

Agricultural credit

3.49 Agricultural growth is crucial for alleviating rural poverty. Access to institutional credit to more farmers and appropriate quantity and quality of agricultural credit are crucial for realising the full potential of agriculture as a profitable activity. Recognising the crucial role of credit, the Tenth Five-Year Plan (2002-07) envisages a substantial jump in credit flows to agriculture to Rs.7,36,750 crore in the plan period as compared to the credit flow of Rs.2,29,956 crore achieved in the Ninth Five-Year Plan period. Credit flow to agriculture sector from all formal sources amounted to Rs. 70,810 crore in 2002-03 and Rs.86,981 crore in 2003-04, much below the levels envisaged in the Tenth Plan. Concerned over the slower growth of agriculture credit, the Government announced a comprehensive policy on June 18, 2004. The policy envisages a 30 per cent increase in credit to agriculture sector in 2004-05 over an estimated credit flow of Rs. 80,000 crore in 2003-04. The implementation of the policy has been entrusted to PSBs, private sector banks, regional rural banks (RRBs) and co-operative banks. The policy has indicated that each rural and semi-urban branch of commercial banks, on an average, will take up at least two to three new investment projects in the area of plantation and horticulture, fisheries, organic

farming, agro-processing, livestock, micro-irrigation, sprinkler irrigation, watershed management, village pond development and other agricultural activities. NABARD has been asked to advise District Level Technical Committees to review the scales of finance to meet the realistic credit needs of farmers, especially for capital intensive agricultural operations. The Budget for 2004-05, presented in the Parliament on July 8, 2004, proposed doubling of credit to agriculture in three years and announced further measures to achieve the target growth in agricultural credit. These measures include holding the sponsor bank of each RRB squarely responsible for the performance of RRB under its control and an incentive scheme under which RRBs adopting new governance standards and abiding by prudential regulations will qualify for receiving funds from the Government for their restructuring. The Budget proposed setting up of a Task Force to examine the reforms required in the co-operative banking system including the appropriate regulatory regime. The Task Force has since submitted its draft report. The draft report has been put on the websites of the RBI and the Ministry of Finance on January 11, 2005 for inviting comments. The report is likely to be finalised shortly after taking into account the feedback received.

3.50 As indicated in its mid-term review of November, 2003, the RBI constituted an Advisory Committee on flow of Credit to Agriculture and Related Activities from the Banking System (Chairman: Prof. V S Vyas). The Advisory Committee submitted its interim report in April, 2004 and the final report in June, 2004 (Box 3.2).

3.51 Based on the recommendations contained in the interim report of the Vyas Committee, the RBI, in its annual policy statement for 2004-05, announced a number of measures to improve credit delivery to agriculture. These included, treating loans to storage units designed to store agricultural products, irrespective of location, as indirect credit to agriculture, treating investment by banks in securitised assets representing direct (indirect) lending to agriculture as direct (indirect) lending to agriculture, and waiver of margin/security requirement for agricultural loans up to Rs.50,000 and in case of agri-business and agri-clinics for loans up to Rs.5 lakh. In addition, RBI also aligned repayment dates with harvesting of crops by treating loans granted for short duration crops as an NPA, if the instalment of the principal or interest thereon remains unpaid for two crop seasons beyond the due date. Loans granted for long duration crops are treated as an NPA, only if the instalment of the principal or interest thereon remains unpaid for one crop season beyond the due date. As recommended by the Vyas Committee, RBI announced that micro-finance institutions would not be permitted to accept public deposits, unless they comply with the extant regulatory framework. The recommendation relating to service area approach (SAA) was accepted and an announcement to this effect was made in the RBI's mid-term review of annual policy statement for 2004-05.

3.52 During the current year, most of the PSBs, co-operative banks and RRBs have reduced the rate of interest on farm loans up to Rs.50,000 to 9.0 per cent and, in some cases, to 8.5 per cent. This has enabled the farmers to derive the benefit of falling interest rates and to improve their margins on farming

and allied operations. Also, as a measure to minimise the incidence of under-financing, the scale of finance for crop loans and unit costs of farm investments have been further revised and made more realistic in the current year. Furthermore, to mitigate the risk of agriculture arising out of drought conditions, banks either postponed the recovery of loans or converted short-term credit into medium-term credit with appropriate reschedulement in repayment in the concerned areas. The norms of financing in the Rabi season have been liberalised taking into account the likely shortfall in Kharif output on account of deficient rainfall.

Box 3.2 : The Advisory Committee on flow of Credit to Agriculture and Related Activities from the Banking System

- A review of mandatory lending to agriculture by commercial banks to enlarge direct lending programmes.
- Public and private sector banks to increase their direct agricultural lending to 12 per cent of net bank credit in the next two years and to 13.5 per cent two years thereafter, within the overall limit of 18.0 per cent of total agricultural lending.
- Banks to increase their disbursements to small and marginal farmers under Special Agricultural Credit Plan (SACP) to 40 per cent by March 2007.
- SACP to be restricted to direct lending and extended to private sector banks.
- Reduction in cost of agricultural credit by enhancing the cost effectiveness of agricultural loans.
- NPA norms for agricultural credit to be aligned with crop seasons. Loans for allied activities to be classified as NPA after 180 days of default.
- Credit flow to small borrowers to be improved through reduction in cost of borrowing, revolving credit packages, procedural simplification, involvement of Panchayati Raj institutions and micro-finance.
- The SAA to be modified to remove rigidities. SAA to be mandatory only for Government-sponsored programmes and the format of village surveys to be changed in view of current realities.

3.53 Aggregate credit flows, both short-term and long-term are estimated to reach Rs.1,08,500 crore in 2004-05 from a level of

Rs.86, 981 crore in the previous year (Table 3.8).

Table 3.8 : Flow of institutional credit to Agriculture					
Agency\Years	1997-98	1999-2000	2002-03	2003-04	Rs. crore
					2004-05 (Estimated)
Co-operative banks	14,085	18,363	24,296	26,959	31,000
RRBs	2,040	3,172	5,467	7,581	10,500
Commercial banks	15,831	24,733	41,047	52,441	67,000
Total	31,956	46,268	70,810	86,981	1,08,500
Source: National Bank for Agriculture and Rural Development.					