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Rapporteur's Report on Innovations in Agricultural Credit Market: Rationalisation of Policy Response

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INTRODUCTION

Creation of a wide network of rural financial institutions (RFIs) was one of the major achievements of the post-Independence state policy (Government of India, 2007). The task of building the formal financial system in rural areas was facilitated by the adoption of the social and developmental banking policy framework encompassing a variety of policy measures. On the institutional side, the framework included a proactive expansion of commercial banks in rural areas under the concept of lead bank scheme, strengthening the network of credit co-operatives, and establishment of National Bank for Agriculture and Rural Development Bank (NABARD) and Regional Rural Banks. On the policy and services side, the framework went with the prescription of priority sector lending, equity and refinance support to RFIs, and regulated interest rate structure to ensure access to affordable credit. Such a policy resulted in several positive outcomes. The diverse set of institutions promoted resulted in both widening and deepening the access of rural households to formal sources of finance. This in turn contributed to fostering agricultural and rural development and curtailment of the role of informal sources of finance.

The financial liberalisation launched in the 1990s in the wake of structural adjustment and economic reforms has brought about considerable changes in the policy approach to rural and agricultural lending **(**Ramachandran and Swaminathan, 2005). The thrust is on financial health of the RFIs through efficient operations and performance enabled through deregulation and adoption of prudential banking norms in tune with the global practices. RFIs have been given freedom with regard to their branch expansion and interest rate determination besides reducing pre-emption of their investible funds by way of lower liquidity reserve ratios. Allowing RRBs to work as regular banks apart, dilution of state equity and entry of private banks are the other steps taken under the reforms.

A major rationale advocated for reforms was to expose RFIs to a more competitive environment and sustain themselves through more efficient operations and innovative strategies. The neo-classical economics provided the basic theoretical underpinning for such a policy rationale (Pischke *et al.*, 1983). The argument was that the state through its excessive role and intervention in rural financial markets has

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brought about considerable inefficiencies resulting in the underperformance of RFIs as seen in the poor coverage of rural households, growing non-viability of rural lending, and weak financial position of rural banks and co-operatives. The direct intervention of the state in rural financial markets, cap or restriction on interest rates, and quantitative sectoral allocation of credit were argued to be reasons for such under-performance. These arguments have been supplemented by the ideas of new institutional school which has identified market failure arising out of growing risk and uncertainty, information asymmetry, and moral hazard in rural lending as the cause of poor performance and weak financial health of RFIs (Basu and Verma, 2004). The institutional school argued for policies to overcome market failure through suitable institutional reforms. Innovations in institutional forms and products and services facilitated through conducive regulatory framework are identified as the necessary conditions for improving the performance of RFIs under the changing environment.

There have been diverse range of responses in the areas of rural finance to rationalise the reform process. The RFIs including the co-operatives are expected to adopt prudential norms even covering agricultural lending to enhance their risk bearing abilities. In terms of interest rates, banks and co-operatives have been given freedom to charge interest rates as per business norms and market conditions. In terms of credit allocation, the priority sector lending continues with sub-sector targets. However, certain newer areas or activities are included under the priority category to broaden the original focus.

At the institutional level there have been several initiatives under reforms (Government of India, 2010). While the three major institutional forms, viz., commercial banks, RRBs and co-operatives continue to operate, there have been some changes in their structure and role. For example, RRBs which were created to exclusively serve the weaker sections like small and marginal farmers and agricultural labourers have now been allowed to function as normal banks without any focus on such a target group. Further, along with recapitalisation many RRBs have been amalgamated to create viable units of them. About the commercial banks, there is now a liberal approach towards expansion of their rural branches, and a few private commercial banks have also made an entry. Alternative forms of institutions have been created or allowed to cater to the financial service needs of the rural households especially the poor. Non-governmental organizations (NGOs) and other forms of microfinance institutions (MFIs) have emerged which use group based approach to provide financial services to the poor. Linkage of informal groups with formal institutions also has been attempted in a significant way under the self help group (SHG) and bank linkage programme (SBLP). Introduction of agency based provision of services through use of business correspondents/facilitators is another innovative mechanism adopted to increase the coverage of the poor by reducing the transaction costs. About co-operatives, two initiatives worth identifying are the enactment of self-reliant co-operative acts by several state governments to create a

more autonomous member based institutions and the announcement of the financial revival package for the credit co-operatives.

Introduction of new products or services by RFIs is another area of response. One which is worth mentioning is the introduction of kisan credit cards (KCCs) by all RFIs to bring flexibility and hassle free access to credit by farmers. A large number of KCC have been issued so far since the inception in 1998. The National Agricultural Insurance Scheme (NAIS) which replaced an earlier crop insurance scheme is another example of product innovation. NAIS aims to provide insurance services to the farmers in a viable and a more decentralised way. Some of the other innovations having links to agricultural lending include weather-based insurance, introduction of commodity futures and derivatives, and contract farming.

Incidentally, there have been several initiatives made to reverse the negative fallouts of the reform process as well as help farmers come out of the prevailing chronic agrarian distress scenario (Government of India, 2010, NABARD, 2009). The initiative to double the flow of agricultural credit starting from 2004-05 in view of the severe decline observed in the flow of credit to farm sector is one such measure. Introduction of security-free lending up to one lakh rupees to tenants and lease famers is another measure to increase financial inclusion. Another major intervention in this regard is the implementation of the agricultural debt waiver and relief scheme in 2008 by Government of India covering nearly 37 million farmers to mitigate the consequences arising out of growing indebtedness and agrarian crisis. In order to reduce the growing cost of borrowing, Government of India and several state governments have introduced interest subvention schemes wherein part of the interest paid on agricultural loans by farmers is being reimbursed. Simultaneously, loans for debt swaps have been introduced to formalise the debt from informal sources. Further, a few states have tightened their money lending laws to curtail usurious practices of the informal sources.

Thus, one can identify several measures and innovations taken up in the context of reforms by RFIs. The intended goal of reforms was to improve the financial health of RFIs and make them become more competitive and innovative to deepen their outreach and reduce the cost of intermediation. The assessment of the impact of reforms *per se* and the initiatives/innovations introduced thereof have thrown up a mixed picture. While the monetary authorities seem to be generally satisfied with the impact of the reforms especially in improving the financial health of the RFIs, there have been concerns raised both by official and independent agencies over many negative consequences wrought by reforms in the rural financial system. The positive gains of reforms as identified by some of the studies include the improved profitability of the RFIs and introduction of several innovations like KCC, microfinance, debt swaps, weather-based insurance and price discovery mechanisms helping in the delivery of better services to the farmers and rural poor (Hess and Klapper, 2004). However, alternative assessments have highlighted several highly undesirable fallouts of these changes.

One such assessment by a group of scholars clearly argues that the financial liberalisation has decimated the carefully built rural financial system (Ramachandran and Swaminathan, 2005). These scholars have questioned the very theoretical and policy basis of the reforms, and have inferred that the changed political economy under reforms is bound to result is consequences like neglect of agricultural lending and rise in real interest rates. Empirically, they have found that as a result of the reforms there is a severe constriction of formal credit network and a decline in rural and agricultural lending leading to aggravation of agrarian distress and revival of the informal sources of credit. The process has led to other serious problems like creation of institutional vacuum, credit starvation and disintermediation by RFIs (Shetty, 2005). Moreover, reforms have generally resulted in an increase in interest rates on rural lending (Singh, 2005), a reverse of what was visualised before reforms because of increased competition. The relevance of some of the innovations having links to rural finance delivery be it microfinance or commodity derivates and futures or securitisation has been questioned because of their potential to weaken the position of the farmers and the poor (Bagchi, 2005).

As a way forward, while these alternative assessments argue for reversal of the reform measures and adoption of a proactive state policy to strengthen the network of RFIs as was done under social banking policy, those supporting the reform process are arguing for creation of conducive regulatory framework to reinforce the competitive environment and institutional reform process underway so as to enable the RFIs to come up with innovative solutions for the problem of agricultural and rural credit. The Expert Group on Agricultural Indebtedness (Government of India, 2007) which inquired into the problem of agricultural indebtedness identified, among others, institutional vacuum created as a major cause, and advocated institutional alternatives and introduction of novel instruments as possible solutions to the problem.

The issues brought out above calls for a critical assessment of the nature of the policy responses in the post-reform period and the outcomes seen thereof. The present theme of the conference hence is a highly relevant one and needs a thorough debate. The conceptual note on the theme initially circulated for the paper-writers had identified the following indicative questions for investigation: 1) What are the factors/policies such as financial sector reforms in improving or reducing the access to credit?, 2) What are the alternative innovations in vogue to improve the credit outreach and what are the comparative costs and benefits of such innovations?, 3) Is there a reduction in the transaction costs both from the banks' and borrowers point of view and, if so, what is the magnitude of such reduction?, 4) Does the reduction in the transaction cost result in increased profitability of the banks in agricultural lending? Are the benefits of reduction in transaction costs passed on to the borrowers and if so, to what extent?, 5) What is the impact of innovations on the asset less poor and the marginal/small farmers who have limited access to formal institutional

sources of credit?, 6) What is the impact of the amalgamation of RRBs in terms of outreach, portfolio diversification, productivity and profitability?

Before we can arrive at possible answers to the above questions and identify issues for further discussion, it would be worthwhile to look at some of the insights and findings thrown up by the papers submitted for the conference. In all twenty two papers have been submitted under the theme. The papers based on their findings are grouped under four broad areas. A brief summary of their findings by the area of their concern is presented below.

1. *Policy Level Initiatives*

As identified, the above post-reform policies include those which are aimed at strengthening the reform process as well as those which are a response to mitigate the negative consequences of such a reform. There are two papers dealing with policy measures and their outcomes for the rural credit system. Elumalai Kannan in his paper has tried to look at the working of some of the recent farm credit based initiatives to stimulate investment in the crisis ridden agricultural sector. The Government of Karnataka has introduced since 2004-05 a concessional interest rate scheme on crop loans to enable the farmers to access cheap credit. The paper argues that interest subsidy scheme seems to have made a positive impact as the number of agricultural borrowers and average lending have gone up considerably though still over two-third of members are found to be not accessing the services of the co-operatives. Despite the increased flow of credit as a result of the initiative, the author found only a weak correlation between increased credit availability and crop productivity. The scheme also has created few hassles for co-operatives leading to increased interest burden. Arti Gaur and Shilpa Khatkar found wide variations in the flow credit of across various regions. The rural banking system has not been able to ensure equity and qualitative aspects of credit delivery. One can observe a positive relationship between credit disbursement and agriculture development across the regions. The agriculturally well developed states and regions dominate in accessing institutional credit as compared to less developed ones. The paper suggests a balanced credit flow through suitable policy interventions for sustainable agricultural growth.

The two papers thus touch upon some important issues arising out the current policies like inequality in the flow of institutional credit, and the positive outcomes that can be attained through schemes like interest subvention for increasing the demand for credit. However, given only a limited number of papers in this area, many of the other policy initiatives identified above be it the new priority sector lending policy or the deregulation of interest rates or even the effort at doubling the agricultural credit have not been assessed. Unless these major policies initiatives are studied for their results, it would be difficult to clearly assess the overall impact.

2. *The Working and Impact of RFIs*

The post reforms period has brought out about many changes in the structure of the RFIs. While the multi-agency approach continues, each of the major constituent units of the RFI network viz., commercial banks, RRBs and co-operatives have undergone reform driven changes. What are these changes and how far these changes have affected the nature and working of these institutions?

There are two papers which specifically looked at the working of co-operatives. B. Sheshagiri and L.D. Vaikunthe in their paper have observed that the spread of the co-operatives was relatively more in districts of northern part than those in the southern part. Nearly 88.5 per cent of the agricultural families have come under the co-operative credit structure. However, the share of co-operatives in the total credit has declined from 24.9 per cent in 2004-05 to 17.5 per cent in 2009-10, and the co-operatives are also burdened with mounting overdues. The co-operatives adopted several innovations like business development plan, KCC and SHGs in their working. Prompt sanction of repeat loans, ensuring adequacy of credit, and linking of credit with marketing are some of the measures suggested for improving the working of co-operatives. K.N.S. Banafar and others, have observed a positive trend in the progress of the PACS on parameters like coverage of borrowers, loans disbursed, and recovery. The study also found a significant difference in cropping intensity, annual income, and employment generation for borrowers as compared to non-borrowers which was attributable to the farm credit provided. The problems in recovery of loan, limited area of operation and illiteracy of the farmers are identified as the major constraints before the PACS. The authors suggest a clear cut plan for financial inclusion of all the needy by the PACS.

Thus, while the access to credit from co-operatives has shown the potential of creating a positive impact on agricultural production, the working of co-operatives continues to suffer from challenges like uneven spread, declining share of their lending, inadequate coverage of farmers, poor lending practices, and mounting overdues. No doubt co-operatives have also adopted innovations like KCC and SHGs, a further streamlining of their working is called for.

In terms of the working and impact of other institutional credit agencies, there are two papers. Kavita Pal and S.K. Srivastava have looked at adequacy, timeliness and cost of borrowing, and repayment pattern of crop loans financed by the RRB in Moradabad district of Uttar Pradesh. The study observed a satisfactory performance in terms of adequacy and timeliness of loans sanctioned. However, there were concerns in terms of cost of borrowing as non-interest cost accounted for a significant share. The authors argue for reduction in the cost of borrowing through lower pricing and reduction of transaction cost by simplification of loan delivery. R.N. Barman and R. Das have found that institutional credit has played a positive role in technology adoption by farmers. The technology adoption gaps were found to be lower for the borrower farmers as compared to the non-borrower farmers. The paper

concluded that augmenting capital on the marginal and small farms can increase farm productivity and viability. The authors called for expansion of rural bank branches with sufficient staff and adoption of simplified documentation in loaning.

The limited number of studies seems to suggest that the working of rural banks like RRBs has ensured timely and adequate access to farm credit which in turn is found contributing to better adoption of farm technology to increase productivity. Insufficient branches and higher cost of borrowing appears to be the challenges to enhance the role of institutional credit especially for the small and marginal farmers.

3. *Innovations in Products and Services*

The RFIs have tried to introduce several innovations in products and services offered by them. Some of these innovations like KCC are specially meant to help farmers access financial services at lower cost and without many of the hassles often encountered. There are also innovations meant to specially equip farmers to cope with risk and uncertainties that go with agriculture. The products and services that are worth mentioning in this regard are NAIS, weather based insurance and warehouse receipt financing. The papers under these two categories of innovations are summarised separately below.

Kisan Credit Card: In all seven papers have looked at the working and impact of KCC. Anjani Kumar and others in their study argue that the scheme despite its consistent progress has shown several shortcomings including significant inter-state variations in its spread and density. More than half of the households have yet not been covered under KCC. The land size showed a direct relation with the coverage of farmers under KCC in all the states with small holders constituting only less than 10 per cent of the coverage. Though KCC has definitely influenced growth of agricultural credit but the depth of credit flow is lacking due to inadequate credit limit forcing farmers to depend upon other modes. The authors argue for coverage of all needy households under KCC by proactive measures. Similarly, Samir Samantara and K.C. Badatya have argued that KCC is an integrated product offering a single line of credit for multiple purposes. The authors have identified a positive contribution of KCC as seen in higher yields for KCC holders. However, the study observed that KCC is being issued mostly for the existing borrowers and the entire credit needs are not being met because of failure to follow the prescribed norms. The other serious problems identified are multiplicity of cards and farmers preferring KCC as one shot loan than as a cash credit facility. The authors suggest introduction of biometric cards and simplification of procedure to make KCC efficient. Gouradevi Katnalli has observed that under the KCC scheme more than 60 per cent of the farmers are yet to be covered. Though co-operatives played a major role in the issue of KCC initially but commercial banks have emerged as the major players. H. Basavaraja and others observed that both the co-operatives and commercial banks are

found playing a major role under KCC. There was substantial annual increment (25.42 per cent) in the loan amount disbursed through KCC. The socio-economic background of farmers as such had not influenced the coverage under KCC. The credit gap and cost of credit including non-interest cost was found to be lower for the KCC farmers. Hence the authors recommend a wider coverage of farmers under KCC.

There are few papers which have looked at the experience of KCC in certain specific states. A.K. Sharma and others found that KCC has become an important source of credit more for the large farmers. Cane co-operative societies continue to be the prominent mode of credit for the non-KCC small holders. Only about 31 per cent of the members have obtained KCC, and majority of cane growers were reluctant to adopt KCC due its cumbersome process. The KCC farmers used their credit for purchasing inputs and tractors with more than 50 per cent being spent for non-farm purposes especially by medium and large farmers. A more proactive approach is advocated to bring small and marginal farmers under KCC including use of ICT. The study on Vinod Kumar has inferred that though the small and marginal farmers accounted for 62 per cent of total loan accounts, the share cropper were not found covered. Overall, the flow of agricultural credit was found skewed in favour of large farmers. As the KCC limits were not fixed on the basis of operational holdings, there was huge credit gap. The credit norm and cost of credit varied across different agencies. Only 23 per cent KCC holders were found using the KCC limit as cash credit. The overall production, productivity and profitability were found to be higher for KCC holders than non-holders reducing the dependency on non-institutional credit. The paper recommends evolving KCC as a truly multipurpose instrument covering term loan and consumption loan.

Thus, the studies on KCC indicate that though there has been an impressive growth in the issue of KCCs several lacunae are coming in the way of KCCs emerging as a really innovative and a flexible instrument capable of streamlining credit flow to farmers. There are variations across regions and land-size categories in the coverage of KCC. A large number of farmers especially small and marginal farmers, tenants and share croppers are yet to be covered under KCC. Rigid norms and procedural hassles have made KCC a highly restrictive facility and a considerable proportion are found using it more as one time loan than as a flexible cash credit facility. Again due to rigid norms, KCC has not been able to reduce the credit gap and the dependence on other sources of credit. However, wherever KCC has created better access, many positive changes could be seen in terms of reduced cost of borrowing, increased use of inputs, and higher crop yields. A more proactive approach on a mission mode using ICT and simplified procedures are identified as possible measures to increase the coverage and effectiveness of KCC.

Crop Insurance and Other Innovations for Risk Mitigation: Providing protection to farmers through insurance in case of calamities has been a major challenge.

Despite several efforts in the past, adoption of a viable and an affordable insurance scheme has been elusive. The National Agricultural Insurance Scheme (NAIS) was introduced in 1999 replacing the Comprehensive Crop Insurance Scheme (CCIS) with the hope to build a more systematic risk mitigation mechanism for the farmers. Recommendation for the introduction of the warehouse receipt financing is another measure which is expected to help farmers to improve their holding and bargaining capacity to realise better prices for their products instead of resorting to distress sales. Two papers have examined the issue of crop insurance and one paper has dealt with warehouse receipt financing.

About crop insurance, Debisree Banerjee and Uttam Bhattacharya in their paper argue that agricultural insurance in India is still in an experimental phase. Only because of the NAIS, a large scale agricultural insurance has been possible since 1999 as it covers both the borrowers and non-borrowers growing food grains and other commercial crops. However, the NAIS has been characterised by low rate of participation and high claims ratio. Only a few states accounted for around 50 per cent of the total farmers insured with the total area covered being less than 50 per cent of total cropped area. Inadequate protection, exclusion of post-harvest risk, adverse selection, and delay in settlement of claims are found to be some of the major limitations of the NAIS. Increasing farmers' awareness, simplification of the scheme, adoption of a decentralised approach are identified as possible measures to make agricultural insurance more effective. A.S. Shashi Kiran *et al.*, have tried to assess the impact of crop insurance on resource use efficiency by potato farmers in Hassan district of Karnataka. The authors conclude that that because of the incentive created insured farmers applied higher inputs, used resources more efficiently and reaped higher yield as compared to non-insured farmers. However, inadequate compensation, delay in the settlement, and lack of proper information were identified as the major limitations of the scheme. The authors suggest bringing in more farmers under the crop insurance scheme.

Only one paper on other measures of risk mitigation has been submitted. S.R. Asokan and Anita Arya in their exploratory paper have tried to examine the potential benefits arising out of loans based on warehouse receipts. Warehouse receipts are documents issued against the deposit of the commodities and the Government of India has through legislation tried to ensure the negotiability of the warehouse receipts. The paper observed that warehouse receipt financing may not prove to be beneficial always especially when the expected rise in the value of the stored product is not realised by the farmers. The benefits may occur only in the case of certain crops, and bigger farmers are likely to benefit more due to their higher marketable surplus. The paper however suffers from the limitation that it is more an assessment of the potential scenario rather than one based on empirical data.

Thus, the limited evidence on some of the innovations meant for risk management suggests that there is still a long way to go before an effective risk mitigation measure for farmers can be put in place for wider adoption. The new crop

insurance scheme though having a potential for creating positive incentives for efficient resource use, is found to be poor in terms of its coverage due to several procedural and other constraints. The warehouse receipt financing needs to be more innovative to be beneficial for the farmers.

4. *Microfinance*

Microfinance has emerged both as an innovative and an alternative mechanism of delivering financial services to the poor. The failure of formal financial institutions due to their biased policy in catering to the needs of the poor like marginal farmers, tenants, artisans and others pursuing non-farm occupations is the main reason behind the emergence of microfinance. In India the growth of microfinance has been rapid particularly during the post-reforms period during which the formal sector has shown a strong tendency of excluding the poor and other small borrowers. The response by way microfinance hence can be seen both as a measure to overcome the conventional failure of formal institutions as well as to mitigate the negative consequences of the reform policy on the poor. The microfinance method through the group approach tries overcome the constraints and bias faced by the poor in accessing services from the formal agencies. Microfinance has come to include provision of credit, savings and insurance for the poor to pursue entrepreneurial activities to overcome poverty. There are broadly two models of microfinance in India, viz., the SBLP model and the MFI model. Under SBLP informal groups are linked to formal agencies to access savings and credit facilities. Under the MFI model variety of institutions like NGOs, NBFCs and co-operatives try to provide directly services to the poor by mobilisng them into informal groups. The MFIs may receive funds from banks and donor agencies for the purpose of on lending to groups. Given it fast growth, microfinance has raised hopes of widening the outreach of formal sources to the poor in an innovative way. However, microfinance also has come under severe criticism due to its inherent limitations like high cost of operations, lack of universal access to financial services, and inability to help in large scale poverty alleviation (Shylendra *et al.*, 2010).

There are six papers under this section trying to assess the working and impact of microfinance interventions. About the working of microfinance, especially the SBLP model, S. Bhagchandra Jain and Shashi Bhushan Singh in their case study of a SHG in the Raipur district of Chhattisgarh found that women members of the SHG are able to access bank credit fairly regularly. Members are found using the loan mainly for production purposes and able to attain economic upliftment through the income and employment generation. The authors identified lengthy loan procedure, restriction on women members' mobility by the family, lack of skills and training, and forced sale of fish as some of the challenges constraining the members of the SHG.

A few of the papers have tried to specifically look at the limitations in the working of SHGs and possible solutions to overcome them. Gouradevi Katnalli in her paper argues that the NABARD-led SBLP has witnessed a significant progress in terms of savings and credit linkage. However, the programme is characterised by uneven geographical spread with the states in southern part of the country together accounting for about 69 per cent of the SHGs linked. Further, despite the expansion of the programme around 70 per cent of the poor are still out of its fold, and the agricultural sector is not being explicitly targeted by SBLP. S.L. Kumhare *et al.*, in their paper have argued that though SHGs have proved that the poor are bankable but still suffer from certain constraints in widening and deepening the credit access. Other innovations like producer oriented joint liability groups (JLGs) can help overcome the limitations of SHGs. The emerging experience shows that JLGs have proved to be useful in covering a variety of producers like dairy farmers, fishermen, tenants, and paddy farmers who otherwise face difficulty to access the formal agencies. Efforts to improve credit absorption capacity of the members and supply lead strategies can help in strengthening the performance of both SHGs and JLGs.

Coming to the impact of microfinance, the papers in this regard have observed several positive changes in the social and economic conditions of the members due to the access created. K. Sita Devi *et al.*, in their study undertaken in Cuddalore district of Tamil Nadu have found that the SHG programme has achieved its goal of helping the weaker sections like women agricultural labourers to access microfinance. SHGs have become a key source of credit for both production and consumption purposes reducing the dependence on moneylenders. In terms of the social impact, the study revealed an improvement in the respondents' self worth, communication skills, and status in the family because of the economic strength gained through the SHGs. Similarly, S. Lavanya and R. Vijaya Kumari in their paper observed visible changes among SHG members in terms of savings habit, household income and assets, improvement in living facilities, and initiation of income generation activities. The impact was more pronounced on social dimensions. The paper suggests further efforts to strengthen the SHGs. R. Ramakrishna *et al.*, observed the positive impact brought about by the SHG programme in Vishakapatnam district of Andhra Pradesh. The programme has been successful in promoting regular savings among poor and help improve their access to credit at a lower transaction cost. Inadequate capacity building, and improper NGO and bank linkage are some of the obstacles in the working of SHGs. Due to access to microcredit, the non-farm employment opportunities have increased resulting in an increase in the income level and a decline in the borrowings from informal sources. The repayment of SHG loans was found to be better as compared to formal and informal sources. However, the authors conclude that there are limits to microfinance in substituting broader policies of growth and equity for the poor. Lastly, Deepak Shah and Sangram Panigrahi in their study carried out in Ganjam district of Orissa also found a positive impact of SHGs on the economic status of the members. The

members of SHGs were better placed in terms of enjoying higher economic status vis-à-vis non-members. Besides credit, the authors identified education, training, raw materials and easy access to local markets as important factors in improving the members' conditions.

The above studies on microfinance have brought out the innovative aspects of the group approach in enabling the poor to have regular access to small savings and credit by reducing the cost of transaction. The group linkage has spread rapidly to bring in large number of poor especially women under the fold of formal agencies. The access created as revealed by these studies has made a significant impact on the income and employment conditions of the members. At the same time these papers highlight various limitations faced by the SHGs both in creating the access and in their contributions to improve the economic conditions. The SBLP has shown a very skewed spread geographically and a large section of the poor still remain excluded. SHGs besides their limited focus on agriculture have shown limitations in covering variety of rural producers who otherwise find it difficult to participate in SHGs. Moreover, the poor who are able to access SHGs still face quite a few challenges in productively making use of credit due to lack of skill development and training and lack of marketing linkages. The papers submitted have focused only on the SBLP model ignoring the other model of microfinance. Nor have they been able to bring out explicitly the issues of concern in the linkage process and the limitations faced by microfinance to emerge as an alternative mechanism of financial inclusion. The finding of the impact studies also have to be read carefully as many of them have failed to address clearly the methodological challenge of attribution.

ISSUES FOR DISCUSSION

The overview of the policy changes presented above followed by the summary of findings of the papers bring out the relevance of exploring clearly the post-reform response of the RFIs and the outcomes thereof regarding agricultural credit. While the overall changes and the specific innovations attempted have shown certain positive outcomes in the working of RFIs but several serious concerns have emerged in the process leading to questioning the very nature and basis of such initiatives. The papers presented though have looked at certain problems of concern as identified by them but given the overall limited range of issues covered by the papers several of the questions raised by the concept note have remained unanswered. The following issues hence are identified both for further discussion in the conference and subsequent exploration by researchers in the field.

1. Identify the major policy reforms initiated in relation to RFIs. What is the true nature of these policies and their potential to affect the working of rural financial markets? What are the areas in which reforms may be continued and the areas in which they may be reversed?

2. What are the measures initiated to overcome some of the negative consequences of reforms like exclusion of poor and small borrowers, increasing cost of borrowing and growing influence of informal sources? How far these measures have helped reverse these negative consequences?
3. What is the evolving institutional structure in rural areas to meet the emerging credit needs? What type of innovations has been attempted here? What are the merits and demerits of such institutional change for ensuring affordable and hassle free access to financial services by the rural households in general and small and marginal farmers in particular?
4. What are the innovative product and services developed by the RFIs to meet the diverse financial service needs of the farmers and other rural households? In what way these innovations have proved beneficial? How far some of the controversial innovations like commodity futures and derivatives have delivered for the farmers? What are the areas of rural credit delivery in which further improvements/innovations are needed so that credit can play a more effective role?
5. What is the impact of these reforms and innovations on the farm economy? How far these measures have contributed for either aggravating or mitigating the agrarian crisis?

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