

PRESS RELEASE

Text of the D.O. Letter dated 29.4.2015 addressed by Thiru O. Panneerselvam, Hon'ble Chief Minister of Tamil Nadu to Shri Narendra Modi, Hon'ble Prime Minister of India is reproduced below:

"I would like to draw your attention to the reports that Government of India is contemplating changes in the interest subvention scheme for short-term crop loans for farmers.

The criticality of farm credit in sustaining growth in the agricultural sector cannot be overemphasized. This is particularly so in the present context when the farm sector and the farming community are beleaguered by adversity in different forms. The need of the hour is ensuring that farmers have access to concessional credit.

It is in this context that the Government of Tamil Nadu has been providing a further 4% subvention to Primary Agricultural Co-operative Societies from the State's budget, in addition to the 2% interest subvention provided through banks and the additional 3% subvention provided to farmers who repay promptly. This additional subvention provided by the Government of Tamil Nadu makes farm credit interest free for those farmers who avail of loans through the co-operative system and promptly repay their loans.

The Reserve Bank of India in its circular dated 16th April, 2015, has indicated that the Government of India is considering certain changes to the interest subvention scheme and has indicated that the Government of India decided as an interim measure to implement the Interest

Subvention Scheme as it exists till 30th June, 2015, since the Government of India has not yet finalised a modified scheme which is more efficacious and efficient. Summer cropping in Tamil Nadu is limited and therefore the majority of farmers in Tamil Nadu would require loans only after June for the Kuruvai season and after August/September for the Samba crop and other crops. Therefore, the Interest Subvention Scheme should be continued beyond 30th June, 2015 so that the farmers are assured of easy credit during the main cropping season in Tamil Nadu.

It is learnt that the Government of India is contemplating two major changes in the scheme. The first, is reportedly allowing banks to lend at their normal priority sector lending rate which is related to their base rate. It is learnt that the second proposal is to change the method of disbursing the interest subvention to a Direct Benefit Transfer (DBT) based reimbursement model, after the farmer has settled his liabilities to the lending institutions.

Any reduction in the extent of concessionality of farm loans is uncalled for and will be a retrograde measure. Given the extensive damage to standing crops caused due to unseasonal rains in many parts of the country and the recent forecast of a below normal monsoon by the Indian Meteorological Department, any move to make farm loans less concessional will be courting disaster.

Further, in the context of the stressful scenario described above, expecting farmers to pay a higher interest rate and then having the amount reimbursed through a DBT would be ill-advised, as it would force the farmers to find cash resources to pay the higher interest dues first.

DBT based reimbursement is not an appropriate model for farm credit. All loanee farmers have bank accounts and the interest subvention reaches individual farmers only through the banking network. Hence, adopting DBT for these transactions represents no real process value addition and only adds a needless layer of complexity to the transaction.

Hence, I request you to direct the concerned Ministries to urgently reconsider any proposed changes in the interest subvention scheme. Neither should the level of concessionality for crop loans be reduced, nor should the mode of disbursement of interest subvention be changed to a needlessly complex DBT based re-imbusement mechanism as these would not be in the interest of the farmers.

I urge that before any change is made in the Interest Subvention Scheme, given the importance of the Scheme to the farming community in all States, the proposals should be discussed with the Chief Ministers of States in the National Development Council or the Governing Council of the NITI Aayog and a decision taken thereafter based on the consent and concurrence of the States”.

* * * * *

Issued by : DIPR, Secretariat, Chennai – 9.

Dated : 29.4.2015