



Cabinet approves Interest Subvention to banks on Short-Term crop loan to farmers

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The Union Cabinet chaired by the Prime Minister Shri Narendra Modi has approved the Interest Subvention Scheme (ISS) for farmers for the year 2017-18. This will help farmers getting short term crop loan up to Rs. 3 lakh payable within one year at only 4% per annum. The Government has earmarked a sum of Rs. 20,339 crore for this purpose.

The interest subvention will be given to Public Sector Banks (PSBs), Private Sector Banks, Cooperative Banks and Regional Rural Banks (RRBs) on use of own funds and to NABARD for refinance to RRBs and Cooperative Banks.

The Interest Subvention Scheme will continue for one year and it will be implemented by NABARD and RBI.

The objective of the scheme is to make available at ground level, agricultural credit for Short Term crop loans at an affordable rate to give a boost to agricultural productivity and production in the country.

The salient features of the scheme are as follows:

- a) The Central Government will provide interest subvention of 5 per cent per annum to all prompt payee farmers for short term crop loan upto one year for loan upto Rs. 3 lakhs borrowed by them during the year 2017-18. Farmers will thus have to effectively pay only 4% as interest. In case farmers do not repay the short term crop loan in time they would be eligible for interest subvention of 2% as against 5% available above.
- b) The Central Government will provide approximately Rs. 20,339 crore as interest subvention for 2017-18.
- c) In order to give relief to small and marginal farmers who would have to borrow at 9% for the post harvest storage of their produce, the Central Government has approved an interest subvention of 2% i.e. an effective interest rate of 7% for loans upto 6 months.
- d) To provide relief to the farmers affected by natural calamities, the interest subvention of 2% will be provided to Banks for the first year on the restructured amount.
- e) In case farmers do not repay the short term crop loan in time they would be eligible for interest subvention of 2% as against available above.

Major Impact :

Credit is a critical input in achieving high productivity and overall production in the agricultural sector. The Cabinet's approval of a sum of Rs.20,339 crore to meet various obligations arising from interest subvention being provided to the farmers on short term crop loans, as also loans on post harvest storages meets an important input requirement of the farmers in the country. This institutional credit will help in delinking the farmers from non-institutional sources of credit, where they are compelled to borrow at usurious rates of interest.

Since the crop insurance under Pradhan Mantri Fasal Bima Yojana (PMFBY) is linked to availing of crop loans, the farmers would stand to benefit from both farmer oriented initiatives of the Government, by accessing the crop loans.

An important initiative of the government is market reforms, with a view to ensuring that the farmers benefit from remunerative prices for their produce in the market. The electronic National Agriculture Market (e-NAM) that was launched by Government on April, 2016 aims at integrating the dispersed APMCs through an electronic platform and enable price discovery in a competitive manner, to the advantage of the farmers. While the farmers are advised to undertake on-line trade, it is also important that they avail themselves of post-harvest loans by storing their produce in the accredited warehouses. The loans are available to Kisan Credit Card (KCC) holding small and marginal farmers at interest subvention of 2 per cent on such storages for a period of upto six months. This will help the farmers to sell when they find the market is buoyant, and avoid distress sale. It is, therefore, needful for the small and marginal farmers to keep their KCCs alive.

The Government is keen in improving income of the farmers, for which it has launched several new initiatives that encompass activities from seed to marketing. The credit from institutional sources will complement all such government initiatives like Soil Health Card, Input Management, Per Drop More Crop in Pradhan Mantri Krishi Sichai Yojana (PMKSY), PMFBY, e-NAM, etc.

Background:

The scheme has been running since 2006-07. Under this, the farmers can avail concessional crop loans of upto Rs.3 lakh at 7% rate of interest. It also provides for an additional subvention of 3%. Prompt Repayment within a period of one year from the date of advance. As a measure to check distress sale, post-harvest loans for storage in accredited warehouses against Negotiable Warehouse Receipts (NWRs) are available for upto 6 months for KCC holding small & marginal farmers. During the year 2016-17, the volume of short term crop loan lent stood at Rs.6,22,685 crore, surpassing the target of Rs. 6,15,000 crore.

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Government provides Interest subvention to different banks and cooperatives for short term crop loan extended by them to farmers at concessional rate of 7% and in case of timely repayment, an additional subvention of 3%. In effect, crop loans are available to farmers at 4% rate of interest. The scheme also envisages other benefits including interest at concessional rate of 7% for storage in ware houses accredited by Warehousing Development Regulatory Authority (WDRA) for upto 6 months post harvest for avoiding distress sale. This provides institutional credit to the farmers and disengages them from non-institutional sources of credit, where they are prone to exploitation by private money lenders. All short term crop loan accounts will be Aadhaar linked from current year.

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