhya Pradesh SCB, (viii) financing of sugar distribution in Uttar Pradesh by the U.P. Cooperative Bank, (ix) financing of tea gardens by the Assam SCB, (x) provision of bridge finance by Gujarat SCB to the Narmada Valley Fertilizer Corporation, etc. These measures did solve the problem of many cooperative banks but these were, evidently, of an adhoc nature.

1.3 The problem of surplus resources with the cooperative banks was also raised at the XVI meeting of the Agricultural Credit Board of the RBI held on 7 August 1980. The Board felt that the position called for a detailed study so as to determine as to how the cooperative banks were faced with the problem of surplus funds when the cooperative credit structure as a whole was still unable to meet the agricultural credit requirements and how the scbs were able to make significant profits despite keeping their resources idle. With a view to ascertaining the position, studies were undertaken by the Regional Offices of the Agricultural Credit Department of the RBI in 9 bigger states. The analysis of the reports on these studies revealed certain broad trends but these studies were not comprehensive enough to throw light on all the relevant aspects connected with the problem and were also not adequate for the purpose of arriving at firm conclusions and establishing future policies. For this purpose, a rather more inclusive and in-depth study encompassing all the important aspects

having a bearing on the problem seemed essential. It was also felt that it would be of advantage to have the benefit of consultations with and advice from the chief executives of the selected scbs and their Federation.

### **Formation of the Study Group**

1.4 The RBI, therefore, constituted on 22 March 1981, a Study Group called the 'Study Group on Deployment of Resources by State and Central Cooperative Banks' under the chairmanship of Dr. M. V. Hate, Executive Director, RBI to make an in-depth study of the problem of surplus resources and profitable investment of loanable internal resources faced by the scbs and ccbs and make recommendations which would offer solutions of a long-term nature to these problems.

### **Composition of Study Group**

1.5 The Study Group comprised the following:

1. Dr. M. V. Hate, Executive Director,  
Reserve Bank of India, Bombay *Chairman*
2. Dr. M. V. Pavate, Deputy Adviser  
(Cooperation), Planning Commission,  
New Delhi *Member*
3. Shri M. G. K. Murthy, Director (Credit),  
Ministry of Agriculture, Department  
of Agriculture & Cooperation,  
Government of India, New Delhi *Member*
4. Chief Executive  
National Federation of State  
Cooperative Banks, Bombay *Member*
5. Dr. D. B. Kadam, General Manager,  
Maharashtra State Cooperative  
Bank Ltd., Bombay *Member*
6. Shri M. M. Vyas, General Manager,  
Gujarat State Cooperative Bank Ltd.,  
Ahmedabad. *Member*



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|-----|--|------------------------------|
| 7.  | Shri C. P. Shukla, Managing Director,<br>Uttar Pradesh Cooperative Bank Ltd.,<br>Lucknow                     | <i>Member</i>                |
| 8.  | Shri K. Mohan Das, Managing Director,<br>Kerala State Cooperative Bank Ltd.,<br>Trivandrum                   | <i>Member</i>                |
| 9.  | Shri G. C. Khound, Managing Director,<br>Assam Cooperative Apex Bank Ltd.,<br>Gauhati                        | <i>Member</i>                |
| 10. | Shri H. C. Agarwal, Joint Chief Officer,<br>Agricultural Credit Department,<br>Reserve Bank of India, Bombay | <i>Member-<br/>Secretary</i> |

1.6 Later on, it was felt that since the recommendations of the Study Group were likely to suggest the areas of financing by cooperative banks in relation to commercial banks, it would be useful to take an officer from the Economic Department or the Credit Planning and Banking Development Cell (CP & BDC) of the RBI as a member of the Study Group so that an integrated view of the problem could be taken encompassing both the cooperative as well as the commercial banking sector. Accordingly, Dr. N. A. Mujumdar, Adviser, Economic Department, RBI, Bombay, was nominated on 4 May 1981 as a member of the Study Group. In his absence, Shri S. S. Tarapore, Director, CP&BDC, RBI, Bombay was to attend the meetings of the Study Group as Alternate Member.

### **Terms of Reference**

1.7 The Terms of Reference of the Study Group were as under:

1. To define and identify surplus resources with state and central cooperative banks and trace their origin.
2. To quantify the extent of the problem, to determine its nature, pattern and duration and make an estimate of such resources during the Sixth Plan period.
3. To identify the causes and examine the effects of this growing problem in relation to interest rate structure and the concessional refinance facilities available from the Reserve Bank.

4. To examine the existing provisions relating to the extent and manner of maintaining cash reserves and liquid assets by cooperative banks and suggest modifications required, if any.
5. To examine and suggest modifications required, if any, in the present policy governing provision of concessional refinance facilities by the Reserve Bank as a measure to rectify the problem.
6. To identify and suggest avenues for profitable deployment of own resources by the state and central cooperative banks in legitimate activities and the measures to be taken in this behalf.
7. To examine any other matter concerning or incidental to the problem and suggest measures relating thereto.

## **Methodology**

1.8 Considering the wide range and scope of the Terms of Reference of the Study Group and with a view to facilitating discussions on them, an 'Approach Paper' covering the various issues which related to the Terms of Reference of the Study Group was prepared and proforma tables for collection of statistical data from the selected scbs and ccbs were also devised. These were circulated to the members to serve as the basis for discussions at the first meeting of the Study Group which was convened on 9 April 1981 at Bombay.

1.9 In its first meeting, the Study Group suggested additions to the proforma tables for collection of statistical data from the selected banks so as to also cover aspects such as sourcewise, typewise and periodwise classification of deposits, overdues, coverage of rural population by cooperatives etc. and decided that the data should be collected from all the 17 scbs functioning in larger states, out of the total of 27 scbs functioning in the country, and 67 ccbs spread over in 16 states which were known to be having sizeable deposit resources, as identified in the meeting, out of the total of 337 ccbs in the country. A list of selected scbs and ccbs is enclosed as Appendix 1. The Study Group also decided that a questionnaire might be devised and issued to the selected banks eliciting

their views on the various propositions made in the 'Approach Paper' and other related aspects. Accordingly, separate sets of tables for collection of statistical data from the selected state and central co-operative banks and a questionnaire were prepared and forwarded to the concerned scbs on 16 April 1981 with a request to furnish the required statistical information and replies to the questionnaire by 2 May 1981. A copy of the questionnaire issued to the selected banks is enclosed as Appendix 2. Upto 11 May 1981, statistical tables were received only from 8 scbs and 32 ccbs and replies to the questionnaire from 6 scbs and 18 ccbs. These were tabulated and, based on the information received, an 'Analysis Paper' was prepared and circulated to the members to serve as the basis for discussions at the second meeting of the Study Group convened on 28 May 1981 at Ahmedabad.

1.10 In its second meeting, the Study Group discussed the 'Analysis Paper' and broad consensus on various issues was reached. The Group decided that on the basis of the analysis of the statistical data and replies to the questionnaire already received and also those received subsequently, a draft report covering various Terms of Reference might be prepared and circulated to the members for consideration and finalization at the next meeting of the Study Group. The Group also decided that further data to know the quantum and duration of surplus resources wherever these were found to be seasonal as well as the details of surplus funds kept by the ccbs and urban cooperative banks (ucbs) with the commercial banks might also be collected. The Group agreed that since the recommendations of the Study Group were likely to embrace also the ucbs, the Chairman and one or two members of the Study Group might have discussions with the representatives of a few selected ucbs and their representative bodies. The Group further agreed that the Chairman might also, if considered necessary, have discussions with the representatives of long-term financing institutions such as the Industrial Development Bank of India (IDBI) and Industrial Credit & Investment Corporation of India (ICICI) in regard to the possibility of investment of surplus resources of cooperative banks in long-term lendings. After the meeting, the Study Group met the chief executives of selected ccbs from Gujarat State and ascertained their reaction to the various Terms of Reference.

1.11 As decided in the second meeting, additional data were collected and meetings were held with the selected representatives and representative bodies of the ucbs on 25 June 1981 and with Shri C. R. Sengupta, Executive Director, IDBI and Shri S. Kumarasundaram, Joint Managing Director, ICICI, on 26 June 1981. A draft report of the Study Group was prepared and circulated to the members on 3 July 1981 and considered and finalized in the third meeting of the Study Group held at Bombay on 14 July 1981. The Study Group signed the final report on 7 August 1981.

### **Meetings**

1.12 The Study Group held, in all, four meetings, 3 at Bombay on 9 April 1981, 14 July 1981 and 7 August 1981 and one at Ahmedabad on 28 May 1981. Shri M. G. K. Murthy, who was nominated by the Government of India as a member of the Study Group could not attend the first meeting. Subsequently, the Government of India advised that Shri M. Karunanidhi, Deputy Commissioner (Credit), Department of Agriculture and Cooperation, in the Ministry of Agriculture would be attending the meetings of the Study Group. Accordingly, Shri Karunanidhi attended the subsequent meetings as a representative of the Government of India. Further, the post of the chief executive of the National Federation of State Cooperative Banks had been vacant and, therefore, Shri S. R. Kalaskar, Secretary of the Federation, who had been looking after the duties of the chief executive, attended the meetings of the Study Group. Shri K. Mohan Das, Managing Director of the Kerala State Cooperative Bank could not attend the first two meetings and subsequently relinquished charge of his office on 31 May 1981. Consequently, Shri S. Viswanath, Secretary of the Kerala State Cooperative Bank who was looking after the duties of the managing director was invited to attend the subsequent meetings of the Study Group.

### **Outline of the Report**

1.13 The report is divided into seven chapters as under:

Chapter I — Introduction

Chapter II — Definition and origin of surplus resources—  
their causes and effects

Chapter III — Quantum of surplus resources—their pattern  
and duration

Chapter IV — Liquidity requirements

Chapter V — Profitable investment of loanable internal resources

Chapter VI — Avenues for deployment of surplus resources

Chapter VII — Summary of conclusions and recommendations

The tables referred to in the various chapters are appended to the Report.

### **Acknowledgements**

1.14 The Study Group is grateful to the scbs and ccbs concerned for furnishing the required statistical data and their replies to the questionnaire for the purpose of the study. Thanks are also due to the chief executives of the ccbs from Gujarat State who met the Study Group on 28 May 1981 and expressed their views on the Terms of Reference. The Study Group is also thankful to the representatives of ucbs and the presidents of their representative bodies as well as to Shri C. R. Sengupta, Executive Director, IDBI and Shri S. Kumarasundaram, Joint Managing Director, ICICI with whom the Study Group had discussions and also Shri G. Kumara Swamy Reddy, Managing Director, Andhra Pradesh State Cooperative Bank and Dr. M. R. Kotdawala, Additional Chief Officer, Agricultural Credit Department, Reserve Bank of India who attended the third meeting of the Study Group as invitees. The Study Group places on record its thanks to the management of the Gujarat State Cooperative Bank and the Maharashtra State Cooperative Bank for having the second and third meetings respectively of the Study Group in their premises and for making the necessary arrangements in this behalf.

1.15 Our thanks are also due to Shri R. Sundara Raman, Rural Credit Officer attached to the secretariat of the Study Group for the assistance rendered by him in the analysis of the data and the drafting of the report and to Shri I. I. Syed, Clerk Grade II, Smt. S. B. Mallapur, Stenographer and Shri B. L. Kerimani, Typist for the special efforts put in by them to assist the Study Group in its work.

1.16 The rest of us would like to place on record our deep appreciation of the excellent work done by Shri H. C. Agarwal, Member Secretary, in the scrutiny and analysis of data and in drafting the report. But for his zeal and efforts, the report would not have been completed so quickly.

## CHAPTER-II

### DEFINITION AND ORIGIN OF SURPLUS RESOURCES—

### THEIR CAUSES AND EFFECTS

2.1 The cooperative credit system in India is a three-tier structure with primary agricultural credit societies (pacs) at the village level, the ccbs at the district level and the scbs at the state level. At the national level, the RBI acts as the lender of last resort. Thus, the pacs are expected to meet the production credit requirements, and also provide consumption credit up to the permissible extent, to the village community out of own resources comprising owned funds and deposits as also out of borrowings from the concerned ccb. Similarly, the ccbs, for the purpose of lendings to pacs functioning at the village level and to other types of societies such as marketing societies, processing societies, consumer stores, etc. functioning at the district or a lower level, depend on their own resources comprising owned funds and deposits supplemented by borrowings from the scb. The scbs are expected to act as the balancing centres for the entire cooperative credit system in their respective states and meet the credit requirements of the ccbs functioning in the state as also various other cooperative institutions functioning at the state level or even at lower levels if these cannot be financed by the concerned ccb, out of their own resources and, in case of need, by obtaining refinance facilities from the RBI in respect of approved purposes.

2.2 Keeping in view the observations made above, a ccb or scb can be said to be faced with the problem of surplus resources if and when its loanable internal resources (comprising paid-up share capital, reserves and deposits *minus* commitments by way of liquidity requirements and investments in shares of other institutions, fixed assets, etc.), are in excess of its total outstanding loans and advances. It may be clarified in this connexion that for the purpose of computing surplus

resources, the *total* loans and advances outstanding, whether wholly out of internal resources or out of internal resources supplemented by borrowings, would need to be taken into account since the objective would be to find out whether the available internal resources for loans and advances exceed the effective demand for loans in the area in terms of total outstanding loans and advances. In case the loans and advances made out of borrowings are excluded from the figure of total outstanding loans and advances for the purpose of computing surplus resources, it would mean working out the surplus resources, by permitting the existing level of borrowings to continue which would not be correct as it would tantamount to also counting towards surplus resources the borrowed funds utilised in making loans and advances. Thus, the surplus resources can be defined as the excess of loanable internal resources over the total outstanding loans and advances.

## Origin

2.3 The two important parameters of surplus resources which emerge from the definition of surplus resources given in para 2.2 above are (i) loanable internal resources, and (ii) the outstanding loans and advances. In tracing the origin of surplus resources, therefore, the growth rates of these two parameters viz. loanable internal resources and the loans and advances of the scbs and ccbs would need to be studied.

2.4 Table-1 appended to this report shows the comparative consolidated position of overall growth in gross internal resources and loans and advances separately of all the scbs and all the ccbs in the country over a period of time in terms of amount as well as percentage increase. It will be seen from the table that the growth in gross internal resources and loans and advances both at the ccb level and the scb level reveal, by and large, the same pattern, and this is so since the lower tier in the cooperative credit channel is required to deal exclusively with the immediately higher tier in the matter of keeping surplus funds as well as for borrowings. Thus, the data in the table reveal that while during the II and III Plan periods, the loans and advances had more or less kept pace with the growth in gross internal resources both at the level of ccbs as well as scbs, during the IV Plan period, the loans and advances lagged

much behind the growth in internal resources, more so at the level of scbs in whose case the loans and advances increased by 67 per cent only during the 5-year period ended 30 June 1976 as against an increase of 138 per cent in gross internal resources during the same period. The trend was reversed, to some extent, during the years 1976-7 and 1977-8; but during the years 1978-9 and 1979-80 again, the loans and advances lagged far behind the growth in internal resources, more so again at the level of scbs. In fact, the loans and advances at the scb level at the end of 1979-80 had declined by 9 per cent compared to the position at the end of the previous year, as against an increase of 18 per cent in the gross internal resources. However, if the commitments on the gross internal resources in respect of liquidity requirements, etc. are taken into account, which work out to roughly 30 per cent of gross internal resources, the loanable own resources of scbs during the year 1978-9 and 1979-80 would also be much within their loans and advances. Insofar as ccbs are concerned, the figures in columns 6 and 8 of Table-1 would show that the total loans and advances of all the ccbs put together had always exceeded even their total gross internal resources. Thus, taking into account the overall position for the country as a whole, it cannot be said that there are any surplus resources in the cooperative credit system. However, it would not be correct to draw conclusions on the basis of a consolidated overall position for the country as a whole since the resources mobilised by cooperatives in one state cannot be diverted for meeting the credit requirements of cooperatives in another state. The scbs work as the balancing centres for the cooperative credit system in the state and, therefore, the position may have to be studied statewise.

2.5 The loanable internal resources of a cooperative bank are made up of owned funds (comprising paid-up share capital and reserves) and deposits. Of these, deposits form the bulk of the loanable internal resources. Further, while the owned funds of a cooperative bank, which are built up by contributions to various reserves every year out of distributable profits and accretions to share capital on account of the principle of linking of shareholding to borrowings as well as state government's contributions to the share capital, grow at a steady pace, the deposits show significant variations. It might, therefore,



be enough to confine attention on the trend of deposits for the purpose of tracing the origin of surplus resources in the case of individual scbs or ccbs. In this connexion, Table-2 appended to this report shows the growth of deposits in the case of 17 selected scbs during the last 3 years in terms of amount as well as their annual percentage growth rate. Table-3 appended to the report, similarly, shows the growth of loans and advances in the case of the same 17 scbs during the last 3 years. Table-4 appended to this report combines the above two aspects and shows the comparative position of growth of deposits and loans and advances of these 17 scbs over a period of 3 years from 30 June 1977 to 30 June 1980. It will be seen from Table-2 that the deposits in the case of all the scbs have registered increase year after year but the rate of growth varied from bank to bank and also from year to year. Only in the case of Assam and Jammu & Kashmir scbs, the deposits at the end of 1979-80 had remained constant at the same level which was reached at the end of the previous year. There was, however, no decline in deposits in the case of any of the scbs.

2.6 On the other hand, it will be seen from columns 7 to 10 of Table-3 that in the case of only 9 scbs viz. Bihar, Gujarat, Haryana, Kerala, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh and West Bengal, the loans and advances at the end of each of the last 4 years were more than those at the end of the corresponding preceding year. The remaining scbs showed a chequered performance. In the case of Karnataka and Tamil Nadu SCBs, in particular, the loans and advances at the end of last 2 years viz. 1978-9 and 1979-80 had declined significantly compared to the position at the end of the corresponding preceding years. In the case of Maharashtra SCB also, the loans and advances at the end of 1979-80 were less by 14.6 per cent compared to the position at the end of the previous year.

2.7 As the cooperative banks are required to maintain statutory liquidity at 28 per cent of their time and demand liabilities, roughly 70 per cent of the deposit resources become available to them for lending and are termed as 'loanable deposit resources'. The data in columns 5 and 9 of Table-4 will show that in the case of as many as 7 scbs, the increase in loans

and advances during the 3-year period lagged far behind the increase in the loanable deposit resources of these banks over the same period as shown below:

(Rs. crores)

Name of State Co-operative Bank	Increase in deposits over 3 years ended 30.6.80	Increase in loanable deposit resources (70 per cent of Col 2)	Increase in loans and advances over the 3-year period	Excess of Col 3 over Col. 4
1	2	3	4	5
1. Maharashtra	128.02	89.81	67.76	21.85
2. Gujarat	66.03	39.22	27.20	12.02
3. Tamil Nadu	74.19	51.93	6.66	45.37
4. Karnataka	27.23	19.01	-23.63	42.64
5. Punjab	42.05	29.43	8.05	21.38
6. Himachal Pradesh	6.60	3.85	1.58	2.27
7. Jammu & Kashmir	2.01	1.41	0.31	1.10

The Karnataka SCB is a typical case where, while the loanable deposit resources over the 3-year period increased by Rs. 19.01 crores, the loans and advances actually declined by Rs. 23.63 crores. In the case of Tamil Nadu and Punjab SCBs also, the increase in loans and advances was insignificant compared to the increase in loanable deposit resources. The percentage growth rates worked out in columns 6 and 10 of Table-4 also reveal, by and large, the same position. Thus, in the case of Karnataka SCB, while the deposits over the 3-year period increased by 74.5 per cent, the loans and advances actually declined by 31.1 per cent. In the case of Tamil Nadu and Punjab SCBs, while the deposits increased by 132.2 per cent and 84.1 per cent, the loans and advances over the same period increased only by 4.8 per cent and 18.2 per cent respectively.

2.8 Figures in column 5 of the table given in para 2.7 above indicate the surplus loanable deposit resources generated over the given period by these scbs. These resources would need to be utilised first in repaying the outstanding short-term borrowings from the higher financing agency, if any, and the residual loanable deposit resources only will be construed as the surplus resources of that bank.

2.9 On the lines of Table-4, the position in respect of 16 ccbs in the 7 states referred to in para 2.7 above, has been worked out in Table-5 appended to this report. Column 10 of the table shows the surplus loanable deposit resources generated by these ccbs over the given period. As in the case of scbs, in the case of ccbs as well, the surpluses would need to be utilised first in repaying the outstanding short-term borrowings from the higher financing agency viz. scb and if, even after repaying these borrowings, a ccb is still left with any surplus loanable deposit resources, these alone will be construed as surplus resources of that ccb.

2.10 The conclusion that emerges from the analysis made in paras 2.6 to 2.9 above is that in the case of a cooperative bank, and for that matter any banking institution, the origin of surplus resources is invariably traceable to the loans and advances of the concerned bank not keeping pace with the growth in their loanable deposit resources.

### **Causes**

2.11 In the context of what has been stated in para 2.10 above, it may be necessary to identify the various factors which can be considered attributory to (i) the higher growth rate of deposits, and (ii) the lower growth rate of loans and advances, in order to determine the causes of surplus resources.

#### *(i) Higher growth rate of deposits*

2.12 In terms of the provisions contained in the Cooperative Societies Acts of almost all the states cooperatives are required to invest their surplus funds with the higher financing agency, in government and/or trustee securities, other approved securities or in any other form as approved/permitted by the Registrar of Cooperative Societies of the state concerned. The Registrars generally do not permit the cooperatives to keep their surplus funds outside the cooperative fold except to the extent necessary for meeting their day-to-day business requirements. There is thus an element of compulsion on the cooperatives, for good reasons, to keep their surplus funds with the concerned ccb/scb and this leads to higher rate of growth in the deposits of cooperative banks right up to the level of scbs.

The whole philosophy underlying this arrangement is to enable the cooperatives to keep their funds within the cooperative fold for their benefit and for the development of agriculture and allied activities.

2.13 In terms of the provisions of the Banking Regulation Act, 1949 (As Applicable to Cooperative Societies), all types of deposits kept by the ucbs and ccbs with the higher financing agency are reckoned towards liquid assets actually maintained. In view of this provision, and also the fact that the term deposits kept with the cooperative banks earn a much higher return compared to the return on government/trustee securities, which is yet another permitted form of liquid assets, the ucbs and ccbs keep a bulk of their liquidity requirements in the form of term deposits with the higher financing agency while the government and trustee securities form an insignificant proportion of the liquid assets actually maintained. Thus, as against 25 per cent of the deposits required to be kept in the form of liquid assets, the total investment of the ccbs in government and other trustee securities as on 30-6-1980 at Rs. 50.63 crores formed only 2.6 per cent of their total deposits at Rs. 1967.72 crores as on that date. Similarly, in the case of ucbs also, their total investment in government and other trustee securities as on 30-6-1980 at Rs. 16.50 crores formed a mere 1.2 per cent of their total deposits at Rs. 1338.29 crores as on that date. This shows that almost the entire liquid assets required to be maintained by ccbs and ucbs were kept by them in the form of deposits with the higher financing agency which adds to the growth in their deposits.

2.14 The deposits of ucbs during the last 3 years have increased from Rs. 502.54 crores as on 30-6-1977 to Rs. 1338.29 crores as on 30-6-1980. Consequently, the quantum of funds kept by them with the higher financing agency representing the liquidity requirements and their surplus funds would also have registered a significant increase contributing thereby to the rapid growth of deposits at the level of ccbs and scbs.

2.15 In terms of directive No.ACD.ID. 2918/J.32-74/5 dated 22 November 1974, the RBI has permitted the state, central and primary cooperative banks to allow interest not exceeding  $\frac{1}{2}$  per cent,  $\frac{1}{2}$  per cent and 1 per cent respectively

on savings and term deposits, over and above the interest rates prescribed in the interest rate directive. This concession has been continuing since then and most of the cooperative banks have been offering higher rates of interest on savings and term deposits subject to the ceiling mentioned above. This concession of permitting a slightly higher rate of interest on deposits has been granted to cooperative banks with a view to enabling them to face competition with the relatively better organised and well-established commercial banks in the matter of mobilising deposits particularly from individuals and institutions other than cooperatives. According to the replies to the questionnaire received from the scbs and ccbs and the evidence given before the Study Group, this concession has helped considerably the cooperative banks, particularly the ucbs and the ccbs, in mobilising deposits from individuals and institutions other than cooperatives.

*(ii) Lower growth rate of loans and advances*

2.16 There are several factors inhibiting the growth of loans and advances in the cooperative credit system. The most important factor which has been obstructing the flow of cooperative credit has been the mounting overdues. At the primary level, the overdues have steadily increased from Rs. 455 crores as at the end of 1975-6 to Rs. 807 crores as at the end of 1979-80 and the percentage of overdues to outstanding loans has also gone up from 45 to 50 during the above period. Since the principle in the cooperative credit system is not to finance defaulters, fresh loans issued by societies decline with the increase in the number of defaulters and the prospects of incremental lending to a large segment comprising defaulters also get restricted, affecting adversely the growth rate of loans and advances at all levels of the structure.

2.17 In recent years, there has been a rapid growth of commercial bank credit in the sphere of agriculture. The outstanding advances of the commercial banks for agriculture which amounted to a meagre Rs. 188 crores at the end of June 1969 increased to Rs. 3097 crores at the end of June 1980. These advances at the end of December 1979 were Rs. 2870 crores, of which Rs. 944 crores represented short-term agricultural loans advanced by commercial banks directly to the

farmers. This is indicative of the extent up to which the scope for lending by cooperative banks stands curtailed. The number of branches of commercial banks had increased from 8,262 at the end of June 1969 to 34,982 at the end of March 1981, of which 17,045 branches were at rural centres. As against this, the number of offices of scbs, ccbs and ucbs as on 30 September 1980 were only 408, 7302 and 1820 respectively.

2.18 The RRBs that are being set up in the country are also providing loans and advances in the rural sector. There were 100 RRBs functioning in the country at the end of March 1981 with a network of branches which numbered 3195 at the end of December 1980. Their advances which aggregated Rs. 168 crores at the end of March 1980 are estimated to have exceeded Rs. 200 crores at the end of March 1981. Thus, the acceptance of the multi-agency approach to rural lending has imparted an element of competitiveness to cooperative sector.

2.19 Till 2 years ago, cooperative banks were not allowed to lend outside the cooperative fold. However, in pursuance of the recommendations of the Study Group on Interest Rates in Cooperative Credit Structure, the scbs, as an interim measure to utilise their surplus resources, have been permitted since January 1979 to lend, with prior permission in each case from the RBI, to the public sector institutions closely connected with activities which facilitate rural production, processing and marketing, provided the total advances to such institutions are not to exceed the deposit resources raised by the bank from sources other than cooperatives. A copy of the circular No.ACD.OPR.2662/A.64-78/9 dated 11 January 1979 issued by the RBI in this behalf is enclosed as Appendix 3. This facility is presently not available to ccbs even though many of them have sizeable deposit resources from sources other than cooperatives and are also faced with the problem of surplus resources.

## **Effects**

2.20 When a bank does not find adequate and profitable avenues for investment of its loanable internal resources, it does not mind the lower level cooperative banks keeping their surplus funds with commercial banks or any other institutions which

offer relatively a higher rate of interest. In fact, one of the scbs has permitted the ccbs and ucbs in the state to keep their surplus funds with the commercial banks if they so liked. Thus, the ccbs and ucbs have been keeping their surplus funds with commercial banks and other institutions with the result that the resources mobilised by cooperatives move out of the cooperative banking system and merge into the pool of resources of the commercial banking sector. While this is the position in the case of some of the scbs, the other scbs at the same time continue to borrow from the Reserve Bank.

✓ 2.21 Another effect of surplus resources is the growing demand on the part of the scbs to permit them to provide long-term loans to cooperative processing units such as cooperative sugar factories, cooperative spinning mills, etc. for meeting their block capital requirements notwithstanding the fact that such facilities are, normally, expected to be provided by the specialised long-term lending institutions and further that it would not be advisable for them to lock-up their resources in long-term investments. Demands are also made by scbs to permit them to lend increasingly to the institutions outside the cooperative fold.

2.22 Some banks with surplus resources, in their anxiety to maximise return on their surplus funds, have sometimes ignored the usual banking norms resulting in the circumvention of monetary disciplines such as the Credit Authorisation Scheme, selective credit control measures, etc.

2.23 Having explained in this chapter the concept of surplus resources, their origin, causes and effects, an attempt has been made in the next chapter to quantify the surplus resources with the cooperative banks and determine their pattern and duration.

## CHAPTER-III

# QUANTUM OF SURPLUS RESOURCES— THEIR PATTERN AND DURATION

3.1 The cooperatives, as a rule, are expected to keep their surplus funds by way of deposits with the cooperative banks. Thus, while the various cooperative institutions keep their surplus funds with the ccb or the scb depending on the level at which these institutions are functioning, the ucbs keep their surplus funds with the ccb or the scb concerned and the ccbs keep their surplus funds with the scb. In view of this position, the surplus resources at different levels of the cooperative credit structure ultimately get merged into the resources of scbs and when a scb finds itself in a position where it is faced with surplus resources, these resources would be *inclusive* of the surplus funds available in the entire cooperative credit sector in the state.

3.2 It is, however, likely that some of the ucbs and ccbs may have kept part of their surplus funds by way of deposits with the commercial banks and/or institutions other than the higher financing agency in order to earn a relatively higher return by way of interest compared to the rate of interest offered by the higher financing agency. These deposits will have to be taken into account for the purpose of quantifying surplus resources available in the cooperative banking sector in the state since the surplus funds kept by the cooperative banks with the commercial banks and institutions other than the higher financing agency would not figure in the resources at the level of scbs.

3.3 On the basis of what is stated in the above paragraphs, the total surplus resources available with the cooperative banking sector in any state would comprise the excess of loanable internal resources over the total outstanding loans



and advances with the scb of the state concerned *plus* the surplus funds kept by the ccbs and ucbs with the commercial banks and institutions other than the higher financing agency.

3 4 Tables 6 and 6A appended to this report show respectively the position of surplus resources during the years 1979-80 and 1980-81 (upto 31 March 1981) in respect of 17 selected scbs at the peak level as well as the lowest level of outstanding loans and advances. It would be seen from Table-6 that, during the year 1979-80, only 2 scbs viz. Assam and Himachal Pradesh had surplus resources both at the lowest level as well as the peak level of outstanding loans and advances while 4 other scbs viz. Jammu & Kashmir, Karnataka, Maharashtra and Punjab had surplus resources only when their outstanding loans and advances were at the lowest level. Thus, only 6 scbs named above can be said to have surplus resources during 1979-80 at some time or the other, of which 2 scbs can be said to have surplus resources throughout the year. The rest of the scbs cannot be said to have any surplus resources. It would be seen from Table-6A that the same 2 scbs viz. Assam and Himachal Pradesh, which had surplus resources throughout the year 1979-80, had surplus resources both at the lowest level as well as the peak level of outstanding loans and advances during the year 1980-81 (upto 31 March 1981) also, while out of the 4 scbs which had surplus resources when their outstanding loans and advances during 1979-80 were at the lowest level, 3 scbs viz. Karnataka, Maharashtra and Punjab had surplus resources during 1980-81 (upto 31 March 1981) also when their outstanding loans and advances were at the lowest level. The Jammu & Kashmir SCB, however, which had surplus resources during 1979-80 when its loans and advances were at the lowest level, did not have any such surplus resources during 1980-81 (upto 31 March 1981). Instead, the Tamil Nadu SCB, which did not have any surplus resources during 1979-80 had surplus resources during 1980-81 (upto 31 March 1981) when its outstanding loans and advances were at the lowest level. Thus, during the year 1980-81 (upto 31 March 1981) also, 2 scbs had surplus resources both at the lowest level as well as peak level of outstanding loans and advances and 4 other scbs had surplus resources when their loans and advances were at the lowest level. However, referring to the entire period from 1 July 1979 to 31 March 1981, it can be

said that only 2 scbs viz. Assam and Himachal Pradesh had surplus resources throughout the period while 5 other scbs viz. Jammu & Kashmir, Karnataka, Maharashtra, Punjab and Tamil Nadu had surplus resources some times during the period. The remaining scbs did not reveal any surplus resources during the said period.

3.5 Columns 7 and 8 of Tables 6 and 6A indicate the quantum of surplus resources during the years 1979-80 and 1980-81 (upto 31 March 1981) respectively held by the scbs. From this data, it would be seen that the surplus resources held by the aforesaid 7 scbs during the period 1 July 1979 to 31 March 1981 were as under :

<i>(Rs. crores)</i>		
<i>Name of SCB</i>	<i>Minimum surplus resources</i>	<i>Maximum surplus resources</i>
(1)	(2)	(3)
1. Assam	4 09	5 91
2. Himachal Pradesh	1 52	3 42
3. Jammu & Kashmir	—	0 43
4. Karnataka	—	10 02
5. Maharashtra	—	174 53*
6. Punjab	—	19 64
7. Tamil Nadu	—	24 29*
Total :	5 61	238 24

\* Figure revised on the basis of monthwise position called for subsequently

Since the sample of scbs for the purpose of study is fairly exhaustive and the remaining 10 scbs are very small and are not known to have surplus resources, it would be reasonable to estimate the maximum and minimum levels of surplus resources held by the scbs in the country at Rs. 238 crores and Rs. 6 crores respectively during the period 1 July 1979 to 31 March 1981. In other words, it can be said that scbs had long-term surplus resources of Rs. 6 crores and seasonal surplus resources of Rs. 232 crores (Rs. 238 crores minus Rs. 6 crores). It may have to be taken note of, in this connexion, that the maximum level of surplus resources at Rs. 238 crores worked out above is

based on the peak level of surplus resources reached in the case of each ccb any time during the aforesaid period and, therefore, the entire estimated surplus resources may not be available at any one point of time during the period.

3.6 As regards ccbs, out of the 67 ccbs selected for study, the statistical data called for had been received from 65 ccbs (only the Bhopal CCB in Madhya Pradesh and Burdwan CCB in West Bengal did not furnish the required data). Of these 65 ccbs, only 32 ccbs had surplus resources during the year 1979-80, while 24 ccbs had surplus resources during the year 1980-81 (upto 31 March 1981). The details of 32 ccbs which had surplus resources during 1979-80 are given in Table-7 appended to this report while of those which had surplus resources during 1980-81 (upto 31 March 1981) are given in the appended Table-7A. It would be seen from these tables that all the 24 ccbs which had surplus resources during 1980-81 (upto 31 March 1981), also had surplus resources during the year 1979-80. Thus, there was no addition in the number of ccbs having surplus resources during the year 1980-81 (upto 31 March 1981). However, since the data in Table-7A refers to only a part of the year 1980-81 i.e. upto 31 March 1981 only, it would be appropriate to quantify the surplus resources of ccbs with reference to the entire period from 1 July 1979 to 31 March 1981. Thus, it can be said that, during the period 1 July 1979 to 31 March 1981, the surplus resources at the ccb level in relation to the 65 ccbs were as under :

<i>(Rs. crores)</i>			
<i>Name of the State</i>	<i>Name of the ccb</i>	<i>Minimum surplus resources</i>	<i>Maximum surplus resources</i>
(1)	(2)	(3)	(4)
1. Maharashtra	1. Bombay	4.06	7.43
	2. Kolaba	0.28	3.65
	3. Pune	7.42	15.60
	4. Ratnagiri	3.39	6.20
	5. Thane	6.59	10.40
	6. Jalgaon	—	11.76
	7. Kolhapur	—	11.01
	8. Sangli	—	6.76
	9. Satara	—	14.47
	10. Yeotmal	—	2.93
	Total :	21.74	90.01

(1)	(2)	(3)	(4)
2. Gujarat	11. Ahmedabad	0 85	14 53
	12. Khaira	—	2 01
	13. Mehsana	8 24	15 41
	14. Panchmahals	0 53	1 73
	15. Banaskantha	—	1 10
	16. Surat	—	9 37
	Total :	<u>9 62</u>	<u>44 15</u>
3. Bihar	17. Dhanbad	0 15	0 77
	18. Singhbhum	—	0 69
	Total :	<u>0 15</u>	<u>1 46</u>
4. Himachal Pradesh	19. Kangra	<u>9 37</u>	<u>11 61</u>
5. Jammu & Kashmir	20. Jammu	—	<u>2 54</u>
6. Karnataka	21. Belgaum	—	3 18
	22. South Kanara	—	0 39
	Total :	<u>—</u>	<u>3 57</u>
7. Kerala	23. Alleppey	—	0 89
	24. Ernakulam	—	1 24
	25. Kottayam	—	1 99
	26. Trichur	—	0 39
	Total :	<u>—</u>	<u>4 51</u>
8. Madhya Pradesh	27. Indore	—	<u>0 66</u>
9. Punjab	28. Jullundur	3 32	6 93
	29. Kapurthala	1 62	3 01
	30. Ludhiana	—	0 38
	Total :	<u>4 94</u>	<u>10 32</u>
10. Uttar Pradesh	31. Meerut	—	2 44
	32. Muzaffarnagar	—	2 38
	Total :	<u>—</u>	<u>4 82</u>
	Grand Total	<u>45 82</u>	<u>173 65</u>

3.7 The above compilation is based on the data received from 65 ccbs, out of the selected 67 ccbs, as against the total of 337 ccbs in the country. Even though, while selecting the sample, an attempt was made to cover all the ccbs with sizeable deposit resources and almost all the selected ccbs had furnished the data, it was still likely that some of the ccbs left out of the study might also be having small surplus resources at times during the period. It may, therefore, be reasonable to estimate the maximum surplus resources with all the ccbs in the country during the period 1 July 1979 to 31 March 1981 at Rs 200 crores and the minimum surplus resources at Rs 50 crores. In other words, it can be said that the ccbs had long-term surplus resources of Rs 50 crores and seasonal surplus resources of Rs. 150 crores (Rs 200 crores minus Rs 50 crores). It may have to be again taken note of, in this connexion, that the maximum level of surplus resources worked out above is based on the peak level surpluses in the case of each ccb anytime during the aforesaid period and, therefore, the entire estimated total surplus resources of Rs 200 crores may not be available at any one point of time.

3.8 As earlier stated in this chapter, the ccbs are expected to keep their surplus funds with the concerned scb. If this had been adhered to by all the ccbs, the surplus funds of ccbs as quantified in para 3.7 above would have merged into the resources of scbs and there would have been no need to take cognisance of the surplus funds at the level of ccbs. However it was reported to the Study Group that many of the ccbs and ucbs had also been keeping their surplus funds with the commercial banks. The Study Group had also come to know of the instances where the ccbs had kept their surplus funds with the non-banking institutions. In order, therefore, to know the quantum of surplus funds kept by the ccbs and the ucbs with the commercial banks and/or institutions other than the higher financing agency, the scbs were requested to collect the particulars of deposits kept by ccbs and ucbs with the commercial banks (other than those for meeting the day-to-day business requirements) and/or institutions other than the higher financing agency and furnish the same to the Study Group. On the basis of information furnished by the scbs supplemented by the data available in the non-overdue cover statements with the Reserve Bank, the surplus funds kept by the ccbs with the commercial

banks and/or institutions other than the higher financing agency during the period 1 July 1979 to 31 March 1981 were arrived at as under :

<i>Name of State</i>	<i>(Rs crores)</i>	
	<i>Surplus funds kept by ccbs with commercial banks and institutions other than state cooperative banks</i>	
	<i>Minimum</i>	<i>Maximum</i>
(1)	(2)	(3)
1. Bihar	0.40	1.13
2. Gujarat	8.40	54.70
3. Himachal Pradesh	9.37	13.50
4. Jammu & Kashmir	0.13	2.30
5. Karnataka	0.59	3.15
6. Kerala	—	5.10
7. Madhya Pradesh	—	0.16
8. Maharashtra	13.44	99.94
9. Punjab	0.47	3.98
10. Uttar Pradesh	0.05	4.19
<b>Total :</b>	<b>32.93</b>	<b>188.15</b>

**Note :** In Gujarat State, some of the ccbs had also kept their surplus funds as deposits with institutions other than the state cooperative bank.

On the basis of the above figures, it can be said that the ccbs had kept their surplus funds aggregating Rs. 188 crores with commercial banks and institutions other than the higher financing agency, of which Rs 33 crores were of long-term nature and Rs 155 crores (Rs 188 crores minus Rs 33 crores) were of seasonal nature. These would need to be taken into account while quantifying the total surplus resources.

3.9 Insofar as ucbs are concerned, their surplus funds, to the extent these are kept with the higher financing agency, would get merged into and reflected in the resources of the concerned ccb/scb and there is no need, therefore, to take cognisance of such surplus funds. However, the ucbs have been keeping their surplus funds with the commercial banks

which would need to be taken into account for quantifying the total surplus resources in the cooperative credit system. In order to know the quantum of such resources, the scbs were requested to collect and furnish to the Study Group the particulars of surplus funds kept with the commercial banks by the ucbs functioning in their respective jurisdiction. On the basis of information furnished by the scbs, the surplus funds kept by the ucbs with the commercial banks as on 31 March 1981 were as under :

*(Rs. crores)*

<i>Name of State</i>	<i>Surplus funds kept by ucbs with the commercial banks</i>		
	<i>Long-term</i>	<i>Seasonal</i>	<i>Total</i>
(1)	(2)	(3)	(4)
1. Andhra Pradesh	0.67	0.87	1.54
2. Gujarat	8.78	26.09	33.87
3. Haryana	0.19	0.04	0.23
4. Madhya Pradesh	1.19	0.08	1.27
5. Maharashtra	57.02	16.96	73.98
6. Orissa	0.02	—	0.02
7. Rajasthan	—	1.04	1.04
8. Tamil Nadu	—	0.10	0.10
9. West Bengal	1.35	0.36	1.71
<b>Total :</b>	<b>69.22</b>	<b>44.54</b>	<b>113.76</b>

According to the above data, it can be said that the surplus funds to the extent of Rs 114 crores had been kept by the ucbs with the commercial banks, of which Rs 69 crores were of long-term nature and Rs. 45 crores were seasonal.

3.10 On the basis of the quantification of surplus resources done in the above paragraphs, an estimate of the statewide position of total surplus resources in the cooperative banking sector during the period 1 July 1979 to 31 March 1981, including the surplus funds kept by ccbs and ucbs with the commercial

banks and institutions other than the higher financing agency, has been made in Table-8 appended to this report. The aggregate position in a nut-shell for the country as a whole is given below :

<i>(Rs. crores)</i>			
<i>Particulars</i>	<i>Long-term surplus resources</i>	<i>Seasonal surplus resources</i>	<i>Total surplus resources</i>
(1)	(2)	(3)	(4)
(a) Surplus resources with the scbs	5 61	232 63	238 24
(b) Surplus funds kept by ccbs with commercial banks	32 93	155 22	188 15
(c) Surplus funds kepts by ucbs with commercial banks	69 22	44 54	113 76
Total	107 76	432 39	540 15

It would be seen from Table-8 that out of the estimated total surplus resources of Rs 540 crores in the entire cooperative banking sector, as much as Rs 348 crores, forming 64 per cent of the total, were accounted for by Maharashtra State alone followed by Gujarat State which accounted for Rs 89 crores forming 16 per cent of the total. Thus, these two states put together accounted for as much as 80 per cent of the total surplus resources. It would further be seen from the above data that out of the total surplus resources of Rs 540 crores, Rs 108 crores, forming 20 per cent of the total, were of a long-term nature and these alone could be construed as surplus resources for which long-term investment avenues would need to be spelt out. The rest of the surplus resources aggregating Rs 432 crores were of a seasonal nature for which short-term/temporary parking arrangements would need to be found.

### **Pattern**

3.11 The lendings for agriculture, by and large, show a seasonal pattern. Consequently, in the case of cooperative banks whose lendings are predominantly for agricultural production purposes, there is outflow of funds from such banks during the lending season i.e. from June to December and inflow of



funds from January when kharif loans start falling due for repayment and upto May when the rabi loans would have also fallen due. Accordingly, surplus resources start depleting as the loaning season commences and start growing again with the commencement of the recovery season. Thus, the extent of seasonal variations in the level of loans and advances influences significantly the pattern of surplus resources.

3.12 The composition of deposits and that of loan portfolio of the bank also influence the pattern of its surplus resources. Thus, if the deposits of the bank comprise mostly fixed deposits, the surplus resources would be relatively stable with little fluctuations and vice-versa. In relation to loan portfolio, if the bank's loan portfolio is diversified and the level of outstanding loans and advances does not fluctuate significantly, the surplus resources will also be more or less stable. If, on the other hand, the loan portfolio is comprised of mainly one or two particular types of advances, the surplus resources will tend to adopt the trend of these advances.

3.13 The pattern of surplus resources would differ from bank to bank and would be influenced largely by (i) the growth pattern of its own deposits and loans and advances, (ii) the growth pattern of deposits and loans and advances of its affiliated lower level banking institutions, (iii) seasonality pattern of its loans and advances, and (iv) the composition of its deposit portfolio as well as the loan portfolio. The Maharashtra SCB is a typical example of the pattern of surplus resources as will be seen from the monthly figures of its total deposits, total loans and advances and surplus resources during the period from July 1979 to March 1981 given below :

**MAHARASHTRA STATE COOPERATIVE BANK LTD.**

<i>As at the end of</i>		<i>(Rs. crores)</i>		
		<i>Total deposits</i>	<i>Total loans and advances</i>	<i>Surplus resources</i>
(1)		(2)	(3)	(4)
July	1979	308	270	1
August	1979	311	249	24
September	1979	318	229	49
October	1979	316	212	64

	(1)	(2)	(3)	(4)
November 1979		324	192	91
December 1979		344	257	41
January 1980		366	302	13
February 1980		353	293	12
March 1980		369	322	—
April 1980		375	303	20
May 1980		346	282	42
June 1980		359	249	64
July 1980		352	219	89
August 1980		354	173	136
September 1980		358	184	151
October 1980		386	161	175
November 1980		393	174	166
December 1980		399	255	89
January 1981		393	287	54
February 1981		408	331	23
March 1981		411	361	—

A bulk of the advances of Maharashtra SCB (around Rs 250 crores) go for financing the Maharashtra Cotton Monopoly Procurement Scheme and for providing working capital finance to the cooperative sugar factories. Both these activities show a distinct seasonal pattern and the outstandings in both these accounts put together are at the peak level in the month of March and at the lowest level in October/November. The figures in the above table clearly indicate as to how much the seasonal variations in loans and advances determine the pattern of surplus resources.

### Duration

3.14 From the point of duration, the surplus resources can be classified into 2 categories viz.,

- (i) long-term surplus resources, and
- (ii) seasonal surplus resources.

The surplus resources of a bank can be classified as long-term if they have been continuing over a period of time. If, however, the surpluses are intermittent and not continuous over a period of time, these can be classified as seasonal. Accordingly,

while determining the quantum of surplus resources in the cooperative banking sector, as indicated in paragraphs 3.5 to 3.10 above, the surplus resources have been classified into long-term surplus resources and seasonal surplus resources. The state-wise position of surplus resources is given in Table-8 and the consolidated position in para 3.10.

3.15 With a view to getting an idea about the duration of seasonal surplus resources in relation to their quantum, the 5 scbs and the 20 ccbs which were having seasonal surpluses were requested to compile and furnish to the Study Group, monthwise figures of surplus resources for the period July 1979 to March 1981. Of the 5 scbs, 3 SCBs viz., Maharashtra, Tamil Nadu and Karnataka furnished the required figures which have been tabulated in Table-9 appended to this report. It will be seen from this table that, in the case of Maharashtra SCB, it was only in the month of March that the bank did not have any surplus resources. Throughout the rest of the year, the bank had surplus resources of varying magnitude ranging upto a maximum of Rs 175 crores in the month of October 1980. However, for almost 6 months viz., July to December 1980, the surplus resources ranged between Rs 90 crores and Rs 175 crores. The Tamil Nadu SCB had surplus resources only from October 1980 onwards upto March 1981 and the surpluses ranged upto Rs 24 crores. During the 4 months viz., October 1980 to January 1981, the surplus resources of Tamil Nadu SCB ranged between Rs 13 crores and Rs 24 crores. The Karnataka SCB had surplus resources only from March to July 1980 and the surpluses ranged upto Rs 10 crores. The surpluses in the case of Karnataka SCB were thus purely temporary.

3.16 Insofar as ccbs are concerned, of the 20 ccbs from whom information was called for, 15 ccbs had furnished the particulars. Of these, the figures in respect of 10 ccbs which had comparatively larger surplus resources have been tabulated in Table-10 appended to this report. It would be seen from this table that in the case of all the ccbs in Maharashtra and the Surat DCCB in Gujarat, the surplus resources are becoming long-term. In the case of Khaira DCCB in Gujarat and Belgaum DCCB in Karnataka, the surplus resources continued for several months. In the case of ccbs in Kerala, the surplus resources were purely temporary and did not exist during the year 1980-81.

## Trends

3.17 Taking the state level institution as a unit, it is possible to identify certain broad trends in respect of surplus resources and the reasons therefor. For instance, there were long-term surplus resources only in the case of 2 scbs viz., Assam and Himachal Pradesh and the variations in the surplus resources in the case of both these banks were also not significant. These scbs were faced with the problem of surplus resources because cooperative credit structure in both these states at the intermediary as well as the base level was organisationally weak and incapable of sustaining higher levels of credit. The infrastructural facilities had also not developed in these states which could have generated credit demand. The same is applicable to Jammu & Kashmir SCB which had nominal surplus resources during the year 1979-80. However, during 1980-81 (upto 31 March 1981), this bank did not have any surplus resources as its loans and advances had since picked up. In the case of Karnataka SCB, the loans and advances had declined significantly during the year 1978-79 and 1979-80 resulting in generation of surplus resources. However, the loans and advances picked up during 1980-81 and the bank did not have any surplus resources after July 1980. In the case of Maharashtra and Punjab SCBs, the surplus resources were seasonal and the variations in the surplus resources at the peak level and the lowest level of outstanding loans and advances were very significant. The surplus resources touched the level of Rs 175 crores in the case of Maharashtra SCB and Rs. 20 crores in the case of Punjab SCB. The Punjab SCB has since been authorised by the RBI to finance cotton procurement in the state by the Punjab MARKFED alongside the Cotton Corporation of India and this would take care of the surplus resources of Punjab SCB. The Maharashtra SCB also, which undertakes the financing of 2 major activities in the state viz. monopoly cotton procurement and provision of working capital finance to cooperative sugar factories, is relieved of the surplus resources when the outstanding advances of the bank for these two activities are at the peak level. The Tamil Nadu SCB did not face the problem of surplus resources till the year 1979-80 but the position suddenly changed in 1980-81 when its outstanding loans and advances fell sharply on account of write off of cooperative dues in the state with the assistance from

the state government. In Tamil Nadu, only the defaulted conversion loans were written off but the defaults in respect of other loans were allowed to continue with the result that, despite financial assistance received from the state government, it was not possible to provide fresh finance to the cultivators as, under cooperative principles, defaulters cannot be financed. These surplus resources would, however, cease to exist as soon as the agricultural loans pick up again.

3.18 Insofar as the ccbs are concerned, 32 ccbs spread over 10 states had surplus resources during 1979-80. The problem of surplus resources in the case of 4 ccbs in Kerala State viz. Alleppey, Ernakulam, Kottayam and Trichur has since been resolved by permitting them to join the Kerala SCB in the consortium arrangements for financing cashew procurement in the state and these ccbs did not have any surplus resources during the year 1980-81 (upto 31 March 1981). The Jammu CCB in Jammu & Kashmir state also did not have any surplus resources during 1980-81 (upto 31 March 1981) as it had involved its surplus resources in the financing of fertilizer distribution in the state. The 3 other ccbs also viz. Yeotmal in Maharashtra, South Canara in Karnataka and Ludhiana in Punjab did not have surplus resources during 1980-81 (upto 31 March 1981). The details of 24 ccbs which had surplus resources during 1980-81 (upto 31 March 1981) have been given in Table-7A appended to this report. Of these, 17 ccbs had surplus resources throughout the period from July 1980 to March 1981 while the surplus resources in the case of 6 other banks were seasonal. An important finding that emerges from a comparative study of the data in Tables 7 and 7A as well as the data given in Table-8 is that in the case of 4 ccbs in Maharashtra State viz. Jalgaon, Kolhapur, Sangli and Satara, the surplus resources which were seasonal during 1979-80 had turned into long-term surplus resources during 1980-81 (upto 31 March 1981).

#### **Estimate of surplus resources during the VI Plan period**

3.19 It would be seen from Table-8 that the total surplus resources, including the surplus funds kept by the ccbs and the ucbs with the commercial banks and institutions other than the higher financing agency worked out to around Rs 540

crores, of which Rs 108 crores only were of a long-term nature. These surplus resources were spread over 17 states. Of these, the surplus resources kept by ccbs and/or ucbs with commercial banks in Andhra Pradesh, Bihar, Haryana, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh and West Bengal can be easily absorbed by the scbs of these states as these scbs did not have any surplus resources and were heavily dependent on borrowings from RBI. The surplus funds kept by ccbs in Kerala with the commercial banks have since ceased to exist as these have been utilised by the concerned ccbs in their own business. Of the remaining 8 scbs, the Assam SCB had not generated any surplus resources during the last 3 years. The Tamil Nadu and Karnataka SCBs are not likely to generate any surpluses during the VI Plan period as the surpluses in their cases are purely seasonal and due to sudden fall in the level of their loans and advances on account of certain ill-conceived actions on the part of the state governments/scbs. Their existing surplus resources would also cease to exist as soon as their loans and advances pick up again. The Himachal Pradesh and Jammu & Kashmir SCBs also are not expected to generate any significant surpluses since the scope for resource mobilisation in their cases is extremely limited. Their existing surpluses would also be utilised soon in making loans and advances as certain avenues for investment have already been suggested to them. Punjab SCB will not have any more surplus resources consequent upon taking up the financing of cotton procurement by the Punjab State Cooperative Marketing Federation. Gujarat SCB did not have any surplus resources, but some of the ccbs and ucbs had kept their surplus funds with the commercial banks. These will also be utilised in loans and advances as the ccbs and ucbs concerned are going to be provided avenues for investment of their surplus funds. The case of Maharashtra State only would need consideration for projecting the figure of surplus resources over the Sixth Plan period.

3 20 The Maharashtra SCB has projected the surplus resources during the VI Plan period as given overleaf.

(Rs. crores)

Particulars	At the end of June				
	1981	1982	1983	1984	1985
(i) With SCB	70	117	155	208	210
(ii) Kept by ccbs with commercial banks	100	120	135	150	180
(iii) Kept by ucbs with commercial banks	90	105	130	160	210
Total:	260	342	420	516	600

While the above projections seem all right on the basis of the position existing at present, it is expected that with the implementation of the recommendations of this Study Group, the cooperative banks—the scb, ccbs as well as ucbs, would be able to find new avenues for investment which would enable them to accelerate the growth rate of their loans and advances and, thereby, arrest not only the future growth of surplus resources but also utilise purposefully and profitably their existing surplus resources.

### Summing up

3.21 It is necessary to see the problem of surpluses of cooperative banks in a proper perspective. First, the surpluses of cooperative banks, in a way, are due to under-development of the cooperative infrastructure. Secondly, the surpluses are not general to the cooperative banking sector as a whole but are region-specific and/or institution-specific. Thirdly, though the surpluses are sizeable, the magnitude of the surplus is not such as to cause 'alarm'. Fourthly, the two categories of surpluses, namely, long-term and seasonal, would need to be tackled separately. In the case of the former, longer medium-term investment avenues need to be found whereas in the case of the latter, the problem is essentially one of 'parking' funds in short-term avenues, which would be co-terminus with the surpluses. It is against this background that the suggestions made by the Group in subsequent chapters for deployment of surpluses have to be viewed.

## CHAPTER-IV

# LIQUIDITY REQUIREMENTS

4.1 One of the Terms of Reference of the Study Group is to examine the existing provisions relating to the extent and manner of maintaining cash reserves and liquid assets by cooperative banks and suggest modifications required, if any. Accordingly, some of the issues concerning the liquidity requirements are examined in this chapter.

### Minimum Cash Reserve and Liquid Assets

4.2 In terms of sub-section (1) of Section 42 of the Reserve Bank of India Act, 1934 (RBI Act) every scheduled bank (whether it is a commercial bank or a state cooperative bank) is required to maintain with the RBI, an average daily balance the amount of which shall not be less than 3 per cent of the total of its time and demand liabilities (TDL) in India. In terms of the proviso to this sub-section, the said rate of 3 per cent may be raised upto 15 per cent. In the year 1973, the cash reserve requirement was raised to 5 per cent of the TDL and the scheduled commercial banks were advised to reach the revised cash reserve requirement of 5 per cent of TDL by the close of business on Friday the 29 June 1973. Thereafter, the cash reserve requirement was varied from time to time and the scheduled commercial banks were required to maintain the prescribed sum with the RBI. The cash reserve requirement in the case of scheduled commercial banks which, till recently, was 6 per cent of TDL has been raised to 6.5 per cent from 31 July 1981 and is proposed to be raised further to 7 per cent by 21 August 1981. However, when the cash reserve requirement was raised to 5 per cent of TDL in 1973, it was felt, inter alia, that since the total TDL of all the scheduled scbs were only about Rs 350 crores, the extension of additional reserve requirement to scheduled scbs might not have any significant impact in regard to restricting the money supply and, therefore, the scheduled scbs were granted exemption from the additional cash reserve



requirement under the provisions of Section 42(7) of the RBI Act. The exemption which was granted initially for a period of two years was extended from time to time and is continuing at present. As per the provisions of sub-section (7) of Section 42 of the RBI Act, the RBI is empowered to grant exemption to all or any of the scbs from the additional cash reserve requirement provided the Bank has sufficient reasons for doing so and further that the exemption has to be for a specific period. In regard to the liquid assets also, while the statutory liquidity requirement in the case of scheduled commercial banks had been raised from 1970 onwards and is presently 34 per cent of TDL, which is proposed to be raised further to 35 per cent in two phases viz. to 34.5 per cent from 25 September 1981 and to 35 per cent from 30 October 1981, it is 25 per cent in the case of scheduled scbs.

4.3 On account of rapid monetary expansion in recent years, there has been a substantial step up in the reserve requirements of scheduled commercial banks. In this context and also since the total TDL of scheduled scbs have grown four-fold since 1973 viz. from Rs 368 crores as at the close of business on the last Friday of December 1973 to Rs 1256 crores at the close of business on the last Friday of December 1980 and further to Rs 1404 crores as on 31 March 1981, the Study Group examined at great length whether the time was opportune to consider the stepping up progressively, in stages, of the minimum cash reserve and liquid assets requirements in the case of scheduled scbs so as to bring them on par with those stipulated for scheduled commercial banks.

4.4 The Group finally came to the view that there could well be significant changes in the liquidity of the cooperative banking sector and if excess liquidity becomes a persistent feature, and not a temporary aberration from the trend, it might become necessary in future to adjust reserve requirements. Obviously, the Group recognised that the RBI keeps a continuous watch on the liquidity of the banking system, including that of cooperative banks, and that it would take appropriate measures from time to time.

#### **Composition of Liquid Assets**

4.5 In terms of section 24 of the Banking Regulation Act,

1949 (As Applicable to Cooperative Societies), while a scb can maintain the required liquid assets in the form of cash, gold, unencumbered approved securities and *current account* balances with RBI, State Bank of India or any other notified bank; in the case of ccbs and ucbs, *any* balances maintained by them with the higher financing agency i.e. scb in the case of ccb and the concerned ccb or scb in the case of ucbs, are reckoned towards liquid assets. There is no objection to even the entire liquidity requirements being kept with the higher financing agency in the form of term deposits inasmuch as there is presently no stipulation that a certain minimum percentage of liquid assets required to be maintained should necessarily be kept in the form of approved securities. In view of this position and also the fact that the term deposits kept with the cooperative banks earn a much higher return compared to the return on approved securities, the ccbs and ucbs keep a bulk of their liquidity requirements in the form of term deposits with the higher financing agency while the approved securities form an insignificant proportion of the liquid assets maintained by these banks.

4.6 A recent study in this regard has revealed that the investments of ccbs and ucbs in government and other approved securities for the purpose of section 24 of the Act *ibid* formed less than 3 per cent of their TDL as on 30 June 1979 as shown below :

#### STATUTORY LIQUIDITY RATIO OF COOPERATIVE BANKS

(Percentage of TDL as on 30-6-1979)

	<i>Cash on hand etc.</i>	<i>Balances with banks</i>	<i>Unencumbered approved securities</i>	<i>Total eligible assets</i>
Scheduled SCBs	8 3	—	22 8	31 1
Non-scheduled SCBs	9 6	—	15 7	25 3
CCBs	8 4	22 1	2 5	33 0
UCBs	5 4	27 2	2 2	34 8

It is evident from the above description and the data in the above table that a bulk of the liquidity requirements of ucbs and

ccbs is retained within the cooperative banking system and takes the form of loanable internal resources of the higher financing agency. As a result, the effective liquidity gets reduced. Thus, assuming that the entire liquidity requirement of 25 per cent is kept by the ucbs and ccbs with the higher financing agency, the effective liquidity maintained in respect of their TDL would work out to be as under :

CCBs - 25% of 25% - 6.25%

UCBs - 25% of 25% of 25% = 1.56%

It would thus be seen that as much as 98.44 per cent of the deposit resources in the case of ucbs and 93.75 per cent in the case of ccbs remain within the cooperative banking system for the purpose of lending.

4.7 In the context of the above observations and since the proportion of government and other approved securities in the total liquid assets maintained by the ccbs and ucbs had declined over years to below 3 per cent, the Study Group considered whether it would be desirable to stipulate that in the case of ccbs and ucbs, a certain percentage, say at least 10 per cent of the TDL, should be in the form of government and other approved securities. Most of the members of the Study Group expressed the view that this was a special facility given to the cooperatives as a deliberate measure of policy and need not be withdrawn. Further, insistence on the investment of a certain portion of liquid assets in government and other approved securities would take away substantial resources out of the ccbs and ucbs and would thereby affect adversely their ability to meet the credit needs under the VI Plan. It was estimated that if liquid assets to the extent of 10 per cent of the TDL were to be kept in the form of government and other approved securities, it would mean investment of a little over Rs 350 crores by the ucbs and ccbs in these securities as against the present investment of Rs 65 crores. This would require additional investment of Rs 285 crores in the government and other approved securities and will thus be a big drain on the resources of ucbs and ccbs. It was also contended that, viewed against the background of the existing surplus resources with the ucbs and ccbs, it would be a negative step and, therefore, not desirable. Further, since

the return on government and other approved securities was much less compared to the term deposits kept with the higher financing agency, ucbs and ccbs would also be put to substantial losses. In the reply to the questionnaire also, the scbs and ccbs have said that such a stipulation would affect the profitability of ccbs and ucbs and many of the smaller ucbs and several ccbs may not be in a position to bear this loss.

4.8 In the light of the arguments mentioned in the above paragraph, the majority view in the Study Group was that it would not be appropriate at this stage, when the cooperative credit system as a whole has yet to develop and stabilize itself, to recommend maintenance of a certain prescribed proportion of liquid assets in the form of government and other approved securities and that the manner of investment of liquid assets might continue to be left to the discretion of the banks according to the current regulations in force.

### **Reserve Fund Deposits**

4.9 In terms of clause (c) of the explanation given under section 18 of the B.R. Act, the liabilities in India shall not include, among others, in the case of a scb or a ccb, any deposit of money with it representing the reserve fund or any part thereof required to be maintained with it by any other cooperative society within its area of operation. In terms of a similar provision in Section 42 of the RBI Act, a scb which is included in the second schedule of the RBI Act is allowed to exclude from its liabilities, among other things, deposits of money representing reserve fund deposits of other societies in its area of operation for the purpose of maintenance of average daily balance with the RBI. It appears that the above provision was incorporated in the Acts *ibid* to give effect to an undertaking given by RBI at the time of preparing the draft bill that the reserve fund deposits of societies would be excluded from liabilities for the purpose of both the sections 18 and 24 of the B.R. Act since, when the cooperative banks were brought under the purview of the B.R. Act, certain relaxations, exemptions, etc. were considered necessary in the initial years so as to ensure compliance with the various provisions of the Act with the least difficulty. One such facility was in respect of maintenance of liquid assets at 20 per cent only inclusive of the

minimum cash reserve of 3 per cent for the first 2 years after commencement of the Act (this was extended by one more year), but subsequently the banks were required to maintain a higher percentage of liquid assets at 25 per cent excluding the cash reserve of 3 per cent. Now that 15 years had passed since the B.R. Act came into force, the Study Group considered the desirability of continuing to exclude the reserve fund deposits of societies from the liabilities in India for the purpose of Sections 18 and 24 of the said Act and section 42 of the RBI Act 1934 in the context of the following observations :

- (a) the deposits of money representing the reserve fund/ deposits of societies, except in the matter of withdrawability, are similar to any other type of deposits.
- (b) since there are no restrictions on the institution receiving such funds in regard to use of these deposits, the entire amount is available to them for general banking business, and
- (c) even though these deposits are excluded from liabilities, these are available for the purpose of maintaining liquidity.

4.10 The Study Group recognised the force in the above observations but some of the members contended that the exclusion of reserve fund deposits from liabilities for the purpose of maintaining the minimum cash reserve and liquid assets ever since the B.R. Act was extended to cooperative banks in March 1966 had enabled the scbs and ccbs to utilise the funds to the extent which they would have otherwise been required to maintain by way of cash reserve and liquid assets on such deposits, in meeting the credit needs in the area. This had particularly helped the smaller banks, with inadequate deposit resources, in keeping the level of their borrowings to a reduced level. They, therefore, felt that withdrawal of this facility would not only curtail the availability of loanable internal resources with the scbs and ccbs but would also adversely affect the profitability of the banks. In the reply to the questionnaire also, the scbs and ccbs have stated that the present position in regard to the treatment of reserve fund deposits for the purpose of liquidity might be allowed to continue as the inclusion of these deposits in liabilities would require maintenance of larger cash reserve and liquid assets and thereby affect adversely their profitability.

4.11 One view was that while the scbs and ccbs, on one hand, were not required to treat the reserve fund deposits held by them, which aggregated about Rs 100 crores, as liability for the purpose of maintaining cash reserve and liquid assets which would work out to Rs 28 crores; on the other hand, the entire amount was available to them for maintaining liquidity. This was evidently an anomalous position which could not be continued indefinitely and would, sooner or later, need to be rectified.

4.12 After considerable discussion, it was ultimately agreed that the Study Group need not make any positive recommendation in this regard and that the matter might be left to the RBI for taking a view independently.

### **Earmarked Investments**

4.13 Every cooperative bank, by virtue of the provisions contained in the respective Cooperative Societies Acts/Rules/By-laws, is required to set apart a certain sum (generally 25 per cent), out of its own profits every year towards Reserve Fund and the Fund so built up is required to be invested in one or more of the modes indicated in the Act/Rules/By-laws. Further, as per the provisions of the Act, the Fund is not to be drawn upon except with the permission of the Registrar. Generally, in the case of scbs, the reserve fund is invested in government and other approved securities, while in the cases of ccbs, the Fund is kept in deposit with the scb and/or government and other approved securities. The investment so made by the scbs and ccbs stands earmarked towards the statutory reserve fund which cannot be utilised except with the specific permission of the Registrar of Cooperative Societies. In other words, the investments representing the statutory reserve fund are not available to the cooperative banks for their day-to-day banking business. A doubt had arisen in the early stages when the B.R. Act was made applicable to cooperative societies as to whether the balances kept with the higher financing agency representing the investment of statutory reserve fund as also the investments in government and other approved securities earmarked towards statutory reserve fund could be reckoned towards liquid assets actually maintained under section 24 of the B.R. Act. The legal opinion given at that time was that

minimum cash reserve of 3 per cent for the first 2 years after commencement of the Act (this was extended by one more year), but subsequently the banks were required to maintain a higher percentage of liquid assets at 25 per cent excluding the cash reserve of 3 per cent. Now that 15 years had passed since the B.R. Act came into force, the Study Group considered the desirability of continuing to exclude the reserve fund deposits of societies from the liabilities in India for the purpose of Sections 18 and 24 of the said Act and section 42 of the RBI Act 1934 in the context of the following observations :

- (a) the deposits of money representing the reserve fund/ deposits of societies, except in the matter of withdrawability, are similar to any other type of deposits.
- (b) since there are no restrictions on the institution receiving such funds in regard to use of these deposits, the entire amount is available to them for general banking business, and
- (c) even though these deposits are excluded from liabilities, these are available for the purpose of maintaining liquidity.

4.10 The Study Group recognised the force in the above observations but some of the members contended that the exclusion of reserve fund deposits from liabilities for the purpose of maintaining the minimum cash reserve and liquid assets ever since the B.R. Act was extended to cooperative banks in March 1966 had enabled the scbs and ccbs to utilise the funds to the extent which they would have otherwise been required to maintain by way of cash reserve and liquid assets on such deposits, in meeting the credit needs in the area. This had particularly helped the smaller banks, with inadequate deposit resources, in keeping the level of their borrowings to a reduced level. They, therefore, felt that withdrawal of this facility would not only curtail the availability of loanable internal resources with the scbs and ccbs but would also adversely affect the profitability of the banks. In the reply to the questionnaire also, the scbs and ccbs have stated that the present position in regard to the treatment of reserve fund deposits for the purpose of liquidity might be allowed to continue as the inclusion of these deposits in liabilities would require maintenance of larger cash reserve and liquid assets and thereby affect adversely their profitability.

4.11 One view was that while the scbs and ccbs, on one hand, were not required to treat the reserve fund deposits held by them, which aggregated about Rs 100 crores, as liability for the purpose of maintaining cash reserve and liquid assets which would work out to Rs 28 crores; on the other hand, the entire amount was available to them for maintaining liquidity. This was evidently an anomalous position which could not be continued indefinitely and would, sooner or later, need to be rectified.

4.12 After considerable discussion, it was ultimately agreed that the Study Group need not make any positive recommendation in this regard and that the matter might be left to the RBI for taking a view independently.

### **Earmarked Investments**

4.13 Every cooperative bank, by virtue of the provisions contained in the respective Cooperative Societies Acts/Rules/By-laws, is required to set apart a certain sum (generally 25 per cent), out of its own profits every year towards Reserve Fund and the Fund so built up is required to be invested in one or more of the modes indicated in the Act/Rules/By-laws. Further, as per the provisions of the Act, the Fund is not to be drawn upon except with the permission of the Registrar. Generally, in the case of scbs, the reserve fund is invested in government and other approved securities, while in the cases of ccbs, the Fund is kept in deposit with the scb and/or government and other approved securities. The investment so made by the scbs and ccbs stands earmarked towards the statutory reserve fund which cannot be utilised except with the specific permission of the Registrar of Cooperative Societies. In other words, the investments representing the statutory reserve fund are not available to the cooperative banks for their day-to-day banking business. A doubt had arisen in the early stages when the B.R. Act was made applicable to cooperative societies as to whether the balances kept with the higher financing agency representing the investment of statutory reserve fund as also the investments in government and other approved securities earmarked towards statutory reserve fund could be reckoned towards liquid assets actually maintained under section 24 of the B.R. Act. The legal opinion given at that time was that



since the provision in the Act refers only to the balances maintained and does not *expressly* refer to the position as to the withdrawability of such balances, the deposits kept with the higher financing agency as well as the government securities earmarked towards reserve fund would count for the purpose of section 24 *ibid*, if they are otherwise 'unencumbered'. The cooperative banks are, therefore, allowed to reckon their investments representing reserve fund towards statutory liquid assets. Since the view expressed was purely legalistic and technical based merely on the expression occurring in the relevant provisions of the Act *ibid*, the Study Group considered this issue in the light of the following :

- (a) The banks are required to keep a certain percentage of their TDL in the liquid form i.e. either in cash or any such securities which can be readily and easily converted into cash in order to be able to fulfil their commitments to the depositors and other constituents. Since the investments representing reserve fund are not withdrawable except with the permission of the Registrar and in accordance with the provisions of the State Cooperative Societies Act concerned, reckoning of such investments towards liquid assets defeats the purpose of maintaining such assets.
- (b) Since the investments earmarked towards reserve fund are also counted towards liquid assets, it means that the same investments simultaneously represent both the reserve fund as well as liquid assets.

4.14 The Study Group conceded that, strictly speaking, the investments earmarked for reserve fund could not be reckoned towards eligible assets, but contended that the provisions in the B.R. Act, as they exist at present, did not preclude the cooperative banks from reckoning such investments towards eligible assets and it would not, therefore, be appropriate on the part of the Group to make any adverse recommendation in this regard. Further, exclusion of such earmarked investments from the liquid assets actually maintained would also reduce the quantum of available loanable internal resources. It was further pointed out that the provisions in the Cooperative Societies Acts were also not uniform in regard to the requirement of investment of reserve fund outside the business, since in some

states the reserve fund was permitted to be utilised in the business of the concerned institution. In the circumstances, the proposal for exclusion of investments earmarked for reserve fund from being reckoned as eligible assets would affect banks only in those states where the investment of reserve fund outside the business was made obligatory under the Act/Rules. In the reply to the questionnaire also, the banks have not favoured the proposal of exclusion of earmarked securities from the eligible assets. In view of this position, the Study Group finally decided not to make any specific recommendation in this regard.

### **Continuance of concessions/relaxations in liquidity requirements**

4.15 The various concessions and relaxations granted to the cooperative banks in the matter of cash reserve/liquidity requirements, continuance of which is being generally recommended by this Group, were initially granted taking into account the financial strength of the cooperative banks and the singular responsibility cast on them to meet the entire credit needs of the rural sector, at that time. Since then, several significant changes had taken place such as the nationalisation of major commercial banks with a specific role assigned to them in meeting the credit needs of the rural sector, substantial growth in the resources of the cooperative banks themselves, etc. Of late, the cooperative banks, particularly some of the scbs, have also shown growing preference to increasingly involve their resources in non-agricultural sector. The Group unanimously agreed that the continuance of concessions and relaxations initially granted to cooperative banks would, therefore, be justified only so long as they live up to the expectations and discharge their expected role effectively, so as to command and not demand these concessions and relaxations.

## CHAPTER-V

# PROFITABLE INVESTMENT OF LOANABLE INTERNAL RESOURCES

5.1 Provision of credit for agriculture and allied activities is the primary responsibility of scbs and ccbs. These advances, therefore, form a bulk of their total advances. However, the scbs and ccbs are required to provide loans and advances for agriculture and allied activities at a pooled rate of interest, irrespective of the source of funds, which is generally uneconomic in relation to the cost of mobilising deposit resources. As a result, the return to the banks changes with every change in the mix of the resources i.e. the proportion of own resources to borrowed funds, utilised for the purpose of making these loans and advances. Thus, when the reliance, particularly in the case of scbs, is increasingly more on borrowed funds, which are available to cooperative banks at a concessional rate of interest, the lendings tend to become economic. On the other hand, if the reliance is increasingly more on deposit resources, which are costlier compared to the cost of borrowings, the lendings tend to become uneconomic, particularly in the case of scbs. In view of this position, there is an increasing demand, particularly from the scbs to permit them to undertake lendings in the non-agricultural sector, and even outside the cooperative fold, which earn a much higher rate of return, so that they can compensate themselves for the losses incurred by them on account of concessional agricultural lendings.

### Causes

5.2 The several causes of the problem of profitable investment of loanable internal resources, a bulk of which comprise deposit resources, faced by the scbs and some of the ccbs are :

- (a) high cost of deposit resources, particularly in the case of scbs;
- (b) lendings for agriculture and allied sectors at concessional pooled rate of interest, irrespective of source of

funds, which are uneconomic, particularly to the scbs;

- (c) increase in loans and advances at a rate lower than the rate of increase in loanable internal resources resulting in increasing involvement of costly internal resources for the purpose of lending and declining reliance on concessional borrowed funds;
- (d) pegging up the concession in RBI refinance rates resulting in reduction in the pooled rates of interest on concessional lendings and, thereby, further loss on lendings out of internal resources;
- (e) lack of avenues within the cooperative fold in certain states/certain parts of the state for lending to non-agricultural sector at remunerative rates of interest; and
- (f) regulations on advances outside the cooperative fold.

(a) *High cost of deposit resources*

5.3 Table-11 appended to this report shows the average deposit rates as well as gross average deposit rates of scbs as on 30 June 1980 and 31 March 1981. The gross average deposit rate has been worked out taking into account the return at 6 per cent per annum on the resources invested in government and other trustee securities by the scbs for meeting the liquidity requirements and by adding 1 per cent towards meeting the cost of servicing the deposits. Table-11A appended to this report shows the gross average deposit rates as on 30 June 1980 and 31 March 1981 in respect of ccbs selected for the purpose of study. In the case of ccbs, gross average deposit rate has been worked out by adding 1 per cent to the average deposit rate towards meeting the cost of servicing the deposits but no allowance has been given for liquidity requirements since the ccbs keep a bulk of their liquidity requirements with the scbs and earn adequate return thereon. It would be seen from Table-11 that except Assam and Bihar SCBs in whose case the gross average deposit rate was 5.4 per cent and 6.2 per cent respectively, in the case of other scbs, the gross average deposit rate ranged between 9.2 per cent and 11.5 per cent. The gross average deposit rate was highest in the case of Gujarat SCB at 11.5 per cent, followed by Punjab SCB at 11.3 per cent. A comparative study of Table-11 and

Table-11A would show that ccbs were in a much happier position in the matter of gross average deposit rate compared to the scbs and the cost differential between scbs and ccbs in the matter of raising deposits ranged upto 3 per cent.

5.4 The overall cost of deposits is dependent on the composition of deposits. Table-12 appended to this report shows the composition of deposits of scbs as on 31 March 1981 and the data in the table proves the above observation. Thus, the gross average cost of deposits in the case of Assam and Bihar SCBs was a mere 5.4 per cent and 6.2 per cent respectively as their current and savings deposits put together, which were much less costlier, formed 66.1 per cent and 51.2 per cent respectively of their total deposits; while in the case of Gujarat SCB, the gross average deposit rate was as high as 11.5 per cent since its current and savings deposits put together formed a meagre 8.2 per cent of its total deposits. A comparative study of the typewise classification of deposits of scbs given in Table-12 with the gross average deposit rate given in Table-11 reveals an apparent correlation between the two. Thus, the higher the level of current and savings deposits, which are much less costlier, the lower the gross average deposit rate and vice versa. This applies equally to the ccbs as may be seen from the typewise classification of deposits as on 31 March 1981 in respect of a few ccbs given in Table-12A, in relation to their gross average deposit rates given in Table-11A and also shown in column 10 of Table-12A.

5.5 The conclusion that emerges from the above analysis is that the composition of deposits determines their overall cost and the cost of deposit resources in the case of scbs was relatively higher, except in the case of Assam and Bihar SCBs, since a bulk of their deposit resources comprised term deposits which were costlier. In the case of ccbs also, the cost of deposit resources varied from bank to bank depending upon the composition of their deposits but they were placed in a relatively better position compared to the scbs for two reasons viz. that (i) the current and savings deposits in the case of ccbs formed, by and large, a higher proportion compared to scbs and this brought down the overall cost of deposits, and (ii) the liquid assets maintained by ccbs, which were mostly in the form of term deposits with the higher financing agency, earned a

reasonable return and did not cause any loss to the ccbs on this account.

5.6 It may be interesting in this connexion to also have an idea about the sourcewise classification of deposits viz. those from cooperatives and those from individuals and institutions other than cooperatives. Table-13 appended to this report shows the sourcewise classification of deposits of scbs as at the end of March 1981. Table-13A shows the sourcewise classification of deposits of the same 15 ccbs whose typewise classification is given in Table-12A. It will be seen from Table-13 that, except in the case of Assam, Bihar and Himachal Pradesh, the bulk of the deposits in the case of other scbs was from cooperative institutions. Thus, in the case of Gujarat SCB, as much as 97.8 per cent of its total deposits as on 31 March 1981 were from cooperatives. As regards other scbs, the deposits from cooperatives formed 92.5 per cent of the total deposits in the case of Rajasthan SCB, 91.4 per cent in the case of Kerala SCB, 91.2 per cent in the case of Andhra Pradesh SCB, 89.6 per cent in the case of Maharashtra SCB, 85.6 per cent in the case of Karnataka SCB, 83.1 per cent in the case of West Bengal SCB and 81.4 per cent in the case of Punjab SCB. The position was much different in the case of ccbs as could be seen from the data compiled in Table-13A. In the case of ccbs, the deposits from individuals and institutions other than cooperatives formed quite a significant proportion of the total deposits and were as high as 91 per cent in the case of Bijnore CCB (Uttar Pradesh), 85.4 per cent in the case of Dhanbad CCB (Bihar), 82 per cent in the case of Ratnagiri CCB (Maharashtra) and 77.5 per cent in the case of Madurai CCB (Tamil Nadu). This position is due mainly to the fact that while the ccbs are expected to establish a network of branches in their respective areas for serving the affiliated societies from as close a distance as possible and also to mobilise deposits, the scbs are discouraged from opening too many branches as this may lead to their competing with the other cooperative banking institutions in the area and, instead, the scbs are expected to act mainly as the balancing centre for the cooperative credit system in their respective states.

(b) *Uneconomic return on concessional lendings*

5.7 As stated in para 5.1, the scbs and ccbs are expected

to lend to their affiliated units at the pooled rate of interest irrespective of the source of funds i.e. whether the lendings are out of the loanable internal resources or out of borrowings from the higher financing agency. The deposits constitute the bulk of the loanable internal resources in the case of any bank. The observations contained in para 5.3 give a broad idea about the gross average deposit rates of scbs and ccbs. The lending rates on various types of concessional advances, the average lending rate on concessional advances and the average lending rate on non-concessional advances in respect of 14 out of the 17 selected scbs are given in Table-14 appended to this report. The 3 scbs viz. Assam, Himachal Pradesh and Jammu & Kashmir have been left out as these scbs are financing the pacs directly in either the whole state or certain parts in the state. Concessional advances include advances for seasonal agricultural operations, medium-term agricultural loans, medium-term conversion loans, weavers' finance and industrial finance, which are provided at the concessional pooled rate of interest (irrespective of the source of funds) and for which refinance facilities from RBI at below the Bank Rate are available. All other advances constitute non-concessional advances. It will be seen from a comparative study of the average lending rates on concessional advances shown in Column 8 of Table-14 and the gross average deposit rates given in Column 6 of Table-11 that all the scbs except Bihar, incur loss in granting concessional loans and advances from out of their loanable internal resources. The loss ranges between 2 per cent and 5 per cent per annum depending largely on the gross average deposit rate of the concerned scb. On the other hand, the ccbs are in a much happier position inasmuch as they either do not incur any loss on concessional lendings or the loss is marginal. Thus, a comparative study of the gross average deposit rates of ccbs given in Column 10 of Table-12A with the average lending rates on concessional advances given in Column 8 of Table-14A would show that out of the 10 representative ccbs in respect of which information has been compiled in Table-14A, 5 ccbs viz. Khaira (Gujarat), Aurangabad, Nasik and Ratnagiri (Maharashtra) and Bijnore (Uttar Pradesh) did not incur any loss on concessional lending but actually earned a nominal interest margin; 4 ccbs viz. Vizianagaram (Andhra Pradesh), South Kanara (Karnataka), Berhampore (Orissa) and Tiruchirappalli (Tamil Nadu) incurred loss while

Coimbatore CCB (Tamil Nadu) neither incurred loss, nor earned any interest margin. In the context of uneconomic lending rates on concessional advances for agriculture and allied activities, the concerned scbs and ccbs, more particularly the scbs which incur substantial losses on these lendings, like to utilise their loanable internal resources increasingly for non-concessional advances, which offer a higher return, so that they can compensate themselves for the losses incurred on concessional lending.

*(c) Relative growth rate of advances and deposits*

5.8 The observations in para 2.7 of this report have proved that in the case of several scbs, their loans and advances during the 3 year period ended 30 June 1980 have lagged behind the growth in their loanable internal resources. As the co-operative banks are expected to first utilise their loanable internal resources in making loans and advances, a lower growth rate of loans and advances compared to loanable internal resources results in increasing involvement of costlier loanable internal resources and a declining reliance on the higher financing agency for concessional borrowings. Thus, with increasing involvement of loanable internal resources for concessional lendings which are uneconomic, particularly in the case of scbs, the profitability of scbs and the concerned ccbs is adversely affected.

*(d) RBI concessional refinance rate*

5.9 The concession in RBI refinance rate on short-term agricultural loans was pegged up from 2 per cent below the Bank Rate to 3 per cent below the Bank Rate and on medium term agricultural, medium-term conversion and weavers' finance for production and marketing from 1½ per cent below the Bank Rate to 2½ per cent below the Bank Rate with effect from 1 March 1978 and in respect of medium-term agricultural and medium term conversion loans further to 3 per cent below the Bank Rate from 1 January 1979. With every increase in the concession in RBI refinance rate, the effective lending rate of RBI goes down and the lending rates of scbs and ccbs also stand correspondingly reduced and, as the co-operative banks are expected to lend at a pooled rate of interest irrespective of the source of funds, the rate of interest earned



by them on their internal resources involved in such lendings also simultaneously gets reduced, resulting in reduced interest earnings.

*(e) Scope for lending within the cooperative fold*

5.10 In certain states like Assam, Himachal Pradesh and Jammu & Kashmir, where the cooperative credit structure has not developed and adequate infrastructural facilities also do not exist within the cooperative sector, it is difficult to find avenues within the cooperative fold for lending to non-agricultural sector at a higher rate of interest so as to compensate the losses incurred in lendings for agriculture and allied activities at concessional interest rates. For instance, it was reported to the Study Group that in Assam State, the scope for lending to non-agricultural sector within the cooperative fold, such as for marketing and processing activities, did not exist as most of the economic activities, including tea gardening, were organised outside the cooperative fold. The chief executives of Panchmahals and Banaskantha ccbs in Gujarat State had also reported during the course of an interview with them that there was hardly any scope in their districts for lending to the non-agricultural sector within the cooperative fold. It was further reported to the Study Group that in hilly districts also, such as in Uttar Pradesh, there was little scope for lendings to non-agricultural sector within the cooperative fold.

*(f) Regulations on lendings outside the cooperative fold*

5.11 The necessary observations in this regard have already been given in para 2.19 of this report while enumerating the causes of slow growth of loans and advances.

## **Effects**

5.12 In addition to the effects of surplus resources already described in paragraphs 2.20 to 2.22 of this report which are equally applicable to the banks faced with the problem of profitable investment of loanable internal resources, some of the further effects of this problem are as under :

- (a) increasing demand on RBI, particularly by the scbs, to fix higher ceilings for keeping call/short-term deposits

with commercial banks, which provide a relatively higher return; and

(b) demand on RBI to provide refinance in respect of short-term agricultural advances upto a certain minimum percentage.

(a) *Higher ceiling for keeping call/short-term deposits with commercial banks*

5.13 The RBI has been fixing every year a ceiling in respect of each scb upto which it can keep call/short-term deposits with commercial banks. The objective of permitting the scbs to keep a certain amount in call/short-term deposits with commercial banks is to enable them to meet their emergent needs of day-to-day business, particularly the demand of the depositors, and also to ensure that they do not make any unwarranted drawals on short-term credit limits sanctioned to them by RBI at a concessional rate of interest and keep the funds so drawn with the commercial banks to earn the interest differential. The quantum of ceiling is determined taking into account the level and pattern of deposits of each concerned bank and is generally within 3 per cent of its total time and demand liabilities. Some of the scbs had been persistently representing that they should be granted higher ceilings on the ground that, with the increase in their deposit resources, the involvement of their internal resources in agricultural lendings was on an increase and, consequently, the reliance on RBI was on a decline which affected their profitability. The desirability of this proposal is discussed later in this chapter.

(b) *Minimum involvement of RBI in agricultural lendings*

5.14 In view of the concessional rate of interest charged on advances for agriculture and allied activities and the fact that cooperative banks are expected to lend primarily for agriculture and allied activities, there have been demands in certain quarters that, in order to enable the cooperative banks to maintain their profitability, the RBI should prescribe a minimum level of its involvement in such lendings and that the funds upto the prescribed minimum level should be available to the scbs. The feasibility of this proposal is discussed later in this chapter.

## **Remedies**

### *Investment in non-agricultural sector*

5.15 The difference between the gross average deposit rates of scbs indicated in column 6 of Table-11 and their respective average lending rates on their concessional advances indicated in column 8 of Table-14 would represent the percentage loss incurred by the scbs on concessional lendings. Similarly, in the case of ccbs, the difference between their gross average deposit rates indicated in column 4 of Table-11A and their average lending rates on concessional advances indicated in column 8 of Table-14A, if any, would indicate the percentage loss incurred by the ccbs on concessional lendings. On the other hand, the difference between the average lending rates on non-concessional advances indicated in column 9 of Table-14 and their respective gross average deposit rates indicated in column 6 of Table-11 would indicate the interest margin earned by the scbs on non-concessional lendings. Similarly, in the case of ccbs, the difference between the average lending rates indicated in column 9 of Table-14A and their gross average deposit rates indicated in column 4 of Table-11A would indicate the interest margin earned by ccbs on their non-concessional lendings. Thus, on the basis of percentage loss incurred on concessional lendings and interest margins earned on non-concessional lendings, the break-even proportions of concessional and non-concessional lendings in the case of the concerned scbs and ccbs would have to be worked out to know the extent upto which these banks can legitimately be permitted to undertake non-agricultural lendings. In cases where any scb or ccb has not reached the break-even percentage in respect of non-concessional lendings, the RBI may take a sympathetic view while considering proposals of such banks for financing the non-agricultural sector, so as to enable them to reach the break-even percentage. In such cases, while granting authorisation, the RBI may take into account the unutilised portion of credit limits sanctioned by it for short-term agricultural purposes.

### **Interest rate on deposits**

5.16 The deposits made with the cooperative banks by a

banking institution or a cooperative bank or any other cooperative institution are exempted from the purview of the directive on interest rates on deposits issued by RBI. The information collected from the scbs and the ccbs has, however, revealed that most of the cooperative banks are allowing interest on deposits from cooperatives at the rates prescribed in the interest rate directive and are also allowing them the additional interest rate of  $\frac{1}{2}$  per cent by the scbs and  $\frac{1}{4}$  per cent by the ccbs on savings and term deposits made by them, as permitted by RBI. In this connexion, a view was expressed that since the cooperatives were, in any case, required to keep their surplus funds with the cooperative banks, granting of additional interest to them on deposits did not act as an incentive to keep funds with the cooperative banks and, therefore, the cooperative banks, in order to restrict the cost of deposit resources, need not allow the additional interest on deposits collected by them from the cooperatives. It was further suggested that the RBI might issue an amending directive on interest rates on deposits prohibiting the cooperative banks from allowing interest on deposits collected from a banking institution, a cooperative bank or any other cooperative institution in excess of the rates stipulated in the interest rate directive and prohibiting them further from granting  $\frac{1}{2}$  per cent,  $\frac{1}{4}$  per cent and 1 per cent additional interest by the scbs, ccbs and ucbs respectively over and above the rates stipulated in the directive on deposits collected from cooperatives. This, it was argued, would reduce, to some extent, the cost of deposits collected by cooperative banks without affecting adversely the deposit mobilisation. In fact, the Maharashtra SCB has not been availing of the concession of granting  $\frac{1}{2}$  per cent additional interest on savings and term deposits.

5.17 Several other members, however, argued that since the directive provisions were not applicable to inter-bank deposits, commercial banks were in a position to offer higher interest rates on deposits from cooperative banks and it would, therefore, not be appropriate to suggest any restrictive provisions governing the cooperative banks alone. The Group ultimately decided that the rate of interest to be offered on deposits from cooperatives might be left to the discretion of the cooperative banks and that no change in the existing position need be suggested except that like Maharashtra SCB

the other scbs may forego the concession of granting 4 per cent additional interest. The Group further suggests that the commercial banks may be prohibited from paying a rate of over 10 per cent on deposits from cooperative banking institutions with a view to ensuring that the cooperative sector's funds stay within the cooperative sector and thereby serve their legitimate purpose.

### **Interest rate on short-term agricultural loans**

5.18 In order to maintain parity between the interest rates on agricultural advances by commercial banks and cooperative banks at the ultimate borrowers' level, the RBI had permitted increase in the interest rates on short-term agricultural loans chargeable by pacs from the ultimate borrowers from 11 per cent to 11.85 per cent in respect of small farmers and from 13 per cent to 14 per cent in respect of other farmers with effect from 1 July 1980 and again from 11.85 per cent to 12.50 per cent in respect of small farmers and from 14 per cent to 15 per cent in the case of other farmers with effect from 2 March 1981. While permitting the increase, the RBI had kept the refinance rate at the same 3 per cent below the Bank Rate thereby enabling the structure to retain a higher interest margin. However, as may be seen from Appendix 4 which indicates the lending rates as on 30 April 1981 on short-term agricultural loans at ultimate borrowers' level, the ultimate interest rate on short-term agricultural loans has not been revised to the permitted extent in most of the states and, thus, the cooperative banks have not availed of this opportunity of compensating themselves, at least to some extent, in respect of losses incurred by them in short-term agricultural lending from their deposit resources at concessional rates of interest, by realigning the interest margins. In different states, different interest rates are being charged by the pacs from the ultimate borrowers. The Study Group has gone into this question in great detail and recommends that in order to bring about uniformity in interest rates chargeable from ultimate borrowers in various states and also a parity between the interest rates charged by commercial banks and the cooperative banks, the interest rates on agricultural advances to be charged from the ultimate borrowers envisaged by the RBI might be made *fixed rates* instead of *ceiling rates* under a directive from RBI. How-

ever, the allocation of margins amongst the various tiers might be left to them.

### **Concessional refinance facility from the RBI**

5.19 The Study Group on Interest Rates in Cooperative Credit Structure had come to the conclusion that the total interest margin, upto the ultimate borrowers, available to the credit structure as a whole, over and above the rate of interest on refinance facilities available from RBI, should be within the range of 5 per cent to 5.50 per cent for short-term agricultural loans. With effect from 2 March 1981, the cooperatives are allowed to charge interest on short-term loans not exceeding 12.5 per cent from the small farmers and not exceeding 15 per cent from other farmers. Thus, after allowing the full 5.5 per cent margin to the structure as a whole, as recommended by the Study Team on Interest Rates, the RBI could have with effect from 2 March 1981 revised its refinance rate to 7 per cent per annum on refinance facilities provided to scbs for financing seasonal agricultural operations by bringing down the concession from 3 per cent to 2 per cent. However, while permitting the increase in the interest rate to 12.5 per cent at the ultimate borrowers' level, the RBI had kept its refinance rate at the same 3 per cent below the Bank Rate. Now that the RBI has raised the Bank Rate from 9 per cent to 10 per cent with effect from the close of business on 11 July 1981 while the concession has been retained at 3 per cent, the effective refinance rate of RBI for financing seasonal agricultural operations has automatically gone up from 6 per cent per annum to 7 per cent per annum. This measure will help to some extent in reducing the losses incurred by scbs and ccbs on concessional lendings from out of their deposit resources in as much as their lending rates on short-term agricultural advances would also automatically stand enhanced by 1 per cent per annum and, as a result, their interest earnings on such lendings out of deposit resources would also earn 1 per cent extra income.

### **Ceilings on keeping call/short-term deposits with commercial banks**

5.20 As mentioned in para 5.13, some of the scbs have been representing that they should be granted higher ceilings than

3 per cent of their TDL for keeping call/short-term deposits with commercial banks on the ground that, with the increase in their deposit resources, the involvement of their costly internal resources in agricultural lendings was on an increase and, consequently, their reliance on concessional RBI refinance was on a decline which affected their profitability. The Study Group has carefully considered this proposal and has come to the conclusion that this would not be a desirable solution as it would, in effect, mean permitting the scbs to keep call/short-term deposits with commercial banks out of funds drawn from RBI at concessional rate of interest. Further, this would, in the ultimate analysis, mean provision of RBI refinance to commercial banks indirectly. However, the RBI does not take any objection to the scbs keeping their surplus funds with the commercial banks after they have cleared the outstanding short-term agricultural borrowings to the RBI.

#### **Minimum involvement of RBI in agricultural lendings**

5.21 A reference has been made in para 5.14 about the demand in certain quarters that the RBI should prescribe a minimum level of its involvement in agricultural lendings, which are at a concessional rate of interest and are therefore uneconomic, and that the funds up to the prescribed minimum level should be available to scbs. In the same context, it was mentioned during the second meeting of the Study Group at Ahmedabad that the undrawn portion of RBI credit limits should be considered as resources of the scbs. The Study Group has carefully gone into this proposal and has come to the view that the refinance facilities provided by RBI are supplementary in character and can be available only in the event of genuine need of funds by the scbs. If the RBI provides certain minimum refinance irrespective of the need or allows drawals on the sanctioned credit limit even when the scb is not in need of funds, it would result in surplus resources with the scbs which might be kept with commercial banks, as it has happened in some cases, and this would have the same repercussions as mentioned in para 5.20.

## CHAPTER-VI

# AVENUES FOR DEPLOYMENT OF SURPLUS RESOURCES

6.1 The diagnosis of surplus resources with the cooperative banks made in Chapter II has established that the fundamental cause of surplus resources is growth of loanable internal resources at a rate faster than that of the loans and advances. The possible measures to correct such a situation would, therefore, be to (i) restrict the growth of deposits (which incidentally would be a negative step) and/or (ii) accelerate the growth of loans and advances. These measures have been discussed in the following paragraphs :

### Deposit mobilisation

6.2 The deposits of cooperative banks have recorded significant increase during the last few years as may be seen from the following :

*(Rs. crores)*

	<i>Total deposits as on</i>	
	<i>31-6-1977</i>	<i>30-6-1980</i>
Urban Cooperative Banks	503	1338
Central Cooperative Banks	1154	1968
State Cooperative Banks	835	1402

To facilitate deposit mobilisation by cooperative banks and in order to ensure that the maximum of deposit resources mobilised by cooperative banks are retained within the cooperative banking system for the purpose of lending, certain concessions have been granted to cooperative banks in regard to the interest rates that they can offer on deposits and certain provisions have been made in the Cooperative Societies Acts in regard to



the manner of investment of funds by cooperatives. Promotion of savings results in capital formation which is so essential for the economic development of the country. Apart from this, decline in deposit resources of cooperative banks would result in their increasing reliance on RBI refinance facilities causing thereby an increase in money supply which would not be desirable in the overall economic interest of the country. It would, therefore, not be desirable for the cooperative banks to take any steps which would result in retarding the growth of deposits by cooperative banks particularly when there is vast scope for development lending and there is overall resource-constraint for meeting the financial requirements of the various development projects already undertaken/proposed to be undertaken in the country.

6.3 Cooperatives are required to invest their surplus funds with the higher financing agency. The objective is that the resources of cooperatives should be available for being utilised within the cooperative credit system. However, the information collected by the Study Group and incorporated in paras 3.8 and 3.9 of this report would show that the ccbs and ucbs, particularly in Maharashtra and Gujarat States, have been keeping their surplus funds, running into crores of rupees, with the commercial banks and even with certain non-banking institutions. It is doubtful that the permission of the Registrar for keeping surplus funds with commercial banks would have been obtained in all the cases. This can, by no means, be considered desirable particularly in the context that the cooperatives are being encouraged to mobilise deposits by permitting them to offer higher interest rates and further that the legal provisions, rules and regulations have been framed in such a way that they help retention of resources mobilised by cooperatives for use within the cooperative credit system. After careful consideration of all aspects, the Study Group has come to the conclusion that permitting the cooperative institutions to keep their surplus funds with the commercial banks or other institutions is no remedy to the problem of surplus resources. The Registrars of Cooperative Societies may, therefore, issue instructions and ensure that all the cooperative institutions, particularly the ucbs and the ccbs which have been keeping their surplus funds with the commercial banks and/or other institutions should as soon as possible and as a measure of

deliberate policy keep these funds with their higher financing agency.

### **Accelerating the growth of loans and advances**

6.4 The long-term remedy to the problem of surplus resources faced by the cooperative banks would lie in accelerating the growth of loans and advances. Expansion of loan business would not only tend to absorb the surplus resources of the concerned institution kept with the higher financing agency or the commercial banks, but may also result in borrowings from the higher financing agency for the purpose of lending and thereby provide avenues to the higher financing agency for investment. The cooperative banks, therefore, need to take necessary measures for expansion of their loan business by identifying the various factors inhibiting the expansion of credit and taking necessary steps to rectify them. Some of the issues concerning the expansion of loan business by cooperative banks are dealt with in the following paragraphs :

#### **(a) Urban Cooperative Banks**

6.5 A number of ucbs are reportedly faced with the problem of surplus resources and have been keeping their surplus funds partly with the higher financing agency and largely with the commercial banks. The table in para 3.9 of this report gives an idea about the surplus funds kept by ucbs with the commercial banks apart from whatever surplus funds might have been kept by them with the higher financing agency. In the case of ucbs, it is not clear as to why should they be faced with the problem of surplus resources when they have a vast scope for lending and there are also no restrictions placed by the RBI on their operations except those relating to maximum limits on various types of advances to a single party stipulated in RBI directive No. ACD.ID.10691/R.1-76/7 dated 25 May 1977 read with No. ACD.ID(DC)4706/R.1-78/9 dated 9 June 1979 which can, by no means, be considered restrictive. Further, higher limits can be provided to any party with the prior approval of the RBI. Since the Terms of Reference of the Study Group are confined to the problems of the scbs and ccbs, the Study Group has not gone into the various problems in detail insofar as they relate to the ucbs except where they

embrace the ccbs/scbs. As the resources position of ucbs has repercussions on the resources position of ccbs/scbs, the following recommendations are made by the Study Group for expansion of loan business by the ucbs so as to be able to absorb their surplus funds in making loans and advances :

- (a) Even though amendments to the by-laws have been carried out by most of the ucbs deleting the provisions which restrict their membership to a particular class of people or community and the membership is made open to all the eligible people residing in its area, the operations of most of the banks still continue to be confined, by and large, to a particular community or a class of people limiting thereby the scope for expansion of loan business. The Study Group would like to urge on the ucbs to meet the genuine credit requirements of all the people residing in their respective areas of operation without any restriction as to the community, business or profession. This would enable them to accelerate their loan business and absorb their surplus liquidity.
- (b) The ucbs have generally not undertaken the task of identifying the potential for loaning and formulating on that basis different schemes of financing suited to the kind of people residing in its area and the type of economic activity carried out by them. The Study Group would like to urge on the ucbs to undertake this task and prepare a portfolio of diversified schemes which can sell in their areas, particularly those for small-scale industries, small entrepreneurs, self-employed persons, etc. In this connexion, the ucbs may also develop linkages with commercial banks functioning in the area for seeking their guidance in the formulation of schemes, appraisal of loan proposals, post-disbursement supervision, etc.
- (c) The Study Group would also like to suggest that the bigger ucbs like Saraswat Cooperative Bank Ltd., Bombay; Bombay Mercantile Cooperative Bank Ltd., Bombay; Shamrao Vithal Cooperative Bank Ltd., Bombay; Janata Sahakari Bank Ltd., Pune; Ismailia Cooperative Bank Ltd., Bombay, etc. which have sizeable deposit resources may set up a technical cell in their banks for

providing consultancy services to the prospective customers, on the lines of the commercial banks.

The Study Group does realize that the deployment of the surplus resources of ucbs by expansion of loan business may take some time and has, therefore, suggested, later in this chapter, certain avenues for their immediate deployment.

*(b) Central and State Cooperative Banks*

6.6 The primary function of the ccbs and scbs is to provide loans and advances for agriculture and allied activities. This requires the existence of a strong, viable and responsive primary cooperative credit structure. However, the primary cooperative credit structure was generally weak all over the country, except in Kerala State. Some of the relevant particulars relating to the primary cooperative credit structure as on 30 June 1980 in Maharashtra and Gujarat states where there is concentration of ccbs with surplus resources, are given below:

<i>Particulars</i>	<i>Maharashtra</i>	<i>Gujarat</i>
(i) No. of pacs in the State (of which having full-time paid secretaries)	18,372 (5,831)	7,884 (5,785)
(ii) Of (i) above, those viable	4,855	3,569
(iii) Percentage of (ii) to (i)	26.4	46.4
(iv) Total membership of pacs (000)	52.11	18.34
(v) Borrowing membership (000)	12.98	7.44
(vi) Percentage of (v) to (iv)	25.1	40.6
(vii) Total loans outstanding (Rs. crores)	330.50	179.54
(viii) Total overdues (Rs. crores)	165.27	60.55
(ix) Percentage of (viii) to (vii)	50.0	33.7

It would be seen that in Maharashtra, out of the total of 18,372 pacs, only 4,855 forming 26.4 per cent were viable. The borrowing membership formed only 25.1 per cent of the total membership and 50 per cent of the outstanding loans were overdue. This was the position when farmers were being provided con-

version facilities regularly on the basis of annewari declarations. The position was somewhat better in the case of Gujarat, but this was also more apparent than real inasmuch as the rehabilitation of defaulters had been undertaken in the state frequently.

6.7 Since the loans and advances for agriculture and allied activities are the mainstay of the ccbs and scbs, the long-term solution to the problem of surplus resources faced by them would lie in the expansion of these loans and advances. In this connexion, the Study Group endorses the following measures which have also been suggested by various other committees from time to time :

- (a) The reorganisation of pacs in states where it has not been so far accomplished should be completed without any further delay.
- (b) Restrictive practices in lending on account of caste, faction, etc. should not be allowed to continue.
- (c) Recommendations of the Study Team on Overdues should be implemented on a priority basis with a view to creating and sustaining a congenial atmosphere for prompt recovery of loans advanced by the societies.
- (d) There should be effective cooperation and coordination between cooperative credit institutions with other credit agencies in the area on one hand and with the concerned government and other development agencies on the other, so as to make the field level arrangements for planning and implementing credit-based development effective and adequate.
- (e) There should be a close tie-up between the technological extension staff of the State Government and the disbursement of credit so that the farmers are enabled to make the best use of credit and maximise their return.

6.8 Apart from the above measures, the Study Group has identified the various avenues, in order of priority, which can be explored by the cooperative banks for deployment of their surplus resources, as in the subsequent paragraphs.

## Avenues within the cooperative sector

6.9 Time and again it has been said that the cooperatives are the best suited agency for dispensing agricultural credit. Several agricultural development programmes drawn up from time to time have also underlined the special role which is to be played by the cooperatives in providing the credit component of the programme. Thus, the credit potential under the Integrated Rural Development Programme, which has since been extended to all the blocks in the country, a large gap in the coverage of cultivating households; the outstanding credit needs of a large number of non-borrowing members; etc. offer vast scope for deployment of their resources by the cooperative banks. In this connexion, the Study Group took note of the fact that while, by the end of V Plan (1978-9), the cooperatives were expected to provide short-term agricultural loans of Rs. 1844 crores, accounting for about 50 per cent of the estimated total agricultural credit needs, the cooperatives had actually advanced short-term agricultural loans aggregating Rs 1262 crores only during 1978-9. The short-term agricultural credit to be provided by the cooperatives during the last year of the VI Plan i.e. 1984-5 has been estimated at Rs 2550 crores. The cooperatives are also expected to take special care of the credit needs of the weaker sections, particularly scheduled castes and scheduled tribes. According to a study undertaken by the Working Group on the Development of Scheduled Castes set up by the Planning Commission, 52 per cent of the scheduled castes, accounting for 15 per cent of the country's population, are agricultural labourers and a further 28 per cent are cultivators who are mostly small and marginal farmers, tenant cultivators, etc. It should, therefore, have to be the endeavour of the cooperatives to make them derive fully the benefits of cooperative credit. There is also vast scope for financing allied activities such as animal husbandry, dairying, fisheries, etc. In the context of the vast available scope, if earnest efforts are made by the cooperative banks in extending their loans and advances for agriculture and allied activities by taking, *inter alia*, the steps mentioned in para 6.7 above and also by increasing their coverage, this itself will require large resources and the cooperative banks would no more be faced with the problem of surplus resources. The Study Group, therefore, recommends that the expansion of loans and advances for agriculture and

allied activities should be given the first priority by the scbs and ccbs as an avenue for deployment of their surplus resources.

6.10 A cooperative institution normally obtains financial accommodation from the ccb or the scb, as the case may be, unless they themselves express inability to meet the requirements. However, it is likely that any of the cooperative institutions functioning in the district, particularly the cooperative marketing and processing societies, consumers stores etc. might be obtaining their financial requirements from the commercial banks. The Study Group recommends that the scbs and the ccbs may jointly undertake a survey in their respective areas, identify such institutions and approach them to come to the cooperative fold for finance. The Registrar of Cooperative Societies may, if considered necessary, issue administrative instructions to all the cooperative institutions requiring them to first approach the concerned ccb for their credit requirements and in case it expresses its inability to provide finance, the scb and only in the event of both, the ccb as well as the scb, expressing their inability, in writing, to approach a commercial bank.

6.11 In certain states, the processing units such as cooperative sugar factories, spinning mills, etc., functioning in different parts of the state are being provided working capital finance directly by the scb. The Study Group recommends that in cases where the ccb has substantial loanable internal resources and can provide working capital finance to the processing unit/s functioning in its area without straining its ability to provide finance for agriculture and allied activities, the accounts may be transferred by the scb to the concerned ccb.

6.12 In several states, the scbs have been financing the procurement operations relating to certain agricultural commodities involving substantial finance. The Study Group recommends that, in such states, the scb can lend a helping hand to such of the ccbs which are faced with the problem of surplus resources by forming a consortium with them for financing such procurement operations. This has been agreed to by the RBI in the case of Kerala State for cashew procurement where the Kerala SCB has formed a consortium with 4 ccbs viz., Alleppey, Cannanore, Kottayam and Malabar which had substantial resources

and were also faced with the problem of seasonal surplus resources. In Punjab State, the Jullundur and Kapurthala ccbs are faced with the problem of surplus resources. During 1980-81 cotton season the Punjab SCB had been authorised by RBI to finance cotton procurement in the State by the Punjab State Cooperative Marketing Federation alongside the Cotton Corporation of India. Assuming that the cotton procurement by the Punjab MARKFED would continue in the years to come and would require larger financial involvement, the Punjab SCB might consider forming consortium with Jullundur and Kapurthala CCBs for meeting the financial requirements of cotton procurement in the State by Punjab MARKFED. Similar arrangements can be thought of in other states also such as for levy sugar distribution in Uttar Pradesh where Meerut and Muzaffarnagar CCBs are faced with the problem of seasonal surplus resources or even for cotton monopoly procurement scheme in Maharashtra where as many as 9 ccbs are faced with the problem of large surplus resources.

6.13 In many states, the stocking and distribution of fertilizers by the state cooperative marketing federations is financed by a consortium of commercial banks and the scb. The Study Group has considered this matter at great length and recommends that the financing of the stocking and distribution of fertilizers by the state cooperative marketing federations should be considered as the legitimate business of the cooperative banks. The scbs should, therefore, make advance credit planning and determine the amount that they can spare for financing the activity either by themselves or, if any of the ccbs in the state have surplus/sizeable internal resources which they can conveniently involve in financing this activity, in consortium with such ccbs. The Group recognised that at present a sizeable part of bank credit to the state cooperative marketing federations is provided by the commercial banks and as such it would be possible to phase out commercial banks from such financing only over a time. The Group suggests that the consortium for credit to each marketing federation should include the scb of that state as the leader, ccbs from that state and other scbs. It is envisaged that eventually, the cooperative sector would find avenues for lending an additional Rs 125 crores to Rs 150 crores to cooperative agencies concerned with fertilizer distribution, as against Rs 50 crores at present.



6.14 Although the state land development banks (slpbs) generally obtain interim accommodation from the scb of the state concerned for building up mortgages pending floatation of debentures, there are cases where the accommodation is availed by slpbs from commercial banks or both from scbs and the commercial banks. The Study Group recommends that the provision of interim accommodation to slpbs should be considered as the legitimate business of scbs and that the slpbs should invariably approach the scb of the state concerned for interim accommodation and only in cases and to the extent the scb is not in a position to provide interim accommodation, they should approach a commercial bank for the purpose. The scbs also, on their part, should indicate to the slpbs the quantum of funds that they can provide either by themselves or in consortium with the ccbs having surplus/sizeable deposit resources.

6.15 The national level cooperative institutions such as the National Cooperative Marketing Federation (NAFED), National Cooperative Consumers Federation (NCCF), Indian Farmers Fertilisers Cooperative (IFFCO) are presently obtaining almost all their financial requirements from the commercial banks. The Study Group recommends that the provision of working capital finance to these national level institutions may be taken up by the scbs by forming a consortium particularly of such of the scbs which are faced with the problem of surplus resources and are also unable to find adequate avenues for investment in their own states. The Himachal Pradesh and Assam SCBs as well as Kangra CCB (Himachal Pradesh) which have long-term surplus resources without much scope for expanding their loan business in their respective areas can be included in the consortium with Maharashtra SCB as the leader. The National Federation of State Cooperative Banks may take on itself the responsibility of negotiating the arrangements with the national level cooperative institutions.

6.16 The ccbs serving predominantly the tribal and hilly areas are at times faced with the problem of surplus resources for lack of avenues for investment within the cooperative fold. In such areas, cooperatives should have to be developed/organised to take up procurement of minor forest produce and distribution of consumer articles. The Study Group recommends that ccbs may undertake provision of working capital finance to

cooperatives in tribal areas engaged in the procurement of minor forest produce from the inhabitants of the area and supply of consumer articles to them. The accommodation may be provided on the usual terms and conditions separately for procurement of minor forest produce and dealing in consumer articles and secured against hypothecation of goods. These societies may also undertake provision of consumption credit to their members in the form of entitlement to goods out of a separate line of credit that may be made available to these societies by the ccb.

6.17 The newly organised cooperative processing units like sugar factories, spinning mills, etc., after the projects have been appraised and cleared by the long-term lending institutions for provision of block capital, need bridge finance till the actual release of funds by the long-term lending institutions. The Study Group is of the view that the provision of bridge finance to the cooperative processing units may be considered as the legitimate business of the cooperative banks and the bridge finance provided by them as a charge on their resources. Thus, the processing units, after the long-term lending institutions have examined their technical feasibility and economic viability and agreed to provide block capital finance, should first approach the concerned scb/ccb for provision of bridge finance and only in case the scb concerned and also the concerned ccb have expressed inability to provide bridge finance that they should approach a commercial bank. This will enable the scbs and ccbs in Maharashtra to utilise their seasonal surplus resources since a good number of sugar factories and spinning mills are proposed to be set up in the state during the VI Plan period.

6.18 The cooperative processing units like sugar factories spinning mills, etc., at times, need term loans for carrying out their expansion programmes like increase in installed capacity, installation of a subsidiary to use the by-product such as a distillery in the case of a sugar factory, increase in godown capacity, etc. Normally, these units are expected to approach the term lending institutions for long-term finance for meeting the cost of expansion programme particularly when the amount involved is large. Since the term lending institutions are presently facing resource-constraint, the Study Group recommends that, in cases where the processing unit is already working as a viable unit and the finance required is not large and can be repaid within a

period of 3 to 5 years on the basis of annual cash accruals, the concerned ccb/scb which is providing working capital to the processing unit may be permitted to provide term loan also to the unit for meeting the requirements of its expansion programme provided the concerned ccb/scb has adequate medium-term own resources. This will help particularly the ccbs and the scb in Maharashtra as there are a good number of sugar factories and spinning mills functioning in the cooperative sector in the state.

6.19 In Maharashtra, there is a proposal to set up 10 new sugar factories and 15 spinning mills in the cooperative sector during the VI Plan period. These units will require long-term finance for meeting their block capital requirements. However, it is reported that the long-term lending institutions which are expected to meet the block capital requirements of these units are facing resource-constraint and may not be able to provide the required block capital finance for all the targeted units. The possibilities of the commercial banks and the cooperative banks meeting the block capital requirements of the proposed processing units are, therefore, being explored. The Study Group considered this matter at great length and felt that since the resources of the cooperative banks are basically of short-term nature and the fixed deposits collected by them also generally run a maximum period of 3 years, from the point of maturity pattern of deposits and advances, the cooperative banks should not, normally, grant loans for a period exceeding 3 years. However, in a banking institution, a certain amount of deposits always remains with the bank and, to that extent, the deposit resources of the bank if these are reflected in the form of surplus resources can be construed as of a long-term nature. The Maharashtra SCB did not have long-term surplus resources as could be seen from the position of its monthly surplus resources indicated in para 3.13 of the report. However, the ccbs and the ucbs in Maharashtra had been keeping their surplus funds with commercial banks which aggregated Rs 100 crores and Rs 74 crores respectively. Of these, Rs 13 crores in the case of ccbs and Rs 57 crores in the case of ucbs i.e. a total of Rs 70 crores represented surplus funds of a long-term nature. If the ccbs and the ucbs withdraw these surplus funds from the commercial banks and keep these funds with the higher financing agency, the Maharashtra SCB would have long-term

surpluses of Rs 70 crores and in that case, it might become possible for the Maharashtra SCB to spare, say, 75 per cent of these resources viz., Rs 50 crores towards meeting the block capital requirements of the proposed cooperative processing units like cooperative sugar factories and cooperative spinning mills repayable within 5 to 7 years. Alternatively, the Maharashtra SCB, the concerned ccbs and the ucbs having surplus funds can enter into participation arrangements with the long-term lending institutions for providing block capital loans to cooperative processing societies in the state. During the course of discussions with them, the representatives of the long-term lending institutions had suggested that there could either be participation arrangements under which the cooperative banks would get interest at 15 per cent per annum but would have to equitably share the risks also or they could keep their resources with the long-term lending institutions as deposits on which they would earn interest of 11 to 11.50 per cent per annum without sharing the risks. They felt that the cooperative banks could involve part of their surplus resources under participation arrangements and keep part of the resources with them by way of deposit so that they could balance the return and also spread the risks. The Study Group recommends that, since the long-term lending agencies are presently facing resource-constraint and the cooperative banks in Maharashtra are in a position to spare funds, they may be, as a transitory measure, permitted to provide block capital to the cooperative sugar factories and the cooperative spinning mills. The terms and conditions on which funds can be provided by cooperative banks, interest rates, repayment schedule, etc. can be negotiated from time to time by the RBI with the representatives of the major term lending institutions and finalised, keeping in view the following broad guidelines :

- (a) It may not be feasible for the Maharashtra SCB or the concerned scbs/ccbs to set up its own technical cell for appraising the projects and, therefore, the technical feasibility and economic viability of the projects should continue to be examined by the long-term lending institutions.
- (b) The Maharashtra SCB and/or the concerned ccbs/ucbs in the State which have surplus funds, may enter into participation arrangements with long-term

lending institutions for providing block capital finance to the processing units with the long-term lending institution as the leader of the consortium.

- (c) Repayment schedule should be fixed in such a way that the period of repayment of the amount of loan provided by the cooperative banks, in each case, does not exceed a period of 7 years. To ensure this, the initial repayments made by the borrowing unit may be applied towards repayment of outstanding loans of Maharashtra SCB/ccbs/ucbs.
- (d) The finance provided by the cooperative banks should go to the financing of processing units only in the cooperative sector.

The cooperative banks in other states, except Gujarat, are by and large, found to be not in a position at this stage to provide long-term funds for meeting the block capital requirements of processing units as they do not have any sizeable surplus resources of a long-term nature. If, however, long-term surplus resources generate at a future date in the case of any of the other scbs and there is demand in their area for block capital for setting up new processing units, arrangements on the pattern of Maharashtra can be thought of.

6.20 In terms of RBI circular No. ACD. Plan. 96/PR 414(1)/69-70 dated 8 July 1969, the scbs and ccbs are advised not to involve more than 15 per cent of their respective long-term deposit resources or 5 per cent of their respective total deposit resources whichever is more, in providing block capital loans to cooperative processing units. The Study Group considers these norms as restrictive particularly in the context of the recommendation that the surplus resources of scbs may be utilised in providing block capital loans to cooperative processing units in participation arrangement with the long-term lending institutions and recommends that these may be revised upwards to 30 per cent of long-term deposit resources or 10 per cent of total deposit resources, whichever is more. Such a revision is justified on the ground that a good proportion of the deposits is in the form of fixed deposits and there is a tendency on the part of the depositor to renew the deposit.

## **Avenues outside the cooperative sector**

6.21 The need for seeking investment avenues by the scbs and ccbs outside the cooperative fold should not normally arise, if there is a well-developed infrastructural cooperative system in the state capable of absorbing credit. However, the position is not so in several states and it has, therefore, become necessary, particularly for the scb and ccbs which have sizeable loanable internal resources, to seek avenues for lending to borrowers outside the cooperative fold. While the anxiety of the scbs and ccbs in seeking such avenues is appreciated, this can only be a temporary measure and steps will have to be taken for developing the cooperative system itself to generate the credit absorption capacity so that the resources mobilised by the cooperative credit institutions can be utilised exclusively in financing the cooperatives. In order to find out the activities outside the cooperative fold which the scbs and ccbs would like to finance till they are able to find adequate avenues for investment of their loanable internal resources within the cooperative fold, the Study Group had elicited their views regarding the avenues available for lending outside the cooperative fold. The scbs and ccbs have suggested the following areas for financing outside the cooperative fold :

- (i) Financing of working capital requirements of all types of government and quasi-government corporations including handloom corporations, handicraft corporations, national textile corporation, state transport corporations, housing boards, warehousing corporations, dairy development corporations and welfare corporations for the uplift of weaker sections.
- (ii) Financing of food and civil supplies corporations for procurement operations.
- (iii) Financing of village panchayats for rural development works.
- (iv) Provision of interim finance to district and taluka panchayats and educational institutions pending receipts of government grants.
- (v) Financing of individuals and traders without any restrictions.

- (vi) Investments in the form of deposits with commercial banks as also with non-credit institutions such as textile corporation, agro-industries corporation, housing boards, etc. without any restrictions.

6.22 Obviously, some of the areas identified by the scbs and ccbs as avenues for investment cannot be considered desirable not only on principles of cooperative banking but also because these are likely to affect adversely the growth of cooperatives engaged in similar activities. Financing of individuals for trading activities, financing of handloom corporations, textile corporations and handicraft corporations and also the financing of procurement operations by food and civil supplies corporations are a few activities of this type. Further, the provision of interim finance to local bodies pending receipt of grants from the government cannot also be considered since this would tantamount to providing ways and means advances to state government.

6.23 Keeping in view that the cooperative banks would have strictly to utilise their resources largely for bringing about the development of agriculture and allied activities and that of the rural sector, either directly or indirectly, the Study Group suggests that the scbs and ccbs may be permitted to finance the activities/institutions outside the cooperative sector, in the order of priority as indicated in the subsequent paragraphs and having regard to the broad guidelines, on such terms and conditions as may be envisaged by RBI in each case.

6.24 In terms of circular No.ACD.OPR.2662/A.64-78/9 dated 11 January 1979 issued by the RBI, the scbs have already been permitted to lend, with prior permission in each case from the RBI, to the public sector institutions closely connected with activities which facilitate rural production, processing and marketing provided the total advances of such institutions are not to exceed the deposit resources raised by the bank from sources other than cooperatives. It is observed that this facility has not been extended to ccbs even though they have raised sizeable deposit resources from individuals and institutions other than cooperatives. In the reply to the questionnaire, most of the banks have stated that this facility should be extended to ccbs also and that most of the ccbs, particularly those with large

deposit resources, are financially as well as administratively equipped to appraise such proposals and to supervise and monitor the advances. The Study Group agrees with the above view and recommends that the relaxation granted by the RBI in the aforesaid circular may be extended to the ccbs and that the RBI may receive each such proposal through the concerned scb and grant permission on the merits of each case. The public sector institutions will include agro-industries corporations and agro-based public sector companies. In this connexion, the Study Group took note that the RBI has already advised the Himachal Pradesh SCB to prepare schemes for financing the Himachal Pradesh Horticulture Processing Corporation for processing of apples at its plant at Kalka, with a view to providing avenue to the Himachal Pradesh SCB for investment of its surplus resources.

6.25 In most of the states, the procurement, stocking and distribution of fertilizers is undertaken by the state cooperative marketing federations. Where, however, such activities are undertaken by public sector corporations/companies, cooperative banks may be permitted to finance such units for their working capital requirements against hypothecation of stocks provided the distribution of fertilizers is entrusted by the corporation/company to the cooperatives and further that the quantum of credit should be determined in relation to fertilizers handled by the cooperatives.

6.26 In certain states, the dairy development corporations are formulating schemes for setting up of chilling/storage plants at convenient places near rural areas for collection of milk. The cooperative banks may be permitted to provide term loans for setting up of such plants repayable within a period not exceeding 5 years subject to the submission of an economic viability report from a competent authority. The loan may be secured against hypothecation of plant and machinery to be acquired out of the loan and, in addition, the state government guarantee. The financing bank may also ensure that, wherever possible, there are tie-up arrangements between the dairy development corporation and the milk supply society for procurement of milk from the latter.

6.27 The cooperative banks may also be permitted to provide term loans to state electricity boards in respect of their



schemes for providing electric connections for energising pumpsets, particularly in areas where ARDC schemes for financing minor irrigation are under implementation, against the guarantee of the state government provided the economics of the scheme would enable repayment of loan within a period not exceeding 5 years.

6.28 Welfare corporations for the uplift of weaker sections such as tribals, scheduled castes and scheduled tribes, repatriates, etc. have been set up in several states. These corporations provided employment to the beneficiaries by engaging them in production activity. The cooperative banks may be permitted to provide working capital finance to such corporations against government guarantee and also hypothecation of stocks, wherever possible.

6.29 With a view to promoting public transport services in rural areas, the cooperative banks may be permitted to provide term loans to transport corporations in the public sector against hypothecation of vehicles and subject to other usual safeguards such as insurance, etc., provided the loan can be repaid within a period not exceeding 5 years on the basis of the economics of operating the vehicles.

6.30 The cooperative banks may also be permitted to finance statutory corporations/bodies engaged in distribution of essential consumer articles of their working capital requirements against hypothecation of stocks provided the distribution is entrusted to the cooperatives and further that the quantum of credit should be determined in relation to the stocks handled by the cooperatives. In this connexion, the Study Group took note that the RBI has advised the Himachal Praedsh Civil Supplies Corporation for distribution of essential commodities through pacs in the State.

6.31 The cooperative banks may, on a selective basis, be allowed to provide term loans to housing development corporations for on-lending to cooperative housing societies engaged in the provision of housing facilities to the weaker sections in backward areas, repayable within a period not exceeding 5 years, against government guarantee and also the assignment of mortgages of house properties in favour of the financing bank.

6.32 The Study Group considered the extent up to which the cooperative banks can legitimately be permitted to involve their resources in financing activities outside the cooperative fold. The Group recognised that it would not be desirable to divert the resources mobilised from cooperatives in providing finance outside the cooperative fold, and, therefore, the total advances by a cooperative bank to individuals and institutions outside the cooperative fold should have to be confined to the deposits mobilised from sources other than cooperatives. The Study Group, therefore, endorses the stand already taken by the RBI that the total advances of a cooperative bank to individuals and institutions outside the cooperative fold should not exceed its aggregate deposit resources raised by the bank from sources other than cooperatives. As the deposit resources mobilised by the scbs from sources other than cooperatives are relatively smaller compared to such resources with the cbs and, more so, with the ucbs, the Study Group suggests that in cases where the financial requirements of a borrowing unit outside the cooperative fold cannot be accommodated singly by the scb, it can enter into a consortium arrangement with the ccb/s and/or with the ucb/s. The lending institutions, while examining each proposal, should take into account the financial soundness of the borrowing unit and the viability of the proposal.

6.33 While conveying their reaction to the questionnaire, some of the banks have suggested that they should be permitted to invest their surplus resources in the form of deposits with statutory corporations such as agro-industries corporations, textile corporations, housing boards, etc. The Study Group has carefully considered this suggestion and is of the view that the cooperative banks should, under no circumstances, be permitted to invest their surplus resources by way of deposits with the public sector corporations/companies.

6.34 The Study Group has, in the foregoing paragraphs of this chapter suggested various avenues for deployment of surplus resources by the state and central cooperative banks within as well as outside the cooperative fold. Until such time, the cooperative system in the concerned states reaches a stage where it would be able to absorb by itself the entire resources available in the cooperative banking system, the

various avenues suggested herein are expected to solve, to a very large extent, the problem of surplus resources to the satisfaction of the banks concerned. It need hardly be emphasized that in this context it is accepted by the Study Group that the ultimate goal should be to deploy the resources within the cooperative fold and it should be the endeavour of the cooperative banks to strengthen and stabilize the cooperative movement to facilitate such absorption.

## CHAPTER-VII

# SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

7.1 The 'Study Group on Deployment of Resources by State and Central Cooperative Banks' was constituted by the RBI on 22 March 1981 under the Chairmanship of Dr. M. V. Hate, Executive Director, Reserve Bank of India, to make an in-depth study of the problem of surplus resources and profitable investment of loanable internal resources faced by the state and central cooperative banks and make recommendations which would offer long-term solutions to these problems. (1.4)\*

7.2 The Terms of Reference of the Study Group, among others, included the defining, identifying and tracing the origin of surplus resources with the scbs and ccbs as well as its causes and effects; quantifying the extent of the problem, determining its nature, pattern and duration and making an estimate of such resources during the VI Plan period; examining the problem of profitable investment of internal resources; and suggesting solutions to the problem of surplus resources as well as avenues for profitable deployment of resources by scbs and ccbs. (1.7)

### **Definition of surplus resources**

7.3 The surplus resources can be defined as the excess of loanable internal resources over the total outstanding loans and advances. (2.2)

### **Causes of surplus resources**

7.4 The fundamental cause of surplus resources is the loans and advances of the bank not keeping pace with the growth in its loanable deposit resources. (2.10)

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The figures in brackets refer to paragraph number in the concerned Chapter of the Report.

7.5 The higher growth rate of deposits is attributable to factors such as (i) the element of compulsion on the cooperatives to keep their surplus funds with the concerned higher financing agency viz., the scbs/ccbs; (ii) the ccbs and ucbs keeping a bulk of their liquidity requirements in the form of deposits with their respective higher financing agencies instead of in the form of Government and other trustee securities, since the deposits with the higher financing agency provide a much higher return compared to investments in government/trustee securities (iii) a phenomenal growth of deposits of ucbs which keep not only their liquidity requirements but also their surplus funds with the concerned ccb/scb; and (iv) the concession allowed to scbs, ccbs and ucbs to offer additional interest on savings and term deposits at  $\frac{1}{2}$ ,  $\frac{1}{4}$  and 1 per cent respectively over and above the rates prescribed in the interest rate directives issued by RBI from time to time. (2.12 to 2.15)

7.6 The lower growth rate of loans and advances is attributable to (i) high level of overdues and the consequent restricted prospects of incremental agricultural lending to a large segment of defaulting agriculturist members on account of the wholesome principle in the cooperative credit system that a defaulter should not be financed; (ii) induction of commercial banks in the sphere of agricultural and rural credit; (iii) setting up of RRBs and establishing a net-work of their branches; and (iv) confining the permission to lend to institutions outside the cooperative fold only to the scbs. (2.16 to 2.19)

### **Effects of surplus resources**

7.7 When a cooperative bank does not find adequate and profitable avenues for investment of its loanable internal resources, it does not mind the lower level cooperative institutions keeping their surplus funds with commercial banks and other institutions which offer relatively a higher rate of interest. The resources mobilised by cooperatives thus move out of the cooperative banking system. (2.20)

7.8 There has been a growing demand from scbs to permit them to provide long-term credit to cooperative processing units such as cooperative sugar factories, spinning mills, etc., for meeting their block capital requirements even though

such facilities are, normally, expected to be provided by the specialised long-term lending institutions and it is not considered advisable for scbs to lock up their resources in long-term loans. (2.21)

7.9 Demands are also made by scbs to permit them to lend increasingly to the institutions outside the cooperative fold. (2.21)

### **Quantum of surplus resources, their pattern and duration**

7.10 As the cooperatives are required to keep their surplus funds with the higher financing agency, the surplus resources at the level of scbs would be inclusive of the surplus funds available in the entire cooperative credit sector. (3.1)

7.11 The surplus funds kept by the cooperative banks with commercial banks and/or institutions other than the higher financing agency will, however, have to be taken into account for the purpose of quantifying the surplus resources available in the cooperative banking sector in the state since these would not figure in the resources at the level of scbs. (3.2)

7.12 The total surplus resources available with the cooperative banking sector in any state would, therefore, comprise the excess of loanable internal resources over the total outstanding loans and advances with the scb of the state concerned *plus* the surplus funds kept by the ccbs and ucbs with the commercial banks and institutions other than the higher financing agency. (3.3)

7.13 Taking the period from 1 July 1979 to 31 March 1981, only two scbs viz. Assam and Himachal Pradesh, out of the 17 scbs selected for the study, had surplus resources throughout the period, while five other scbs viz. Jammu & Kashmir, Karnataka, Maharashtra, Punjab and Tamil Nadu had surplus resources some times during the period. The remaining scbs did not reveal any surplus resources during the said period. (3.4)

7.14 The total surplus resources held by the scbs aggregated Rs. 238 crores, of which Rs. 6 crores were of long term nature and Rs. 232 crores were seasonal. (3.5)

7.16 As regards ccbs, out of the 65 ccbs which had furnished the data as against 67 ccbs selected for the purpose of the study, only 32 had surplus resources during the period 1 July 1979 to 31 March 1981. (3.6)

7.16 The total surplus resources of ccbs, including those kept with commercial banks and institutions other than scbs, are estimated at Rs. 200 crores, of which Rs. 50 crores are estimated to be of a long-term nature and Rs. 150 crores to be seasonal. (3.7)

7.17 On the basis of information called for and received from scbs, supplemented by the data available in the non-overdue cover statements with the RBI, the surplus funds kept by ccbs with the commercial banks and institutions other than scbs were Rs. 188 crores, of which Rs. 33 crores were of long-term nature and Rs. 155 crores were seasonal. (3.8)

7.18 On the basis of information furnished by scbs, the surplus funds kept by urban co-operative banks with commercial banks were Rs. 114 crores, of which Rs. 69 crores were of a long-term nature and Rs. 45 crores were seasonal. (3.9)

7.19 The total surplus resources of the co-operative banking system in the country, comprising the surplus resources with the scbs and the surplus funds kept by ccbs and ucbs with commercial banks and institutions other than the higher financing agency, worked out to Rs. 540 crores, of which Rs. 108 crores were of a long-term nature and Rs. 432 crores were seasonal. Of the total surplus resources of Rs. 540 crores, Maharashtra State alone accounted for Rs. 348 crores, followed by Gujarat Rs. 89 crores (3.10 and Table 8)

7.20 The pattern of the surplus resources differs from bank to bank and is influenced largely by (i) the growth pattern of its own deposits and loans and advances; (ii) the growth pattern of deposits and loans and advances of its affiliated institutions; (iii) the seasonality pattern of its loans and advances; and (iv) the composition of its deposits portfolio and the loan portfolio. (3.13)

7.21 From the point of duration, the surplus resources can be classified into two viz. (a) long-term surplus resources and (b) seasonal surplus resources. (3.14)

7.22 In the case of Maharashtra SCB, even though the surplus resources were seasonal, they continued over a considerable period and ranged between Rs 90 crores and Rs 175 crores during the period July to December 1980. (3.15)

7.23 Insofar as ccbs are concerned, the seasonal surplus resources in the case of several banks in Maharashtra and Surat DCCB in Gujarat are becoming long-term. (3.16)

7.24 In respect of surplus resources, it has been possible to identify certain broad trends. For instance, the scbs in Assam and Himachal Pradesh which have long-term surplus resources are faced with the problem because cooperative credit structure in both these states at the intermediary level as well as the base level is organisationally weak and incapable of sustaining higher levels of credit. The infrastructural facilities have also not developed in these states which may have generated credit demand. The problem of surplus resources has cropped up in the case of Karnataka and Tamil Nadu scbs on account of significant fall in their outstanding loans and advances during the recent years. (The problem faced by Maharashtra and Punjab scbs was seasonal due to wide variations in the levels of outstanding loans and advances at the peak level and lowest level. (3.17) )

(7.25 The Maharashtra SCB has projected the surplus resources in the State at the end of the VI Plan at Rs 600 crores. It is, however, expected that the avenues which are being suggested by the Study Group will enable the banks to utilise these resources fully and profitably in loans and advances. (3.20)

7.26 The problem of surpluses of cooperative banks may have to be viewed in its proper perspective. First, the surpluses are due to under-development of cooperative infrastructure. Secondly, these are not general to the cooperative banking sector as a whole but are region specific and/or institution-specific. Thirdly, though the surpluses are sizeable, the magnitude of surplus resources is not so large as to cause 'alarm'. Fourthly,



the two categories of surpluses, namely, long-term and seasonal would need to be tackled separately. In the case of the former, longer medium-term investment avenues need to be found, while in the case of the latter, the problem is essentially one of 'parking' funds in short-term avenues which would be coterminous with the surpluses. (3.21)

### **Liquidity requirements**

7.27 In regard to cash reserve and liquidity requirements, the Group finally came to the view that there could well be significant changes in the liquidity of the cooperative banking sector and if excess liquidity becomes a persistent feature and not a temporary aberration from the trend, it might become necessary in the future to adjust reserve requirements. The Group recognised that the RBI keeps a continuing watch on the liquidity of the banking system, including that of co-operative banks, and that it would take appropriate measures from time to time. (4.4)

7.28 On the question of stipulating a minimum proportion of government and other trustee securities in the total liquid assets maintained by the ccbs and ucbs, which formed below 3 per cent, the majority view was that, since such a stipulation would take away substantial resources out of the ccbs and scbs affecting thereby their ability to meet the credit needs under the VI Plan and would also affect the profitability of the banks, it would not be appropriate at this stage, when the cooperative credit system as a whole has yet to develop and stabilise itself, to recommend maintenance of a certain prescribed proportion of liquid assets in the form of government and other trustee securities and that the manner of investment of liquid assets might continue to be left to the discretion of the banks according to the current regulations in force. (4.7 and 4.8).

7.29 The reserve fund deposits are excluded from liabilities for the purpose of maintaining the minimum cash reserve and liquid assets but are yet treated as available for maintaining liquidity. Although the anomaly was recognised, it was contended that this relaxation has enabled the scb and ccbs to utilise the funds to the extent which they would have otherwise been required to maintain cash reserve and liquid assets, in meeting

the credit needs of the area, and has, therefore, helped the smaller banks to keep their borrowings to a reduced level. Further, withdrawal of this facility at this stage would not only curtail the availability of loanable internal resources with the scbs and ccbs but would also affect their profitability. It was agreed that no positive recommendation need be made in this regard and that the matter might be left to RBI for taking a view independently. (4.10 to 4.12)

7.30 In regard to treating the investments earmarked towards reserve fund as eligible for liquid assets, it was decided that since the existing provision in the Banking Regulation Act did not preclude the cooperative banks from reckoning such investments towards eligible assets and further since the exclusion of earmarked investments from the liquid assets actually maintained would also reduce the quantum of available loanable internal resources, no specific recommendation need be made in this regard (4.14).

7.31 It was agreed that the continuance of various concessions and relaxations initially granted to cooperative banks would be justified only so long as the cooperative banks live upto expectations and discharge their expected role effectively, so as to deserve these concessions and relaxations. (4.15)

### **Profitable investment of loanable internal resources**

7.32 Since the scbs and ccbs are required to provide loans and advances for agricultural and allied activities at a pooled rate of interest, irrespective of the source of funds and whereas the deposit resources particularly in the case of scbs, are costlier compared to the borrowings from the higher financing agency which are at a concessional rate of interest, the return to the banks, changes with the change in the mix of the resources utilised for the purpose of making these loans and advances. (5.1)

7.33 The several causes of the problem of profitable investment of loanable internal resources, a bulk of which comprise deposit resources, faced by the scbs and ccbs are (a) high cost of raising deposit resources, particularly by the scbs, (b) lendings for agriculture and allied activities at concessional pooled rates

of interest irrespective of source of funds, are uneconomic, (c) increasing involvement of costly internal resources and declining involvement of concessional borrowed funds for the purpose of lending for agricultural and allied activities due to faster growth rate of deposit resources than that of the loans and advances, (d) reduction in the pooled rates of interest on concessional lendings due to increase in the concession in RBI refinance rates resulting in further loss on lendings out of internal resources (e) lack of avenues within the cooperative fold in certain states or certain parts of the state for lending to non-agricultural sector at higher rates of interest to compensate the loss on concessional lendings, and (f) regulations on lendings outside the cooperative fold at higher rates of interest. (5.2, 5.3 & 5.7 to 5.11).

7.34 The composition of deposits determines their overall cost. Therefore, in the matter of gross average deposit rates, the ccbs were in a much happier position than the scbs since in the case of the latter, a bulk of the deposits was in the form of term deposits bearing relatively a higher rate of interest. (5.4 and 5.5).

7.35 In the case of most of the scbs, a bulk of the deposits was from co-operatives. For instance, in the case of Gujarat SCB, as much as 97.8 per cent of its total deposits as on 31 March 81 were from cooperatives. However, the position was much better in the case of ccbs in whose case deposits from individuals and institutions other than cooperatives formed quite a significant proportion of total deposits. (5.6).

7.36 In the context of uneconomic lending rates on concessional advances such as for short-term and medium-term agricultural purposes, weavers finance and industrial finance, the concerned scbs and ccbs, more particularly the scbs, which incur substantial losses on these lendings, like to utilise their loanable internal resources increasingly for non-concessional advances i.e. other than those mentioned above which do not bear an element of concession in interest. (5.7).

7.37 The further effects of this problem, in addition to those of surplus resources mentioned in paras 7.9 to 7.12 are (a) increasing demand on RBI for permitting higher investments

with commercial banks in the form of call/short-term deposits and (b) demand on RBI to provide refinance in respect of short term agricultural advances up to a certain minimum percentage. (5.12 to 5.14)

7.38 In order to know the extent up to which the concerned scbs and ccbs can legitimately be permitted to undertake non-agricultural lendings, the break-even proportions of concessional and non-concessional lendings may be worked out in each case on the basis of the percentage loss incurred on concessional lendings and interest margin earned on non-concessional lendings. In cases where any scb or ccb has not reached the break-even percentage in respect of non-concessional lendings the RBI may take a sympathetic view while considering proposals of such banks for financing the non-agricultural sector, so as to enable them to reach the break-even percentages. In such cases, while granting authorisation, the RBI may take into account the unutilised portion of credit limits sanctioned by it for short-term agricultural purposes. (5.15)

7.39 While the rate of interest to be offered on deposits from cooperatives might be left to the discretion of the co-operative banks, the scbs may, like the Maharashtra SCB, forego the concession of granting  $\frac{1}{2}$  per cent additional interest. Further, the commercial banks might be prohibited from paying a rate of over 10 per cent on deposits from co-operative banks/institutions with a view to ensuring that the cooperative sector's funds stay within the cooperative sector and thereby serve their legitimate purposes. (5.17)

7.40 In order to bring about uniformity in interest rates chargeable from the ultimate borrowers and also parity between the interest rates charged by commercial banks and the co-operative banks, the interest rates on agricultural advances to be charged from the ultimate borrowers envisaged by the RBI should be made the fixed rates instead of the ceiling rates, under a directive from RBI. However, the allocation of margins amongst the various tiers in the cooperative credit structure might be left to them. (5.18)

7.41 With effect from the close of business on 11 July 1981, the RBI has raised the Bank Rate from 9 per cent to 10 per

cent while the refinance rate on short-term agricultural loans provided to scbs for financing seasonal agricultural operations has been retained at the same 3 per cent below the Bank Rate. This measure would help the scbs and ccbs in reducing losses incurred by them on concessional lendings from out of their deposit resources in as much as their lending rates on short-term agricultural advances would also automatically stand enhanced by 1 per cent and, as a result, their interest earnings on such lendings out of deposit resources would also earn 1 per cent extra income. (5.19)

7.42 The suggestion made by scbs to permit them to make larger investments in call/short-term deposits with commercial banks over and above 3 per cent of TDL is not a desirable proposition as it would in effect mean permitting them to keep such deposits out of funds drawn from RBI at concessional rate of interest and it would also mean provision of RBI finance to commercial banks indirectly. (5.20)

7.43 In regard to the demand from some of the scbs that the RBI should prescribe a minimum level of its involvement in agricultural lendings at concessional rates, the Study Group is of the view that the refinance facilities provided by the RBI are supplementary in character and can be available only in the event of genuine need of funds by scbs. The undrawn portion of the RBI refinance limit also cannot obviously be taken as available for estimating surplus resources. (5.21)

### **Avenues for deployment of surplus resources**

7.44 It would not be desirable to take any negative steps which would result in retarding the growth of deposits of cooperative banks particularly when there is vast scope for development lending and there is overall resource constraint for meeting the financial requirements of the various development programmes already undertaken/ proposed to be undertaken in the country. Apart from this, the decline in deposit resources of cooperative banks would result in increasing reliance on RBI refinance facilities, causing thereby an increase in money supply which would not be desirable in the overall economic interest of the country. (6.2)

7.45 As the cooperatives are being encouraged to mobilise deposits by permitting them to offer higher interest rates and the legal provisions, rules and regulations have been framed in such a way that they help retention of resources mobilised by co-operatives for use within the cooperative credit system, the cooperative banks which have been keeping their surplus funds with commercial banks or institutions other than the higher financing agency should, as early as possible, transfer these funds to the higher financing agency and the Registrar of Co-operative Societies should not allow any cooperative institution, including ccb and ucb, to keep their funds with the commercial banks or any institution other than the higher financing agency, except to the extent necessary in connexion with meeting their day-to-day requirements. (6.3)

7.46 The long-term remedy to the problem of surplus resources would lie in accelerating the growth of loans and advances which will not only tend to absorb the surplus resources of the concerned banks kept with the higher financing agency or the commercial banks, but may also result in borrowings from the higher financing agency for the purpose of lendings and thereby provide avenues for investment to the higher financing agency. (6.4)

7.47 The urban cooperative banks should try to meet the genuine credit requirements of all the people residing in their respective areas of operation without restriction as to their community, profession, etc. This would enable them to accelerate their loan business and absorb their surplus resources. In this effort, they may undertake upon themselves the task of identifying the potential for loaning and formulating on that basis different schemes of financing suited to the kind of people residing in the area and the type of economic activity carried out by them. They may also develop linkages with commercial banks functioning in the area for seeking their guidance in the formulation of schemes, appraisal of loan proposals, post disbursement supervision, etc. The bigger ucbs having sizeable deposit resources may set up a technical cell in their banks for providing consultancy services to prospective customers. (6.5)

7.48 The central cooperative banks may take the several measures suggested by various committees from time to time

for expansion of loans and advances viz., (a) speedy reorganisation of pacs in states where it has not been so far accomplished, (b) eschewing the restrictive practices in lending on account of caste, factions etc., (c) implementation of the recommendations of the Study Team on Overdues on a priority basis with a view to creating and sustaining a congenial atmosphere for prompt recovery of loans, (d) effective cooperation and co-ordination between cooperative credit institutions with other credit agencies on the one hand and with the concerned government and other development agencies on the other so as to make the field level arrangements for planning and implementing credit-based development effective and adequate, (e) close tie-up between the technological expansion staff of the state government and the disbursement of credit so that the farmers are enabled to make the best use of credit and maximise their return. (6.7)

#### **Avenues within the cooperative sector**

7.49 The various avenues, in order of priority, which can be explored by the cooperative banks for deployment of their surplus resources have been identified as in the subsequent paragraphs. (6.8)

7.50 The expansion of loans and advances for agriculture and allied activities including the schemes under IRDP, should be given the first priority by the scbs and ccbs as an avenue for deployment of their surplus resources. (6.9)

7.51 The scbs and ccbs may identify cooperative institutions which are obtaining their financial requirements from commercial banks and bring them to the fold of cooperative banking sector. The Registrars of Cooperative Societies may, if considered necessary, issue administrative instructions to all the cooperative institutions, requiring them to approach the concerned cooperative bank first for their credit requirements and only in the event of the concerned ccb and also the scb expressing their inability, they should approach a commercial bank for credit. (6.10)

7.52 In cases where scbs are providing working capital finance to the cooperative processing units in different parts of the state, the feasibility of transferring such accounts to the concerned ccb may be explored. (6.11)

7.53 The scbs may, wherever feasible, form a consortium with ccbs having surplus resources for financing the procurement operations of various commodities undertaken by state cooperative marketing federations and/or other cooperative organisations. (6.12)

7.54 The financing of stocking and distribution of fertilizers by the state cooperative marketing federations should be considered as the legitimate business of the cooperative banks. The present consortium arrangements of commercial banks should therefore be gradually phased out and replaced by cooperative banks' consortia. (6.13)

7.55 The sldbs should invariably approach the scb of the state concerned for interim accommodation and only in cases and to the extent the scb is not in a position to provide interim accommodation that they should approach a commercial bank for the purpose. (6.14)

7.56 The provision of working capital finance to the national level institutions such as NAFED, NCCF, IFFCO, etc., which are at present obtaining almost all their financial requirements from the commercial banks, may be taken over by scbs by forming a consortium particularly of such of the scbs which are facing the problem of surplus resources. The National Federation of State Cooperative Banks may take upon itself the responsibility of negotiating the arrangements with the national level cooperative institutions in this behalf. (6.15)

7.57 The ccbs may undertake provision of working capital finance to cooperatives in tribal areas engaged in the procurement of minor forest produce from the inhabitants of the area and supply of consumer articles to them. (6.16)

7.58 The provision of bridge finance to the newly established cooperative processing units may be considered as the legitimate business of the cooperative banks and such finance provided by them as a charge on their resources. (6.17)

7.59 The scbs and ccbs may be permitted to provide term loans to cooperative processing units in their area of operation for meeting the cost of expansion project/scheme provided the



concerned unit is already working as a viable unit and the annual cash accruals will enable the repayment of term loan within a period of 5 years. (6.18)

7.60 The scbs/ccbs/ucbs having substantial long-term surplus resources may be permitted to provide block capital loans to the cooperative processing units/such as cooperative sugar factories, spinning mills, etc. in participation with the term lending institutions on a consortium basis repayable within a period not exceeding 7 years on such terms and conditions as may be envisaged by RBI. (6.19)

7.61 Presently, the scbs and ccbs are expected not to involve more than 15 per cent of their long-term deposit resources or 5 per cent of their total deposit resources whichever is more, in providing block capital loans to cooperative processing units. This norm is restrictive and may be revised to 30 per cent of long-term deposit resources or 10 per cent of total deposit resources whichever is more. The higher proportion is justified by a shift in the pattern of deposits towards fixed deposits. (6.20)

### **Avenues outside the cooperative sector**

7.62 The need for seeking investment avenues by scbs and ccbs outside the cooperative fold should not normally arise if there is a well-developed infrastructural cooperative system in the state capable of absorbing credit. Since, however, it is not so in several states, avenues for investment outside the cooperative sector may be provided as a temporary measure and steps may be taken for developing the cooperative system itself to generate the necessary credit absorption capacity so that the resources mobilised by the cooperative credit institutions are utilised exclusively in financing the cooperatives. (6.21)

7.63 Some of the areas identified by the scbs and ccbs as avenues for investment, such as, unrestricted financing of individuals for trading activities, financing of handloom corporations, textile corporations, handicrafts corporations, etc. are not considered desirable not only on principles of cooperative banking but also because these are likely to affect adversely the growth of cooperatives engaged in similar activities. Further,

the provision of interim finance to local bodies pending receipt of government grant cannot also be considered as a desirable avenue, as suggested by certain scbs/ccbs, since this would tantamount to providing ways and means advances to state governments. (6.22)

7.64 Keeping in view that the cooperative banks would have strictly to utilise their resources largely for bringing about the development of agriculture and allied activities and that of the rural sector either directly or indirectly, the scbs and ccbs may be permitted to finance the activities/institutions outside the cooperative sector in the order of priority as indicated in the subsequent paragraphs, on such terms and conditions as may be envisaged by RBI in each case. (6.23)

7.65 The facility extended by the RBI to scbs in terms of circular No. ACD. OPR. 2662/A. 64-78/9 dated 11 January 1979 for providing credit to public sector institutions etc. closely connected with rural production, processing and marketing may be extended to the ccbs also so as to enable them to profitably invest their surplus resources. (6.24)

7.66 Cooperative banks may be permitted to finance fertiliser corporation/public sector fertilizer companies for their working capital requirements against hypothecation of stocks provided the distribution of fertilizers is entrusted by the corporation/company to the cooperatives. (6.25)

7.67 The banks may provide term loans to dairy development corporations for setting up chilling/storage plants at convenient places near rural areas for collection of milk repayable within 5 years against hypothecation of the plant and machinery and government guarantee. (6.26)

7.68 The banks may provide term loans to state electricity boards in respect of their schemes for providing electric connections for energising pumpsets against government guarantee repayable within a period of 5 years. (6.27)

7.69 Welfare Corporations set up in various states for the uplift of weaker sections such as tribals, scheduled castes and

scheduled tribes, repatriates, etc. may be financed by cooperative banks for their working capital requirements against state government guarantee. (6.28)

7.70 For promoting public transport services in rural areas, cooperative banks may provide term loans to transport corporations in the public sector against hypothecation of vehicles repayable within 5 years. (6.29)

7.71 The banks may provide working capital finance to statutory corporations/bodies for undertaking distribution of essential consumer articles against hypothecation of stocks provided the distribution is entrusted to the cooperatives. (6.30)

7.72 The cooperative banks may, on a selective basis, be allowed to provide term loans to housing development corporations for on-lending to cooperative housing societies engaged in the provision of housing facilities to weaker sections in backward areas repayable within 5 years. (6.31)

7.73 The total advances of a cooperative bank to individuals and institutions outside the cooperative fold should not exceed its aggregate deposit resources raised from sources other than cooperatives. (6.32)

7.74 In cases where the financial requirements of a borrowing unit cannot be accommodated singly by the scb, it can enter into a consortium arrangement with the ccbs and/or ucbs. (6.32)

7.75 The lending institution, while examining each proposal, should take into account the financial soundness of the borrowing unit and the viability of the proposal. (6.32)

7.76 The proposal of the cooperative banks that they may be permitted to keep their surplus funds by way of deposits with the statutory corporations such as agro-industries corporations, textile corporations, housing boards, etc. is not acceptable. (6.33)

7.77 The ultimate goal of the cooperative banks should be to deploy their resources within the cooperative fold and it

should be their endeavour to strengthen and stabilise the cooperative movement to facilitate such absorption. (6.34)

**M. V. Hate**  
*Chairman*

**M. V. Pavate**  
*Member*

**M. Karunanidhi**  
*Member*

**N. A. Mujumdar**  
*Member*

**S. R. Kalaskar**  
*Member*

**D. B. Kadam**  
*Member*

**M. M. Vyas**  
*Member*

**C. P. Shukla**  
*Member*

**G. C. Khound**  
*Member*

**S. Viswanath**  
*Member*

**H. C. Agarwal**  
*Member-Secretary*

Bombay, August 7, 1981.

Table 1

**COMPARATIVE POSITION OF OVERALL GROWTH IN GROSS INTERNAL RESOURCES AND LOANS AND ADVANCES OF STATE COOPERATIVE BANKS AND CENTRAL COOPERATIVE BANKS OVER A PERIOD**

(Rs. Crores)

Position as on	State Cooperative Banks				Central Cooperative Banks			
	Gross Internal Resources		Loans & Advances		Gross Internal Resources*		Loans & Advances	
	Amount	Percentage Increase	Amount	Percentage Increase	Amount	Percentage Increase	Amount	Percentage Increase
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
30-6-1966	191	99.0	308	84.4	339	108.0	437	99.1
30-6-1971	371	94.2	534	73.4	638	88.2	813	86.0
30-6-1976	883	138.0	894	67.4	1345	111.0	1428	75.6
30-6-1977	1019	15.4	1089	21.8	1577	17.2	1796	25.8
30-6-1978	1218	19.5	1338	22.9	1861	18.0	2115	17.8
30-6-1979	1445	18.6	1396	4.3	2187	17.5	2309	9.2
30-6-1980	1692	17.9	1271	-9.0	2558	17.0	2591	12.2

\* Paid-up share capital + reserves + deposits.

Table 2

## GROWTH OF DEPOSITS OF STATE COOPERATIVE BANKS

(Rs. Crores)

Sl. No.	Name of State Cooperative Bank	Total deposits as on				Annual percentage growth rate			
		30-6-77	30-6-78	30-6-79	30-6-80	1976-7	1977-8	1978-9	1979-80
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1.	Andhra Pradesh	46.02	53.96	65.19	81.49	5.1	17.2	20.8	25.0
2.	Assam	30.14	32.57	38.14	38.19	13.8	8.1	17.1	—
3.	Bihar	25.95	29.21	36.46	39.74	8.8	12.6	24.9	9.0
4.	Gujarat	83.05	97.29	121.74	139.08	12.9	17.1	25.1	14.2
5.	Haryana	28.66	30.16	39.97	42.58	25.8	5.2	32.5	6.5
6.	Himachal Pradesh	7.40	8.25	10.27	12.90	2.4	11.5	24.5	25.6
7.	Jammu & Kashmir	1.53	1.95	3.54	3.54	4.1	27.4	81.5	—
8.	Karnataka	36.57	48.35	51.20	63.80	12.8	32.2	5.9	24.6
9.	Kerala	19.18	25.57	36.93	39.86	20.9	33.3	44.4	7.9
10.	Madhya Pradesh	31.03	40.68	51.81	62.11	23.8	31.1	27.4	19.9
11.	Maharashtra	230.23	259.96	322.28	358.25	2.4	12.9	24.0	11.2
12.	Orissa	15.46	18.93	23.20	30.22	41.7	22.4	22.6	30.3
13.	Punjab	50.01	58.40	76.68	92.06	12.7	16.8	31.3	20.1
14.	Tamil Nadu	56.11	87.84	111.38	130.30	40.7	56.5	26.8	17.0
15.	Rajasthan	21.91	31.37	35.47	38.22	31.9	43.2	13.1	7.8
16.	Uttar Pradesh	104.66	118.73	130.02	159.50	39.0	13.4	9.5	22.7
17.	West Bengal	26.72	34.05	45.09	49.53	19.0	27.4	32.4	9.8

**Table 3**  
**GROWTH OF LOANS AND ADVANCES OF STATE COOPERATIVE BANKS**

(Rs. Crores)

Sl. No.	Name of State Cooperative Bank	Total loans and advance outstanding as on				Annual percentage growth rate			
		30-6-77	30-6-78	30-6-79	30-6-80	1976-7	1977-8	1978-9	1979-80
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1.	Andhra Pradesh	79.08	111.94	116.22	115.08	+29.5	+41.5	+3.8	-1.0
2.	Assam	18.44	21.18	23.59	25.16	-30.5	+14.9	+11.4	+6.7
3.	Bihar	36.83	42.48	47.41	48.13	-72.7	+15.3	+11.6	+1.5
4.	Gujarat	126.35	127.52	144.66	153.55	+5.4	+0.9	+13.4	+6.1
5.	Haryana	41.16	52.53	55.75	69.79	+57.2	+27.6	+6.1	+25.2
6.	Himachal Pradesh	5.16	5.11	5.38	6.74	+7.1	-0.1	+5.0	+25.3
7.	Jammu & Kashmir	3.82	4.06	3.94	4.13	-1.3	+6.3	-3.0	+4.8
8.	Karnataka	75.96	89.68	62.30	52.33	+39.5	+18.1	-30.1	-16.0
9.	Kerala	25.15	33.64	34.14	45.13	+14.6	+33.8	+0.1	+32.2
10.	Madhya Pradesh	55.44	56.85	68.34	97.04	+13.8	+2.5	+20.2	+42.0
11.	Maharashtra	177.89	271.16	287.52	245.65	-20.7	+52.4	+6.0	-14.6
12.	Orissa	27.76	31.33	42.63	67.62	+84.6	+12.9	+36.1	+58.6
13.	Punjab	44.29	35.85	39.40	52.34	+41.4	-19.1	+9.9	+32.8
14.	Tamil Nadu	137.44	182.15	177.43	144.00	-69.7	+32.5	-2.6	-18.8
15.	Rajasthan	53.63	57.80	59.93	83.80	+40.1	+7.8	+3.7	+39.8
16.	Uttar Pradesh	100.54	140.16	160.34	194.99	+51.2	+39.4	+14.4	+21.6
17.	West Bengal	51.84	54.40	68.94	75.21	-62.0	+4.9	+26.7	+9.1

Table 4

COMPARATIVE POSITION OF GROWTH OF DEPOSITS AND LOANS & ADVANCES OF STATE COOPERATIVE BANKS OVER A PERIOD OF 3 YEARS FROM 30-6-1977 TO 30-6-1980.

(Rs. Crores)

Sl. No.	Name of State Cooperative Bank	Deposits				Loans and advances			
		Amount of deposit as on		Growth over 3 years (4-3)	Percent-age growth rate over 3 years	Amount outstanding as on		Growth over 3 years (8-7)	Percent-age growth rate over 3 years
		30-6-77	30-6-80			30-6-77	30-6-80		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1.	Andhra Pradesh	46 02	81 49	35 47	77 1	79 08	115 08	36 00	45 5
2.	Assam	30 14	38 19	8 05	26 6	18 44	25 16	6 72	41 9
3.	Bihar	25 95	39 74	13 79	53 1	36 83	48 13	11 30	30 7
4.	Gujarat	83 05	139 08	56 03	67 6	126 35	153 55	27 20	21 6
5.	Haryana	28 66	42 58	13 92	48 6	41 16	69 79	28 63	69 6
6.	Himachal Pradesh	7 40	12 90	5 50	74 3	5 16	6 74	1 58	30 6
7.	Jammu & Kashmir	1 53	3 54	2 01	131 4	3 82	4 13	0 31	8 1
8.	Karnataka	36 57	63 80	27 23	74 5	75 96	52 33	-23 63	-31 1
9.	Kerala	19 18	39 86	20 68	107 8	25 15	45 13	19 98	79 4
10.	Madhya Pradesh	31 03	62 11	31 08	100 2	55 44	97 04	41 60	75 0
11.	Maharashtra	230 23	358 25	128 02	55 6	177 89	245 65	67 76	38 1
12.	Orissa	15 46	30 22	14 76	95 5	27 76	67 62	39 86	143 8
13.	Punjab	50 01	92 06	42 05	84 1	44 29	52 34	8 05	18 2
14.	Tamil Nadu	56 11	130 30	74 19	132 2	137 44	144 00	6 56	4 8
15.	Rajasthan	21 91	38 22	16 31	74 4	53 63	83 80	30 17	56 3
16.	Uttar Pradesh	104 66	159 50	54 84	52 4	100 54	194 99	94 45	93 9
17.	West Bengal	26 72	49 53	22 81	85 4	51 84	75 21	23 37	45 1



Table 5

**COMPARATIVE POSITION OF GROWTH OF DEPOSITS AND LOANS & ADVANCES OF SELECTED CENTRAL COOPERATIVE BANKS OVER A PERIOD OF 3 YEARS FROM 30-6-1977 TO 30-6-1980.**

(Rs. Crores)

Name of State	Name of central cooperative bank	Deposits				Loans and Advances			
		Amount of deposit as on		Growth over 3 years (4—3)	Growth in loan-able deposit resources (70% of Col. 5)	Amount outstanding as on		Growth over 3 years (8—7)	Surplus loanable deposit resources generated (6—9)
		30-6-77	30-6-80			30-6-77	30-6-80		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Maharashtra	1. Jalgaon	20 39	35 49	15 10	10 57	20 03	23 25	3 22	7 35
	2. Sengli	15 56	26 97	11 41	7 99	17 59	16 56	—1 03	9 02
	3. Satara	15 34	26 63	11 29	7 90	14 85	15 76	0 91	6 99
	4. Thane	10 04	20 35	10 29	7 20	7 56	8 16	0 60	6 60
	5. Ratnagiri	6 93	12 43	5 50	3 85	4 59	6 60	2 01	1 84
Gujarat	6. Ahmedabad	40 25	81 32	41 07	28 75	38 54	54 75	16 21	12 54
	7. Khaira	23 53	39 11	15 58	10 91	14 24	17 48	3 24	7 67
	8. Mehsana	18 37	28 62	10 25	7 17	15 36	17 66	2 30	4 87
	9. Surat	20 52	36 52	16 00	11 20	16 44	25 63	9 19	2 01
Tamil Nadu	10. Salem	10 40	26 76	16 36	11 45	24 26	28 57	4 31	7 14
Karnataka	11. South Canara	4 90	9 31	4 41	3 09	8 19	8 96	0 77	2 32
	12. Belgaum	10 20	18 97	8 77	6 14	18 65	13 59	—5 06	11 20
Punjab	13. Jullundur	11 14	18 52	7 38	5 16	3 97	6 49	2 52	2 64
	14. Kapurthala	5 03	9 87	4 84	3 39	2 31	4 27	1 96	1 43
Himachal Pradesh	15. Kangra	10 98	17 78	6 80	4 76	1 78	2 79	1 01	3 75
Jammu & Kashmir	16. Jammu	3 47	8 49	5 02	3 51	4 21	6 28	2 07	1 44

Table 6

## QUANTUM OF SURPLUS RESOURCES OF STATE COOPERATIVE BANKS DURING 1979-80

(Rs. Crores)

Sl No.	Name of State Cooperative Bank	Total loans & Advances outstanding at		Loanable internal resources* when advances were at		Surplus Resources, if any, at	
		Peak Level	Lowest Level	Peak Level	Lowest Level	Peak Level (5—3)	Lowest Level (6—4)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1.	Andhra Pradesh	141.75	108.26	60.40	74.55	—	—
2.	Assam	25.16	23.59	31.07	27.95	5.91	4.36
3.	Bihar	49.84	48.20	31.69	32.51	—	—
4.	Gujarat	167.62	135.57	110.49	104.33	—	—
5.	Haryana	69.80	55.27	37.29	25.68	—	—
6.	Himachal Pradesh	6.91	5.12	8.43	8.09	1.52	2.97
7.	Jammu & Kashmir	4.29	2.47	3.58	2.90	—	0.43
8.	Karnataka	68.66	49.09	49.84	59.11	—	10.02
9.	Kerala	47.98	35.45	25.57	27.94	—	—
10.	Madhya Pradesh	97.04	63.80	51.76	40.15	—	—
11.	Maharashtra	322.70	190.68	314.02	273.75	—	83.07
12.	Orissa	67.62	38.61	28.85	20.22	—	—
13.	Punjab	97.55	52.34	60.74	71.98	—	19.64
14.	Tamil Nadu	172.75	141.58	97.48	105.26	—	—
15.	Rajasthan	83.80	55.57	40.29	36.26	—	—
16.	Uttar Pradesh	213.55	139.06	105.52	107.12	—	—
17.	West Bengal	75.89	65.48	6.92	4.86	—	—

\* Loanable internal resources represent paid-up share capital + reserves + deposits *minus* commitments by way of liquidity requirements and investments in shares and fixed assets.

Table 6-A

## QUANTUM OF SURPLUS RESOURCES OF STATE COOPERATIVE BANKS DURING 1980-81 (upto 31-3-1981)

(Rs Crores)

Sl No.	Name of State Cooperative Bank	Total loans & Advances outstanding at		Loanable internal resources* when advances were at		Surplus Resources, if any, at	
		Peak Level	Lowest Level	Peak Level	Lowest Level	Peak Level (5-3)	Lowest Level (6-4)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1.	Andhra Pradesh	151 03	118 92	81 71	84 98	—	—
2.	Assam	27 05	25 52	31 14	31 03	4 09	5 51
3.	Bihar	48 39	48 37	31 79	31 31	—	—
4.	Gujarat	188 49	151 23	121 05	118 83	—	—
5.	Haryana	100 09	86 25	28 46	26 95	—	—
6.	Himachal Pradesh	8 41	6 56	10 43	9 98	2 02	3 42
7.	Jammu & Kashmir	5 32	3 35	4 05	3 28	—	—
8.	Karnataka	84 00	54 72	58 90	56 75	—	2 03
9.	Kerala	68 29	54 77	31 99	31 45	—	—
10.	Madhya Pradesh	135 57	94 65	47 92	47 43	—	—
11.	Maharashtra	360 89	152 33	352 75	293 50	—	141 17
12.	Orissa	79 86	64 47	29 60	27 57	—	—
13.	Punjab	134 76	61 27	69 67	66 81	—	5 54
14.	Tamil Nadu	147 58	90 40	105 27	107 84	—	17 44
15.	Rajasthan	104 37	84 73	42 46	41 49	—	—
16.	Uttar Pradesh	277 96	183 55	129 56	136 79	—	—
17.	West Bengal	78 06	71 75	10 37	7 13	—	—

\* Loanable internal resources represent paid up share capital + reserves + deposits *minus* commitments by way of liquidity requirements and investments in shares and other fixed assets.

Table 7

## QUANTUM OF SURPLUS RESOURCES OF CENTRAL CO-OPERATIVE BANKS DURING THE YEAR 1979-80

(Rs. Crores)

Name of State	Name of Central Cooperative Bank	Total loans & Advances outstanding at		Loanable internal resources* when advances were at		Surplus Resources, if any, at	
		Peak Level	Lowest Level	Peak Level	Lowest Level	Peak Level (5—3)	Lowest Level (6—4)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Maharashtra	1. Bombay	6.77	3.24	11.61	7.30	4.84	4.06
	2. Kolaba	6.19	5.81	6.81	6.09	0.62	0.28
	3. Pune	20.12	16.27	27.54	27.25	7.42	10.98
	4. Ratnagiri	6.60	4.76	10.27	8.15	3.67	3.39
	5. Thane	8.19	7.66	15.35	14.25	7.16	6.69
	6. Jalgaon	25.64	19.21	25.01	30.97	—	11.76
	7. Kolhapur	33.85	25.91	24.07	29.41	—	3.50
	8. Sangli	29.33	16.56	18.24	22.26	—	6.70
	9. Satara	22.49	12.63	18.76	19.81	—	7.18
	10. Yeotmal	22.18	13.21	14.35	16.14	—	2.93
Gujarat	11. Ahmedabad	56.52	42.95	59.38	54.75	2.86	11.80
	12. Khaira	33.80	32.96	34.01	33.10	0.21	0.14
	13. Mehsana	17.66	13.28	25.90	24.02	8.24	10.74
	14. Panchmahals	7.25	6.18	7.83	7.91	0.58	1.73
	15. Banaskantha	9.73	7.80	8.34	8.90	—	1.10
	16. Surat	25.63	21.57	29.73	15.21	4.10	—
Bihar	17. Dhanbad	2.66	2.51	2.81	3.07	0.15	0.56
	18. Singhbhum	1.74	1.28	2.08	1.07	0.34	—

Table 7—Contd.

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Himachal Pradesh	19. Kangra	3 27	2 09	13 88	11 46	10 61	9 37
Jammu & Kashmir	20. Jammu	6 28	5 74	6 71	4 57	0 43	—
Karnataka	21. Belgaum	19 96	13 60	13 92	16 78	—	3 18
	22. South Canara	9 07	7 65	7 58	8 04	—	0 39
Kerala	23. Alleppey	11 71	8 61	9 14	9 50	—	0 89
	24. Ernakulam	9 67	7 76	9 42	9 00	—	1 24
	25. Kottayam	10 04	6 97	9 45	8 96	—	1 99
	26. Trichur	11 10	8 74	8 65	9 12	—	0 38
Madhya Pradesh	27. Indore	6 61	6 13	5 94	6 79	—	0 66
Punjab	28. Jullundur	8 45	6 13	12 73	12 07	4 28	5 94
	29. Kapurthala	5 13	3 27	6 91	6 28	1 78	3 01
	30. Ludhiana	19 26	11 68	11 45	12 06	—	0 38
Uttar Pradesh	31. Meerut	11 31	10 87	10 90	13 31	—	2 44
	32. Muzzafarnagar	9 09	8 16	7 00	8 46	—	0 30

\* Loanable internal resources represent paid up share capital + reserves + deposits *minus* commitments by way of liquidity requirements and investments in shares and fixed assets.

Table 7-A

**QUANTUM OF SURPLUS RESOURCES OF CENTRAL COOPERATIVE BANKS DURING THE YEAR 1980-81**  
(upto 31-3-1981)

(Rs. Crores)

Name of State	Name of Central Cooperative Bank	Total loans & Advances outstanding at		Loanable internal resources* when advances were at		Surplus Resources, if any, at	
		Peak Level	Lowest Level	Peak Level	Lowest Level	Peak Level (5-3)	Lowest Level (6-4)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Maharashtra	1. Bombay	12.91	5.72	18.02	13.15	5.11	7.43
	2. Kolaba	6.24	3.73	7.26	7.38	1.02	3.65
	3. Pune	23.84	17.33	37.31	32.93	13.47	15.60
	4. Ratnagiri	5.75	5.39	11.03	11.59	5.28	6.20
	5. Thane	9.16	7.59	19.56	17.15	10.40	9.56
	6. Jalgaon	28.17	25.81	35.57	31.04	7.40	5.23
	7. Kolhapur	29.64	25.56	31.48	36.57	1.84	11.01
	8. Sangli	19.07	16.68	24.06	23.44	4.99	6.76
	9. Satara	22.07	10.92	29.33	25.39	7.26	14.47
Gujarat	10. Ahmedabad	68.75	52.78	69.60	67.31	0.85	14.53
	11. Khaira	35.19	34.49	34.72	36.50	—	2.01
	12. Mehsana	14.21	14.16	26.71	29.57	12.50	15.41
	13. Panchmahals	8.08	7.06	8.61	8.30	0.53	1.24
	14. Banaskantha	9.43	9.10	9.27	9.55	—	0.45
	15. Surat	22.04	19.27	31.41	14.15	9.37	—
Bihar	16. Dhanbad	3.36	2.65	3.71	3.42	0.35	0.77
	17. Singhbhum	1.72	1.59	2.41	1.97	0.69	0.38

Table 7-A—Contd.

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Himachal Pradesh	18 Kangra	4 25	2 62	14 83	14 23	10 58	11 61
Karnataka	19 Belgaum	25 27	14 97	19 21	17 51	—	2 54
Madhya Pradesh	20 Indore	7 97	6 64	7 20	6 84	—	0 20
Punjab	21 Jullundur	11 90	8 02	15 22	14 95	3 32	6 93
	22 Kapurthala	8 81	4 96	8 43	7 91	1 62	2 95
Uttar Pradesh	23 Meerut	16 45	11 21	15 39	12 94	—	1 73
	24 Muzaffarnagar	9 23	7 70	8 25	10 08	—	2 38

\* Loanable internal resources represent paid-up share capital + reserves + deposits *minus* commitments by way of liquidity requirements and investments in shares and fixed assets.

**Table 8**  
**QUANTUM OF SURPLUS RESOURCES DURING THE PERIOD 1 JULY 1979 TO 31 MARCH 1981**

(Rs. Crores)

Name of State	Surplus resources with state co-operative bank		Surplus funds kept by cbcs with commercial banks and institutions other than scbs		Surplus funds kept by ucbs with commercial banks and institutions other than scbs		Total surplus resources		
	Long-term	Seasonal	Long-term	Seasonal	Long-term	Seasonal	Long term	Seasonal	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1. Andhra Pradesh	—	—	—	—	0.67	0.87	0.67	0.87	1.54
2. Assam	4.09	1.82	—	—	—	—	4.09	1.82	5.91
3. Bihar	—	—	0.48	0.65	—	—	0.48	0.65	1.13
4. Gujarat	—	—	8.40	46.30	8.78	25.09	17.18	71.39	88.57
5. Haryana	—	—	—	—	0.19	0.04	0.19	0.04	0.23
6. Himachal Pradesh	1.52	1.90	9.37	4.13	—	—	10.89	6.03	16.92
7. Jammu & Kashmir	—	0.43	0.13	2.17	—	—	0.13	2.60	2.73
8. Karnataka	—	10.02	0.59	2.56	—	—	0.59	12.58	13.17
9. Kerala	—	—	—	5.10	—	—	—	5.10	5.10
10. Madhya Pradesh	—	—	—	0.16	1.19	0.08	1.19	0.24	1.43
11. Maharashtra	—	174.53	13.44	86.50	57.02	16.96	70.46	277.99	348.45
12. Orissa	—	—	—	—	0.02	—	0.02	—	0.02
13. Punjab	—	19.64	0.47	3.51	—	—	0.47	23.15	23.62
14. Tamil Nadu	—	24.29	—	—	—	0.10	—	24.39	24.39
15. Rajasthan	—	—	—	—	—	1.04	—	1.04	1.04
16. Uttar Pradesh	—	—	0.05	4.14	—	—	0.05	4.14	4.19
17. West Bengal	—	—	—	—	1.35	0.36	1.35	0.36	1.71
<b>Total</b>	<b>5.61</b>	<b>232.63</b>	<b>32.93</b>	<b>155.22</b>	<b>69.22</b>	<b>44.54</b>	<b>107.76</b>	<b>432.39</b>	<b>540.15</b>



Table 8

**DURATION OF SURPLUS RESOURCES DURING THE PERIOD FROM JULY  
1979 TO MARCH 1981 — STATE COOPERATIVE BANKS**

(Rs. Crores)

As at the end of		Surplus Resources		
		Maharashtra State Co- operative Bank	Tamil Nadu State Co- operative Bank	Karnataka State Co- operative Bank
	(1)	(2)	(3)	(4)
July	1979	0 60	—	—
August	1979	23 63	—	—
September	1979	48 87	—	—
October	1979	64 06	—	—
November	1979	90 56	—	—
December	1979	41 07	—	—
January	1980	12 56	—	—
February	1980	11 73	—	—
March	1980	—	—	—
April	1980	20 39	—	6 04
May	1980	41 89	—	10 02
June	1980	63 90	—	6 49
July	1980	89 01	—	2 03
August	1980	136 40	—	—
September	1980	151 47	—	—
October	1980	174 53	19 56	—
November	1980	165 61	24 29	—
December	1980	88 93	15 73	—
January	1981	63 78	12 90	—
February	1981	22 78	1 88	—
March	1981	—	4 39	—

Table 10

**DURATION OF SURPLUS RESOURCES DURING THE PERIOD JULY 1979 TO MARCH 1981 IN RESPECT OF CENTRAL COOPERATIVE BANKS**

(Rs. Crores)

As at the end of		Surplus Resources									
		Maharashtra				Gujarat		Karnataka		Kerala	
		Jalgaon	Kolhapur	Sangli	Setara	Khaira	Surat	Belgaum	Kanara	Kottayam	Ernakulam
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	
July	1979	—	—	—	—	—	—	—	0.28	1.99	1.22
August	1979	—	—	—	—	—	0.57	—	—	0.70	0.46
September	1979	—	—	—	2.71	—	2.53	—	—	0.29	0.36
October	1979	—	—	—	3.59	0.14	2.31	—	—	—	0.03
November	1979	1.31	—	—	6.19	0.21	2.17	—	—	—	—
December	1979	2.41	—	—	7.22	—	2.03	—	—	—	—
January	1980	7.51	—	1.10	7.02	—	0.62	—	—	—	—
February	1980	8.06	—	0.12	5.11	—	—	—	—	—	—
March	1980	11.37	—	1.39	2.35	—	—	—	0.52	—	—
April	1980	10.49	1.92	1.27	2.34	—	—	—	1.11	—	—
May	1980	8.49	3.49	1.79	4.71	—	1.35	1.74	1.15	—	0.17
June	1980	5.35	4.43	4.80	6.20	0.53	1.69	3.24	1.10	—	—
July	1980	3.95	5.60	5.80	8.52	2.31	5.25	2.57	0.80	—	—
August	1980	3.78	5.96	6.31	10.80	2.01	8.14	1.07	0.36	—	—
September	1980	3.83	5.00	8.73	12.17	2.39	8.49	0.37	0.01	—	—
October	1980	4.91	1.85	7.72	14.51	0.68	4.77	1.02	—	—	—
November	1980	5.30	4.21	6.00	16.22	1.10	5.37	1.26	—	—	—
December	1980	6.85	6.05	6.65	14.31	—	6.60	2.43	—	—	—
January	1981	9.67	7.71	6.94	11.24	—	5.52	0.27	—	—	—
February	1981	9.83	11.01	7.71	9.80	—	4.91	—	—	—	—
March	1981	7.70	11.65	7.83	7.30	1.19	7.02	—	—	—	—

Table 11

**AVERAGE DEPOSIT RATE AND GROSS AVERAGE DEPOSIT RATE OF  
STATE COOPERATIVE BANKS**

Sl No	Name of State Cooperative Bank	Average deposit rate as on		Gross Average deposit rate** as on	
		30-6-80	31-3-81	30-6-80	31-3-81
(1)	(2)	(3)	(4)	(5)	(6)
1.	Andhra Pradesh	8.7	8.2	10.8	10.2
2.	Assam	5.1	5.0	5.4	5.4
3.	Bihar	6.7	5.4	8.4	6.2
4.	Gujarat	9.3	9.1	11.7	11.5
5.	Haryana	6.7	7.5	8.0	9.2
6.	Himachal Pradesh	7.4	7.8	9.0	9.6
7.	Jammu & Kashmir	7.6	8.0	9.2	9.8
8.	Karnataka	8.8	8.8	10.8	10.9
9.	Kerala	8.2		10.1	
10.	Madhya Pradesh	7.6	8.3	9.2	10.2
11.	Maharashtra	7.9	8.0*	9.7	9.9*
12.	Orissa	7.3	8.4	9.0	10.4
13.	Punjab	8.0	9.0	9.9	11.3
14.	Tamil Nadu	8.1	8.2	10.0	10.1
15.	Rajasthan	9.0	7.7	11.2	9.4
16.	Uttar Pradesh	7.4		9.0	
17.	West Bengal	7.6	8.0	9.3	9.8

\* Position relates to 31.12.1980

\*\* Gross Average Deposit Rate has been worked out taking into account the rate of return at 6 percent per annum on resources locked up in meeting the liquidity requirements and by adding 1 percent towards meeting the cost for management of deposits.

Table 11-A

## GROSS AVERAGE DEPOSIT RATE OF CENTRAL COOPERATIVE BANKS

Name of State Cooperative Bank	Name of Central Cooperative Bank	Gross Average Deposit Rate as on	
		30-6-80	31-3-81
(1)	(2)	(3)	(4)
1. Andhra Pradesh	Vijayawada	8 8	9 4
	Vizianagram	9 0	9 3
2. Bihar	Dhanbad	6 5	6 8
	Singhbhum	7 2	7 4
3. Gujarat	Ahmedabad	8 8	
	Banaskantha	8 7	9 1
	Baroda	7 6	7 4
	Kaira	9 8	9 7
	Mehsana	8 6	
	Panchmahals	8 7	8 6
	Rajkot	8 1	7 9
	Sabarkantha	8 5	8 3
	Surat	8 8	
Surendranagar	8 5	8 5	
4. Haryana	Hissar	7 5	8 2
	Kurukshetra	6 1	7 1
5. Himachal Pradesh	Kangra	8 3	8 6
6. Jammu & Kashmir	Jammu	7 0	7 0
7. Karnataka	Belgaum	7 8	7 7
	Karnataka	8 1	8 9
	South Canara	9 6	9 8
8. Kerala	Alleppey	8 4	
	Cannanore	6 3	7 1
	Ernakulam	8 2	8 5
	Kottayam	7 4	8 4
	Trivandrum	7 5	6 9
9. Madhya Pradesh	Bilaspur	7 3	7 3
	Indore	10 1	10 1
10. Maharashtra	Ahmednagar	8 4	7 8
	Aurangabad	6 2	5 5
	Bombay	7 6	
	Dhulia	6 4	6 2
	Jalgaon	7 4	7 5
	Kolaba	7 0	
	Kolhapur	7 8	

Table 11-A—Contd.

(1)	(2)	(3)	(4)
	Nasik	7.1	6.5
	Pune	7.4	7.1
	Ratnagiri	6.4	6.9
	Sangli	8.3	
	Satara	7.2	7.1
	Sholapur	7.9	7.9
	Thane	7.1	7.2
	Yenmal	6.7	6.6
11 Orissa	Sambalpur	7.3	7.7
	Berhampore	8.1	8.6
12 Punjab	Jullundur	7.6	8.0
	Kapurthala	7.6	7.9
	Ludhiana	6.3	7.0
	Patiala	7.4	7.9
13 Tamil Nadu	Coimbatore	8.9	9.0
	Madras	8.2	8.3
	Madurai	8.7	8.7
	Salem	9.3	9.6
	Tiruchirappalli	9.1	9.3
14 Rajasthan	Ganganagar	7.4	7.0
	Kota	7.2	7.6
15 Uttar Pradesh	Bijnore	6.6	6.8
	Lakhimpur-Kheri	7.2	7.5
	Meerut	6.9	7.3
	Moradabad	6.9	6.7
	Muzaffarnagar	7.4	7.6
16 West Bengal	Vidyasagar	6.8	7.1

Note : Gross Average Deposit Rate has been worked out by adding 1 per cent to the average deposit rate towards meeting the cost of management of deposits.

Table 12

## TYPE-WISE CLASSIFICATION OF DEPOSITS OF STATE COOPERATIVE BANKS AS AT THE END OF MARCH 1981

(Rs. Crores)

Name of State Cooperative Bank	Total deposits at the end of March 1981	Type-wise classification			Type-wise percentage to total deposits		
		Current deposits	Savings deposits	Fixed deposits (including others)	Current (% of Col. 3 to 2)	Savings (% of Col. 4 to 2)	Fixed (% of Col. 5 to 2)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1. Andhra Pradesh	85.00	6.00	4.00	75.00	7.1	4.7	88.2
2. Assam	38.72	7.96	17.64	13.12	20.5	45.6	33.9
3. Bihar	37.00	13.56	5.40	18.04	36.6	14.6	48.8
4. Gujarat	147.42	11.99	0.18	135.25	8.1	0.1	91.8
5. Haryana	29.34	2.47	3.16	23.71	8.4	10.8	80.8
6. Himachal Pradesh	13.49	2.71	5.09	5.69	20.1	37.7	42.2
7. Jammu & Kashmir	4.25	1.16	0.50	2.59	27.3	11.8	60.9
8. Karnataka	63.30	4.30	3.24	55.76	6.8	5.1	88.1
9. Kerala	40.35	9.26	1.47	29.62	23.0	3.6	73.4
10. Madhya Pradesh	59.75	7.50	4.41	47.84	12.5	7.4	80.1
11. Maharashtra	404.82	46.47	33.66	324.69	11.5	8.3	80.2
12. Orissa	27.75	1.58	3.06	23.11	5.7	11.0	83.3
13. Punjab	87.67	8.75	5.09	73.83	10.0	5.8	84.2
14. Tamil Nadu	154.56	6.73	9.04	138.79	4.4	5.8	89.8
15. Rajasthan	43.61	—	—	—	—	—	—
16. Uttar Pradesh*	159.50	20.41	20.39	118.70	12.8	12.8	74.4
17. West Bengal	52.42	6.15	7.68	38.59	11.7	14.7	73.6

\* Figures relate to 30-6-1980.

Table 12-A

## TYPE-WISE CLASSIFICATION OF DEPOSITS OF CENTRAL COOPERATIVE BANKS AS AT THE END OF MARCH 1981

(Rs. Crores)

Name of State Cooperative Bank	Name of Central Cooperative Bank	Total deposits at the end of March 1981	Type-wise classification			Type-wise percentage to total deposits			Gross Average Deposit Rate
			Current deposits	Savings deposits	Fixed deposits (including others)	Current (% of Col. 4 to 3)	Savings (% of Col. 5 to 3)	Fixed (% of Col. 6 to 3)	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1. Andhra Pradesh	Vizianagram	10.63	0.54	1.94	8.15	5.1	18.2	76.7	9.3
2. Gujarat	Kaira	43.10	4.13	8.89	30.08	9.6	20.6	69.8	9.7
	Panchmahals	10.47	0.79	3.45	6.23	7.5	33.0	59.5	8.6
3. Karnataka	South Canara	9.28	0.46	1.51	7.29	5.0	16.3	78.7	9.8
4. Orissa	Berhampore	5.07	0.31	1.62	3.14	6.1	32.0	61.9	8.6
5. Tamil Nadu	Coimbatore	32.54	2.27	5.49	24.78	7.0	16.9	76.1	9.0
	Madurai	27.70	1.02	7.89	18.79	3.7	28.5	67.8	8.7
	Tiruchirapalli	17.96	0.80	3.15	14.01	4.5	17.5	78.0	9.3
6. Maharashtra	Aurangabad	21.34	6.35	10.35	4.64	29.8	48.5	21.7	5.5
	Dhulia	17.45	3.66	8.08	5.73	21.0	46.2	32.8	6.2
	Nasik	30.38	5.53	16.00	8.85	18.2	52.7	29.1	6.5
	Retnagiri	13.42	2.54	5.17	5.71	19.0	38.5	42.5	6.9
7. Uttar Pradesh	Bijnore	9.44	1.06	6.00	2.38	11.2	63.6	25.2	6.8
	Moradabad	7.58	0.98	3.87	2.73	12.9	51.1	36.0	6.7
8. Bihar	Dhanbad	4.59	0.47	3.08	1.06	10.2	66.7	23.1	6.8

Table 13

## SOURCE-WISE CLASSIFICATION OF DEPOSITS OF STATE COOPERATIVE BANKS AS AT THE END OF MARCH 1981

(Rs. Crores)

Name of State Cooperative Bank	Total Deposits as at the end of March 1981	Of deposits in Col. 2, those from		Percentage to total deposits	
		Cooperative Institutions	Individuals and other Institutions	Cooperative Institutions (% of Col. 3 to 2)	Individuals and other Institu- tions (% of 4 to 2)
(1)	(2)	(3)	(4)	(5)	(6)
1. Andhra Pradesh	85.09	77.57	7.52	91.2	8.8
2. Assam	38.71	11.49	27.22	29.7	70.3
3. Bihar	36.58	18.12	18.46	49.5	50.5
4. Gujarat	147.42	144.12	3.30	97.8	2.2
5. Haryana	29.34	18.09	11.25	61.7	38.3
6. Himachal Pradesh	13.49	4.29	9.20	31.8	68.2
7. Jammu & Kashmir	4.24	3.29	0.95	77.6	22.4
8. Karnataka	63.30	54.18	9.12	85.6	14.4
9. Kerala	40.35	36.89	3.46	91.4	8.6
10. Madhya Pradesh	59.75	42.94	16.81	71.9	28.1
11. Maharashtra	404.82	363.15	41.67	89.6	10.4
12. Orissa	27.75	20.80	6.95	75.0	25.0
13. Punjab	87.67	71.38	16.29	81.4	18.6
14. Tamil Nadu	154.56	79.01	75.55	51.1	48.9
15. Rajasthan	43.61	40.34	3.27	92.5	7.5
16. Uttar Pradesh	166.68	125.02	41.66	75.0	25.0
17. West Bengal	62.42	43.58	8.84	83.1	16.9



Table 13-A

## SOURCE-WISE CLASSIFICATION OF DEPOSITS OF CENTRAL COOPERATIVE BANKS AS AT THE END OF MARCH 1981

(Rs. Crores)

Name of State Cooperative Bank	Name of Central Cooperative Bank	Total deposits as at the end of March 1981	Of deposits in Col. 2, those from		Percentage to total deposits	
			Cooperative Institutions	Individuals & other Institutions	Cooperative Institutions (% of Col. 4 to 3)	Individuals and other Institutions (% of Col 5 to 3)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Andhra Pradesh	Vizianagram	10 63	4 47	6 16	42 0	58.03
2. Gujarat	Kaira	43 10	22 25	20 85	51 6	48 4
	Panchmahals	10 47	4 94	5 53	47 2	52 8
3. Karnataka	South Canara	9 26	5 46	3 80	59 0	41 0
4. Orissa	Berhampore	5 07	2 37	2 70	46 6	53 4
5. Tamil Nadu	Coimbatore	32 54	12 84	19 70	39 5	60 5
	Madurai	27 70	6 23	21 47	22 5	77 5
	Tiruchirappalli	17 96	8 55	9 41	47 6	52 4
6. Maharashtra	Aurangabad	21 34	5 85	15 49	27 4	72 6
	Dhulia	17 45	5 76	11 69	33 0	67 0
	Nasik	30 38	9 76	20 62	32 1	67 9
	Ratnagiri	13 42	2 41	11 01	18 0	82 0
7. Uttar Pradesh	Bijnore	9 44	0 85	8 59	9 0	91 0
	Moradabad	7 58	1 43	6 15	18 9	81 1
8. Bihar	Dhanbad	4 59	0 67	3 92	14 6	85 4

Table 14

**LENDING RATES ON LOANS AND ADVANCES CHARGED BY STATE COOPERATIVE BANKS  
AS AT THE END OF MARCH 1981**

Name of State Cooperative Bank		Lending Rates on Concessional Advances					Average Lending Rate on concessional advances	Average Lending Rate on non-concessional advances
		Short term agricultural	Medium term agricultural	Medium term conversion	Weavers Finance	Industrial Finance		
(1)		(2)	(3)	(4)	(5)	(6)	(7)	(8)
1.	Andhra Pradesh	7 00	6 75	7 50	7 25	—	7 6	11 6
2.	Bihar	6 75	6 75	6 75	7 00	—	6 7	13 1
3.	Gujarat	Small Farmers 6 00	6 50	6 00	—	7 00	6 8	12 3
		Other Farmers 6 50	6 50	6 50	—	to 10 50		
4.	Haryana	6 50	7 00	7 00	6 50	7 00	6 8	13 5
5.	Karnataka	Small Farmers 6 75	6 50	6 75	6 50	7 50	6 8	14 5
		Other Farmers 7 15	6 50	6 75				
6.	Kerala	6 75	6 50	6 75	6 50	7 50	6 8	13 4
					7 50	8 00		
7.	Madhya Pradesh	Small Farmers 6 50	6 50	6 50	7 50	7 00	6 9	14 2
		Other Farmers 7 00	6 50	6 50				
8.	Maharashtra	6 25	6 25	6 25	7 00	6 75	6 4	12 6
9.	Orissa	Small Farmers 6 75	6 50	6 75	6 50	7 00	7 0	10 5
		Other Farmers 6 75	6 75	6 75	7 25			
10.	Punjab	6 50	6 30	6 30	—	—	6 3	12 1
11.	Tamil Nadu	6 66	7 00	7 25	7 50	6 50	7 3	12 3
12.	Rajasthan	Small Farmers 6 75	6 50	6 50	6 50	11 0	8 3	9 8
		Other Farmers 8 10	6 50	6 50				
13.	Uttar Pradesh (As on 1-4-1981)	6 50	6 50	6 50	6 50	7 00	6 7	12 7
14.	West Bengal (As on 15-4-1981)	Small Farmers 7 10	6 80	7 10	7 00	7 10	6 9	12 2
		Other Farmers 7 30	7 00	7 30				

Table 14-A

## LENDING RATES ON LOANS AND ADVANCES CHARGED BY CENTRAL COOPERATIVE BANKS AS AT THE END OF MARCH 1981

Name of State Cooperative Bank	Name of central Cooperative Bank	Lending Rates on Concessional Advances					Average Lending Rate on conces- sional advances	Average Lending Rate on non- conces- sional advances
		Short term agricul- tural	Medium term agricul- tural	Medium term conver- sion	Weavers Finance	Industrial Finance		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1. Andhra Pradesh	Vizianagram	9.25	9.25	9.50	6.50	—	9.2	16.8
2. Gujarat	Kaira	9.00	13.00	11.00	2.50	2.50	10.2	12.4
	Small Farmers				to 7.50	to 13.75		
	Others	11.00		12.00				
3. Karnataka	South	8.00	9.50	—	6.50	—	8.9	15.0
	Canara	9.00	9.50	—				
4. Orissa	Berhampore	8.75	8.50	8.75	6.50	8.00	8.5	9.7
5. Tamil Nadu	Coimbatore	8.00	9.00	9.00	6.50	—	9.0	11.5
	Small Farmers	8.00	9.00	9.00				
	Others	9.50	9.00	9.00				
	Tiruchirappally	8.00	9.00	9.00	6.50	8.00	8.6	12.3
	Small Farmers	8.00	9.00	9.00				
	Others	9.50	9.00	9.00				
6. Maharashtra	Aurangabad	8.00	8.00	8.00	5.00	—	8.0	13.2
	Nasik	7.00	8.00	8.00	6.00	8.00	7.2	14.4
	Ratnagiri	8.00	8.50	8.50	—	—	8.5	14.4
7. Uttar Pradesh	Bijnore	8.50	8.50	9.50	6.5		9.0	—
	Small Farmers	8.50	8.50	9.50				
	Others	9.50	9.50	9.50				

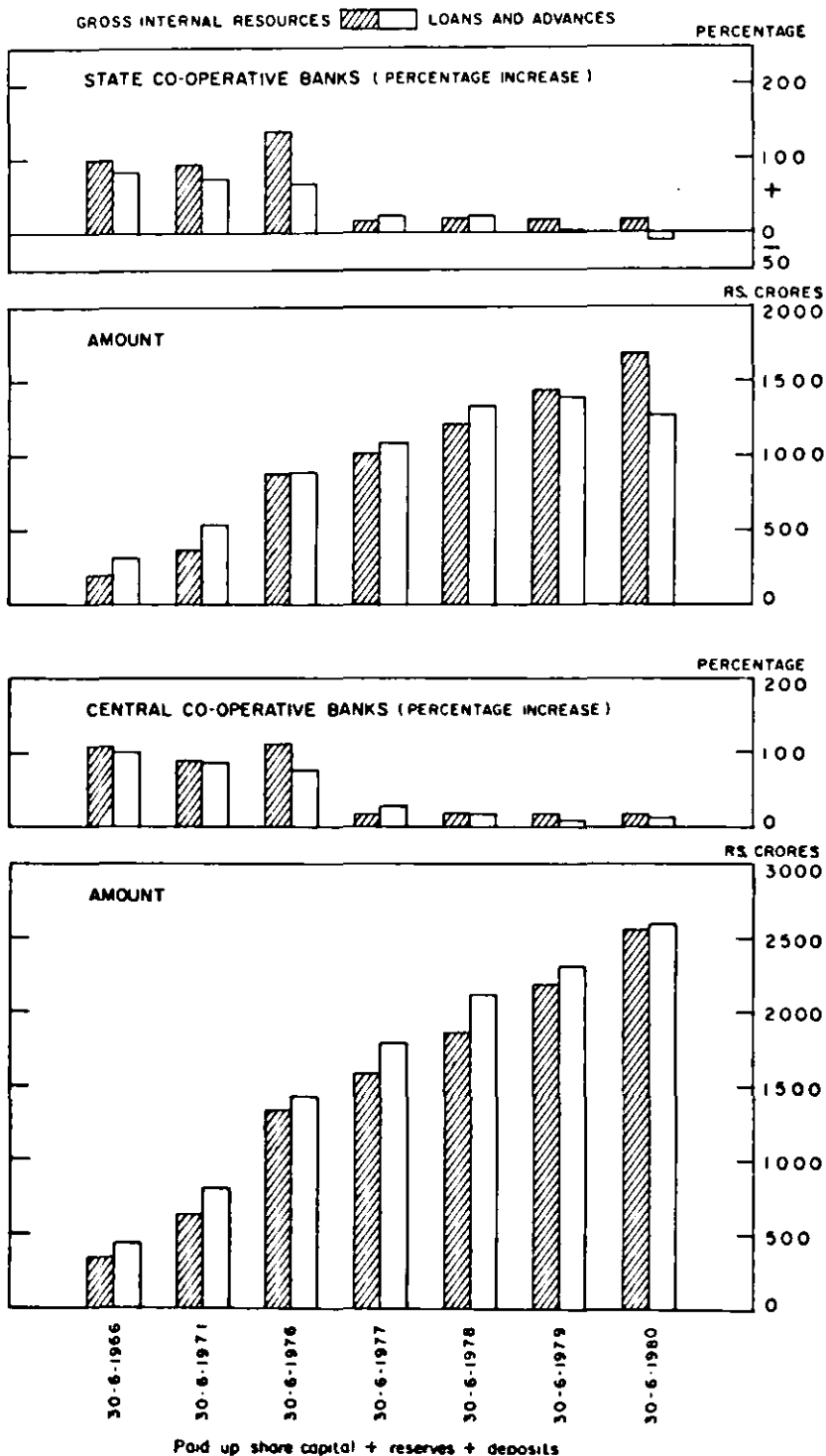
## Appendix-1

### NAMES OF THE STATE AND CENTRAL COOPERATIVE BANKS SELECTED FOR THE STUDY

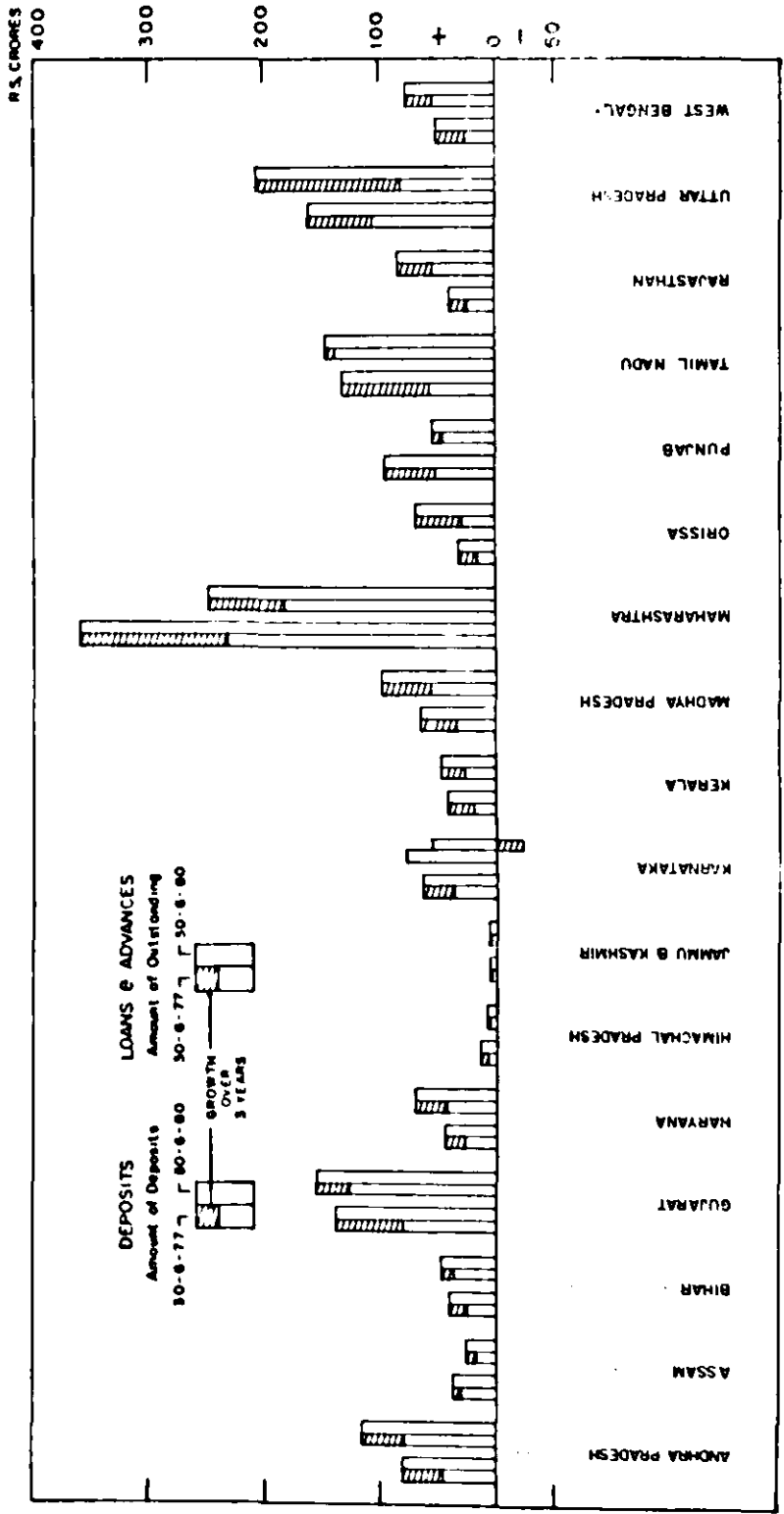
<i>Name of the state cooperative bank</i>	<i>Name of the central cooperative bank</i>
1. Andhra Pradesh	1. Vijayawada 2. Vizianagaram
2. Assam	
3. Bihar	3. Dhanbad 4. Singhbhum
4. Gujarat	5. Ahmedabad 6. Banaskantha 7. Baroda 8. Khaira 9. Mehsana 10. Panchmahals 11. Rajkot 12. Sabarkantha 13. Surat 14. Surendranagar
5. Haryana	15. Ambala 16. Hissar 17. Kurukshetra
6. Himachal Pradesh	18. Kangra
7. Jammu & Kashmir	19. Jammu
8. Karnataka	20. Belgaum 21. Bijapur 22. Karnataka (Dharwar) 23. South Canara
9. Kerala	24. Alleppey 25. Cannanore 26. Ernakulam 27. Kottayam 28. Trichur 29. Trivandrum
10. Madhya Pradesh	30. Bhopal 31. Bilaspur 32. Indore

<i>Name of the state cooperative bank</i>	<i>Name of the central cooperative bank</i>
11. Maharashtra	33. Ahmednager
	34. Aurangabad
	35. Bombay
	36. Dhulia
	37. Jalgaon
	38. Kolaba
	39. Kolhapur
	40. Nasik
	41. Pune
	42. Ratnagiri
	43. Sangli
	44. Satara
	45. Sholapur
	46. Thane
	47. Yeotmal
12. Orissa	48. Berhampur
	49. Sambalpur
13. Punjab	50. Jullundur
	51. Kapurthala
	52. Ludhiana
	53. Patiala
14. Rajasthan	54. Ganganagar
	55. Kota
15. Tamil Nadu	56. Coimbatore
	57. Madras
	58. Madurai
	59. Salem
	60. Tiruchirapalli
16. Utter Pradesh	61. Bijnor
	62. Meerut
	63. Moradabad
	64. Muzzafarnagar
	65. Lakhimpur-Kheri
17. West Bengal	66. Burdwan
	67. Vidya Sagar

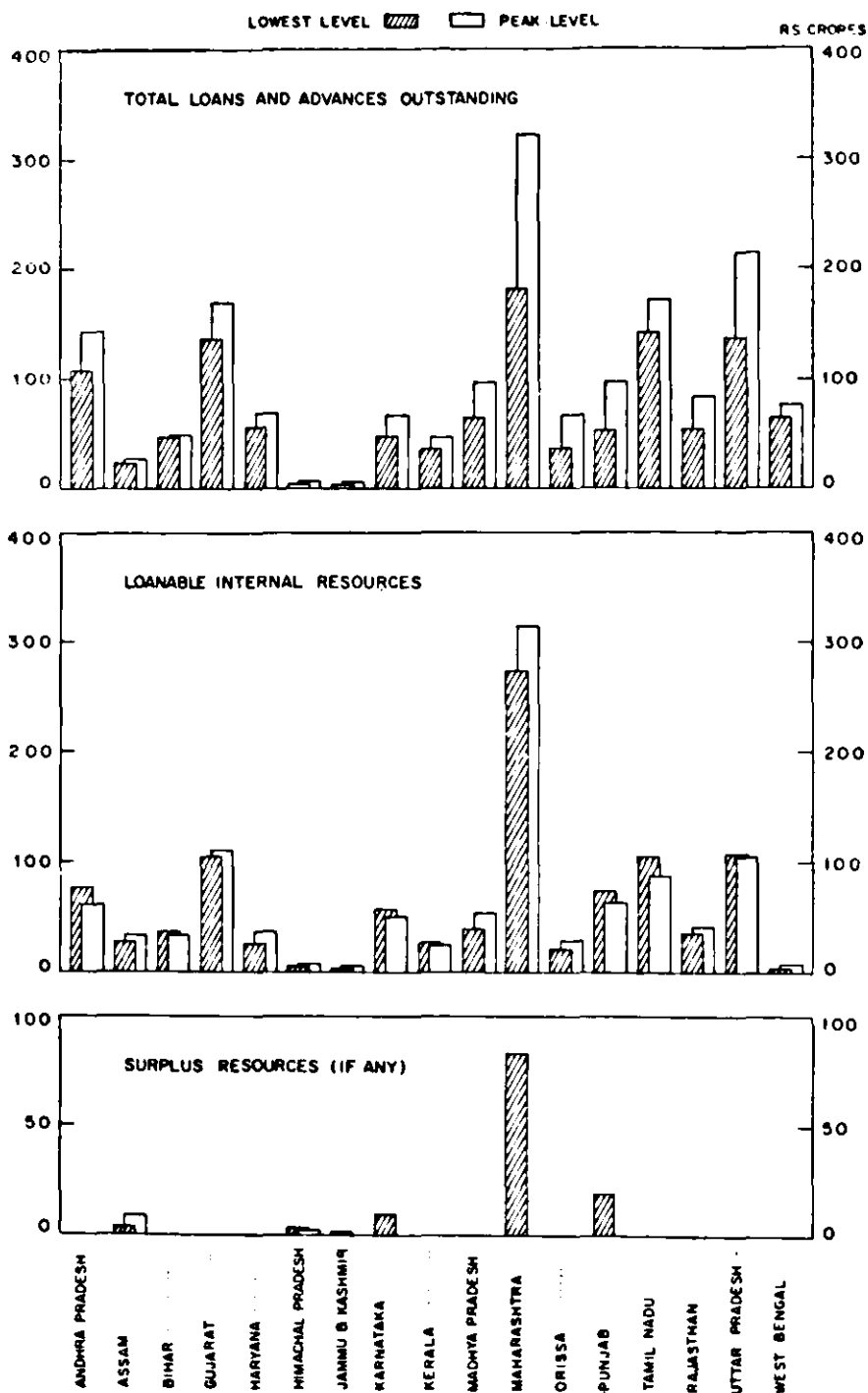
**COMPARATIVE POSITION OF OVERALL GROWTH IN GROSS INTERNAL RESOURCES AND LOANS AND ADVANCES OF STATE CO-OPERATIVE BANKS AND CENTRAL CO-OPERATIVE BANKS OVER A PERIOD**



COMPARATIVE POSITION OF GROWTH OF DEPOSITS AND LOANS AND ADVANCES OF STATE CO-OPERATIVE BANKS OVER A PERIOD OF 3 YEARS FROM 30-6-1977 TO 30-6-1980



## QUANTUM OF SURPLUS RESOURCES OF STATE CO-OPERATIVE BANKS DURING 1979-80



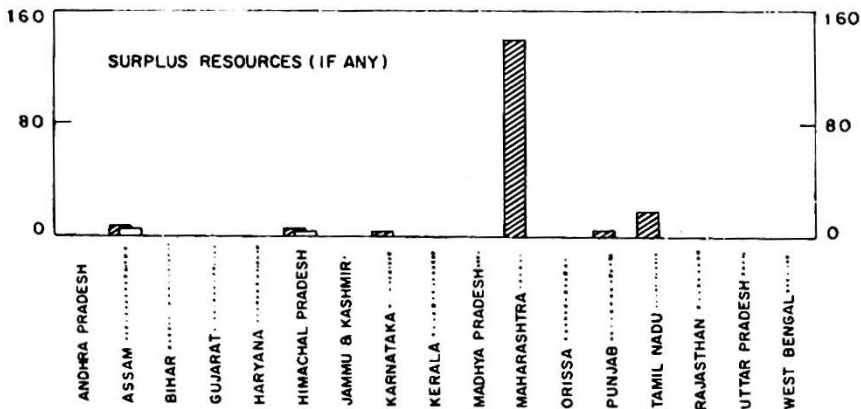
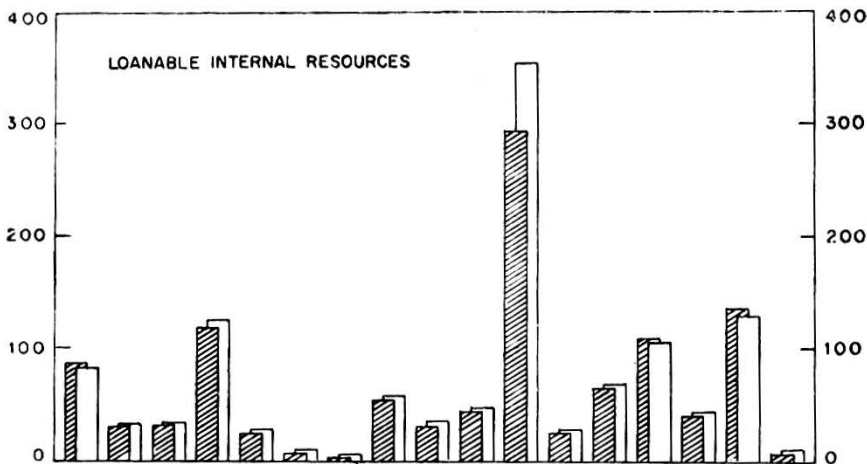
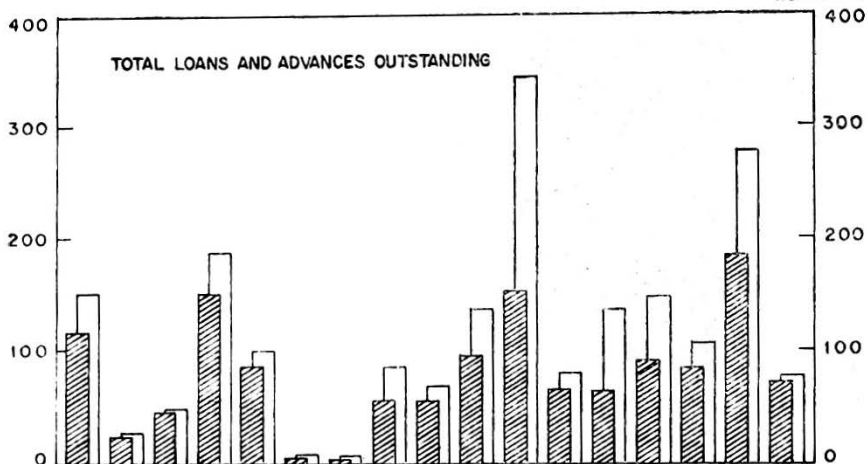
Loanable internal resources represent paid up share capital + reserves + deposits minus commitments by way of liquidity requirements and investments in shares and other fixed assets.



**QUANTUM OF SURPLUS RESOURCES OF  
STATE CO-OPERATIVE BANKS DURING 1980-81 (UPTO 31-3-1981)**

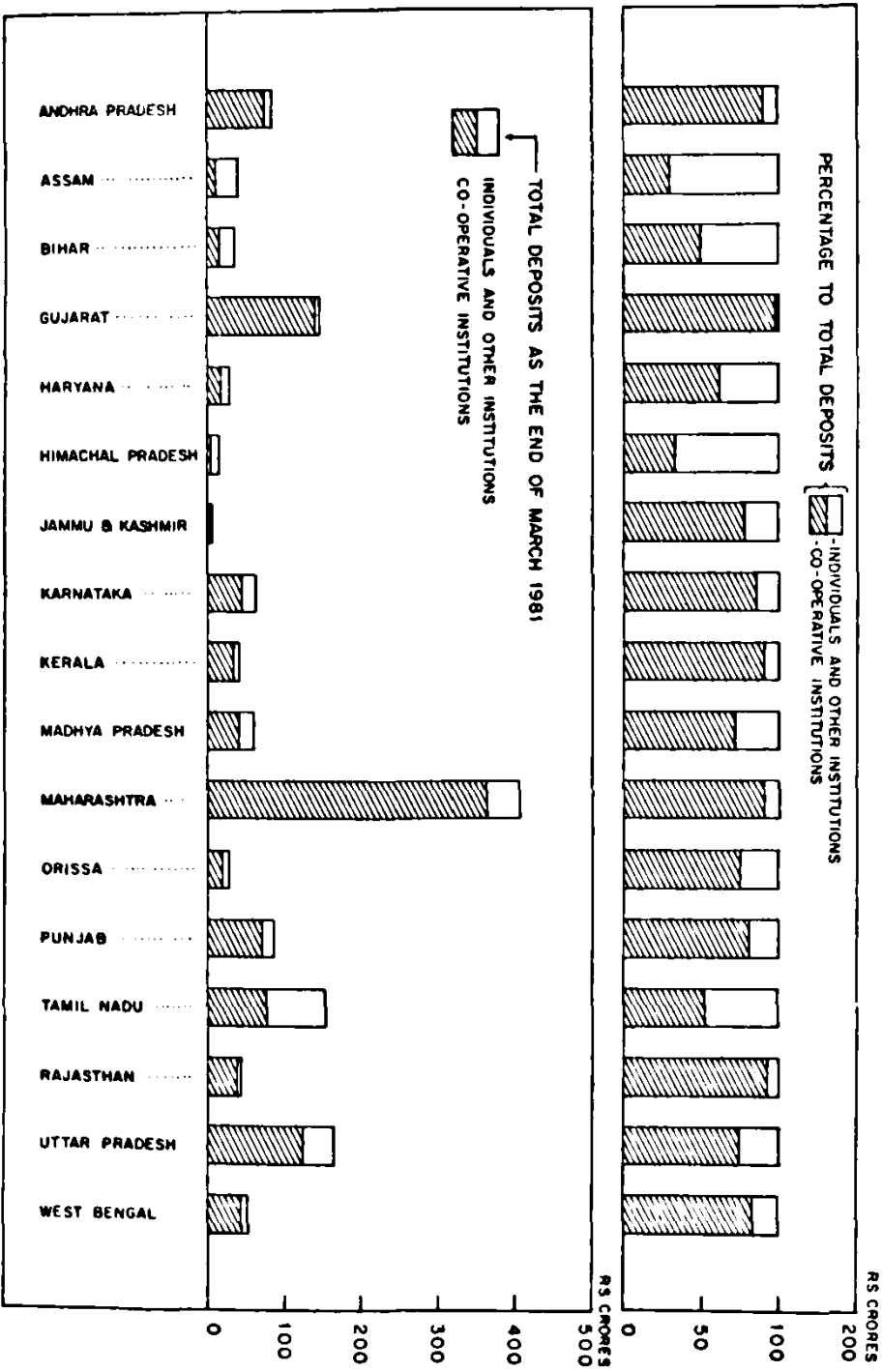
LOWEST LEVEL  PEAK LEVEL 

RS. CRORES



Loanable internal resources represent paid up share capital + reserves + deposits minus commitments by way of liquidity requirements and investments in shares and other fixed assets.

SOURCE - WISE CLASSIFICATION OF DEPOSITS OF STATE CO-OPERATIVE BANKS AS AT THE END OF MARCH 1981



## Appendix-2

### STUDY GROUP ON DEPLOYMENT OF RESOURCES BY STATE AND CENTRAL COOPERATIVE BANKS

#### Questionnaire

- Q. 1** Does your bank face the problem of surplus resources, i.e., accumulation of own resources comprising owned funds and deposits in excess of the scope for lending? If so, what, in your opinion, are the reasons for accumulation of such surplus resources by your bank?
- Q. 2** Is your bank faced with the problem of profitable deployment of its deposit resources? If so, indicate the basis for arriving at such a conclusion and also the reasons therefor.
- Q. 3** Is your bank able to meet the genuine credit needs of all types of co-operative institutions functioning in its area? If there are any difficulties/problems in this behalf, financial or administrative, what are they?
- Q. 4** According to the present policy, before accommodation for stocking and distribution of fertilisers could be sanctioned by the Reserve Bank the concerned state co-operative bank is required to produce a certificate that commercial banks functioning in the area have expressed their inability to provide the required finance. This condition has been envisaged with a view to ensuring that the resources of co-operative banks are conserved for meeting the credit requirements for agricultural production. Do you feel any change in this policy is required and whether it would be desirable for the state/central co-operative banks to meet all the credit requirements for stocking and distribution of fertilisers undertaken by the co-operatives without any refinance from the Reserve Bank?
- Q. 5** Co-operative banks have been permitted by the Reserve Bank to allow on all term deposits and savings bank deposits additional interest upto  $\frac{1}{2}$  per cent in the case of state co-operative banks,  $\frac{1}{4}$  per cent in the case of central co-operative banks and 1 per cent in the case of urban co-operative banks over and above the prescribed rates. This concession has been granted to co-operative banks with a view to enabling them to face competition from the relatively better organised and well-established commercial banks in the matter of mobilising deposits. Payment of additional interest on deposit no doubt, adds to the cost of deposit resources mobilised by the co-operative banks. In a situation where the co-operative banks are representing about surplus resources and/or the problem of finding profitable avenues for investment of their deposit resources, should this concession of additional interest on deposits not be withdrawn or, at least, curtailed?
- Q. 6** Do you avail of the interest concession in attracting deposits? If so, is it availed of fully?

- Q. 7** The Reserve Bank has at present fixed the ceiling rate of interest that may be charged by the primary credit societies to the ultimate borrowers, but the rates of interest to be charged by the state and central co-operative banks to the societies have not been specified and are left to the discretion of the banks concerned. As a result, the lending rates of state and central co-operative banks in respect of advances for agricultural purposes differ from state to state and district to district and the margins retained at each level of the three tier structure also vary. Do you feel there is a need for realignment of interest rates at various levels of the structure taking into account the minimum margin required at each level and to stipulate an interest band for lending rates by the state/central co-operative banks in the country in respect of their agricultural advances? Would it be a practicable proposition and not result in bringing in rigidity?
- Q. 8** In order to maintain parity between the interest rates on agricultural advances charged by commercial banks and the co-operative societies at the ultimate borrowers level, the Reserve Bank had permitted increase in the interest rate on short-term agricultural loans to be charged by primary co-operative credit societies from the ultimate borrowers from 11% to 11.85% in respect of small farmers and from 13% to 14% in respect of other farmers with effect from 1 July 1980 and again from 11.85% to 12.60% in respect of small farmers and from 14% to 15% in respect of other farmers with effect from 2 March 1981. However, the increase has not been given effect to by the co-operatives in most of the states. By increasing the ultimate lending rate, which will provide higher interest margin to the structure, and by realigning the interest margins at various levels, the viability of the structure could have been improved. Thus, in a situation where the co-operative banks are representing about lack of profitable avenues for investment of their deposit resources and are, at the same time, not willing to peg up their lending rates on agricultural advances even though permitted by RBI to do so, do not you think it desirable for RBI to fix the rates to be charged at various levels instead of only the ceiling rate at the ultimate borrowers' level and thereby withdraw the discretion presently available to the structure? Please indicate reasons for disagreeing if so.
- Q. 9.** One of the reasons for the problem of surplus resources and/or profitable deployment of deposit resources seems to be that the expansion in loans and advances has not been keeping pace with the growth in deposits. What, in your opinion, are the reasons for such a phenomenon and what are the difficulties experienced by co-operative banks in expanding their loans and advances particularly in the context of the vast scope for lendings that exists in the country ?
- Q 10** As a measure of temporary relief, state co-operative banks have been permitted by the Reserve Bank to lend to agro-based institutions outside the co-operative fold subject to certain limitations. Do you think that similar facilities could be granted at least to larger central co-operative banks which face similar problem and whether they are equipped to supervise and monitor such clientele ?

- Q. 7** The Reserve Bank has at present fixed the ceiling rate of interest that may be charged by the primary credit societies to the ultimate borrowers, but the rates of interest to be charged by the state and central co-operative banks to the societies have not been specified and are left to the discretion of the banks concerned. As a result, the lending rates of state and central co-operative banks in respect of advances for agricultural purposes differ from state to state and district to district and the margins retained at each level of the three tier structure also vary. Do you feel there is a need for realignment of interest rates at various levels of the structure taking into account the minimum margin required at each level and to stipulate an interest band for lending rates by the state/central co-operative banks in the country in respect of their agricultural advances? Would it be a practicable proposition and not result in bringing in rigidity?
- Q. 8** In order to maintain parity between the interest rates on agricultural advances charged by commercial banks and the co-operative societies at the ultimate borrowers level, the Reserve Bank had permitted increase in the interest rate on short-term agricultural loans to be charged by primary co-operative credit societies from the ultimate borrowers from 11% to 11.85% in respect of small farmers and from 13% to 14% in respect of other farmers with effect from 1 July 1980 and again from 11.85% to 12.50% in respect of small farmers and from 14% to 15% in respect of other farmers with effect from 2 March 1981. However, the increase has not been given effect to by the co-operatives in most of the states. By increasing the ultimate lending rate, which will provide higher interest margin to the structure, and by realigning the interest margins at various levels, the viability of the structure could have been improved. Thus, in a situation where the co-operative banks are representing about lack of profitable avenues for investment of their deposit resources and are, at the same time, not willing to peg up their lending rates on agricultural advances even though permitted by RBI to do so, do not you think it desirable for RBI to fix the rates to be charged at various levels instead of only the ceiling rate at the ultimate borrowers' level and thereby withdraw the discretion presently available to the structure? Please indicate reasons for disagreeing if so.
- Q. 9.** One of the reasons for the problem of surplus resources and/or profitable deployment of deposit resources seems to be that the expansion in loans and advances has not been keeping pace with the growth in deposits. What, in your opinion, are the reasons for such a phenomenon and what are the difficulties experienced by co-operative banks in expanding their loans and advances particularly in the context of the vast scope for lendings that exists in the country ?
- Q. 10** As a measure of temporary relief, state co-operative banks have been permitted by the Reserve Bank to lend to agro-based institutions outside the co-operative fold subject to certain limitations. Do you think that similar facilities could be granted at least to larger central co-operative banks which face similar problem and whether they are equipped to supervise and monitor such clientele ?

- Q. 11 Would you like to suggest any areas outside the co-operative fold where state/central co-operative banks could be allowed to enter for developing their loan business which, in your opinion, offer good scope for lending ? In making the suggestions, it may have to be kept in view that the resources of co-operatives which are largely mobilised from rural sector should have to be deployed primarily and largely for the economic advancement of the rural sector only.
- Q. 12 Excess liquidity in the co-operative banking system also seems to be due to liberal provisions relating to maintenance of statutory cash reserve/ liquid assets. For instance, while scheduled commercial banks are required to maintain cash reserve at 6 per cent and liquid assets equivalent to 34 per cent of their total demand and time liabilities (total 40 per cent), the scheduled state co-operative banks are required to maintain cash reserve and liquid assets to the extent of only 28 per cent of their demand and time liabilities. Do you not think that the scheduled state co-operative banks should also be put on par with the scheduled commercial banks in the matter of liquidity requirements ?
- Q. 13 According to the provisions of the Banking Regulation Act as they exist at present, the entire portion of the liquid assets required to be maintained by a co-operative bank can be kept in the form of deposits with the higher financing agency. Since, however, keeping liquid assets in the form of fixed deposits with higher financing agency is the most remunerative form of complying with this statutory requirement, this provision results in retention of a bulk of the liquidity requirements within the co-operative banking structure thereby diluting considerably the objective of maintaining liquid assets. In view of this position and also to absorb excess liquidity obtaining in the structure, may it be made obligatory on the part of central and urban co-operative banks to invest at least a specified percentage of liquid assets required to be maintained, say about 50%, in the form of government and trustee securities ?
- Q. 14 According to existing provisions, earmarked investments representing reserve fund etc. are reckoned as an item of liquid assets actually maintained by the bank. Thus, the same investments represent both the specific reserve as well as liquid assets. Should this anomalous position not be set right by excluding the earmarked securities for the purpose of reckoning liquid assets actually maintained ?
- Q. 15 Reserve fund deposits invested by affiliated institutions with the central and state co-operative banks are not reckoned as liabilities for the purposes of maintaining cash reserve and liquid assets. This relaxation has been granted on the ground that these deposits are not likely to be withdrawn except in the unlikely event of the depositing institution going into liquidation. Since the object of making investment of reserve fund outside the business obligatory is to ensure that it is available to the investing institutions when required it would be desirable to make the recipient institutions also to keep at least a portion of such investments outside its business to meet such eventualities. In this context, do you agree that the reserve fund investments made by the affiliated institutions should also be

treated as a liability and the bank required to maintain the prescribed minimum liquidity for such deposits also ?

- Q. 16 The state and central co-operative banks have been advised by the Reserve Bank to charge a pooled rate of interest for their agricultural lending irrespective of source of funds, i.e., whether the advances are made out of borrowed concessional funds or out of the banks' own resources. Further, an aggregate margin of 5.5% for the co-operative structure as a whole has been considered adequate in respect of agricultural advances. Now since the banks, in respect of agricultural advances, have been permitted to charge interest not exceeding 12.5 per cent from the small farmers and not exceeding 15% from other farmers, it would appear that the Reserve Bank can charge 7 per cent for its advances for agricultural purposes instead of the present rate of 6 per cent charged by it. If the Reserve Bank's lending rate is enhanced to 2 per cent below the Bank Rate from the existing 3 per cent below the Bank Rate, the state co-operative banks would be benefited inasmuch as they could charge correspondingly enhanced rates for their lendings out of own resources for agricultural purposes. Against the background of what is stated above, may the Reserve Bank peg down its concession on short-term agricultural advances to state co-operative banks by 1 per cent and thereby raise its lending rate to 7 per cent ?
- Q. 17 Are there any co-operative institutions in your state/district which borrow from commercial banks to meet their credit requirements ? If so, please indicate the reasons as to why the state/central co-operative bank is unable to meet their credit requirements or why the borrowing institutions have preferred to avail of credit from commercial banks ? Please offer suggestions as to how these institutions can switch over to co-operative banks ?
- Q. 18 Do you favour the idea of state/central co-operative banks extending long term credit to meet block capital requirements of co-operative institutions particularly the co-operative sugar factories and the co-operative spinning mills ? If so, please indicate the justifying reasons against the background of the maturity patterns of the resources of state/central co-operative banks. What norms would you suggest for extending such long-term credit by co-operative banks ?
- Q. 19 Would you like to suggest legitimate avenues for the state and central co-operative banks for profitable deployment of their resources in financing institutions/activities within the co-operative fold as well as outside ?
- Q. 20 Have you any other suggestions to offer in tackling the problem of surplus funds and finding suitable avenues for their deployment ?

### Appendix-3

<i>Telegrams:</i>	<b>RESERVE BANK OF INDIA</b>	<i>Telephone:</i>
"Agricredit"	AGRICULTURAL CREDIT DEPARTMENT	379936-9
Bombay	Central Office	379930
Jacob Circle	Garment House, P. B. No. 16575	<i>Telex :</i>
400 018	Bombay 400 018	11 5529
		AGCD-IN

Ref. No. : ACD. OPR. 2662/A. 64-78/9

11 January, 1979  
21 Pausa 1900 (Saka)

The MD/GM/Secretary  
..... State Co-operative Bank Ltd.

Dear Sir

*Credit Authorisation Scheme—Lendings  
by State Co-operative Banks outside the  
co-operative sector.*

In the context of a bank-wise ceiling placed by the Reserve Bank of India up to which a state co-operative bank may keep call and short notice deposits with commercial banks and simultaneously avail itself of the facility of concessional refinance from the Reserve Bank, some state co-operative banks have been representing to us that in view of the availability of surplus resources with them coupled with the lack of investment outlets within the co-operative sector, they might be allowed by the Reserve Bank to provide financial assistance to govt. corporations and semi-government bodies. The problem of surplus resources with state co-operative banks was examined recently by the Study Group on Interest Rates in the Co-operative Credit Structure appointed by the Reserve Bank of India under the chairmanship of Shri K. Madhava Das, Executive Director, Reserve Bank of India in pursuance of a suggestion made by the Government of India.

2. The above Study Group has observed that a long-term solution to the problem of surplus resources with state and central co-operative banks would lie in the concerned banks taking energetic steps for building up demand for their surplus resources within the co-operative fold itself. This, however, may be a time consuming process. The Study Group has, therefore, recommended that as a transitional measure the state co-operative banks and central co-operative banks might be permitted to widen their scope for lending to cover certain limited spheres outside the co-operative fold like financing Dairy Development Corporations, Agro-Industries Corporations, Marketing Boards, Electricity Boards, etc. subject to such guidelines as the Reserve Bank might prescribe in this behalf.



3. The Group's recommendations has been accepted by the Reserve Bank, but it has been decided to limit its scope to cover *state co-operative banks only*. Further, the lendings of the state co-operative banks to public sector institutions should be subject to the following conditions:

(i) The total advances for such institutions should not exceed the deposit resources raised from sources other than co-operatives.

(ii) The public sector institutions should be closely connected with activities which facilitate rural production, processing and marketing. This would mean that only institutions like the state agro-industries corporation and state poultry/dairy development corporations, and also state electricity boards for such of their activities as are related to rural electrification would be eligible for financial accommodation from the state co-operative banks.

(iii) The state co-operative banks concerned should obtain the Reserve Bank's prior permission in each case before making such advances.

4. In view of the position explained above, the state co-operative banks which are faced with the problem of surplus resources and have no outlet for advancing within the co-operative sector, are advised that they may, if they so desire, consider proposals for financing public sector institutions of the type mentioned in paragraph 3(ii) above. However, before sanctioning any credit facility or making any commitment, the bank concerned should note to obtain prior authorisation in writing of the Reserve Bank in each individual case. While approaching the Reserve Bank for its prior authorisation, full details of the proposal with data about resources position of the bank should be furnished.

Please acknowledge receipt.

Yours faithfully

Sd/-

V. P. MALHOTRA  
Chief Officer

**Appendix-4**

**LENDING RATES ON SHORT-TERM AGRICULTURAL  
LOANS FROM ULTIMATE BORROWERS AS ON  
30-4-1981**

<i>Name of State</i>	<i>Rate of interest (%)</i>	
	<i>Small farmers</i>	<i>Other farmers</i>
(1)	(2)	(3)
Andhra Pradesh	11.25	11.25
Assam	12.00	12.50
Bihar	11.85	12.25
Gujarat	8.50	13.50
Haryana	12.50	12.50
Himachal Pradesh	12.50	12.50
Jammu & Kashmir	11.00	11.00
Karnataka	11.85	13.00
Kerala	12.00	12.00
Madhya Pradesh	11.00	13.50
Maharashtra	11.00	11.00
Orissa	12.00	12.00
Punjab	10.50	10.50
Rajasthan	11.85	14.00
Tamil Nadu	10.50	12.00
Uttar Pradesh	12.00	14.00
West Bengal	11.50	12.50
Manipur	12.50	15.00
Meghalaya	11.75	11.75
Nagaland	11.75	11.75
Tripura	11.85	11.85