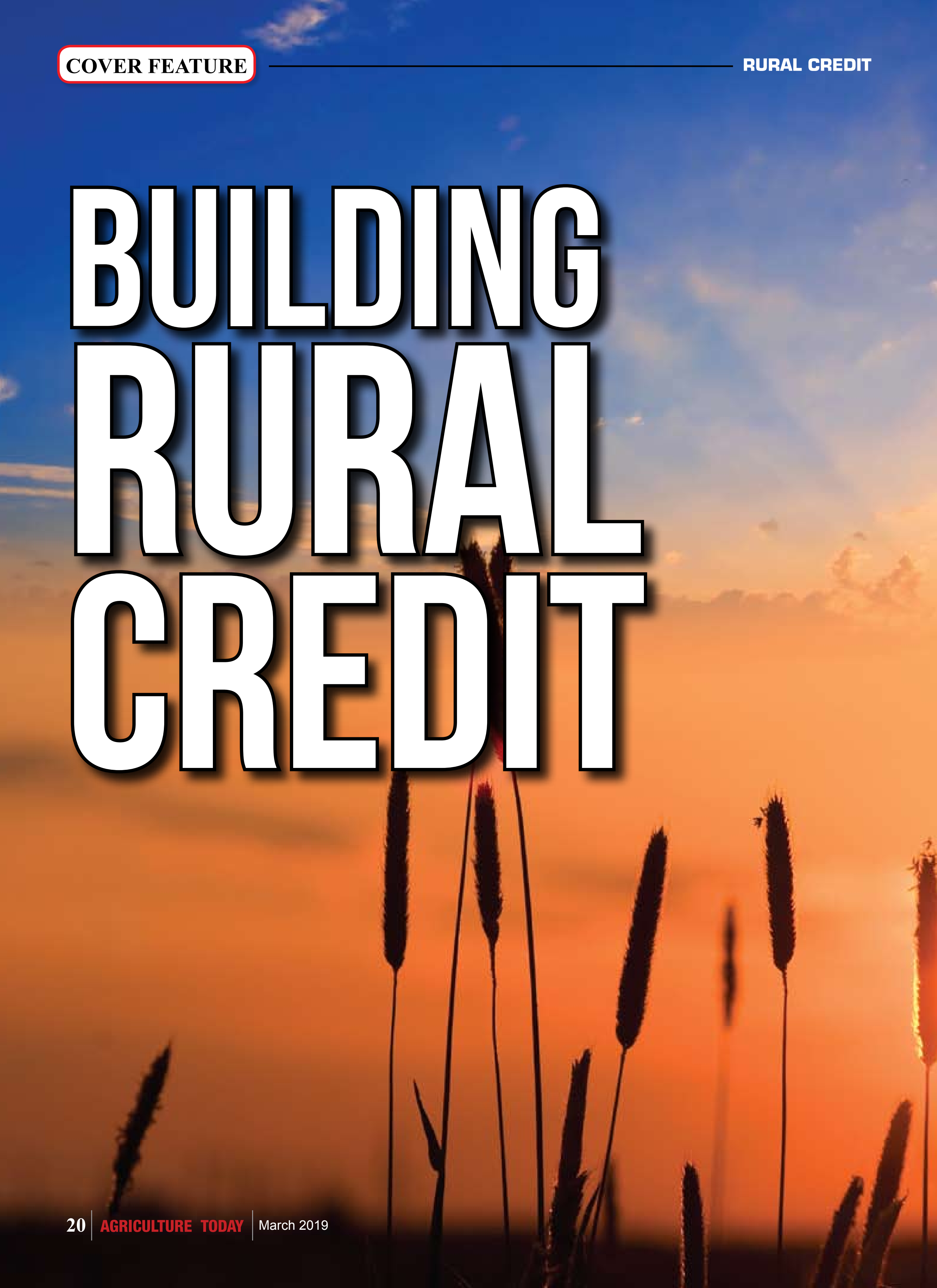
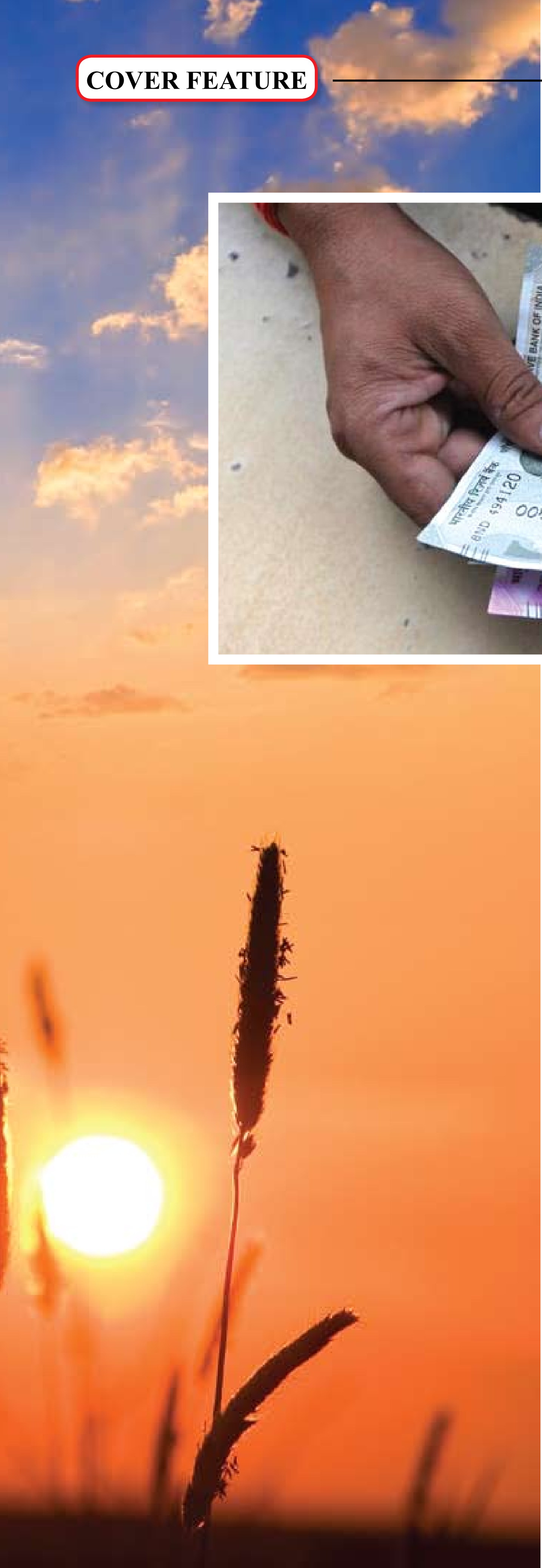
BUILDING RURAL CREDIT





Rural credit translates into an important input in agriculture. Although an indirect input, credit dictates the quality and quantity of other inputs and in the process affects the agriculture production to a large extent. The flow of credit to rural economy not only influences agriculture, but also the general state of country's economy. Constituting around 60 per cent of the country's population, the credit security of the farmers and those associated with agriculture is hence a serious business. Therefore the agriculture credit system in India has been dealt with utmost caution and restraint. But despite the government's deeper involvement in rural credit, far remains to be achieved to sustain credit discipline in rural credit structure.

RURAL CREDIT – THE SOURCE

Indian rural credit system is an important pillar in India's economy. India's hinterlands, had always had a higher dependency on the unorganized system largely manned by the moneylenders. Their exorbitant interest rates and dubious ways of recovering loans have to a large extent caused disarray and distress among the farming community. Although with time, more formal sources and government programmes and schemes have forayed into rural India, the clout of moneylender is largely pervasive.

The credit delivery system in the rural areas have seen a sea change since the entry of organized banking. Under the institutional

arrangement, agricultural credit is disbursed through multi-agency network consisting of Commercial Banks (CBs), Regional Rural Banks (RRBs) and Cooperatives. Short term cooperative is catered by 32 state cooperative banks and 371 district central cooperative banks operating through 14907 branches. There were 92,996 Primary Agricultural Credit Societies (PACS) as on March 31, 2014 at the grass root level.

The rural banking has witnessed many changes recently. For instance, microfinance institutions have made a positive impact on the rural banking system. Microfinance has evolved as a source of financial services for entrepreneurs and small businesses lacking access to banking and related services. Micro Finance Institutions (MFIs) which works on relationship-based banking for individual entrepreneurs and small businesses; and group-based models, where several entrepreneurs come together to apply for loans and other services as a group, imparts security to both the loaners and loanees. India's microfinance industry clocked 47 per cent growth with a gross loan portfolio of Rs 68,789 crore in the financial year ended March 2018 as against Rs 46,842 crore in the year-ago period, according to Bharat Microfinance Report 2018.The report states that the sector witnessed 56 per cent increase in loan disbursements in 2017-18 over the previous year.

Another interesting way of lending institutional credit came into existence with the Self-Help Groups (SHG)-Bank linkage Programme. Under this programme, SHGs come together and gain financing access through banks by pooling in their resources. The pilot project was started by NABARD in 1992 as a partnership model between SHGs, banks and NGOs. Later on, RBI approved guidelines to banks to enable SHGs to open accounts. The number of SHGs financed accounts increased to more than 73.18 lakh savings- 13 linked Self Help Groups (SHGs) covering over 9.50 crore poor households as on March 31, 2013. The total outstanding amount is Rs.39,375 crore and savings deposit of these SHGs with banks amounted to Rs.8,217.25 crore (NABARD Annual Report, 2013-14).

While all the credit delivery systems concentrated on loans, the Kisan Credit Cards (KCC) covered consumption needs of the farmers. The KCC holders could approach financial institution for simple and hassle free sanction of credit from the second year onwards. Further progress was made in later years and the passbook has been replaced by a plastic card, and the Kisan Credit Card is an ATM enabled debit card. So KCC has enabled a cashless eco system in availing banking facilities. Its use has spread over the vast institutional credit framework involving commercial banks, RRBs and co-operatives. According to the RBI, 12.84 crore Kisan Credit Cards

had been issued up to 2012-13.

More than 65% of the population remains aloof to the banking facilities. To bring them under the banking net, the Reserve Bank of India introduced a regulation in 2006 allowing banks to provide service at people's doorstep through the use of third party services. Commonly referred to as the "Business Correspondents/ Banking correspondents" (BCs), this model involves a representative authorized to offer services such as cash transactions where the lender does not have a branch. Primary role of BC is to oversee the proper development and functioning of indirect banking channels. These business correspondents are subject to RBI regulations and would have direct contact with one or more financial institutions. Banks have deployed as many as 1.95 lakh business correspondents (BCs) covering 2.21 lakh villages across the country as of March 31, 2013. Benefits to customers include instant access to banking services at doorsteps; relaxed KYC norms for small accounts allow better possibility of opening bank accounts; lower costs and time required to access banking services.

With the recent thrust on digital transactions, rural India is yet to see many reforms. For instance, BHIM (Bharat Interface for Money) is a Mobile App developed by National Payments Corporation of India (NPCI), based on the Unified Payment Interface (UPI) which was launched recently by Narendra Modi, at a Digi Dhan programme. Named after Bhim Rao Ambedkar and intended to facilitate e-payments directly through banks, is a part of the drive towards cashless transactions. This UPI app supports all Indian banks which use that platform, which is built over the Immediate Payment Service infrastructure and allows the user to instantly transfer money between the bank accounts of any two parties. It can be used on all mobile devices. Aadhaar card could soon become a universal payment ID. The government is expected to unveil a feature for payments through the Bharat Interface for Money (BHIM) app by simply entering the 12-digit Aadhaar number. Transactions where Aadhaar is listed as a payment ID on the BHIM app will not require any biometric authentication or prior registration with the bank or Unified Payment Interface (UPI). This will make it more mainstream since almost one-third of India already has Aadhaar numbers, which have been linked to their bank accounts.

The demonetization cash crunch has derived unique methods to circumvent the situation and one such intervention was the deployment of Micro ATMS. There are about 201861 ATMs in India, according to RBI data. Of these, 1,03,282 are onsite and 98,579 offsite, the number is still small when compared to the actual demand. Micro ATMs are card swipe machines through which banks can remotely connect to their core banking system. This machine comes with a fingerprint scanner attached to it. In other words,

micro ATMs are handheld point of sale terminals used to disburse cash in remote locations where bank branches cannot reach. Micro ATMs are similar to point of sale (PoS) terminals and are a doorstep mobile banking arrangement cum-mobile ATM device.

INDIRECT CHANNELS OF CREDIT

Apart from these traditional categories of credit, other forms of credit has also been lending support to the farmers. Crop insurance has also been able to extend the much needed financial aid to the farmers at times of distress and hence can be considered as an important source of rural credit. India has dabbled with this category and over the years have acquainted with a number of schemes. National Agricultural Insurance Scheme (NAIS) introduced during Rabi 1999-2000 and implemented by Agriculture Insurance Company of India limited protected the farmers against the losses suffered on account of natural calamities. The Scheme was available to all the farmers both, loanee and non loanee irrespective of the size of their holding. The Scheme envisages coverage of all crops including cereals, millets, pulses, oilseeds and annual commercial and horticultural crops in respect of which past yield data is available. The modified version has many improvements viz., Insurance Unit for major crops are village Panchayat or other equivalent unit; in case of prevented / failed sowing claims up to 25% of the sum insured is payable, post-harvest losses caused by cyclonic rains are assessed at farm level for the crop harvested and left in 'cut & spread' condition up to a period of 2 weeks in coastal areas; individual farm level assessment of losses in case of localized calamities, like hailstorm and landslide; on-account payment up to 25% of likely claim as advance, for providing immediate relief to farmers in case of severe calamities; threshold yield based on average yield of past seven years, excluding up to two years of declared natural calamities; minimum indemnity level of 80% is available (instead of 60% in NAIS); and premium rates are actuarial supported by up-front subsidy in premium, which ranges from 40% to 75%, equally shared by Centre and States. Weather Based Crop Insurance that was introduced in 2011-12 on a pilot basis with an aim to make it more convenient for the farmers to avail crop insurance appeared to have received good response from the farmers. Pradhan Mantri Fasal Bima Yojana (PMFBY)-2016 has been the most recent version of crop insurance in the country. Pooling in the important learnings from all the earlier schemes and taking into consideration of access to technology in the recent days, Pradhan Mantri Fasal Bima Yojana promises to take care of the loopholes of earlier schemes. The Fasal Bima Yojana has done away with the cap on premium. The sum insured per hectare for a farmer is now decided by the District Level Technical Committee and is pre-declared and notified by the State Level Coordination Committee

on Crop Insurance. The farmer also pays less — the premium he shells out is 2 per cent of the sum insured for all kharif crops and 1.5 per cent of it for all rabi crops. For horticulture and commercial crops, the premium is 5 per cent of sum covered. The remaining premium is paid by the government. This will be done online once the E platform is put in the place. During 2017, under Rabi & Kharif crops, 5 crore 71 lakh farmers were provided protective coverage under this scheme.

Loan waivers add an interesting layer to the credit flow in agriculture. Derided and often relegated as a populist measure, the series of loan waivers have added credit to the agriculture kitty, at the expense of an ethical credit behaviour. Eight state governments have given farm loan waivers worth Rs. 1.9 trillion since April 2017. With Prime Minister Narendra Modi promising debt relief to farmers ahead of the Uttar Pradesh elections in February 2017, a series of poll promises sprang up across the nation. The latest round of farm loan waivers was announced after Congress formed governments defeating the incumbent Bharatiya Janata Party (BJP) in Chhattisgarh, Rajasthan and Madhya Pradesh. Rs. 59,000 crore of waivers have been promised to farmers in these three states. However, loan waivers – either completely or categorically - are temporary solutions to a larger problem. The debt cycle that farmers fall in due to investing and following farming as their vocation has many underlying reasons which either work together or in isolation. Interestingly each time the farmers end up in huge losses, the reasons have remained more or less the same. Apart from rooting for loan waivers, no one seems to identify these reasons and work to give a permanent solution. Farmers are too naïve to see through this and hence are satisfied with these one time solutions. These transient measures are at the expense of all the developmental activities that could have happened in agriculture – that could have increased the income derived from farming.

Subsidies also serve as an important source of credit to the farmers, although indirectly. It is the governmental financial support paid to the farmers to reduce their input expenditures and supplement their income. The government in India provide subsidies for fertilizers, power, purchase of irrigation equipments etc. Sometimes, the subsidies are paid directly to the farmers and in other instances, it is paid to the companies catering to the input requirements of the farmers. The new PM AASHA (Pradhan Mantri Annadata Aay Sanrakshan Abhiyan), the Umbrella Scheme comprising of Price Support Scheme (PSS), Price Deficiency Payment Scheme (PDPS) and Pilot of Private Procurement & Stockist Scheme (PPPS) is also another means of catering to farmer demand. Individual states have also come up with schemes to financially support farmers. Bhavantar Bhugtan Yojana (price difference payment scheme) is a scheme of the Government of Madhya Pradesh whereby the government pays farmers the difference between official Minimum Support Price (MSP) and the rate at which they sell their crops or Model Price whichever is higher. The objective of the scheme is to provide the compensation to farmers for agriculture products, whenever its price fall below the announced Minimum support price (MSP) and thereby protecting them from losses suffered on account of distress sale.

With government's focus on doubling farmers' income many schemes have been introduced with most recent one being Pradhan Mantri Kisan Samman Nidhi scheme. Introduced in the interim budget of 2019-20, the scheme provides income support to farmers who will be entitled to get Rs 6,000 per year through direct bank transfer in three instalments.Farmers with land less than 2 hectares will be beneficiaries of this scheme. The scheme has a budget outlay for Rs 75,000 crore for FY19. Under Pradhan Mantri Kisan Samman Nidhi, Rs 6,000 per year to be given to each farmer, in three installments. The amount will be transferred directly to farmers' bank accounts for those with less than 2 hectares land holding.

CREDIT DISCREDITS

Despite India's inclinations to support farmers and raise ther income levels, the rural credit sector is still disorganized. Rural debts are unfortunately on the increase and farmers are under immense financial distress. The latest survey report of the National Sample Survey Office (NSSO) avers that more than half of the agriculture households are in

debt, and the worst affected states are southern states like Andhra Pradesh, Telangana, and Tamil Nadu. The 70th round of NSSO survey says about 52 per cent of the agricultural households in the country are estimated to be in debt. Among the major states, Andhra Pradesh had the highest share of indebted agricultural households in the country (92.9 per cent), followed by Telengana (89.1 per cent) and Tamil Nadu (82.5 percent). The report states nearly 40 per cent of households take loan from non-institutional sources like money lenders. Nearly 60 per cent of total outstanding loan is taken from institutional sources. The banks' share is (43 per cent), followed by cooperative societies (15 per cent). The survey also showed that a very small segment of agricultural households utilised crop insurance because of lack of awareness. This squarely shows the utter failure of the organized system of banking in rural India.

While schemes galore at the national level to channelize the credit flow to rural strongholds, certain pockets remain unreachable. Debt traps have become far too common and farmes suicides have not seen any let down. According to data released by National Crime Records Bureau (NCRB) 5,600 farmers committed suicide across the country in 2014. Maharashtra and Telangana, infamous for the stranglehold of private money-lenders on farmers, have kept their dubious record intact. As many as 33.4% suicides in Maharashtra and 23.2% in Telangana were due to 'bankruptcy or indebtedness'.

Although the entire system of credit delivery could not be blamed, certain instances suggest malpractice. The interest subvention scheme which was introduced in 2006-07, provides loans at 7 per cent interest (upper limit of Rs 3 lakh), and if payment is regular, gradually it is lowered to 4 per cent. Some states have extended loans even at zero interest rate to farmers. This has resulted in a significant increase in short-term agricultural credit, with actual disbursements consistently surpassing targets, the expense on account of it has increased from Rs 3,283 crore in FY12 to Rs 13,000 crore in FY16. It is hard to believe that the amount has percolated to farmers. There's reasonable evidence that a significant proportion of crop loans granted at subvented interest rates has quite deceptively seeped for other purposes. A beneficiary of this scheme whether a farmer or someone posing as a farmer, receives the loans at a concessional rate of 4 per cent and instead of investing that in farming he can deposit at least a part of it in fixed deposits in the bank, earning about 8 per cent interest, or even become a moneylender to offer loans at 15-20 per cent interest to those who don't have access to institutional sources of finance. Short-term credit from institutional sources reached 110 per cent of the total value of agricultural inputs in 2014 (NAS 2015), and at the same time, AIDIS data shows 44 per cent loans were from non-institutional sources in 2013. This suspicion is reaffirmed when one looks at the month-wise disbursement of agricultural credit, which spiked to 62 per cent of annual disbursement in the last quarter of FY14, with no corresponding spike in agri-production activities. Even the RBI committee has recommended phasing out the interest subvention scheme.

Loan waivers are another category of financial support that have time and again supported the farmers. Although distorting, this financial aid bails out farmers from having to pay back their loan amount. Despite the merits being temporary, this has become the favourite political instrument. Generalized loan waivers raise expectations among the farmers for such future interventions acting as a disincentive to pay back their loans. This would also raise the number of defaulters and create a crop of habitual defaulters.

There is no dearth of loans or schemes that extend financial assistance to the farmers. But somehow not all are benefited by this scheme. Money lenders still influence the farmers. The government should raise the awareness of the farmers and they should be made aware of the existence of such schemes. This will kill the unorganized sources of credit and expand institutionalization of rural credit. ■