

# Standing Committee Report Summary

## Rural/Agricultural Banking and Crop Insurance

- The Standing Committee on Finance (Chair: Dr. M. Veerappa Moily) submitted a report on 'State of Rural/Agricultural Banking and Crop Insurance' on August 10, 2016.
- **Financial exclusion among rural households:** The Committee observed that about 31% of rural households are currently in debt, but only 17% of rural households receive credit from the formal sector (such as banks or co-operative societies). This indicates that a high proportion of rural households are depending on informal sources of lending (such as moneylenders and non-institutional sources). The Committee recommended that there is a need to increase institutional credit to agriculture and ensure that it reaches the poor and needy cultivators.
- **Growth in agricultural credit:** The Committee observed that the flow of agricultural credit increased from Rs 1.3 lakh crore in 2004-05 to Rs 8.4 lakh crore in 2014-15. However, it is still below the 18% target for institutional credit to agriculture set by the RBI. In addition, the share of loans given directly to farmers for agriculture and allied activities have decreased as a percentage of total agricultural credit in the same period. The Committee recommended that the Kisan Credit Card (KCC) scheme may be used to provide enhanced credit to farmers. The KCC aims to provide credit support to farmers for cultivation and other operations by issuing smart/credit cards to them. To increase farmers' access to institutional credit, the scheme may also be expanded and linked to land records, Jan Dhan accounts and Aadhaar numbers.
- **Priority sector lending:** The Committee noted that of the 18% target set for institutional agricultural credit, 13.5% would be direct credit and 4.5% would be indirect credit. Direct credit includes short term and working capital loans provided directly to farmers, and indirect credit includes credit provided to agencies, farming co-operatives, credit for storage or irrigation, etc. Revised guidelines issued by the RBI in April 2015 did away with the direct and indirect credit categories, and specified an 8% credit limit for small and marginal farmers.
- The Committee recommended that RBI should enhance the target set for agriculture credit from the existing 18%. It noted that that a significant share of agriculture credit currently goes towards non-agricultural activities such as logistics, warehousing and cold storages. It recommended that the direct and indirect categorization should be brought back in, and the credit limit for small and marginal farmers should be enhanced and made mandatory.
- **Regional rural banks:** The Committee noted that the current framework of Regional Rural Banks (RRBs) is not working well, since they have inadequate resources and funds. It recommended that a national level apex body for RRBs be created to focus on the expansion of credit facilities to remote and inaccessible areas.
- **NABARD:** The Committee recommended that an increased flow of long term capital should be provided to the National Bank for Agriculture and Rural Development (NABARD). This will allow NABARD to provide adequate credit for co-operatives and agricultural investments. In addition, NABARD should lend funds directly to farmers, eliminating intermediaries as far as possible.
- **Disbursal of credit:** The Committee observed that disbursal of agricultural and rural credit is constrained by issues such as collateral security, cumbersome processes of disbursal, and lack of financial literacy. It recommended that the RBI and NABARD should undertake initiatives to ease the process of disbursal of credit, to make it accessible, simple and user-friendly. Farmers should be made aware about the credit facilities available for them.
- **Crop insurance:** The Committee observed that persistent issues with the crop insurance system include (i) unawareness about insurance schemes, (ii) inadequate coverage of insurance schemes, (iii) assessing the extent of damages in case of crop losses, and (iv) timely settlement of claims. The Committee recommended that the government should create awareness about crops which should be planted based on the quality of soil, incidence of rainfall, etc. so as to reduce the seeking of unproductive credit. Crop insurance cover should be extended to cover all crops over the entire country, as opposed to selective crops in certain areas.
- The Committee also recommended that assessment of crop damage should be completed and compensation should be deposited directly into farmers' accounts in a timely manner.

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