

Business Standard

RBI may incentivise banks to lend more in credit-starved regions: M K Jain

For small and marginal farmers, institutional credit at reasonable costs can act as a catalyst and convert them into vibrant commercial farmers, Jain added

Sanjeeb Mukherjee | New Delhi November 13, 2019 Last Updated at 22:08 IST



File photo of M K Jain

With almost 30 per cent of farming households accessing credit from non-institutional sources, the Reserve Bank of India (RBI) might consider incentivising banks to lend in backward and credit-starved areas, said M K Jain, one of its deputy governors.

He had chaired an internal working group of RBI on

agricultural credit. Addressing the closing session of the 6th World Congress on rural and agriculture finance, organised by Nabard, he said the central bank had initiated steps to implement the group's suggestions. The internal working group gave its report in September. It recommended a comprehensive review of the priority sector lending guidelines for agriculture and small and marginal farmers. Also, strengthening of credit delivery channels through Kisan Credit Cards, self-help group-bank linkage programmes and farmer-producer companies.

“RBI has also requested the government to consider policy and other related recommendations of the internal working group, as these would go a long way in ensuring long-term sustainability of Indian agriculture,” Jain

said.

Banks had, he added, made significant progress in extending credit to agriculture. As a percentage of agricultural gross domestic product, such credit rose from 10 per cent in 1970 to 52 per cent in 2018.

However, analysis of the flow of institutional agri credit has revealed uneven distribution among states, compared to their corresponding share in farm output, he said.

“To a certain extent such regional disparities are on account of variation in credit absorption capacity of these regions. And, Nabard should think of measures through which funds like the Rural Infrastructure Development Fund could be earmarked to the most backward and credit-starved regions.”

Allied activities in agriculture such as livestock, fishing, and aquaculture contribute around 40 per cent to farm output but only 6-7 per cent of agri credit flows to these, he observed.

Small and marginal farmers hold 47 per cent of operated agri area and contribute a little more than half of sectoral output. Institutional credit at reasonable cost could help their conversion to vibrant commercial farmers.

Jain admitted a big problem in financial inclusion was lack of a legal framework for landless cultivators. Absence of documentary evidence is a big block in extending credit to this segment, which invariably farms land via oral leases.

He feels government policies should shift from managing food scarcity to managing a surplus.

“For agri financing, going forward, banks will have to integrate sustainability into their business strategies and decision making processes, to support environmentally responsible projects in the sector," was another observation. For which, they'd have to "undertake innovative agri financing models".