Report Summary

Report on Review of Agricultural Credit

- A Working Group constituted by the Reserve Bank of India to review agricultural credit released its report on September 13, 2019. It was asked to examine: (i) reach of institutional credit, (ii) ease of credit and inclusiveness, and (iii) impact of loan waivers on state finances and credit discipline. Key observations and recommendations of the Working Group include:
- **Increase in share of short-term crop loans:** The Working Group observed that the interest subvention scheme for short-term crop loans has increased the share of such loans in agricultural credit from 51% in 2000 to 75% in 2018. The scheme has incentivised short-term production credit over long-term investment credit which is important for long-term sustainability of the sector. The Working Group noted that the central and state governments need to increase their capital expenditure which will stimulate the demand for investment credit in agriculture. It also recommended that banks should provide crop loans under the scheme only through Kisan Credit Cards in order to curb the misuse of interest subsidy.
- **Loan waivers:** The Working Group observed that since 2014-15, 10 states have announced loan waivers worth Rs 2.4 lakh crore (1.4% of the 2016-17 GDP), mostly near elections. It noted that loan waivers do not address the underlying causes of farm distress and destroy credit culture, potentially harming farmers' interest in the medium to long term. It also noted that loan waivers squeeze the fiscal space available for productive investment in agriculture. The Working Group recommended that: (i) loan waivers should be avoided, and (ii) the central and state governments should undertake a holistic review of agricultural policies and input subsidies in order to improve the overall viability and sustainability of agriculture.
- **Credit for allied activities:** The Working Group observed that allied activities (livestock, forestry, and fisheries) receive only 10% of the total agricultural credit while they contribute 40% of the agricultural output. It noted that this could be due to the lack of a proper definition for farmers doing such activities, as the Census defines a farmer based on his landholding. As a result, banks insist on land records for providing credit to such farmers. Also, banks do not have any specific mandate such as priority sector lending to lend towards allied activities. The Working Group recommended that separate lending targets should be set for allied activities and banks should not insist on land records for up to two lakh rupees of such credit.
- **Sources of credit:** The Working Group observed that in 2016-17, 72% of the credit requirement of agricultural households was met through institutional sources and 28% from non-institutional sources such as relatives and moneylenders. It noted that reliance on non-institutional sources could be due to: (i) lack of collateral security with landless labourers, tenant farmers, and sharecroppers, (ii) poor credit rating, and (ii) involvement in unviable subsistence agriculture.
- **Land reforms:** The Working Group noted that in the absence of a proper land leasing framework and lack of records, landless labourers, sharecroppers, tenant farmers, and oral lessees face difficulty in accessing institutional credit. Also, due to fear of eviction, they do not have an incentive to invest in agricultural land, leading to low productivity. It recommended the central government to push states to timely complete the process of digitisation and updation of land records. States having highly restrictive land leasing frameworks should be encouraged to adopt reforms based on the Model Land Leasing Act and the Andhra Pradesh Land Licensed Cultivators' Act, 2011.
- The Working Group observed that reforms such as the model Acts have not been adopted by many states, which could be due to a lack of consensus on concerns raised by states during consultations. The Working Group recommended that for building a consensus, the central government should set up a federal institution, on the lines of the GST Council, to suggest and implement reforms in agriculture.
- **Credit for small and marginal farmers:** The Working Group observed that small and marginal farmers hold 86% of the operational landholdings and have 47% share in the total operated area (2015-16). However, only 41% of such farmers could be covered by banks. It recommended that the lending target for small and marginal farmers should be revised from the existing 8% to 10% with a roadmap of two years.
- **Regional disparity in credit:** The Working Group observed that some states are getting higher credit as a proportion of their agricultural GDP, indicating the possibility of diversion of credit for non-agricultural purposes. In contrast, this credit to GDP ratio is particularly low for states in the central, eastern, and north-eastern regions of the country. It recommended that the priority sector lending norms should be reviewed and suitable measures should be introduced for improving the credit off-take in these regions.

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