



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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November 9, 2012

The Chairman and Managing Director
All Public Sector Banks

Madam/Dear Sir

Interest Subvention Scheme
Monitoring of end-use of Crop Loans

As you are aware, the Government of India, through its budget announcement for the year 2006-07, introduced an interest subvention scheme with a view to ensure availability of short term crop loans up to Rs. 3.00 lakh to farmers at a reduced rate of 7% p.a. This scheme has continued ever since with minor variations. Currently, with 3% additional subvention for timely repayment, the effective cost of short-term crop loan comes to 4% for farmers. The Hon'ble Finance Minister in his budget speech for the year 2012-13 announced continuation of the Scheme for the year 2012-13.

2. It has, however, come to our notice that the banks, in various regions, have failed to ensure end-use of funds disbursed ostensibly as crop loans. As a consequence, the expenditure incurred by the Government of India with an intention to help small and marginal farmers has not, to a significant extent, reached the intended beneficiaries. There have been some reports that the 'borrowers' of these 'crop loans' have diverted the funds and are, to some extent, using the scheme as an arbitrage opportunity by borrowing at a lower rate of interest owing to the subvention available and investing them in fixed deposits and/or in other investment avenues at higher rate(s) of interest.

3. Banks are, therefore, advised to ensure that all crop loans against which they are claiming interest subvention should satisfy, inter alia, the following criteria:

- i) The borrower should be an agriculturist
- ii) The rate of interest charged should not exceed the rate stipulated by the Govt. of India.
- iii) The amount of loan is fixed according to the prescribed scale of finance for agricultural loans and the loan is used for stated purpose.
- iv) Seasonality is observed in regard to both disbursement and recovery.

4. Banks are, therefore, advised to strengthen their systems for pre-sanction scrutiny and post-disbursement supervision and also consider carrying out post-disbursement audits to ensure that all crop loans for which interest subvention is being claimed are being used for

the stated purpose and that there is no diversion of funds. Banks should not claim any interest subvention for loans not meeting the above criteria as these will not be treated as 'agricultural' loans.

5. Please acknowledge receipt.

Yours faithfully

(C.D. Srinivasan)
Chief General Manager