



## Bombay Chamber of Commerce & Industry

KS/Agri/Representation/1376

May 30, 2011

Dr. D. Subbarao  
Governor  
Reserve Bank of India  
Central Office Building, 18<sup>th</sup> Floor,  
Shahid Bhagat Singh Road,  
Mumbai – 400 001.

Dear Dr. Subbarao,

### Interest Subvention – Loan to Farmers against Warehousing Receipts

The Bombay Chamber of Commerce and Industry amongst its diverse membership represents a large number of corporate, which are directly or indirectly engaged in the agriculture sector. These have direct interface with the farming community.

Currently the Central Government offers short-term loan from banks upto a limit of Rs.3 lakh per farmer who are entitled to interest subvention of 1.5 per cent, subject to the conditions that Banks charge an interest rate of 7% p.a. on such loans. The individual States offer further subsidy to promote extension of crop loans to farmers. The cumulative rate of interest on production credit is therefore, largely subsidized and this policy initiative is welcomed by farmers.

However, we would like to bring to your notice a major issue relating to free fall in price of produce immediately on harvest, which severely affects the farming community and very often results in distress sale as a consequence of which realisation by farmers continues to be low and well below expectations. We believe that the provision of scientific storage facility coupled with a produce loan at reasonable rate of interest could possibly be a solution to this issue. The farmers would be encouraged to eschew from distress sale, store the produce in warehouses and avail loans against Warehouse Receipts (WHRs). With the passage of the Warehousing (Development and Regulation) Act 2007 and setting up of Warehousing Development and Regulatory Authority to regulate and ensure implementation of the provisions of the Act, lending against WHRs will increase substantially.

In the context of lending against WHRs, banks are already extending loans up to Rs 10 lakh per farmer and this is classified as "direct lending to agriculture". However, such lending covers only a small proportion of farmers. To give a boost to such lending, and thus improve the fortunes of the farmer community, there is a strong case for a low interest rate, and interest subvention, akin to what is currently available for crop loans. \*The case for a low interest rate is strengthened by the improved security, and consequently lower risk, as a result of the Negotiable Warehouse Receipt now made possible by the Act. It is felt that if the full benefits of the Negotiable Warehouse Receipt are to be transmitted to the farmer community, banks should lend at much lower than the 11-12% rates currently quoted, and the Govt. should consider an interest subvention of 1-2% on loans upto Rs 10 lakh per farmer, against negotiable WHRs, so that the effective interest burden to the farmer does not exceed 7-8% p.a. Such a move will truly herald a promising era for the farmer community which has all through the ages been a victim of distress sale.

We sincerely hope our recommendation will merit your consideration.

With regards,

Yours sincerely,

Dr. Atindra Sen  
Director General