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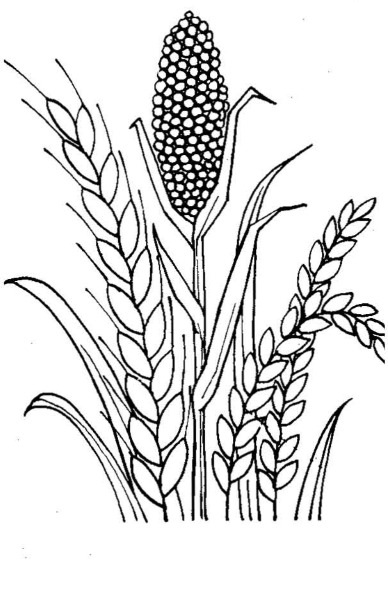

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IMPLICATIONS OF RURAL CREDIT POLICY— A MACRO LEVEL ANALYSIS

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The All-India Rural Credit Survey Committee Report (Gorwala Committee) had estimated that in the 1950s only about three per cent of the total rural credit was disbursed by the institutional agencies which at that time were mostly co-operatives. Since then, several innovative strategies have resulted in a quantum leap and not merely more credit is being disbursed quantitatively but in qualitative terms also there has been a deeper and wider coverage. Greater attention to project formulation details and closer monitoring and supervision of on-going schemes have been salient features of subsequent developments. The disbursement of agricultural credit is targeted to reach Rs. 12,500 crores by all agencies (co-operatives and commercial banks together), of which Rs. 8,040 crores are towards short-term credit loans in the last year of the Seventh Five Year Plan (Government of India, 1985).

The project approach to lending was largely based on methodologies of the International Development Association (IDA), the soft lending affiliate of the World Bank, involving the IRR 'project cycle' and its emphasis on backward and forward linkages. In fact, in the earlier years of the Agricultural Refinance Corporation (ARC) in the 1970s, IDA teams made detailed on the spot studies of on-going projects and also insisted that this had to be monitored and evaluated by ARC staff on a regular and continuing basis. There was a large scale diversification of projects at about this time and several new areas, including dairy development, poultry, fisheries, plantation and farm mechanisation, among others, became eligible for refinance facilities from ARC and World Bank. Minor irrigation continued to be the largest component in the disbursements, accounting for over 30 per cent of the total disbursements.

The formation of the National Bank for Agriculture and Rural Development (NABARD) in 1982 after merging the erstwhile ARDC and the ACD (RBI) brought about a sea-change in the approach to rural credit. Not merely was there a sharper focus and more concerted action in regard to the formulation and implementation of schemes and the disbursement of refinance, but an important component of rural development was brought under the purview of the new institution. Hitherto, the non-farm sector, including handlooms, was not being actively supported and developed, a task which NABARD took upon with all seriousness right from its inception. Task forces were set-up to go into important areas like handlooms, coir, sericulture, handicrafts, infrastructure and marketing essentials and the recommendations of these Expert Groups were translated into policy guidelines. Thus rural

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The views expressed are those of the author and do not necessarily represent those of NABARD.

development assumed a more comprehensive connotation and linkages were established with the various official and non-official organisations set up for the promotion and development of these industries.

Comprehensive schemes were drawn up for innovative areas in the non-farm sector incuding liberal terms of credit, automatic refinance, assistance for marketing including setting up/renovation of sales emporia and for implementing promotional strategies. Since the Industrial Development Bank of India (IDBI) was already functioning in this field, efforts were made to co-ordinate closely with the IDBI to avoid overlapping of functions and facilities provided. With all this, softer and wider facilities available, the non-farm sector has not risen to the expectation and disbursement figures reveal that there have been few takers for the facility provided particularly from among the poorer sections of artisans and handloom weavers. A major reason for this is that the artisans are not organised to avail of the facilities, and the facilities themselves are not designed and structured to meet the felt needs of the artisans. Also, because the artisans operate on a small scale and cannot make distinctions between block capital and working capital requirements, these tend to overlap the prospect of introducing disciplines and formats of organised industries and have not obtained the desired results. It seems that we have now reached a point when we have to identify the felt needs regarding the facilities for the artisans and weavers as per their requirements rather than expect them to fall in line with the guidelines and policies arrived at hypothetically.

NABARD follows the District Oriented Monitoring (DOM) System in terms of which a representative sample of investments is taken up for periodic analysis every four years. The size of the sample and frequency of the study are determined by the manpower available, which is sometimes constrained. Under the circumstances several on-going schemes may not have the benefit of a critical, in-depth analysis for purpose of identifying bottlenecks and removing them. Ex-post evaluation and other studies of on-going NABARD schemes have, *inter alia*, revealed inadequate backward and forward linkages, high cost of borrowing (22 to 40 per cent of the loan amount), distortions like more loans to larger farmers (76 per cent) vis-a-vis smaller farmers (67 per cent) and misutilisation of loans (7 to 25 per cent of loan amount). A disturbing trend has been that the smaller the loan component the higher is the cost of borrowing. Also the collateral demanded from the small farmer is higher, adding to his constraints. Other constraints in the smooth and even flow of rural credit include periodical natural calamities which affect most parts of the country, seriously making the agricultural operations of the farmers extremely vulnerable and their lives precarious. Some parts of the country have been experiencing continuing droughts for three years and more in the recent past like Maharashtra, Rajasthan, Bihar, Andhra Pradesh and Uttar Pradesh, necessitating the postponement of dues and rescheduling of loans year after year.

There are stringent 'eligibility criteria' stipulated by the IDA, co-relating recoveries with disbursement in an inverse proportion, *i. e.*, the higher the overdues the lower the eligibility (overdues of 60 per cent and more make eligibility nil). Natural calamities impair the repaying capacity of the farmers and successive droughts increase the overdues of the primaries lending to them. This reduces the primaries' 'eligibility' or capacity to borrow/avail refinance from higher financing agencies. (The percentage of overdues to demand was 47.8 per cent for State Land Development Banks and 39.8 per cent for Central Co-operative Banks as on June 30, 1987.) This paradox is in the nature of a vicious cycle and ameliorative measures like postponement and rescheduling makes it difficult for the farmers to repay as the very basis of the repayment, *viz.*, his agricultural operations are subjected to severe strain.

It has been observed that a small farmer whose loans have been rescheduled continuously for three years is not left with any further repaying capacity because he may have sold away his asset during the distress period. Even to put his agricultural operations on rail, after his investments have been severely damaged/impaired is a difficult proposition as he would have to make fresh long-term investments in wells/channels and animals (see Annexure.) Under the circumstances a vicious cycle is created whereby moneylenders come to the rescue of the farmer and are repaid from out of institutional credit sources. A possible solution to this is that the State should make heavy long-term investments for building up a durable infrastructure, as this would minimise the risk of the farmer running to the moneylender for help/loans.

It seems logical that more resources should be invested for meeting these periodic calamities on a durable and long-term basis. When the Garland Canal Scheme was proposed to form a kind of national grid for irrigation purposes, it was felt that this would be a very expensive proposition and beyond the available resources at that time. Subsequently, several crores of rupees were disbursed as subsidy, aid or grant which do not result in any durable or long-term benefits to the beneficiaries or to the agricultural and rural development sector. Since natural calamities have become a recurring phenomenon, the State Government with Central assistance, including international support should draw up plans that would help the farmers to squarely meet the persisting menace and also insulate their farms from long-term damage

Since agricultural production has reached a stage of near self-sufficiency, and since sizable bufferstocks have been built up, it would be worthwhile to explore the possibilities of effecting a basic change in focus in regard to rural credit, which is now subject to so much of uncertainty and hazard. While liberalised industrial policies are being announced and also implemented in varying degrees, such a policy thrust is yet to crystallise in the field of rural industries. Since the prime need is to provide economic, labour-intensive activities, combining technological upgradation and higher productivity, it seems necessary that the highest level of applied research needs to be undertaken to explore an optimum action programme for rural artisans/weavers. While necessarily emphasising on the non-farm sector and the handloom sector, there is also scope for large scale movement of established industries from urban and metropolitan areas to rural areas which could act as a catalyst for further development. While the concept of zero industry areas is laudable in itself, the results it has achieved so far do not seem to be promising. It is, therefore, necessary that the lacunae and loopholes in implementing these policies are studied in depth and action taken to give a fillip to the scheme in the larger interests of rural development. Ancillary industries in which traditional artisans could be trained can be set up as a part of rural industrialisation which can be modern and sophisticated using the latest hi-tech available.

The IDA of the World Bank disbursed about 40 per cent of its total aid to India till 1985 making it the largest single recipient of IDA aid. However, due to a multiplicity of reasons, some of which are of non-economic nature, IDA aid to India has come down to about 25 per cent with some of it under commercial terms. However, several other countries incuding Japan, U.K., Denmark, Switzerland, etc., provide modest amounts of aid for several specified purposes. (External aid received during 1986-87 amounted to Rs. 218.6 crores including IDA aid.) In view of the fact that these do not constitute continuing or long-term commitments, it is problematic to build any of this type of assistance into a perspective plan of development. It is, therefore, desirable that international assistance be generated through non-political bodies which appraise and disburse funds to the third world countries strictly on the basis of their track record, potential and infrastructure arrangements for development. If this is done, it would be possible to make more effective use of international aid on the basis of priorities and felt needs of the recipient country.

In regard to the interest rate structure, while the Indian view supported by leading bankers advocates a low rate of interest, the western school of thought is for higher rates. In the third world countries, where beneficiaries have to pay a high cost for borrowings (sometimes equal to half of the amount borrowed), a lower interest rate with incentives for prompt repayment and higher productivity is recommended. Also, a very strong infrastructural network is necessary for the supply of inputs, scientific storage of surpluses and remunerative prices for the produce. All this assumes that agriculture becomes a business in a truly professional sense, manned and managed by competent and dedicated functionaries.

Organisations like the Institute of Rural Management need to be multiplied to provide the hardcore of trained personnel who can supplement the present cadre of functionaries, who also need to be trained and motivated. In the revised framework, rural credit will take its rightful place as an important input because credit by itself cannot deliver the goods, as it assumes a strong infrastructure to enable it to perform its function effectively.

ANNEXURE

REPAYMENT SCHEDULE FOR A SMALL FARMER DURING THE DROUGHT PERIOD

NABARD has decided in consultation with the Reserve Bank of India that in the case of farmers affected by drought/flood for three or more years in succession, ending with 1987-88, the following concessions shall be extended.

"The State Co-operative Banks/Central Co-operative Banks/Regional Rural Banks (SCBs/CCBs/RRBs) shall defer, for a period of 2 years or till the next normal year, if it occurs earlier, the recovery of the amounts falling due on account of principal as well as interest in the current year (July 1987 to June 1988) in respect of short-term (crop) loans converted/rescheduled as medium-term loans."

Repayment schedule for a farmer who has been sanctioned a short-term crop loan in 1985 of Rs. 1,500 is as follows:

Due to drought, the loan has been rescheduled with a two years' moratorium, *i.e.*, during 1988 and 1989.

Instalment due	Principal	Interest	Total (Rs.)
1990	300	450	750
1991	300	120	420
1992	300	90	390
1993	300	60	360
1994	300	30	330

If there is a drought again in 1990, the farmer will not be in a position to repay the loan in 1990. If the loan instalment is again postponed, his loan liability with interest for the year 1991 would be Rs. 600 + Rs. 600, which would be beyond his repaying capacity, even assuming that he is able to get some money out of his land till 1991. If the farmer has availed a long-term loan also, his liability is likely to aggravate further. (*Courtesy:* Shri N. Rangarajan.)

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