

Agri loan hike to help small farmers

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THE RESERVE BANK of India's (RBI) move to hike collateral-free short-term loans for farmers to ₹2 lakh from ₹1.6 lakh is expected to equip smallholder farmers to adapt to the rising cost of farming. It will also help them meet the working capital requirements of farmers engaged in animal husbandry, dairy and fisheries.

Officials said the move would particularly help landless farmers engaged in agri-allied activities to access working capital without providing any asset guarantee.

Currently, financial institutions provide short-term loan up to ₹3 lakh to farmers who have Kisan Credit Cards (KCCs)

at 7% annual interest rate. Under the modified interest subvention scheme (MISS) of the agriculture ministry, it has a provision of interest subvention of 3% through prompt repayment incentives.

Interest subvention effectively reduces the effective annual rate of interest to 4% under KCC. Short-term loans beyond ₹3 lakh are, however, charged under the bank rate.

RBI governor Shaktikanta Das, during the announcement of the monetary policy on Friday, said "taking into account the rise in agricultural input costs and overall inflation, it has been decided to increase the limit for collateral-free agriculture loans from ₹1.6 lakh to ₹2 lakh per borrower," and stated that the move will further



enhance credit availability for small and marginal farmers. The limit for collateral-free agriculture loans was last revised in 2019 and the KCC scheme was extended to cover working capital requirements of animal husbandry, dairying and fisheries.

"While collateral-free loans come with their own set of risks, while on-boarding borrowers, it

is vital for lenders to vet any properties they own or their income," Vishal Sharma, co-founder and CEO of Advarisk, an ICICI bank and Nabdard-supported fintech, said, adding the move will be boon for small holder farmers.

Currently, out of 73.6 million KCC holders, 23.7 million belong to agri-allied sectors. Under MISS, in FY25 a budgetary allocation of ₹22,600 crore has been made.

"This move will not only boost agri productivity but also contribute to the overall economic well-being of rural communities and bolster rural consumption," Sandeep Sabharwal, group CEO, Sohan Lal commodity management, which provides post-harvest logistics and agri-solutions company, said.