

**Interest of Bank Loans given to the  
Small Scale Sector**

\*284. SHRI ARVIND GANESH  
KULKARNI:†

SHRI NARASINGHA PRA-  
SAD NANDA:

SHRIMATI PURABI MU-  
KHOPADHYAY:

Will the Minister of FINANCE be  
pleased to state:

(a) whether any rigorous check has  
been made by the Reserve Bank of  
India as regards rate of interest char-  
ged by the State Bank of India and  
other nationalised banks from the  
small scale sector, state-wise;

(b) whether it is a fact that he had  
recently made a statement that the  
small scale sector should not be charg-  
ed more than 12 per cent rate of inter-  
est plus a surcharge of 7 per cent; and

(c) whether Government are aware  
of large scale abuses practised by the  
nationalised banks while giving servi-  
ces to the entrepreneurs including de-  
lay in payments through transfers of  
funds and over-charging for other nor-  
mal services?

THE MINISTER OF FINANCE  
(SHRI R. VENKATARAMAN): (a) to  
(c) A Statement is laid on the Table  
of the House.

†The question was actually asked on  
the floor of the House by Shri Arvind  
Ganesh Kulkarni.

**Statement**

During the course of my reply to  
the debate on the Banking Companies  
(Acquisition and Transfer of Under-  
takings) Bill, 1980, I had indicated  
that the interest rates prescribed by  
the Reserve Bank for small scale sec-  
tor were concessional being round 12  
per cent per annum. There is to be no  
surcharge on the interest rates. The  
rates stipulated by the Reserve Bank  
for the small scale units are set out in  
the Annexure.

Compliance with its directives or  
guidelines regarding the interest rates  
to be charged by the banks on various  
types of advances, is checked by the  
Reserve Bank during the course of pe-  
riodical inspections of the commercial  
banks. However, the Reserve Bank  
has been asked to investigate the com-  
plaints of excessive interest charges  
on the small scale sector voiced by  
some of the Hon'ble Members of this  
House. Specific complaints received  
in this regard are also investigated for  
necessary remedial action.

Specific complaints regarding delays  
in transmission of funds or overcharg-  
ing of interest, received by the Gov-  
ernment and the Reserve Bank are  
followed up with the banks concerned  
for redressal of the grievances as also  
for securing improvement in service.  
Government is not however, aware of  
large scale abuses in this regard.

## Annexure

*Broad framework of the Rates of Interest applicable to bank loans and advances to Small Scale Industries Units*

(effective July 1, 1980)

|  | Per cent |
|--|----------|
| <b>1. Maximum lending rate</b>   |          |
| (A) On term loans of not less than three years' maturity   |          |
| (i) In backward districts . . . . .  | 10.25    |
| (ii) Other districts . . . . .   | 11.85    |
| (B) On credit term loans not exceeding Rs. 25,000 to artisans and cottage and village industries |          |
| (i) In backward districts . . . . .  | 10.25    |
| (ii) Other districts . . . . .   | 11.85    |
| (C) Working capital limits not exceeding Rs. 1 lakh to tiny units . . . . .                      | 13.50*   |
| <b>2. General lending rate for other types of advances to small scale industries</b>             |          |
| (i) Maximum . . . . .  | 16.15**  |
| (ii) Minimum . . . . .   | 13.50*** |

\*14.55 per cent for banks with demand and time liabilities of less than Rs. 25 crores.

\*\*17.25 per cent for banks with demand and time liabilities of less than Rs. 25 crores.

\*\*\*Minimum lending rate of 13.5 per cent not applicable to advances to small scale industrial units having aggregate limits of upto Rs. 2 lakhs and covered under the Credit Guarantee Scheme.

**SHRI ARVIND GANESH KULKARNI:** Sir, the statement is fairly satisfactory, and actually it meets the requirement. He has stated here that the Reserve Bank has been asked to investigate the complaints, and I think this may perhaps solve the problem. But actually now it has to be seen as to how the monitoring is done because this was also the policy of the Government previously. Now I want to ask the Finance Minister regarding the other aspects. He has said about abuses. I had asked whether Government are aware of large scale abuses practised by the nationalised banks while giving services to the entrepreneurs. Here, Sir, "services" includes transfer of funds particularly the purchase of demand drafts by the small-scale industries from the banks to be sent to the raw materials suppliers,

etc. There the abuses are that the rates vary from four rupees per thousand to twelve rupees per thousand. If the party is a very big party, they get it at a cheaper rate, while the small-scale sector usually does not get demand drafts at rates which are reasonable. The Government has to bring in some type of monitoring on the transfer of funds also. Secondly, in the receipt of funds by the ancillary units from the parent units, a long time elapses. The payment is made six months after the goods are supplied. But whenever even drafts or transfer instructions are received by the banks from the big sector for transfer of funds to the small-scale sector, there is a delay of something between 8 and 15 days. Sir, I do not want to take up the time of the House and reel out many facts and figures

here. But it seems that there is shortage of funds with every bank and they take the benefit of transfer. For instance, if TELCO transfers its funds from Chinchwao, the bank transfers the fund from Chichwad to other small towns near about, and another eight to ten days pass. And the small-scale sector entrepreneurs has to run to the bank crying, "For heaven's sake give me money". So such type of abuses should also be included in the survey to be made by the Reserve Bank.

MR. CHAIRMAN: I think there is no question. Mr. Finance Minister, you will take note of his suggestions.

SHRI R. VENKATARAMAN: I take note of them. I would only like to clarify one point which he has raised. The charges for transfer of funds are based on the services required. If they are in metropolitan towns and district headquarters where there are various banks, then the transfer charges are not heavy, but where a transfer has to be made to a mofussil place where there are no banking facilities or where there is no branch of the bank to which the transfer is made, then a collection has to be made by the bank, and that involves additional work and additional expense and that is added and that is why in cases of transfer to remote places as well as transfer to places without adequate banking facilities, the charges for transfer are a little higher than to other places.

SHRI ARVIND GANESH KULKARNI: My question was this and he has pointed out, if it is a metropolitan city transfer can be done at a very cheap rate. I am highlighting that very point about metropolitan cities because raw material supply comes only from metropolitan cities and not from rural areas. So this should be looked into....

MR. CHAIRMAN: Up till now you have not asked a question.

SHRI ARVIND GANESH KULKARNI: I am asking a second question. Should I ask or not?

MR. CHAIRMAN: You should but there should be a question.

SHRI ARVIND GANESH KULKARNI: I am asking only a clarification; just as he has given a clarification, this is a feed back to him, if you don't mind. Another point is this: Will the Government also look into the large-scale abuses which I mentioned? Very lately corruption in nationalised banks is on the increase. And this is not a wild charge. I do not want to name the banks because it is a very difficult and harrowing experience for the small-scale entrepreneur. But with all sincerity and seriousness I bring to the notice of the Finance Minister that services in nationalised banks are abused, they are abusing their monopoly character whereby the small-scale sector has to pay through its nose for various types of charges under various garbs; otherwise, loans are not sanctioned. So that should be taken care of. I would like to know whether the Government is prepared to look into it.

SHRI R. VENKATARAMAN: Here again it is a suggestion, I would like the honourable Member to write to me specific instances so that I can immediately take up for investigation. I assure him that I will not reveal either his name or the party's name to the bank.

SHRI NARASINGHA PRASAD NANDA: I am glad that the confusion over the levy of surcharge has been removed by the honourable Finance Minister by his very categorical statement that there will be no surcharge on the interest rates. I would only like to know two things from the honourable Minister. Firstly, how many specific complaints have been made by the small-scale sector units on the question of banks charging more interest than the prescribed rates and charging a surcharge also in addition to the interest rates? Secondly, at what intervals are periodical inspections conducted? Are they con-

ducted once every month or every three months or every four months? At what periodical interval? Only these two things: the number of specific complaints and the number of periodical inspections conducted by the Reserve Bank of India to inquire into these complaints.

**SHRI R. VENKATARAMAN:** The honourable Member himself has sent me three complaints and I have examined each one of them. In one case it has been found that a sum of Rs.70/- was overcharged, and I have directed that the amount should be refunded to him. In the second complaint the bank has charged less but I have directed that it need not be recovered.

**SHRI NARASINGHA PRASAD NANDA:** I never lodged any complaint. It must be Mr. Kulkarni. I am neither an industrialist nor am I connected with industry. I take only general interest in it for the good of the public.

**SHRI R. VENKATARAMAN:** I meant three complaints have been received from Members....

**SHRI PILOO MODY:** What was the third complaint?

**SHRI R. VENKATARAMAN:** To third instance was again a case of over-charging and this is under investigation. The over-charging is to the extent of Rs. 2,000/-. These cases are investigated in the ordinary course by the inspection which the Reserve Bank conducts from time to time. The Reserve Bank does not do a regular, periodical inspection, but it orders inspection. As far as such cases are concerned, there is an internal audit which again looks into them. I may also add that I had on a previous day mentioned in the House that I would consider the question of appointing an advisory committee. I suggest that this advisory committee, when appointed, will go into individual complaints.

**श्री लाडली मोहन निगम :** सभापति महोदय, मैं वित्त मंत्री जी से यह जानना चाहूंगा कि क्या आपको यह मालूम है कि हिन्दुस्तान के कुछ राष्ट्रियकृत बैंक पठानी ब्याज ले रहे हैं ?

**श्री खरशीद आलम खान :** पठानों को क्यों बदनाम कर रहे हो ।

**श्री लाडली मोहन निगम :** पठानी ब्याज से मेरा मतलब पुराने जमाने के ब्याज से है ।

**श्री जगदीश प्रसाद माथुर :** बर्नया और पठानी, दोनों कहिये ।

**SHRI NAGESHWAR PRASAD SHAHI:** He means money-lenders.

**श्री सभापति :** ग्रानरेबल मेम्बर पठानी ब्याज के सिलसिले में यह किससा भी जानते होंगे कि वे लोग रिकवरी के लिये लाठी लेकर भी चलते थे । क्या वह भी सही है ?

**श्री नागेश्वर प्रसाद शाही :** जी हाँ, सही है ।

**श्री लाडली मोहन निगम :** श्रीमन्, मेरा स्पष्ट सवाल यह है कि क्या मंत्री महोदय को मालूम है कि उस्मानाबाद जिले में जो महाराष्ट्र में है, वहाँ पर छोटे उद्योगों को कर्ज मिलने में तकलीफ हो रही है, कर्ज मिलता ही नहीं है और अगर किसी को मिलता है तो 28 प्रतिशत से 31 प्रतिशत तक का ब्याज महाराष्ट्र बैंक वसूल करता है ? मैं यह भी कहना चाहूंगा कि इसके चलते वहाँ पर उद्योग बन्द हो रहे हैं । क्या इन बातों की जानकारी मंत्री महोदय को है । यह मेरा प्रश्न है ।

**SHRI R. VENKATARAMAN:** Sir, nationalised banks are not—I repeat, are not—charging any interest more than what I have given in the statement attached to the answer. The higher rate of interest charged is on certain selective items of commodities which we do not want either to be cornered or held back and in respect of those commodities we charge 18 per

cent before interest tax and 19.4 per cent with interest tax. These are commodities such as sugar, edible oils, etc. The advances on these items are at 18 per cent before interest tax and 19.4 per cent with interest tax. On all others in respect of small-scale industries the rate of interest is only 16.15 per cent.

Sometimes the hon. Members mistake the penal interest which is charged on account of default in payment as normal interest and they add it up and then say that a higher rate of interest is being charged. If the person defaults in payment of the regular instalments, then penal interest is charged and the penal interest together with the normal interest is again accumulated and then the interest may go up. That is the fault of the borrower and that is not the fault of the banks.

श्री लाडली मोहन त्रिगम : क्या आपको मालूम है कि इन मामलों पर मुकद्दमें अदालतों में पेश हैं ? क्या आपको इस बात की जानकारी है कि लोगों ने महाराष्ट्र बैंक के खिलाफ अदालतों में मुकद्दमे चला रखे हैं ?

SHRI R. VENKATARAMAN: I am not aware of this. If the hon. Member—as I have told the other hon. Members—could give specific instances, I will look into them again.

DR. BHAI MAHAVIR: Is the hon. Minister aware that the concept of security which the banks insist on goes against proper financial assistance being extended to small industries? The concept of acceptable security and credit worthiness needs to be changed appropriately so that people who need more can get financial support. Otherwise, the situation is that those who are relatively better off get loans from these banks and those who are worse off do not. And, Sir, in this context, I would like to ask whether the honourable Minister is aware of the financial crisis in the publishing industry which alleges that books are not accepted as security because for the banks books means paper

whose utility has been finished off because of black ink having spoiled it. So, the book industry, the publishing industry, is in a crisis since the most valuable asset that they have in the form of books is not acceptable to banks as security. Will the honourable Minister look into this and see that proper guidelines are issued for the banks to consider such things also as acceptable security?

SHRI R. VENKATARAMAN: Sir, the question is a comprehensive one and, perhaps, I will have to take a little more time to explain it. In respect of people who are borrowing small sums of money like one thousand rupees, no security is required from those people and the scheme should be viable. That is all the criterion. Then, in respect of persons who borrow five thousand rupees, the banks will accept any asset which is created out of that borrowing, that is, a pump-set or some other equipment which is bought out of that five thousand rupees, as security and will not ask for any additional security. In respect of small-scale industries involving larger amounts, the banks will look at the viability of the scheme and they will give advances on the following basis:—

10 per cent is contributed by the entrepreneur himself; 10 per cent is contributed by the State Government as seed capital; and the balance of 80 per cent is contributed by the bank. But, whether the scheme is a viable one or not is a matter of judgment by the bank and it is not a matter of judgement either by the Finance Minister or the honourable Member. Therefore, if the bank is satisfied that it is a viable scheme, it can give without any security, even this amount on the basis which I have already described. So far as the book publishing trade is concerned, Sir, it is true that the banks do not regard books as an asset on which money could be lent. But then it is not a uniform rule. Generally, they think that books as such have no resale value and, therefore,

it is not a sufficient security. But there are books and books and if they are good books which have a saleable market value, then, even on that they give loans.

MR. CHAIRMAN: Last question. Yes, Mr. Narsingh Narain Pande.

SHRI NARSINGH NARAIN PANDE: Sir, I want to know whether the Minister is aware of the fact that many applications of the small-scale industries and small entrepreneurs have been sent to the various scheduled banks and the State Bank of India and those are still not being cleared for one reason or the other, and delay is being caused with the result that the industries are not functioning properly. So, may I know whether the Finance Minister will institute an inquiry in this regard so that the obstacles which cause delay could be found out and the officers found guilty may be dealt with properly?

SHRI R. VEKATARAMAN: Sir, the grant of loan depends on the viability of a scheme. The banks are advised by the experts whom they employ to evaluate the schemes. If the evaluation is acceptable to the bank, then, it gives loans. But, if the evaluation is not acceptable, it is unable to give and that is why in many cases there has been delay. It all depends on the viability of the scheme and if the schemes are good, they are accepted; but, if they are not good, they have got to wait before they are made viable.

SHRI NARSINGH NARAIN PANDE: Sir, my question has not been replied to. What I said is this: According to the statement of the Minister, more than sixty to seventy per cent of the applications have been rejected on the plea which the honourable Minister has already pointed out. I wanted to know whether the delay in clearance has been brought to the notice of the Minister or the

banks or the Government and whether Minister is trying to investigate into the matter fully so that the small-scale industries and the small entrepreneurs may have their schemes implemented properly. This is my question. My question is about the delay in clearance.

SHRI R. VENKATARAMAN: There is no necessity for any investigation. After all, it is the bank which has to assess and see whether the scheme is viable or not. Just because an entrepreneur thinks that it is a viable scheme the bank cannot give credit. What they do is that they have district centres to assist. It is necessary for the entrepreneurs to satisfy the bank that the scheme is viable or he should change the scheme in such a manner as to make it viable.

MR. CHAIRMAN: Next question.

\*285. [The Questioners (Shri Sawaisingh Sisodia and Shrimati Hamida Habibullah) were absent. For answer vide col. 39 infra.]

\*286. [The Questioners (Shri S. Kumaran, Shrimati Pratima Bose and Shri Kalyan Roy) were absent. For answer vide Col. 39-40 infra.]

#### Sample survey of small scale industries by the R.B.I.

\*287. SHRI BISWA GOSWAMI:†  
DR. M. M. S. SIDDHU:  
SHRI SYED SHAHABUDDIN:

Will the Minister of FINANCE be pleased to state:

(a) whether Government's attention has been drawn to the country-wide sample survey of Small Scale Industries (1977) by the Reserve Bank of India;

(b) if so, what are the findings thereof and conclusions drawn;

†The question was actually asked on the floor of the House by Shri Biswa Goswami.