Reaching the Unreached : Public Services

K. V. Raghavulu
CGM, NABARD, Mumbai

In the milieu of the new banking culture fostered by reforms, lending to agriculture or priority sectors generally, became unfashionable. The relative magnitude of the flow of credit to agriculture shrank and the interest rate regime which was designed to pamper the private corporate sector openly discriminated against agriculture. Even Public Sector Banks (PSBs) merrily defaulted on the credit targets of 18 per cent of net bank credit to agriculture and 40 per cent of net bank credit to priority sectors. The Reserve Bank of India (RBI), which was obsessed with implementing the Basle norms as the main thrust of banking reforms, winked at the defaults. While the priority sector target has been attained during the last couple of years, the target for agriculture continues to remain unattained: lending to agriculture is around 15 per cent today, as compared to the target of 18 per cent of net bank credit. While highly rated corporate entities could raise money from banks or PSBs at interest rates as low as 6 or 7 per cent, the small farmers was required to pay a rate of 12 per cent. It was left to the Government of India to reduce the lending rate to small farmer to 8 per cent only in August 2003. The neglect of agriculture and the rural sector generally was total during the 1990s, there is a deterioration of the health of all institutions involved in rural credit: PSBs, Cooperative credit institutions and Regional Rural Banks (RRBs) – all of which showed high Non-Performing Assets (NPAs). In other words, the financial sector reforms which were transplanted from the so-called Basle norms were ill-concerned and unrelated to the specific socio-economic milieu of the Indian soil, and they succeeded in creating an adversarial environment for rural credit. In fact, the credit-deposit ratio of RRBs declined sharply over the 1990s, indicating a reverse flow of funds from the rural to the urban areas. Even RRBs were permitted to invest in the PSU bonds. No wonder, the annual average rate of agricultural growth decelerated sharply from 4.7 per cent in the Eighth Five Year Plan to only 2 per cent in the Ninth Plan. The rural credit delivery system had slowed down.

It is indeed gratifying to note that the Tenth Five Year Plan endorses this view-point: It is being evident, however, that the organised financial sector in India is either unable or unwilling to finance a range of activities that are of crucial importance both for growth and development. Agriculture, unorganised manufacturing and services, and various types of infrastructure are instances of such sectors. The recent financial sector reforms have naturally focused primarily on improving the viability and stability of financial institutions without adequately addressing this issue. It is, therefore, necessary to consider methods of encouraging the financial sector to finance such activities, without impinging on its viability or compromising on prudential concerns. One thing should be made quite clear: it was not “inability” of banks because the banking system was highly liquid during the 1990s, with the credit – deposit ratio hovering around 50 per cent.

Poverty

The process of economic development, based on nature and its resources, quite often, causes damages to them. Major factors responsible for such damages are poverty, growing population and poor industrial / farming techniques adopted (Jon Martin Trolldalen, 1989, Sustainability and Dryland Management, Constraints and Challenges). Poverty is considered as a major factor for indiscriminate use of natural resources at a pace higher than its regenerative capacity. Our population constitutes around 16 per cent of the world population, and with just 2 per cent of the world's land resources, the pressure on land is immense when compared to overall world situation.

It is often believed that there is a strong trade off between emphasis on sustainability and poverty eradication measures. It is disheartening to note that with all the efforts to control the poverty in the region by 2020, as many as two out of every five children in south Asia will be under-nourished (as estimated by the International Food Policy Research Institute (IFPRI), Washington D.C). It underscores the view that the measures for sustainability / environmental protection should not be at the cost of curtailing agricultural production which is basis for poverty eradication. There should not be any conflict between the conservation of production system and attaining food security.

Population Growth

The issue of sustainable development in agriculture is likely to deteriorate further in view of the increased foodgrain requirement, changing dietary pattern, etc. of the growing population as viewed in unison with stagnant/declining productivity and shrinking natural resources (R.S. Paroda, 2000, Policy support Essential, Survey of Indian Agriculture). It is estimated that the share of productivity is more than 70 per cent in the total increase in the production followed by area expansion (around 20 %) and the rest by factors like improvement in cropping intensity. The proportion suggests that by 2030 AD, more than 120 million ha. have to be additionally brought under cultivation to meet our food requirements at that time. Given the limitation of area that can be brought under crop cultivation and in view of ever increasing urban areas, land put to industrial use, etc., the only possibility is to increase productivity/ intensity adding to the stress on land, and thereby aggravating environmental problems and endangering our biological diversity. It is, therefore, felt that in order to maintain the food security, increased food production alone is not sufficient, but the population growth also need to be controlled/slowed down.

Cost

Monetary cost of sustainability measures is also a matter of concern. Efforts to bring waste/dry land under cultivation to ease pressure on agriculture land are often constrained by high cost of investment compared to the net benefits derived from such investments. Similar problems are also confronted in the case of treating of degraded lands and water bodies. Public investment, by estimating social costs and benefits of such projects, is required to make such projects feasible. It is commonly accepted that the economic benefits (short term and long term) of sustainability /conservation practices should be equal or more than cost involved.

Equity concerns

The concept of social justice was in-built in the concept of sustainable agricultural development. It has been believed that overall growth in agriculture would lead to equitable distribution of the gains through generation of additional income and employment. However, we have seen that agricultural growth on its own could not substantially reduce the incidence of poverty, even in regions that have experienced remarkable growth in agriculture. This was partly because the poor were out of the purview of costly seed-fertiliser-irrigation technology and partly due to weak trickle down effect of the technology itself. Similarly, the emphasis on maximisation of yields led to the input intensification in the developed areas, leaving a large part of the country particularly the dry land areas, devoid of the new technology which consequently gave rise to inter-regional disparities in income and incidence of poverty. Hence, while considering the sustainability issues, social justice consideration should also be given due importance.

CD RATIO OF RURAL FINANCIAL INSTITUTIONS

Agency wise	March 1999	March 2000	March 2001	March 2002	March 2003
Sch. Com. Banks@	37.95%	37.12%	35.67%	37.52%	38.87%
SCBs	85%	87%	91.5%	88%	88%
DCCBs	92.1%	82%	85%	86%	87%
RRBs	41.96%	40.94%	41.33%	41.83%	44.23%

@In respect of rural and semi-urban branches

Source – Basic Statistical returns - RBI

Credit flow during plan period and likely shortfall during X plan period

Credit disbursement during the IX plan period at Rs.229956 Cr. exceeded the target of Rs. 229750 crore. Estimated credit flow during X plan period – Rs.736570 crore. First two years of X plan period witnessed a shortfall of Rs.31490 crore. Even taking into account GOI announcement of doubling of credit in next three years, a shortfall of Rs.161079 crore vis-à-vis plan target is likely at the end of X plan period.

Progress in Credit Flow during 2004-05
as on 30 September 2004

(Rs. in crore)

Agency	Disb. upto Sept.2003	Target by GoI for 2004-05	Disb. upto Sept. 2004	Absolute increase over Sept. 2003	% growth
Comm. Banks	18,930	57,000	30,304 (53%)	11,374	60
Co-op. Banks	14,356	39,000	16,825 (43%)	2,469	17
RRBs	3,506	8,500	6,462 (76%)	2,956	84
TOTAL	36,792	105,000	53,591 (51%)	16,799	46

Highlights of performance on GOI announcement of 18 june 2004 (As on 30 Sept.2004)

Disbursement by all banks stood at Rs.53,590.65 crore forming about 51% of projected credit flow of Rs.1,05,000 crore for 2003-04. Commercial banks, Co-operatives and RRBs achieved 53%, 43% and 76% of their respective targets. There has been a growth of 46% during the first half of the current year compared with the corresponding period of last year.

Maximum growth rate achieved by RRBs (84%) followed by Commercial banks (60%) and Co-operatives (17%). Under 'Financing new farmers', 60.5% of the target was achieved. Commercial banks have extended loans to 5503 farmers indebted to informal sources like moneylenders to redeem their debt with them and provided Rs.13.85 crore upto 30 Sept.2004.

Progress in implementation of KCC scheme

Upto 31 March 2004 all banks issued 414 lakh cards. Cooperative banks issued 242.58 lakh cards (59%). RRBs issued 38.99 lakh cards (9%) and Commercial banks issued 132.43 lakh cards (32%).

Strategy for 2004-05

To bring all farmers including oral lessees, defaulters (by motivating them to clear their dues) under the KCC fold. The scheme has been modified recently to include term loans for agriculture and allied activities and a reasonable component to meet the consumption needs, besides the existing facility of providing crop loan limit.

Rural Financial Sector in India

Over 139,000 rural retail outlets of formal banking system are working in the country, viz. Commercial banks - 33,000, RRBs - 14,500, Co-operatives -92,000. The Population per rural outlet is 4,700. Historically, rural credit has been targeted through Co-operatives.

RBI had fixed certain targets in agriculture, priority sector, etc. viz. minimum priority sector lending (40%), minimum agricultural lending (18%), minimum weaker section lending

(10%) and regulated interest rates on deposits and loans. Special poor-targeted programmes are also implemented.

Poverty Alleviation Programmes

IRDP

No. of families assisted were 54.5m. Bank Loans disbursed were Rs.253.77 b. Subsidies disbursed were Rs.145.00 b.

Programmes for SC / ST/ OBC/ Minorities were also implemented. These loans almost equal to those under IRDP. Annually 40 mil rural loans are "small loans" of < = Rs. 25,000. Average loan is Rs.5,250.

Due to fixed margins and high transaction costs, banks cut down on appraisal and monitoring costs, which resulted in high defaults. Leakages of subsidised resources were also observed in various studies conducted. Tremendous outreach was achieved but 36% of cash dues of rural house-holds still come from informal sources (1992) and 33% (27% ?) of population continued to be “poor”. The poorer of the poor were still outside the fold of banking system. A common view was that very poor are not bankable.

The normal savings and credit products did not suit the needs of the poor and procedures were complicated and cumbersome and it was amounted to high transaction costs for the poor. Even the special programmes did not recognise savings as important and resources handled were often larger than the poor’s capacity to handle. Others decided everything for the unreached people. The poor need HASSLE-FREE Credit Mechanism to keep safe thrift and tiny surpluses and credit to meet emergencies and for micro Enterprises. It is necessary to design a system wherein savings and credit products are taken care. The system should also improve the access of the poor to financial services which reduce transaction costs of the poor, reduce transaction costs of the financing agencies and enhance participation by poor in decision making. It should build up handling capacities of the agencies who can provide these services. The system has to identify new partners, work out roles for different partners and integrate formal banking system to ensure sustainability.

SHG Programme

What are SHGs ?

The SHG is a homogeneous group with common problems, affinity and neighbourhood. It generally consists of 10 to 20 participative members, they meet frequently, they have mutual trust and appreciation of others’ view and take transparent decisions. It provides for simple accounting, pooled thrift is bankable, pooled thrift can be used to meet emergent needs. The pooled credit needs are bankable.

They build up capacities, larger needs are met and needs of more people are met. The SHG - Bank linkage programme increases outreach to poor, it is cost effective for both banks and the poor. It reduces dependence on informal source. It is a door step, hassle-free, self managed financial services. It helps access of formal banks to savings and credit of the poor. It helps graduation from consumption to production loans and graduation to higher income levels with no subsidy and initiates the process of empowerment. About 0.263 M SHGs were financed by banks which accounts for 4.5 M poor house-holds and about 22.5 M poor people.

90 % SHGs are women groups and the average loan size was Rs.1,072 per member. Member level on-time repayment rates were near 100 % and about 8,000 bank branches of over 314 banks and 1030 NGOs are involved in the SHG programme. It is proposed to enhance outreach to 20 M families or 100 M rural poor through 1 M SHGs by 2007-08 and the estimated demand for microCredit is Rs.150 B to Rs. 500 B per year.

The Strategy

The proposed strategy is to focus on states where more poor live, thrust on promotion of large number of SHGs, ensuring rating / grading of SHGs and Training and sensitisation. It is necessary to investment in human capital development and sharing best practices to develop the SHG programme.

More emphasis on Group formation and nurturing, Group composition - thrust on affinity and homogeneity need to be given. The members own stake in the group in the form of savings and members learn to maintain financial discipline. The collective wisdom in credit decisions help good recoveries. The peer support minimises the risks of failures. Savings and credit is a continuing process and freedom of selecting loan purpose, with benefit of peer counselling. Poor gets a FACE - empowerment.

Issues and Challenges

It is necessary to expand the programme in backward areas. Banks to ensure post linkage management and Federations of SHGs. NGOs as financial intermediaries have to develop MIS and both banks and NGOs to help graduation from micro finance to micro enterprises and contain supply side anxieties.

Role played by NABARD

Programme is conceptualised by NABARD. Grants are given to NGOs, Banks, Individual Rural Volunteers (IRVs), Farmers' Clubs etc. for promoting and nurturing of SHGs. NABARD designs training and capacity building programmes for stakeholders. Cumulatively, 21,744 programmes were conducted in which 7.95 lakh participants were trained. NABARD evolved region-specific microFinance alternatives viz. Grain Bank in Orissa, Smart Card in Andhra Pradesh, Computer Munshi in Orissa and Jharkhand, Barefoot Book Writers in Uttar Pradesh and Bihar, Joint Liability Groups and collaboration with post offices in Tamil Nadu.

Documentation and dissemination of Best Practices of microFinance through its periodicals "Saving Grace" in English and "Akshaya Patra" in Hindi is carried out.

Future Strategies

- Target for 2005-06 is 2.5 lakh SHGs linkage (Credit linkage of 3.47 lakh SHGs during 2004-05).
- To pay focussed attention on 13 priority states having 70% of the rural poor of the country (In Non-Southern states, coverage increased – 37% to 41%)
- Promotion of microEnterprises among matured SHGs, Pilot Projects in 10 districts of 10 states in the country and support marketing strategies for SHG products.
- Credit rating of mFIs with 75% subsidy, capacity building of mFIs and to encourage bulk

lending to mFIs at cheap rate of interest, 7.5% per annum presently to evolve new innovations.

Recent policy initiatives in rural credit by RBI & NABARD

Special Agricultural Credit Plan (SACP).

Opening of specialised agricultural finance branches.

Rashtriya Krishi Bima Yojana (RKBY).

Kisan Credit Card Scheme (KCC).

Scheme for purchase of land for agriculture purposes.

Relief for drought affected farmers.

Rural Infrastructure Development Fund (RIDF).