Policy Initiatives - Reserve bank of India

The following are the important initiatives taken by the RBI in Agriculture and Rural Sector:

1. **Kisan Credit Card (KCC) Scheme: Working Capital for Animal Husbandry and Fisheries**

In the Budget 2018-19 the Union Government had announced their decision to extend the facilities of Kisan Credit Card (KCC) to Animal Husbandry farmers and Fisheries (AH & F) to help them meet their working capital requirements. In pursuance of the said budget announcement the matter has been examined, and in consultation with all stakeholders, it has been decided to extend the KCC facility for working capital requirement for activities related to Animal Husbandry and Fisheries.

The KCC facility will meet the short term credit requirements of rearing of animals, birds, fish, shrimp, other aquatic organisms, capture of fish. The scale of finance will be fixed by the District Level Technical Committee (DLTC) based on local cost worked out on the basis of per acre/per unit/per animal/per bird etc.

The working capital components in fisheries, under the scale of finance, may include recurring cost towards seed, feed, organic and inorganic fertilisers, lime/other soil conditioners, harvesting and marketing charges, fuel/electricity charges, labour, lease rent (if leased water area) etc. For capture fisheries, working capital may include the cost of fuel, ice, labouring charges, mooring/landing charges etc. may form part of the scale of finance.

The working capital components in Animal Husbandry, under the scale of finance, may include recurring cost towards feeding, veterinary aid, labour, water and electricity supply.

The rate of interest will be as stipulated in DBR's Master Direction – Reserve Bank of India (Interest Rate on Advances) Directions 2016.

(RBI/2018-19/112 - FIDD.CO.FSD.BC. 12/05.05.010/2018-19 dated February 04, 2019)

2. **Interest Subvention Scheme for MSMEs**

The Micro, Small and Medium Enterprises [MSME] sector is a significant contributor towards building up of a strong and stable national economy. Hon’ble Prime Minister while launching outreach initiative for MSME sector on November 2nd, 2018 highlighted that access to credit, access to market, technology upgradation, ease of doing business and a sense of security for employees are five key aspects for facilitating MSME sector. Twelve announcements have been made to address each of these five categories. As part of access to credit, Prime Minister announced 2% interest subvention for all GST registered MSMEs, on fresh or incremental loans.
Ministry of MSME (MoMSME) has decided that a new scheme viz. “Interest Subvention Scheme for Incremental credit to MSMEs 2018” will be implemented over 2018-19 and 2019-20.

The Scheme aims at encouraging both manufacturing and service enterprises to increase productivity and provides incentives to MSMEs for on boarding on GST platform which helps in formalization of economy, while reducing the cost of credit. The Scheme will be in operation for a period of two financial years FY 2019 and FY 2020.

Eligibility for Coverage

i. All MSMEs who meet the following criteria shall be eligible as beneficiaries under the Scheme:
   a. Valid Udyog Aadhar Number [UAN]
   b. Valid GSTN Number

ii. Incremental term loan or fresh term loan or incremental or fresh working capital extended during the current FY viz. from 2nd November 2018 and next FY would be eligible for coverage.

iii. The term loan or working capital should have been extended by Scheduled Commercial Banks.

iv. In order to ensure maximum coverage and outreach, all working capital or term loan would be eligible for coverage to the extent of ₹100 lakh only during the period of the Scheme.

v. Wherever both the facilities working capital and term loan are extended to a MSME by an eligible institution, interest subvention would be made available for a maximum financial assistance of ₹100 lakh.

vi. MSME exporters availing interest subvention for pre-shipment or post-shipment credit under Department of Commerce will not be eligible for assistance under Interest Subvention Scheme for Incremental credit to MSMEs 2018.

vii. MSMEs already availing interest subvention under any of the Schemes of the State / Central Govt. will not be eligible under the proposed Scheme

(RBI/2018-19/125 - FIDD.CO.MSME.BC. No. 14/06.02.031/2018-19 dated February 21, 2019)

3. Micro, Small and Medium Enterprises (MSME) sector- Restructuring of Advances

With a view to facilitate meaningful restructuring of MSME accounts {MSME as defined in the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006} that have become stressed, it has been decided to permit a one-time restructuring of existing loans to MSMEs classified as ‘standard’ without a downgrade in the asset classification, subject to the following conditions:

i. The aggregate exposure, including non-fund based facilities, of banks and NBFCs to the borrower does not exceed ₹250 million as on January 1, 2019.
ii. The borrower’s account is in default but is a ‘standard asset’ as on January 1, 2019 and continues to be classified as a ‘standard asset’ till the date of implementation of the restructuring.

iii. The borrowing entity is GST-registered on the date of implementation of the restructuring. However, this condition will not apply to MSMEs that are exempt from GST-registration.

iv. The restructuring of the borrower account is implemented on or before March 31, 2020.

A restructuring would be treated as implemented if the following conditions are met:

   a. all related documentation, including execution of necessary agreements between lenders and borrower / creation of security charge / perfection of securities are completed by all lenders; and
   b. the new capital structure and / or changes in the terms and conditions of the existing loans get duly reflected in the books of all the lenders and the borrower.

v. A provision of 5% in addition to the provisions already held, shall be made in respect of accounts restructured under these instructions. Banks will, however, have the option of reversing such provisions at the end of the specified period, subject to the account demonstrating satisfactory performance during the specified period as defined at paragraph 5 below.

vi. Post-restructuring, NPA classification of these accounts shall be as per the extant IRAC norms.

vii. Banks and NBFCs shall make appropriate disclosures in their financial statements, under ‘Notes on Accounts’, relating to the MSME accounts restructured under these instructions as per the following format:

<table>
<thead>
<tr>
<th>No. of accounts restructured</th>
<th>Amount (₹ in million)</th>
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<tr>
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viii. All other instructions applicable to restructuring of loans to MSME borrowers shall continue to be applicable.


4. Credit Flow to Agriculture- Collateral free agricultural loans
Keeping in view the overall inflation and rise in agriculture input cost over the years since 2010, it has been decided to raise the limit for collateral free agricultural loans from the existing level of Rs.1 lakh to Rs.1.6 lakh. Accordingly, banks may waive margin requirements for agricultural loans upto Rs.1.6 lakh.

(RBI/ 2018-19/ 118 –FIDD.CO.FSD.BC.No.13 / 05.05.010 / 2018-19 dated February 07, 2019)

5. Co-origination of loans by Banks and NBFCs for lending to priority sector

In terms of Para 3 of the Statement on Developmental and Regulatory Policies of the Third Bi-Monthly Monetary Policy Statement 2018-19 dated August 1, 2018, introducing the Co-origination Model between Banks and Non-Banking Financial Companies - Non-Deposit taking - Systemically Important (NBFC-ND-SIs) for providing competitive credit to priority sector. The detailed guidelines in this regard are as under.

2) All scheduled commercial banks (excluding Regional Rural Banks and Small Finance Banks) may engage with NBFC-ND-SIs (hereinafter referred to as NBFC) to co-originate loans for the creation of priority sector assets. The arrangement should entail joint contribution of credit at the facility level, by both lenders. It should also involve sharing of risks and rewards between the bank and the NBFC for ensuring appropriate alignment of respective business objectives, as per the mutually decided agreement between the bank and the NBFC, inter-alia, covering the essential features as indicated in Annex 1.

3) The bank can claim priority sector status in respect of its share of credit while engaging in the co-origination arrangement. However, the priority sector assets on the bank’s books should at all times be without recourse to the NBFC. Further, the loans extended by foreign banks under the co-origination framework shall be restricted only to loans qualifying as priority sector assets.

4) Based on the respective interest rates and proportion of risk sharing, a single blended interest rate should be offered to the ultimate borrower in case of fixed rate loans. In the scenario of floating interest rates, a weighted average of the benchmark interest rates in proportion to the respective loan contribution, should be offered. The interest rate charged by the bank for its portion of credit, shall be subject to applicable directions on interest rates on advances. Further, the NBFC-MFIs which are categorized as NBFC-ND-SIs, are also required to abide by the pricing of credit and other applicable guidelines for loans covered under “Qualifying Assets” regarding their contribution towards the co-originated loan. It is envisaged that the benefit of low cost funds from banks and lower cost of operations of NBFC would be passed on to the ultimate beneficiary through the blended rate/ weighted average rate. In this regard, banks/NBFCs shall provide all the information like loan details including interest rate and other charges, details of risk sharing arrangement, etc., as and when called for by the Reserve Bank of India.

5) While engaging in co-origination arrangements, inter-alia, the bank/ NBFC is required to adhere to extant guidelines on outsourcing of financial services. Accordingly,
though the NBFC is expected to source loans as per the mutually agreed parameters between the bank and the NBFC, bank shall not outsource its part of credit sanction component to the NBFC.

6) With regard to grievance redressal, any complaint registered by a borrower with the NBFC/ bank shall also be shared with the bank/ NBFC; in case the complaint is not resolved within 30 days, the borrower would have the option to escalate the same with the concerned Banking Ombudsman/ Ombudsman for NBFCs.

7) The bank/ NBFC shall formulate a Board approved policy for entering into a co-origination agreement with the NBFC/ bank. The loans under the co-origination agreement shall be subjected to periodic verification by bank’s/ NBFC’s internal auditors to ensure adherence to its internal guidelines, terms of the agreement and extant regulatory requirements

(RBI / 2018-19 /49 – FIDD.CO.Plan.BC.No.08 / 04.09.01 /2018-19 dated September 21, 2018)

6. Interest Subvention Scheme for Short Term Crop Loans during the years 2018-19 and 2019-20

RBI conveying continuation of Interest Subvention Scheme on the interim basis. In this regard, it is advised that Government of India has approved the implementation of the Interest Subvention Scheme with modifications for the years 2018-19 and 2019-20 for short term crop loans up to Rs. 3 lakh with the following stipulations:

i) In order to provide short-term crop loans upto Rs. 3 lakh to farmers at an interest rate of 7% p.a. during the years 2018-19 and 2019-20, it has been decided to offer interest subvention of 2% per annum to lending institutions viz. Public Sector Banks (PSBs) and Private Sector Commercial Banks (in respect of loans given by their rural and semi-urban branches only). This interest subvention of 2% will be calculated on the crop loan amount from the date of its disbursement/drawal up to the date of actual repayment of the crop loan by the farmer or up to the due date of the loan fixed by the banks whichever is earlier, subject to a maximum period of one year.

ii) To provide an additional interest subvention of 3% per annum to such of those farmers repaying in time i.e. from the date of disbursement of the crop loan upto the actual date of repayment by farmers or upto the due date fixed by the banks for repayment of crop loan, whichever is earlier, subject to a maximum period of one year from the date of disbursement. This also implies that the farmers repaying promptly as above would get short term crop loans @ 4% per annum during the years 2018-19 and 2019-20. This benefit would not accrue to those farmers who repay their crop loans after one year of availing such loans.

iii) In order to discourage distress sale by farmers and to encourage them to store their produce in warehouses, the benefit of interest subvention will be available to small and marginal farmers having Kisan Credit Card for a further period of upto six months post the harvest of the crop at the same rate as available to crop loan
against negotiable warehouse receipts issued on the produce stored in warehouses accredited with Warehousing Development Regulatory Authority (WDRA).

iv) iv. To provide relief to farmers affected by natural calamities, an interest subvention of 2% per annum will be made available to banks for the first year on the restructured loan amount. Such restructured loans will attract normal rate of interest from the second year onwards.

v) However, to provide relief to the farmers affected due to severe natural calamities, an interest subvention of 2 percent per annum will be made available to banks for the first three years/entire period (subject to a maximum of five years) on the restructured loan amount. Further, in all such cases, the benefit of prompt repayment incentive @ 3% per annum shall also be provided to the affected farmers. The grant of such benefits in cases of severe natural calamities shall, however, be decided by a High Level Committee (HLC) based on the recommendation of Inter-Ministerial Central Team (IMCT) and Sub Committee of National Executive Committee (SC-NEC).

vi) To avoid multiple loaning and to ensure that only genuine farmers avail concessional crop loan through the mechanism of gold loans, the lending institutions may conduct due diligence and ensure proper documentation including recording of land details even when the farmer avails gold loans for such purposes.

vii) To ensure hassle-free benefits to farmers under Interest Subvention Scheme, banks are advised to make Aadhar linkage mandatory for availing short-term crop loans in 2018-19 and 2019-20.

dviii) Further, from 2018-19, the Interest Subvention Scheme is being put on DBT mode on ‘In Kind/services’ basis and all short term crop loans processed in 2018-19 are required to be brought on ISS portal / DBT platform. Banks are advised to capture and submit category wise data of beneficiaries under the scheme and report the same on ISS portal individual farmer wise once it is launched to settle the claims arising from 2018-19 onwards.

(RBI/2018-19/137 - FIDD.CO.FSD.BC.No. 15/05.02.001/2018-19 dated March 07, 2019)

7. **Harmonisation of different categories of NBFCs**

Over a period of time, evolution of the NBFC sector has resulted in several categories of NBFCs intended to focus on specific sector/asset classes. Different sets of regulatory prescriptions were accordingly put in place.

On a review, it has been decided that in order to provide NBFCs with greater operational flexibility, harmonisation of different categories of NBFCs into fewer ones shall be carried out based on the principle of regulation by activity rather than regulation by entity. Accordingly, it has been decided to merge the three categories of NBFCs viz. Asset Finance Companies (AFC), Loan Companies (LCs) and Investment Companies (ICs) into a new category called **NBFC - Investment and Credit Company (NBFC-ICC)**.
8. **Risk Weights for exposures to NBFCs**

At present claims on rated as well as unrated Non-deposit Taking Systemically Important Non-Banking Financial Companies (NBFC-ND-SI), other than Asset Finance Companies (AFCs), Non-Banking Financial Companies – Infrastructure Finance Companies (NBFCs-IFC), and Non-banking Financial Companies – Infrastructure Development Funds (NBFCs-IDF), have to be uniformly risk weighted at 100%. Exposures to AFCs, NBFCs – IFC, NBFCs – IDF and other NBFCs which are not NBFC-ND-SI, are risk weighted as per the ratings assigned by the rating agencies accredited by the Reserve Bank of India.

RBI has been decided that exposures to all NBFCs, excluding Core Investment Companies (CICs), will be risk weighted as per the ratings assigned by the rating agencies registered with SEBI and accredited by the Reserve Bank of India, in a manner similar to that of corporates as prescribed under para 5.8.1 of the Master Circular DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015 on Basel III Capital Regulations read with Circular DBR.No.BP.BC.6/21.06.001/2016-17 dated August 25, 2016 on “Review of Prudential Norms –Risk Weights for Exposures to Corporates, AFCs and NBFC-IFCs” and Mailbox Clarification dated December 29, 2017. Exposures to CICs, rated as well as unrated, will continue to be risk-weighted at 100%.

9. **Priority Sector Lending – Targets and Classification**


In terms of the above Master Direction for RRBs, loans to individuals up to Rs.20 lakh for purchase/construction of a dwelling unit per family provided the overall cost of the dwelling unit does not exceed Rs. 25 lakh are eligible to be classified under priority sector. In terms of the Compendium for SFBs, loans to individuals up to Rs.28 lakh in metropolitan centres (with population of ten lakh and above) and Rs.20 lakh in other centres, are eligible to be classified under priority sector, provided that the cost of dwelling unit does not exceed Rs.35 lakh and Rs.25 lakh, respectively.

In order to bring the RRBs and SFBs at a level playing field with other Scheduled Commercial Banks, it has now been decided to enhance the housing loan limits for eligibility under priority sector lending. Accordingly, in respect of RRBs and SFBs, housing loans to individuals up to Rs.35 lakh in metropolitan centres (with population of
ten lakh and above) and Rs.25 lakh in other centres, provided the overall cost of the dwelling unit in the metropolitan centres and at other centres does not exceed Rs.45 lakh and Rs.30 lakh, respectively will be eligible for classification under Priority Sector Lending.