Targeted Agricultural Lending

What is the issue?

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- There is a trend of actual loan disbursements to the farm sector outstripping the liberally hiked annual targets year after year.
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- Yet agrarian distress and farmers' dependence on moneylenders are showing no signs of easing.
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What is the concern?

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- The total credit flow has surged over 10-fold since the early 2000s.
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- Institutional credit to the farm sector is set to exceed the target of Rs 10 trillion for the current year.
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- However, nearly 40% of rural credit demand is still met by the informal sector, including commission agents and moneylenders.
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- Clearly, the purpose for which institutional credit to the farm sector was stepped up steadily has not been served adequately.
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- Interest subvention by the government has resulted in cheaper bank credit.
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- However, it is not reaching the small and marginal farmers due to poor targeting and large-scale diversion to other destinations.
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How is the credit distribution scenario?

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- **Credit scale** - The proportion of loans of less than Rs 200,000 which normally go to genuine farmers has been over 90% in the 1990s.
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- This proportion has now shrunk sharply to less than half.
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- Contradictorily, the share of larger loans of up to Rs 10 million and more has surged.
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- **Time** - Besides, roughly about half of the total farm credit is disbursed between January and March.
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- But this is when farmers' loan requirements are the least with rabi sowing already over and kharif planting being months away.
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- **Farmers** - Nearly a fourth of direct agricultural lending is accounted for by banks located in semi-urban, urban and metro towns.
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- Frequent farm loan waivers have marred the loan repayment culture in rural areas.
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- Evidently, banks find it much safer and convenient to lend to agri-related enterprises rather than to the more risk-prone farmer.
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- Highly subsidised agricultural loans are thus largely reaching only the non-farmers or the same set of farmers with good repayment record.
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- **Cooperative credit sector** - Non-performing assets of the primary cooperatives and the agricultural and rural development banks have risen to 37% by the end of 2015-16.
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- Political interference in the day-to-day functioning of these bodies is adding to their woes.
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- Also, many of the CEOs in these have non-banking background which is contributing to the overall failures of cooperative banks.
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What lies ahead?

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- The finance ministry has sought a fresh assessment on the health of the cooperative credit institutions.
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- The report, ahead of the forthcoming Union Budget, from the National Bank for Agricultural and Rural Development (NABARD) should help the Centre reorient its strategy.
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- The issues confronting the cooperative and the commercial banking sectors need to be addressed.
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- This is essential to ensure better targeting of agricultural lending to make meaningful the quantitative increase in farm credit.
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Source: Business Standard

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