

REPORT OF THE RBI INTERNAL WORKING GROUP TO REVIEW AGRICULTURAL CREDIT

A POLICY NOTE TO RBI

The report of RBI Internal Working Group to review Agricultural Credit is quite comprehensive and covers relevant matters germane to agriculture. The most striking and welcome recommendation is the increase in the allocative credit to small and marginal farmers from 8% to 10%. Of course this has long been in coming! The Committee has identified many policy frictions and barriers. Significant among them is the mis-utilization/mal-targeting of interest subsidy particularly through the loans against gold jewellery, that too even in urban/metro areas, lack of data base of agriculture sector particularly small and marginal farmers and absence of credit guarantee scheme for agriculture credit.

While the Committee has elaborately dealt with the issue of land holdings and land records including tenancy, lease, etc, it has just recommended loans without land records only for allied activities upto a limit of two lakhs. In fact, regardless of the category or class of farmers (from practical stand point), it is long overdue that without insisting land records, all agricultural and allied sector loans upto 2 lakhs or at least upto the limit of micro credit of 1.25 lakhs per borrower (which will cover almost all small farmers of the country) shall be provided. The recommendation that to enhance the credit flow to FPOs/FPCs from the banks, credit guarantee fund shall be augmented periodically by SFAC, GoI is a welcome one.

It is time, to begin with, loans against gold jewellery in urban and metro areas shall not be classified as agricultural credit. Such misclassifications/wrong classifications have given a false picture and in a way excluded/denied credit to eligible small farmers without jewels. For jewel loans above 2 lakhs in rural areas, land records should, invariably, be insisted upon to avoid mis-utilization. Internal Working Group recommendation for uniform scale of finance

for allied activities for entire country flies in the face of huge diversity and variance of India and its contextual mosaics. Uniform SOF will surely lead to under financing and over financing. RBI would do well to not to subscribe to uniform scale of finance in agriculture and allied activities.