

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

STARRED QUESTION NO:351

ANSWERED ON:01.08.2014

LOSSES INCURRED BY COOPERATIVE CREDIT INSTITUTIONS BANKS

Choudhary Col. (Retd) Sona Ram

Will the Minister of FINANCE be pleased to state:

- (a) whether the Cooperative Credit Institutions/Banks have suffered/incurred losses on account of crop loans extended to the farmers at concessional rates;
- (b) if so, the details thereof indicating the losses suffered by these institutions/ banks during each of the last three years and the current year, State/UT-wise and the reasons therefor;
- (c) whether the Government proposes to provide concessional refinance or interest subvention to recoup losses incurred by the Cooperative Credit Institutions/Banks;
- (d) if so, the details thereof; and
- (e) the corrective measures taken/being taken by the Government in this regard ?

Answer

The Minister of Finance (Shri Arun Jaitley)

(a) to (e): A Statement is laid on the Table of the House.

Statement referred to in reply to parts (a) to (e) of Lok Sabha Starred Question No. 351 to be answered on 1st August, 2014 regarding Losses Incurred by Cooperative Credit Institutions/ Banks tabled by Col. Sonaram Chaudhary, MP

(a) to (e):- In order to provide credit to farmers at affordable interest rates, the Government of India has, since 2006-07, been implementing the Interest Subvention Scheme under which short-term crop loans upto Rs.3 lakh are made available to the farmers at an interest rate of 7% p.a. by the banks, for which banks are given a subvention of 2% by the Government in respect of their own funds. Further, in case of prompt repayments of loans, a further subvention of 3% is given which reduces the effective cost of borrowing for farmers to 4%.

Earlier (up to June, 2010), Scheduled Commercial Banks(SCBs) were lending with reference to their Benchmark Prime Lending Rate (BPLR) which was replaced with 'Base Rate' system w.e.f. July 1, 2010. In terms of RBI's Master Circular on "Interest Rates on Advances", SCBs have been prohibited from lending below their Base Rate w.e.f. July 1, 2010. However, certain exemptions have been provided in this regard and SCBs are allowed to lend below their Base Rates on account of Government of India's Interest Subvention Scheme on Crop Loans or grant export credit (where subvention is available) below their Base Rates. The current Base Rates of the SCBs range between 10% or more. The cost of funds and operating cost will vary from bank to bank. Hence, it is possible that some SCBs may be lending below the cost by around 1% or more less than the Base Rate as far as crop loans, which are eligible for Interest Subvention, are concerned. However, this loss gets cross- subsidized through other profitable loans above Base Rates. According to the information received from six Public Sector Banks(PSBs), a loss of around Rs. 1900 crore in this regard during the years 2011-12, 2012-13, 2013-14 and 2014-15(upto June, 2014) has been indicated. The Cooperative Banks/Regional Rural Banks(RRBs) also get short term refinance from the National Bank for Agriculture & Rural Development(NABARD) at the rate of 4.5% to the extent ranging between 40 % to 70 % in case of cooperative banks and 25 % to 55 % in case of RRBs of their ground level credit flow. Thus, in cases where the short term crop loan disbursement by Cooperative Banks/RRBs is covered by NABARD's refinance, the Cooperative Banks/RRBs get an interest spread (margin) of 2.5%. Prior to the introduction of Interest Subvention Scheme, the Cooperative Banks had the freedom of determining the lending rates on crop loans and also sharing the spread of interest margin on the NABARD refinance within the three tier/two tier structure. The margin now available on NABARD refinance is 2.5 %. It may be possible that some of the tiers might be incurring loss, however, this loss is expected to be set off by improved repayments of crop loans on account of further subvention of 3% as prompt repayment incentive made available to farmers.