



# CAIIB

## Module-B Unit-3

# Rural Banking



## CAIIB Rural Banking Module B Unit 3- Financing Agriculture & Allied Activities

### Crop Loans – Production Credit

- The **crop loan** or the term **Seasonal Agricultural Operations (SAO)**, generally indicates such activities, as are undertaken in the process of raising various crops and are seasonally recurring in nature.
- The activities include ploughing and preparing land for sowing, transplantation, weeding, acquiring and applying inputs such as seeds, fertilizers, insecticides, etc. and labour for all operations in the fields for raising and harvesting the crops.
- Thus, the credit required to meet the current expenditure for raising the crops on land, till the crops are harvested, is construed as production credit, for seasonal agricultural operations.

### Kisan Credit Card Scheme

The Kisan Credit Card (KCC) scheme provides for issue of credit cards (including electronic cards) to farmers (as per their land holding) for purchase of inputs, and investment for allied and non-farm activities.

**Objectives:** It aims at providing adequate and timely credit support from the banking system under a single window to the farmers for their cultivation and other needs such as - Post harvest expenses, Consumption requirements of farmer household, Maintenance of farm assets and activities allied to agriculture.

#### **Eligibility:**

- Farmers – Individuals/Joint borrowers who are owner cultivators;
- Tenant Farmers, Oral Lessees & Share Croppers;
- SHGs or Joint Liability Groups (JLGs) of Farmers including tenant farmers, share croppers,

#### **Fixation Of Credit Limit**

**Short term limit for farmers raising single crop in a year:** For uniformity, the **District Level Technical Committee (DLTC) assesses cultivation cost per hectare for different crops raised in the district**, and determines the scale of finance.

- **Short term limit for the first year:** Scale of finance for the crop (as per DLTC) x Extent of area cultivated +10% of limit towards post-harvest/ household/ consumption requirements + 20% of limit towards repairs and maintenance expenses of farm assets + crop insurance and/ or accident insurance.
- **Limits for second & subsequent year:** First year limit for crop cultivation purpose + 10% of the limit towards cost escalation/increase in scale of finance for every successive year (2nd, 3rd, 4th and 5th year).
- **The maximum permissible limit:** The short- term loan limit arrived for the fifth year plus the estimated long- term loan requirement will be the maximum permissible limit (MPL) and treated as the Kisan Credit Card limit

- During 2006-07, the **2% interest subvention scheme was introduced for short term crop loans up to Rs. 3.00 lakh, capping the interest rate to be charged from the farmers at 7% per annum.** This has benefitted most of the KCC holders.
- The incentive for **prompt repayment** at 1 per cent was increased to **3%** in respect of all the crop loans up to Rs. 3.00 lakh.
- The **flex KCC concept introduced for marginal farmers envisages provision of flexible limit of Rs. 10,000 to Rs. 50,000**, based on the land holding and crops grown, which will include post -harvest warehouse storage related credit needs and other farm expenses, consumption needs, etc. plus, term loan for purchase of farm equipment, establishing mini dairy/backyard poultry, as per the assessment of the branch manager without relating it to the value of land.

#### Disbursements:

- The **short-term component of the KCC limit is in the nature of revolving cash credit facility.** There should be no restriction in the number of debits and credits. Each instalment of the drawable limit drawn in a particular year will have to be repaid within 12 months.
- This instruction has been revised and banks have been advised to fix repayment as per the anticipated harvesting and marketing period for the crops for which a loan has been granted.

#### Validity/Renewal:

- The Kisan Credit Card should be **valid for five years** subject to an annual review
- The review may result in **continuation of the facility**, enhancement of the limit or cancellation of the limit /withdrawal of the facility, depending upon increase in cropping area/pattern and performance of the borrower.

#### Rate of Interest:

- The rate of interest will be linked to base rate and is left to the discretion of the bank. However, if Government supported interest subvention is provided for any component of the limit, the rate of interest may be fixed accordingly.

#### Repayment Period:

- Each withdrawal under the short- term sub limit be allowed to be liquidated in 12 months, without the need to bring the debit balance in the account to zero at any point of time. No withdrawal in the account will remain outstanding for more than 12 months. The term loan component will be normally repayable within a period of five years.

#### Margin:

- For crop loans, no separate margin need be insisted as the margin is inbuilt while fixing the scales of finance. For term loan component, it will be in conformity with the guidelines issued by RBI from time to time.

## Security:

### *Security requirement may be as under:*

- **Hypothecation of crops:** For KCC limit upto ₹ 1.00 lakh banks are to waive margin/security requirements.
- **With tie-up for recovery:** Banks may consider sanctioning loans on hypothecation of crops up to card limit of ₹ 3.00 lakh without insisting on collateral security.
- **Collateral security:** Collateral security may be obtained at the discretion of Bank for loan limits above ₹ 1.00 lakh in case of non-tie-up and above ₹ 3.00 lakh in case of tie-up advances.

### **Procedures relating to classification of accounts as per IRAC norms**

- The short- term loan (with major component of crop loan) sanctioned on the KCC can be given the same treatment as a “cash credit” account for the purpose of applying prudential norms and should not be treated as “out of order” if the balance outstanding is less than or equal to the drawing limit and each drawal is repaid within a period of 12 months. Term loans under KCC has fixed repayment schedule and is to be governed by extant prudential norms.
- Charging of interest is to be done uniformly as is applicable to agricultural advance.
- The classification of accounts under NPA category will be done by banks as per the IRAC norms advised by RBI from time to time.

### **Financing Marketing of crops**

#### **Post-harvest loans against Negotiable Warehouse Receipts**

- With a view to discouraging distress sale of produce by farmers and to encourage them to store their produce in warehouses for a reasonable period to get better price for their produce, GOI had introduced a scheme, during the year 2011-12, for extending concessional post-harvest loans to small and marginal farmers (SF/MF) having Kisan Credit Cards, against Negotiable Warehouse Receipts (NWR), for a period up to six months, on the same rate of interest, as available for crop loans.
- The quantum of loan shall not exceed 75% of actual value of produce pledged. However, the benefit of interest subvention is available only up to Rs. 3.00 lakh.

### **Term-loans For Agriculture And Allied Activities**

**Loans provided for more than 18 months are called Term Loans**, which are further classified into **medium term loans**, given for purposes like purchasing agricultural machinery, tractors and livestock and repayable within a period of 2 to 5 years or at the most up to 7 years, and the **long- term loan** granted for over 7 years period and up to 15 years for minor irrigation and for growing plantation and horticulture crops.

#### **Investment Outlay:**

Investment outlay or the cost of capital investment depends on type of activity, scale of operation and technology adopted. **The investment outlay generally includes:**

- **Preoperative expenses** like preparation of feasibility report and security deposit for electricity connection.
- **Land development** including fencing, leveling, construction of water source like tube well,
- **Civil construction** needed for the activity,
- **Equipment and machinery** needed for the activity

#### Bank Loan:

- The bank loan depends on total cost of investment minus margin money of the borrower.

#### Repayment period and Schedule of repayment:

- Repayment schedule represents the number of installments, amount of installment, the frequency and the period of repayment.

#### Grace period:

Some investments do not yield immediate returns and have long gestation periods. This necessitates provision of 'grace period' when no recovery is expected. Examples of such investments are horticulture or forestry, plantation and poultry. The grace period suggested by NABARD for certain important agricultural term loans are:

- **23 months for dug wells with or without pump-set,**
- **11 months for sprinkler/drip irrigation,**
- **12 months for poultry,**
- **Six to seven years for horticultural crops like mango, cashew, etc.**

#### Repayment Schedules:

- **Types:** Based on the income generation from the project and corporate loan policy, different banks adopt different types of loan repayment schedules.
- **Equal Installment:** Equal installment is worked out by dividing the principal amount, by the number of installments fixed by the bank and the interest dues are recovered separately.

$$\text{Installment} = \frac{\text{Amount of Principal}}{\text{Number of Installment}} + \text{Interest accrued}$$

- **Equated Installment:** Under equated installment, the same amount is repaid throughout the repayment schedule, as this includes principal and interest.

Equated Installment = Loan Amount  $\times$  CRF

CRF = Capital Recovery Factor

CRF =  $r \{(1 + r)^n\} / \{(1 + r)^n - 1\}$

### **Features of Major Sectors For Which Opportunities Are Available For Provision of Term Credit By Banks**

#### **Minor Irrigation**

- Minor irrigation structure is generally defined as a structure, with capacities to irrigate up to 2000 ha. In the context of bank finance, minor irrigation term includes basically financing of structures which are meant for irrigation of individual farmer's land.
- These structures include dug well with or without pump-set, bore well, tube well, deepening the existing wells, pipelines for carrying water, sprinkler and drip irrigation systems. These structures have become important sources of irrigation and forming essential item for provision of bank credit, under priority sector.

#### **Lift Irrigation**

- Lift irrigation is a method of irrigation in which, water is not transported by natural flow, (as in gravity-fed canal), but is lifted with pumps or surge pools, etc. Most of the lift irrigation schemes are implemented as cooperative lift irrigation schemes in our country.

#### **Micro Irrigation**

*The drip and sprinkler systems are widely used for efficient use of water. The features of these systems are as under:*

- **Drip irrigation** is sometimes called **trickle irrigation** and involves dripping water onto the soil, at very low rates (2-20 litres/hour), from a system of small diameter plastic pipes, fitted with outlets, called emitters or drippers.
- Water is applied close to plants, so that, only part of the soil in which the roots grow is wetted, unlike surface and sprinkler irrigation, which involves wetting the whole soil profile.
- Drip irrigation is most suitable for row crops (vegetables, soft fruit), tree and vine crops, where, one or more emitters can be provided for each plant. Generally, only high value crops are considered because of the high capital costs of installing a drip system.

#### **Land Development**

- Increase in agricultural production to feed the increasing population is possible only if there are sufficient fertile land and water available for farming.

- Soil and Water Conservation measures like land levelling, shaping and grading, provision of drainage network, stabilization of bunds and outlets with grass plantation, soil reclamation, on-farm development (OFD), farm ponds, etc., are some of the activities that can be financed by the banks.

### Farm Mechanization

- An ambitious target of increasing the availability of farm power from 2.02 kW per ha (2016-17) to 4.0 kW per ha by the end of 2030 has been set by GOI.
- Agriculture Mechanization is crucial for modernization and commercialization of agriculture, as it improves productivity and timeliness of agriculture operations, aids in value addition, brings down the cost of cultivation and enables climate change adaptation.
- Farm mechanization helps to decrease in workload on women as a direct consequence of the improved efficiency of labour, improvement in the safety of farm practices, helps in encouraging the youth to join farming and attract more people to work and live, in rural areas.

### Plantation And Horticulture

- Plantation and Horticulture sectors covers a rainbow of crops like fruits, vegetables, spices, flowers, medicinal and aromatic crops, mushrooms, bee keeping and plantation crops like tea, coffee, rubber, coconut, oil palm, etc.
- Horticulture sector is not only important from economic perspective to farmers but also assumes significance from the nutritional perspective of our population.
- Several development programs are under implementation which aims at integrated development of horticulture crops. These include Mission for Integrated Development of Horticulture, National Horticulture Board programs focusing on hi-tech horticulture and post-harvest management infrastructure, including cold storages and reefer vans, National Medicinal Plants Board's programs for growth of cultivation, conservation, trade and export of medicinal plants, Programs of National Mission on Oilseeds and Oil Palm for promotion of oil palm cultivation, National Bee Board program for promoting bee keeping as a means to improve crop productivity.

### Rural Godowns

- There has been a felt need in the country, to provide the farming community, with the facilities for scientific storage so that, wastage and produce deterioration are avoided and also to enable them to meet their credit requirement, without being compelled to sell the produce, at a time when the prices are low.
- **Grameen Bhandaran Yojana** –A Capital Investment Subsidy Scheme for Construction/Renovation of Rural Godowns was introduced in 2001-2002 and subsidy is being provided for construction and renovation of godowns in rural areas.

### Activities allied to Agriculture

## Animal Husbandry Sector

- **The National Program for Bovine Breeding and Dairy Development, National Dairy Plan, National Mission on Bovine Productivity, Rashtriya Gokul Mission, etc.** are some of the programs launched and implemented by the Government, with a view to improving the production and productivity of bovine population, quality of milk and milk products, etc.
- **The Central Government has launched Animal Husbandry Infrastructure Development Fund involving outlay of Rs. 15,000 crores** for incentivization of investments in establishment of infrastructure for dairy and meat processing and value addition infrastructure. The scheme envisages provision of **interest subvention at 3 per cent by the government and extension of credit guarantee cover up to 25 per cent of loan.**

## Poultry Sector

- The unorganized sector also referred to as backyard poultry plays a key role in supplementary income generation and family nutrition to the poorest of the poor.

Strengths	Weaknesses
(a) Low-cost Protein in the country (b) Good growth rate- CAGR is around 5% for eggs and 7% for poultry; CAGR of GVA for last 5 years for egg and poultry is nearly 13% and 15% respectively. Rising economy & growing emphasis on poultry products. (c) Livestock contributes nearly 12% to rural household monthly Income; Poultry alone can contribute nearly half of the same. Coping up with captive production of Soya bean & maize (d) Consolidation of integrated operations would strengthen poultry supply chain	(a) Lack of infrastructure facilities for Value addition such as poultry processing, warehousing, cold storage, refrigerated vehicles (b) High cost of Maize & Soya and price fluctuation leading to availability issues of poultry feed at reasonable prices (c) Small farms, losing out on economies of scale and biosecurity (d) Lack or undefined standards leading to impending cheaper imports
Opportunities	Threats
(a) 95% Raw/ Wet market – can transform Work on developing alternate breeds and LIT birds for upgraded family poultry (b) Untapped potential for the export & value- added chicken products	(a) Avian influenza and other emerging/re-emerging diseases (b) Recurrence of calamities

## Fisheries Sector

- India is one of the larger fish producing countries in the world and shares 7.58 per cent of the global production.

Strengths	Weaknesses
(a) Long coast line and large number of water bodies/ water resources (b) Established fishing industry with wide variety of species (c) Second largest aqua producer in the world and third largest fish producer in the world (d) Higher growth rates in aquaculture sector (e) Support from government both for production and post production including harvest (f) Acceptance of Indian produce in world markets (g) Contributing about 19.2 per cent of national agriculture export (h) Source of livelihood for 16 million households (i) Contribution of nearly 1.24 per cent of GVA (j) Abundant potential (k) Existing markets can be converted to meet the phytosanitary conditions of export markets, with traceability (l) Separate skill development programs for improving the value chain are being implemented in large scale	(a) <u>Inland Fisheries</u> (b) Seasonal nature of fishing operations (c) Depleted stocks of natural waters (d) Issues of tenure and lease rights (e) Use of obsolete technology for harvesting Low capital infusion (f) Inadequate access to institutional credit (g) Low scale operations and low yields (h) Lack of extension services (i) Primary Stakeholders are poverty ridden (j) Poor access to quality seed and feed <u>Marine Fisheries</u> (a) Limited scope for expansion due to overcapacities in territorial waters (b) Weak regulation (c) Inefficient and traditional fishing practices (d) Inadequate infrastructure like fishing harbours, landing centers, cold chains and hygienic markets (e) Poor processing facilities and lack of value addition, high wastage (f) Issues related to traceability and certification (g) Non-availability of skilled manpower. (h) Primary Stakeholders are poverty ridden

- Government in Union Budget, 2019-20 has announced a new scheme called the **Pradhan Mantri Matsya Sampada Yojana (PMMSY)**. The scheme intends to address all the weaknesses and the critical gaps in fish production and productivity, quality, technology, post-harvest infrastructure and management, modernization and strengthening of value chain, traceability, establishing a robust fisheries management framework and fishers' welfare.

### Sericulture

- Sericulture is an agro-based cottage industry, having huge employment and income generating potential, in rural and semi-urban areas.
- Some of the initiatives of the governments to uplift this sector include race improvement through development of improved host plant varieties and improved disease resistant silkworm breeds through collaborative research with reputed National Research organizations like IITs, CSIR, IISc and International research institutes on Sericulture.

### Major Issues in financing term loans

- Capacity to formulate area development schemes and undertaking appraisal of large sized projects in relation to risk analysis are limited, in case of certain category of banks, who are purveying larger production credit for agriculture.
- The transaction cost of providing term loans to small farmers particularly under government sponsored programs is high.
- Most of the term loan activities are exposed to risk relating to natural calamities which can neither be predicted nor be fully covered
- Interest rates are not decided scientifically to take care of the transaction costs and risk costs for specific type of loans.
- The number of accounts is quite large in banks, which makes monitoring difficult.

- Longer repayment period makes it difficult to monitor the accounts.

### **Advance Against Gold Ornaments**

- The biggest advantage of a gold loan is the flexibility to repay the loan principal and interest as a lump sum amount instead of the popular way to repay other forms of loans - equated monthly installments, or EMIs.
- In the case of a gold loan, banks and credit agencies can provide credit up to 90 per cent of the value of the gold/jewels pledged. The lenders need to evaluate the ornaments/jewels offered as security for loans in the form of pledge in relation to their purity and weight.
- In order to standardize the valuation and make it more transparent to the borrower, gold ornaments and jewellery accepted as security/collateral may be valued at the average of the closing price of 22 carat gold for the preceding 30 days, as quoted by the India Bullion and Jewellers' Association Ltd.

**For provision of loans against the pledge of gold ornaments and jewellery for other than agricultural purposes, where *both interest and principal are due for payment at maturity of the loan shall be subjected to the following conditions:***

- Banks, as per their Board approved policy, may decide upon the ceiling with regard to the quantum of loans that may be granted against the pledge of gold jewellery and ornaments for non-agricultural end uses
- The tenor of the loans shall not exceed 12 months from the date of sanction
- Interest may be charged to the account at monthly rests and may be recognized on accrual basis, provided the account is classified as 'standard' account.
- Such loans shall be governed by extant norms pertaining to income recognition, asset classification and provisioning which shall be applicable once the principal and interest become overdue.

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