

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

STARRED QUESTION NO:193
ANSWERED ON:05.12.2014
INTEREST RATE ARBITRAGE ON FARM LOANS
Sampath Shri Anirudhan

Will the Minister of FINANCE be pleased to state:

- (a) whether the cases of interest rate arbitrage on farm loans are being/have been reported;
- (b) if so, the details thereof;
- (c) the estimated subsidised agricultural credit allegedly being diverted for non-agricultural purposes; and
- (d) the corrective measures taken/being taken by the Government/RBI to address the issue?

Answer

The Minister of Finance (Shri Arun Jaitley)

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

Statement referred to in reply to parts (a) to (d) of Lok Sabha Starred Question No. 193 for answer on 5th December, 2014 regarding Interest Rate Arbitrage on Farm Loans tabled by Dr. A. Sampath

(a) to (d) : The Reserve Bank of India (RBI) have informed that although there were some media reports/anecdotal evidences about the arbitrage opportunities available/used by the farm loan borrowers owing to the Interest Subvention Scheme for Short Term Crop Loans, they have not received any large scale reports or complaints about the same.

However, as a precautionary measure, the RBI & National Bank for Agriculture & Rural Development (NABARD) had advised banks on 9.11.2012 and 27.12.2012 respectively to ensure end-use of crop loans under Interest Subvention Scheme. The Government had also instructed all Public Sector Banks (PSBs), Regional Rural Banks (RRBs) and State Cooperative Banks on 12.11.2013 to strengthen their system 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 was being claimed were used for stated purposes and that there was no diversion of funds.

Subsequently, based on the 'Study on Agriculture Gold Loan(AGL)' conducted by NABARD in 2013-14 wherein it was, inter alia, observed that the prominence of AGL in some Southern States was increasing rapidly and has resulted in the proliferation of crop loans, these instructions were again reiterated by the Government on 31.10.2014 to all lending institutions and they were also advised not to claim any interest subvention for loans not meeting the criteria prescribed by RBI for short-term crop loans.