

Be innovative on farm credit' As rural income rises, so does credit need, says Rakesh Mohan



Mr Rakesh Mohan (left), Deputy Governor, Reserve Bank of India, and Mr Omkar Goswami, Chairman, CERG Advisory Pvt Ltd, at a conference on rural markets organised by CII in Mumbai on Wednesday. - - Paul Noronha

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BANKS need to change their strategy towards agriculture lending, from `directed' credit to one that is business opportunity-led. As the agriculture sector becomes more commercial, there would be higher need for credit, said Dr Rakesh Mohan, Deputy Governor, Reserve Bank of India.

Speaking at the CII conference on rural markets here today, Dr Mohan said the new agriculture activities were varied. For instance, diversification of agri-products has given rise to supply chains.

All these are in the cash economy. Therefore, there would be higher need for credit. But the share of rural credit to total credit has fallen from 30 per cent in the 1990s to less than 30 per cent now.

"There are a huge number of different agri products and they require different packages," he said. This will require greater participation from both private and public sectors, Dr Mohan added.

There has been a huge growth in housing and retail lending in the last few years. As rural incomes rise, there will be much greater consumption of consumer durables and therefore more demand for retail credit, Dr Mohan said.

"Low income rural households have fallen from two-third in the 90s to one-fourth of total households today. The middle income households have risen from one-third to two-third today," he said.

Banks also need to take care of the rise in informal supply of rural consumer credit, which comes at a higher cost. Easing transaction cost will reduce the cost of rural credit. Improvement of infrastructure such as roads and transport would reduce the cost, Dr Mohan said.

"If you reduce the price gap between farmer and retailer, both the farmer and the consumer will gain," he said.

In order to bring rural credit to the mainstream, banks and financial institutions should look at more non-food crops and also offer more flexibility in repayment schedules.

"We need more innovation because the rural income flow pattern is not regular but seasonal," he said.

There is need for different risk assessment and new systems for collection and delivery systems. This is where information technology can play an important role, Dr Mohan said.

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