

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:17
ANSWERED ON:17.02.2006
RURAL LENDING
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Will the Minister of FINANCE be pleased to state:

- (a) whether the World Bank has suggested that RBI should remove artificial caps on rural lending;
- (b) if so, the important issues raised by World Bank;
- (c) the reaction of the Government on the WB's suggestions on rural lending;
- (d) whether the Government has accepted the suggestions of the World Bank in principle; and
- (e) if so, the details thereof?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a)&(b) : World Bank has made certain observations in its report (December 2004) titled 'Scaling up Access to Finance for India's Rural Poor'. These relate to functioning of rural financial institutions in India and problems faced by rural poor relating to absence of flexible products and services, transaction costs, collaterals etc. Certain suggestions have been made, including those relating to 'caps' on rural lending rates and need for re-visiting of Government policy on priority sector lending.

(c) to (e) : Government and RBI constantly monitor the credit needs of different sectors of the economy and undertake corrective measures, whenever required, to ensure that adequate funds flow to Agriculture, Small & Medium Enterprises and such other important sectors. RBI has set up an Internal Working Group to review the existing policy on priority sector lending. The interest rate on advances has already been deregulated in 1997. Credit flow to agriculture alone has increased by 43% from Rs.86,981 crore in 2003-04 to Rs.1,24,122 crore in 2004-05. The following steps taken, inter-alia, led to enhanced credit flow in rural areas: -

- (i) The banks have been asked to simplify the procedure for sanction of loan.
- (ii) One page documentation has been circulated among banks for adoption.
- (iii) Reserve Bank of India has instructed banks not to insist on collateral or margin for loans upto Rs.50000/-.
- (iv) Banks have been asked to issue Kisan Credit Cards to all eligible farmers.
- (v) Financing of Self Help Groups is being emphasised.
- (vi) A project has been initiated for lending by banks to joint liability groups of tenant farmers and oral lessees.