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Subject I

Trends in Rural Finance

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At the outset, the subjects covered in the papers accepted for discussion were briefly reviewed. Thereafter, the issues set out for discussion in the Rapporteur's report were highlighted and suggestions invited for inclusion of any other related issue. The wide ranging discussions were centered broadly on the following sub-themes:

1. Institutional credit structure,
2. Problems of outreach of rural financial institutions,
3. Cost of credit,
4. Flow of credit and supporting/complementary systems required to increase productivity of credit,
5. Savings.

Institutional Credit Structure

It was felt that the Vaidyanathan Committee Report on revitalisation of short-term credit and term credit be implemented by the states at the earliest. For this the necessary legal, institutional and other reforms be committed by states through signing of MOU with Government of India and the NABARD which has been so far done only by some states. In the post-reform period, there has been a declining trend in credit-deposit (CD) ratio in rural areas, share of rural branches of commercial banks, share of priority sector credit, and share of co-operatives and Regional Rural Banks (RRBs) in agricultural sector credit. Therefore, strengthening of co-operatives and RRBs is of utmost importance as part of mainstream banking to cater to credit needs of the weaker sections of rural population. Location/region-specific strategies will have to be evolved keeping in view their business potential to increase C-D ratio.

Outreach of Rural Financial Institutions

It was emphasised that a holistic approach is required to increase the outreach of rural financial institutions by addressing both demand and supply side aspects. Micro

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financing has emerged as an important intervention to address the challenge of financial inclusion besides other innovations such as No-Frills account, Know Your Customer (KYC) drill, General Purpose Credit Card etc. However, institution building in micro-finance continues to remain a challenge and demands constant innovations in terms of products, procedures, delivery mechanism, organisational form and regulation for securing the commitment of MFIs and loyalty of borrowers. In this context, proper screening and rating of MFIs will be essential.

In addition to this, technology-driven cost reduction, deepening and widening of micro-credit efforts, clear focus on relatively unbanked and under-served areas, improving financial literacy and credit counselling in local language, customised hassle-free products for transactions, remittances, savings, loans and insurance will be essential. In this regard, farmers' training centres, village knowledge centres, Krishi Vigyan Kendras (KVKs) and other agencies of extension network system may be promoted and made more active in ensuring effectiveness of rural financial services by complementing support through knowledge dissemination. Widening of institutional systems like post-offices for use by banks and issuance of biometric cards may also be meaningful in enhancing the outreach. Mobile banking can yet be another option to cover the scattered and wandering population of agricultural labourers.

The discussion favoured that bank branch staff should be reoriented through capacity building programmes to develop a positive attitude towards disadvantaged sections of the society mainly the poor and women. Equally important is to have adequate staff and logistics at operational level and system of incentives and rewards for high performance. It was also felt that after the transition period MFIs could be imbibed as part of mainstream banking.

Cost of Credit

Access to dependable/reliable credit is more important to poor than cheap credit. Therefore, providing financial services to the poor should not be construed as providing below cost service. Farmers would not mind paying market interest rate provided adequate loan is available at the right time in a hassle-free manner. This observation is also supported by significant presence of informal credit despite a significant rise in access to institutional finance. Therefore, efforts are required to provide low cost financing not by pricing the loan at below market interest rate but through reduction in unit transaction cost by simplifying the loan delivery system. Kisan Credit Cards (KCC) has been one such innovation. In this context, computerisation of land records, IT application, and biometric cards for farmers may prove to be very useful. Financing at below market interest rate can have many negative spillover effects in terms of unfavourable effect on institutional viability, outreach efforts of institutions, repayment follow-up and additional burden in the form of periodic recapitalisation of institutions to restore their financial health. It was also pointed out that certain regulatory framework is required for checking the exorbitant interest rates charged by private moneylenders, though there was some skepticism about its effective operationalisation.

For viability and sustainability of rural financial institutions, a more active policy of rescheduling and restructuring of loans needs to be followed instead of loan waivers and loan write-offs by government.

Flow of Credit and Support Systems

Inter-regional disparities in agricultural credit flow could better be viewed not in terms of per hectare credit flow alone. Instead, it was felt that both per ha flow of credit as well as the consequent coverage of value of inputs (cost of production) should be considered for assessing the degree of inter-regional disparities. Accordingly, credit widening and deepening efforts should be made by improving credit absorption capacity through augmentation of technology flow and providing supporting infrastructure in the regions with inadequate flow of credit. In this context, public-private partnership can be a meaningful option.

Integrated credit approach could be an option for balanced mix of production and investment credit, which is presently getting imbalanced in favour of production credit. The adverse impact of this imbalance on agricultural productivity, however, needs to be assessed by appropriately capturing the impact of other productivity enhancing, region-specific factors like weather, technology, infrastructure, etc.

Savings

Savings are the base of all kinds of financial services. Further, savings and credit are complementary. Therefore, there is need for innovative, flexible and customised savings products for weaker sections of the rural community who have usually the capacity to save seasonally.