



RESEARCH STUDY ON THE SPREAD AND EFFICACY OF AGRICULTURAL FINANCE AND RURAL CREDIT IN BENGAL

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Project Synopsis of Research study on the spread and efficacy of agricultural finance and rural credit in Bengal

Preamble

Agricultural lending in India is much more critical than commercial lending for many reasons. First of all, the more seasonal nature of the activity and the subsequent peak-load demands that necessitate immediate disbursements.

Secondly, the repayment of working capital loans can be essential only once at harvest season.

Thirdly, the fact that adversities often affect a large number of borrowers instantaneously, making it very difficult for local institutions to diversify their portfolios to mitigated economic shocks.

Fourthly, there is frequent absence of security of borrower. This daunting list of unfriendly factors has discouraged lending by private banks in the rural sector of the nation. According to RBI data the at the All India level, Scheduled commercial banks funded the major share (78 – 80 per cent) in agricultural and allied credit. Co-operative institutions also play an important role in spreading agricultural credit. The shares of all co-operative banks and institutions are 15-16 per cent. These Regional Rural Banks (RRB)s funded the remaining 5 per cent of the agricultural credit. According to RBI report WB has a tiny share in the country's overall loans to agricultural and allied sector.

West Bengal: A glimpse

One way to stimulate the demand for rural credit including agricultural credit is to deepen the credit absorption capacity in WB. Rural Infrastructure Development Fund (RIDF) is one such tool available which has the potential to create the necessary credit absorption capacity in the rural areas of this state. RIDF is maintained by the National Bank Of Agriculture And Rural Development(NABARD) and is mainly funding rural projects like irrigation, roads and social sector by way of loans to state governments and state-owned corporations.

The all-India average agricultural loan/output ratio was 0.32 with West Bengal being the lowest at 0.09. This may be due to higher share of low value crops in the overall crop output. However, the higher credit amount would have a higher risk of greater indebtedness among the borrowers. As per RBI reports WB is getting significantly high credit against its input cost requirement. This raises the question whether the credit is being used for the proposed purpose or the funds are being diverted to unproductive uses

On the other hand, WB is not able to avail credit for their activities and this highlights the neglect of the allied activities by banks. One possible reason could be lack of definition of differentiation between a farmer growing crops and a farmer engaged in allied activities. The Census report defines a farmer on the basis of landholding size. As a result of this, banks offer loan on the basis of land records of a farmer who seeks credit for agricultural activities. Hence, there is a need for suitable measures to improve the credit off-take towards allied activities, especially in those WB districts which have potential for allied activities. Besides, banks do not have any specific directive to lend towards allied activities.

The evolution of Institutional Lending

Ground Level Credit is one mechanism in which targets are fixed according to activity and then push credit towards allied activities. As per RBI data, the banks have been achieving every year the annual goals of crop loans and term loans. The evolution of agricultural credit policies of India can be broadly characterized into three distinct phases. During the initial planning period (1951-69) the nation depended on primary sector. Commercial banks and cooperative sectors were involved in financing the sector. In the second phase (1970-90) RRB and NABARD came into existence by enactment to promote credit facility and rural development respectively. In the third phase (1991 onwards), NABARD has introduced the Self-Help Group (SHG) model to further financial inclusion of the excluded segments in 1992. NABARD started the pilot project on SHG-Bank by a partnership model involving the connections between SHGs, banks and NGOs. In the initial years, the scheme progressed slowly but picked up steadily. The Kisan Credit Card (KCC) was introduced as a financial product in 1998 to provide disturbance free credit to farmers. The Union Government introduced the Ground Level Credit (GLC) policy in year 2003-04. According to the policy GLC targets for agriculture and allied sector are set every year in the Union budget which banks are required to accomplish during the respective financial year. These targets are set region-wise, agency-wise (SCBs, RRBs & Cooperative banks) and loan category wise (crop and term loan). Another policy was introduced in 2004–2005, was to double the volume of credit to agriculture over a period of three years and enlarge the reach of formal finance. The Union Government introduced the interest subvention scheme (ISS) for short term crop loans to enable farmers to avail farm credit at reduced interest rates in 2006. In 2009-10, the Government introduced the rapid repayment incentive (PRI) of 3 per

cent under the ISS to bring down the effective rate of interest to 4 per cent for those farmers who repaid their loans on or before the due date to inculcate repayment habits. From 2015 onwards the focus of GOI has shifted from 'credit in agriculture' to 'credit for agriculture'.

Demand For Credit

The claim is that credit is comparatively plentiful and cheap in commercialized areas in WB. Although in the backward areas credit is infrequent and irregular. Casual observation of such areas suggests that cooperation of rural moneylenders in informal sector is weakened or inactive. Some of them become staff of the few branches of commercial banks and try to settle down rural loan through unfair activities. It is probable that interferences in the credit market will have hardly a significant contribution to mitigate the miserable conditions of life for the people of such areas. Only those borrowers with fair access to some institutional credit will be capable of bargaining with the rural moneylender from a position of strength. Moreover, with the latter acquiring some institutional credit directly, it can reduce the cost of loan funds. Most experience also suggests that the concentration of loanable funds through institutional lenders is too limited to make such credit broadly available at a reasonable cost. Attention should be focused on raising agricultural productivity and incomes of rural household of WB through public investments in infrastructure and the dispersion of new methods and crops and also by increasing the working capital.

The Supply Side

Sources of rural credit:

There are mainly two prominent sources of agricultural credit in WB. The first one comprises of non-institutional sources. This includes money lenders, friends and relatives, traders, commission agents, landlords etc. The other source comprises, Cooperatives, Commercial Banks, Regional Rural Banks, State governments, Land Development Banks etc. These are some set of financial institution that forms the other side of credit sources i.e. institutional sources. The National Bank for Agriculture and Rural Development (NABARD) is the apex institution which provides agricultural finance assistance to the institutional sources. This apex institution is directed and financially supported by RBI. Perhaps, two other distinctive sources of agriculture finances are micro-finance and Kisan Credit Card Scheme (KCCS). Both of these sources of finance appear to resolve the weaknesses of the credit distributional issues in rural areas. The KCC scheme is the most vigorous mode of credit delivery policy to agricultural sector in terms of the hassle-free operations with minimum process costs and citations. In order to give further boost to micro-finance movement, RBI also permits Non-Governmental Organisations (NGOs) to operate as Micro Finance Institute (MFI) to become a rural credit source. However, the rural area of WB access a very small share of MFIs compare to southern states. Under the State government head of institutional credit source the government of WB has announce some schemes to provide finance to the rural sector. Those are

- Every farmer will get Rs 5,000 per acre each every year in two installments from the department of agriculture
- A grant of Rs 2 lakh to the families of farmers who die due to any reason, including suicide under the Krisak Bandhu scheme
- Minimum Support Price (MSP) with Rs.1550 plus Rs. 20 per quintal in addition will provide to those who will sell crops directly to the Centralised procurement Centres (CPC).

Finally, an active involvement of both rural men and women through the formation of Self Help Group (SHG) and Joint Liability Group (JLG) have resulted in a necessary impetus to stimulate agricultural finance with the formal assistance of Commercial Banks and RRBs, MFIs etc.

Another feature which has immensely benefitted farmers of WB is free Crop insurance. The Government has taken a slew of measures but a large chunk of rural credit still comes from the village money lenders who lend at very high and prohibitive rates of interest leading to large scale rural indebtedness.

Objectives of the study

The objective of this study is to conduct an analysis on an empirical evidence of rural financial markets in WB. The study is organized in four sections: the first section describes the institutional setting and the study areas briefly. The second section presents the findings from the sample. In the third section, we examine the credit absorption capacity of WB and credit being used for the proposed purpose or not. In the fourth section, we examine the credit market, especially the informal credit market of rural WB and identify the gap between demand of credit and its supply

Methodology:

Desk Research- In this study we would undertake Secondary research through literature survey to be conducted by the Research team of Faculty members.

Field Research – In this study, we will survey stratified random samples of rural households each from different districts of WB. The Questionnaire will be framed in Bangla and would cover a large sample size. The field Research will be conducted by the students of Economics, Management and Commerce under the guidance of faculty members who will be part of the Research

team. The Questionnaire would be pre tested prior to the commencement of Field Research.

There will be a separate set of Questionnaire for Commercial Banks, RRBs, Co operative banks And NABARD.

Analysis

Data From both Field Research and Primary research Would be Analyzed using the tools of Big data Analytics.

References:

- Reserve Bank of India (2019) "Report of the Internal Working Group to Review Agricultural Credit"
- Golait R. (2007) "Current Issues in Agriculture Credit in India: An Assessment" Reserve Bank of India Occasional Papers, vol.28 (1)



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Prof. Ray is currently the Mentor & Adviser to Chancellor, Sister Nivedita University. He has always focused on research and publications and while at IBS, he created the IBS Research Centre Kolkata where dedicated researchers and authors worked passionately towards developing management case studies and books, so far, more than 300 case studies developed by the centre has been uploaded in European Case Clearing House. The centre has also come out with more than 100 books.

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