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The Chairman/ Managing Director/
Chief Executive Officer

(All scheduled commercial banks)

Dear Sir/ Madam,

The Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System

The above Committee set up under the chairmanship of Prof. V.S. Vyas, has submitted its final report to the Reserve Bank. While some of the recommendations of the Committee need to be examined further, the following recommendations have been accepted and are being forwarded for immediate implementation by banks:

i) Machinery is becoming increasingly important as an instrument of transformation of agriculture into a diversified and commercial enterprise. A few banks have entered into tie-ups with major tractor and farm machinery manufacturers for financing them in a cost-effective manner. Other banks could explore such possibilities as well.
[Paragraph - 3.5 (viii)]

ii) Procedural modifications in regard to agricultural advances, including simplification of procedures/forms of applications, agreements etc; rationalisation of internal returns of banks; delegation of more powers to branch managers; introduction of composite cash credit limits to agriculturists; introduction of new loan products with savings components; cash disbursement of loans; dispensing with the 'No Dues Certificate'; discretion to banks on matters relating to margin/security requirements for agricultural loans above Rs 10,000 (since raised to Rs 50,000 / Rs 5 lakh, vide circular dated May 18, 2004) etc were introduced following the R V Gupta Committee recommendations. The Committee observed in its field visits, however, that few banks have complied with these directives and cumbersome procedures persist. Further, several branches of commercial banks insist on unreasonably high margin money or fixed deposits for sanction of loans, sometimes not commensurate with the quantum of loans. Such insistence results in denial of loans even to worthy borrowers who may not have adequate cash/collateral on hand. Controlling authorities of banks may review these lapses and take steps to rectify the situation.
[Paragraph – 3.10]

iii) The Committee feels that the interest rate is an important aspect of credit. It takes cognizance of the growing borrower expectations of uniformly lower interest rates on loans by different agencies extending credit to agriculture. A single mandatory rate for all banks is, however, not feasible at present, as capacity of the various agencies to deliver agricultural loans at lower rate of interest varies due to their differential cost structure. What ultimately matters to the borrower in addition to the rate of interest is the timeliness and adequacy of credit as well as the concomitant costs he may have to incur to avail credit. Therefore, banks need to pay attention to their systems and procedures to make their lending cost-effective. They have to consider also measures to save the borrower avoidable expenses for getting a loan sanctioned.

[Paragraph - 4.9]

iv) The dividing line between production and consumption needs of the poor is very thin. A lack of short-term consumption loans results in the diversion of productive investments. Small borrowers, therefore, need to be provided a fall-back credit mechanism for meeting their exigent consumption needs. Therefore, Banks should provide a separate flexible revolving credit limit to small borrowers of production or investment loans for meeting temporary shortfalls in family cash flows. Banks may evolve suitable credit products/packages in this regard.

[Paragraph 6.5(ii)]

v) The poor often shy away from formal institutions for want of information about procedures. Banks may adopt measures to reduce this information gap. Application forms for loan products should contain a comprehensive checklist of documents/information to be furnished as also procedural requirements to be complied with for availing of loans.

[Paragraph 6.5 (iii)]

vi) The Committee has examined various issues relating to financing of oral lessees and is of the opinion that Joint Liability Group (JLG) and SHG approaches have the potential of addressing the issues relating to these sections. Banks may have to explore these financing models through pilot projects until such times as states address issues of legalising tenancy.

[Paragraph 6.16]

vii) The Committee came across complaints such as delays/refusal to open savings bank accounts of SHGs, large number of branch visits required to access credit,

inadequate credit support extended by banks, delays in renewal of credit limits, and impounding of SHG savings as collateral for loans. This shows that even in states with sizeable numbers of SHGs financed, quality of linkage reflected in client satisfaction continues to be low. Banks need to address these issues urgently, to make access to financial services smooth and client-friendly.
(Paragraph – 6.13)

2. The above recommendations made by the Committee are important in the context of expanding outreach of banks and improving flow of credit to the agriculture sector. Banks are requested to initiate action on these recommendations immediately and ensure that proper instructions are issued to their controlling offices and branches in this regard. The action taken may please be communicated to us at the earliest.

3. Please acknowledge receipt.

Yours faithfully,

(C.S. Murthy)
Chief General Manager-in-Charge