

Draft Cyclical Credit Scheme for crop production in rain fed areas

Reserve Bank of India is considering introducing a Cyclical Credit Scheme for crop production with a view to providing an institutional mechanism for ensuring uninterrupted flow of bank credit to the farmers for production purposes in the event of natural calamities. A draft Scheme prepared in consultation with a few select banks and NABARD is released on RBI Website for comments / views of all concerned. The comments / views / suggestions, if any, may be sent to Reserve Bank at the following address so as to reach before 30 November 2001.

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Introduction of an Institutional Mechanism to support farmers in case of Natural Calamities

Draft Cyclical Credit Scheme for crop production in Rain-fed areas

1. Objective

To provide an institutional mechanism for ensuring uninterrupted flow of credit to farmers in rain-fed areas for production purposes in case of natural calamities. The proposed arrangement providing longer cycle will help those farmers who are denied credit facilities once they lose a crop on account of drought or any other natural calamity.

2. Concept

In a 'cycle' of 3 to 5 years farmer get good crop yields in 1 or 2 years. Whereas in other years due to reasons beyond the control of the farmer he is not able to service his debt obligations, secure credit to meet fresh production needs. The financing bank may, therefore, adopt a 'credit cycle approach' and set an overall term credit limit for a period of 3 to 5 years with sub limits for individual years, so that farmer's production requirement is fully met. The repayment schedule may be dovetailed to the repayment capacity of the farmer, based on crop yield during the year and the resultant income stream of the farmers in such a way that the entire principal amount is repaid over the credit cycle of 3 to 5 years.

3. Scheme

The banks will accordingly grant a term "credit" limit of 5 years to farmers (as indicated in para 2 above). For fixing the yearly requirement of sub-limit, the banks may take 150% of the scale of finance so as to provide a cushion for other small consumption and uncertain needs. The yearly sub-limits may be disbursed to farmers well before the cropping season repayable after a period of 12 months (approx.) on a due date to be fixed by the bank for all farmers in the jurisdiction of the branch. However, in the event of drought or poor harvest the recovery of the amount by the Banks shall be proportionate to the crop yield of the area determined by the branch manager in association with his Regional/Controlling Office on the basis of their assessment after visits to the farmers' fields. Recovery of the balance amount due shall be deferred to the next year. The balance so deferred and the fresh loans made to the farmers during the next year shall be recovered keeping in view the crop yield levels as done in the previous year. This process of recovery shall be followed during the entire five year "credit cycle" mentioned above. When the yields are substantially higher in good and very good years, the entire outstanding is to be

- ii) also grant fresh crop loan/s for the next season/s,

subject to the rescheduled dates of repayment not exceeding the 5 year period and also servicing the interest by farmers on due dates.

4. Application of prudential norms

As per present norms, NPA classification in respect of agricultural advances is applicable where interest and/or instalment of principal remains overdue for two harvest seasons but for period not exceeding two half years. In the Cyclical Credit Scheme the rescheduling of the instalments of principal alone would not cause a standard asset to be classified in the sub-standard category provided interest is paid every year and the loan/credit facility is fully secured.

5. Additional instructions

- i] If the loan is covered under crop insurance scheme and if a claim is received, the same has to be adjusted first against the interest component so that in a failed crop year interest payment need not be insisted upon from the farmer for the purpose of avoiding the account turning NPA.
- ii] The scheme could be dovetailed to the existing Kisan Credit Card [KCC] Scheme provided the card is issued for a period of 3 to 5 years.
- iii] The margin and security norms will be as per extant guidelines of RBI.
- iv] Default in repayment under any other circumstances will render the account as NPA.
- v] The terms of agreement should be accordingly prescribed.