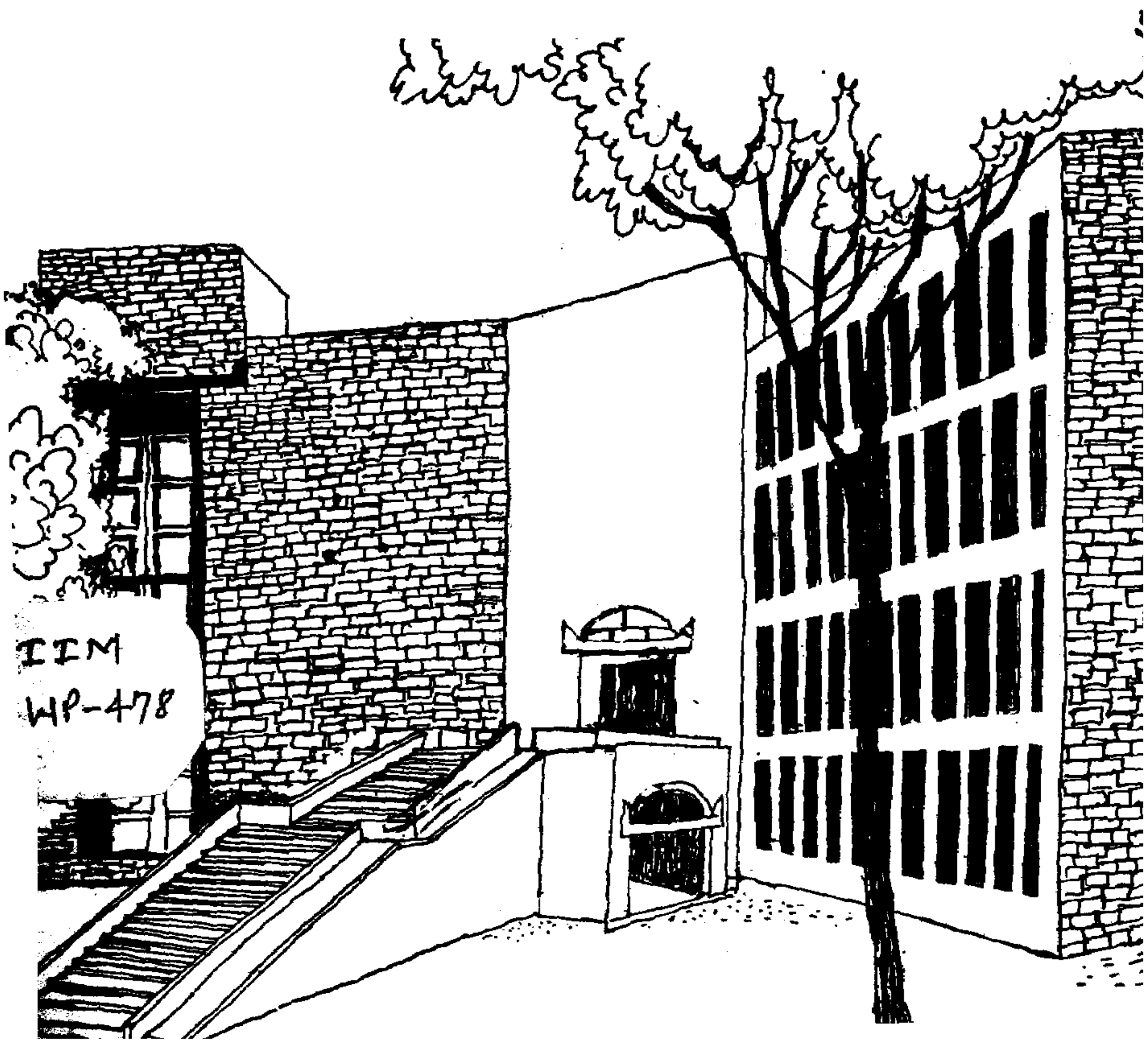
विद्याविनियोगाद्विकासः

IIM

AHMEDABAD

Working Paper

W. P. 478



CREDIT ARRANGEMENTS FOR DROUGHT PRONE REGIONS: POLICY PRESCRIPTIONS AND PLANNERS' REACTIONS

By

Anil K. Gupta

W P No. 478

September 1983

The main objective of the working paper series of the IIMA is to help faculty members to test out their research findings at the pre-publication stage.

INDIAN INSTITUTE OF MANAGEMENT
AHMEDABAD-380015
INDIA

CREDIT ARRANGEMENTS FOR DROUGHT PRONE REGIONS : POLICY PRESCRIPTIONS AND PLANNERS' REACTIONS

ABSTRACT

IIM-A in collaboration with NABARD and Swiss Development Cooperation conducted a field study to identify policy options for rural credit in drought prone regions. A joint monitoring team for field study comprising of professionals from three institutions deliberated on the findings and suggested policy measures.

A national seminar subsequently was organised to discuss the policy options It included professionals and senior executives from Central and State government, Commercial, Cooperative and Land Development Banks, DICGC, ICRISAT, GICI, NFSCB besides NABARD. The paper in part <u>one</u> presents the original findings and part <u>two</u>, the proceedings of the seminar*

Further debate on the ideas contained herein will hopefully help in creating necessary bias in credit policy towards drought prone regions. The major contention of the paper is that a policy suitable for well developed region with generally uniform ecological conditions may not necessarily help in extending credit to small farmers in backward regions, in particular the dry regions. In view of poverty problems being much more complex and serious in dry regions, need for policy reform in credit can not be over emphasized though simultaneous changes in several other related policies will also be called for.

* Proceedings prepared by NABARD are for restricted use. Their permission for sharing them with wider academic community is gratefully acknowledged.

Part I

Credit Arrangements for Drought Prone Regions : Policy Prescriptions and Planners Reactions

Public policy for rural development in our country has shown an increasing concern for amelioration of poverty with specific reference to those regions which have been bypassed by the developmental thrust of post green revolution era. Several institutional as well as organizational reforms have been attempted to improve the access of small farmers and agricultural labourers to various programmes being designed to help them. The role of credit in this effort has been quite pivotal as evident from the subsidy linked nature of most of the direct programs to rural development. Even in indirect infrastructural development the role that credit can play is being increasingly realised.

However, a caveat is in order here. Credit by itself cannot grow anything; it can help in the growth of various economic activities, provided, the complementary infrastructure is available in the given socio-economic and political context. This has been mentioned specifically so that the policy recommendations suggested in this report are looked at in proper perspective. Further, it is also being recognised that the financial institutions which would ultimately implement any change necessitated on account of this report, have their understandable limitations such as:

1) Very narrow margins on the lending for priority sector in particular for agriculture;
2) Increasing defaults in agricultural credit leading to the problems of viability for various institutions;
3) While their performance is monitored on profit and loss account their portfolio is expected to follow a logic which may not conform to the demands of healthy profit/loss account;

4) In a mixed portfolio the less costly lending would tend to pull institutional resources away from the high cost lending because of the commercial nature of an organization influenced by scales of economy.

However, one should not infer from above mentioned limitations that there is no scope for credit policy reform for drought prone regions which have been bypassed by and large by the institutional credit. This has become important all the more in view of the imminent catalytic role of NABARD for rural development. The organizational integration of various policy planning and implementing wings will have a vital bearing on the perspective that will prevail in terms of credit policy. For example, the attempt to bring the village industries and other non-farm activities within the gambit of refinance facilities underlines the realization already existing in the minds of policy planners regarding the need to take comprehensive look at the problems of rural development. It also stresses the concern at the top level about the urgency of support to the artisans and other poor farmers engaged in these activities because of limited possibilities of absorbing labour in agriculture. Thus the growth and equity objectives of the government are being given an operational meaning in the format of NABARD. However, as mentioned earlier while the changes made in the policy so far do signify the attempt at increasing the flow of rural credit there has been only limited success as far as the question of disparities amongst the better and poorly endowed regions is concerned (i.e. the direction of flow)

It is, in this context that the present study was taken up in Ahmednagar district of Maharashtra, to explore how the demand for credit for productive purposes could be stimulated from the poor classes of farmers in drought prone regions. To summarise, the major parameters of poverty problem in drought prone districts are as follows:

1. Extraordinary, intra-district disparity in agricultural productivity and credit flow and as a sequel to above, gravitation of institutional credit to irrigated regions:

2. Poor credit availability for sheep, goat, craft and village industries etc., which provide employment to majority of poor artisans and marginal farmers;

3. The uncertainty of weather making agriculture risk prone;

4. Repeated droughts causing serious losses of bullocks and other assets as well as aggravated deficit in the household budget of marginal and small farmers;

5. Pressure on land coupled with constrained avaialbility of grazing land affecting the livestock production even though the average sizeholding is large but productivity is poor.

6. Extremely limited irrigated potential implying the need for looking for developmental alternatives in the rainfed context only, i.e. dry farming and non-farm enterprises. Further, the existing irrigation potential also is mismanaged or unutilised. For instance even presently, rather than growing sugarcane in dry regions, the available water could be used extensively for stabilising the economy of large number of growers of millets, pulses and oilseeds. The issue of extensive vis-a-vis intensive irrigation in such regions needs therefore a serious discussion. If the policy for rural credit in irrigated and dry regions does not differ, then it must be assumed that

the same policy which leads to development of irrigated regions can generate developmental processes in dry regions as wel` The policy options emerging from the present study besides other studies by the author suggest questioning of this assumption.

Summary of major recommendations by the study team* is given below:

1. <u>Cost of Lending:</u>

In a commercial organisation, the cost of lending would be a prime mover towards the choice of portfolio both spatially and seasonally. Cost will differ amongst different regions such as irrigated ones having high population density and dry with low population density, not only because of differences in the transportation cost but also because the time involved in contacting similar number of people in a sparcely populated region will be much more than otherwise. <u>Banks being commercial organizations are not expected to</u> rationally channelise more resources to regions and purposes causing greater losses. Therefore, there is a need for providing specific fiscal incentives to the banks for <u>taking up high cost lending</u>. Unless it is done the regional disparities cannot be expected to be bridged in foreseeable future. In other words, the social objectives will have to be supported by fiscal policies if commercial nature of an organization is to be retained.

---

* Members of the monitoring team for Joint Field Study included

Mr.S. Chappatte, Regional Co-ordinator, Swiss Development Cooperation, Embassy of Switzerland, New Delhi, Dr.MV Gadgil, General Manager, National Bank for Agriculture and Rural Development, Bombay, Prof. Anil K Gupta,CMA Indian Institute of Management, Ahmedabad.

Some of the incentives could be the following:

a) Rebate in interest tax or income tax*

b) The tax burden could be progressively reduced with proportionate increase in high cost credit, i.e. only for dry regions and risky enterprise;

c) The cost of additional manpower in these regions could be subsidised by the government. For example, it has been done in case of cooperatives by providing managerial subsidy.

d) The bank branch licensing policy could also be modified so that for additional branches in low deposit potential regions, certain cost are compensated or license for urban regions is tagged with branches in low population density regions rather than with just rural branches.

2. <u>Incentives for larger number of small accounts</u>:

Within priority sector to encourage financial institutions towards lending for larger number of loans of smaller amount per account there is a need to build up compensatory mechanisms** not only because the cost of credit would be different in high, moderate and low population density regions but also because the cost of small, medium and large <u>loans</u> will be different. In absence of this, it will be irrational to expect banks to increase credit flow to drier regions with invariably low population

---

* Subsequent to recent budget proposals, this suggestion would need remodelling.

** Compensatory Mechanisms could include measures at Bank as well as NABARD level. The international financial institutions could support this by giving aid for small loan component on <u>softer</u> conditions.

density when they could as well lend to high density irrigated or urban regions, or to expect them to give small loans when they could as well come up to policy planner's expectation by giving bigger loans within a region or sector.

There is a need to work out exact cost differential in above regard in different regions. Government could also think of meeting part of this cost through developmental funds at its disposal.

Even RRBs, it has been suggested have concentrated their lending in the best endowed regions of the DPAP districts.

Apart from fiscal incentives, there is a need to work out a separate branch model improving upon GVK/ADB design so that operating culture and business orientation in bank branches in these region is explicitly designed to suit the local conditions.

3. <u>Timing of loan</u>

Apart from spatial dimension of credit flow and related implications for cost, the <u>seasonality</u> of credit flow has very important bearing on the viability of an investment. It affects the viability in two ways.

a. Because of erratic rainfall pattern, the time of investment becomes extremely crucial. For example, if the best period for a financial enterprise is first week of October, then financing that enterprises in January would mean inherent sub-optimality in return. In case of dairy, this is widely prevalent problem when under the pressure of state machinery the loans are disbursed in even March-April, when best part of the lactation has already passed. Defaults in such cases are built into the procedure of financing. The delay in release of budgetary resources from the state to district was considered one possible reason for this aberration.

b. The irregular rains also necessitate resowing of crops at times for which ready availability of credit facility could be a constraint. Even otherwi: the share of kharif crops particularly millets in bank lending is very low as apparent from the limited flow of credit to millet predominant regions.

5. Flexible Rep ayment Schedule

It is one of the most important policy variable having bearing on both viability and repayment of enterprises in differently endowed regions. The issues need to be noted at the outset.

one) Because of highly diversified resource endowment, it would not take same period of time for an investment to pay off in dry region as in irrigated region. In former case, the repayment period will invariably have to be longer.

two) If an already surplus farmer can pay back loan for an enterprise from the incremental income in say 'x' number of years, a deficit budget farmer would necessarily require a much longer time period. Also proportion of incremental income to be left for consumption will vary in different seasons.

The implication of the above two statements is that a similar repayment schedule for dissimilar endowment and surplus condition is one of the greatest incongruity in the policy framework. Some of the alternative in this regard are as follows:

a. Just in the way NABARD has worked out definition of small farmers for different agro-climatic regions (taluka level in many cases) some model repayment schedule need to be developed emphasizing regional variation in the schedule for same enterprise.

It should be underlined here that despite the general experience of most banks that loans for sheep and goat are promptly repaid, the share of sheep and goat in the total credit outlay even in some of the drought prone regions is less than a fraction of one percent.

b. Repayment schedule ought to be different for big, small and marginal farmers also. A surplus and deficit farmer would need to apportion the share of incremental income differently. Therefore the period in which the investment should be recovered from surplus, subsistence or deficit budget farmer will have to be different in each case. Further during the times when the net cash flow may be positive and yet the surplus may be less such that it is not sufficient to meet household requirement the recoveries should not be insisted upon.

Further, the proportion of the income which is required to be avaialble for consumption will vary in different months of a year depending upon the fact that in which months the farmer has more deficit in his household budget because of limited employment or other income earning opportunities. For example, in the rainy season when most of the activities are stand still repayment for a loan even if enterprise is functioning may be very difficult.

(A study of seasonal pattern of repayment might be undertaken to further validate these observations)

c. In many loans having monthly repaymen schedule, it is suggested that quarterly repayment schedule may be more advisable particularly if farmers find it difficult to repay every month because of cost of remitting instalment.

d. In the regions where droughts are known to be occuring once in three years, the rephasing and rehabilitation should be built into the original sanction letter of the loan particularly in case of investment finance so that without official notification or fresh execution of agreement forms etc between bank and the borrower the above facilities may be extended to the farmer. It has been seen that because of the complexity involved in fresh execution of documents hardly any loan was rephased by commercial banks in such regions.

d. It has also been observed almost without exception that NABARD while sanctioning refinance to Banks provides considerably lone repayment schedule, Bank in implementing projects invariably reduce the same nullifying the whole concept of viability.

Also the repayment schedule was worked out on average basis and maximum an d minimum range should correspond with ecological diversity on one hand and proportion of small big farmers in the project on the other hand. There is a need for an urgent review of this anamoly in policy-implementation. Detailed guidelines will need to be issued to ensure that by truncating the repayment schedule, the viability of the enterprise is not inherently impaired leading to overdues many times.

e. While NABARD stipulated that instalments at the end of the year should only be taken into account while classifying loans as overdue even if instalments were monthly or quarterly, Banks treated loans with even 2 or 3 instalements in default as overdue. In dry regions the unexpected climatic variations were rule rather than exception and as such greater flexibility and clear understanding of this policy was called for to avoid hardships to farmers.

6. <u>The concept of graduation</u>:

The whole philosophy of supervised agricultural credit system began with the notion that some farmers who initially participated in the credit projects would graduate into self-financing conditions after a time when surplus from their own investments was considerably high. With this in view it was expected that at least in a sugarcane region the majority of the medium and the big farmers, who had started taking credit years ago, must have by now graduated into either self-financing or atleast to limited financing condition. The reality obviously does not seem to substantiate this hope. It is, therefore, suggested that a study could be undertaken to find out the extent of graduation which has really taken place and also the measure to make lending after certain cycles of an enterprise costlier so that the subsidy in the form of cheapcredit does not endlessly gravitate towards the same set of people who are already better endowed. This will also help in releasing the funds for those who have not yet come in the gamut of financial institutions.

If there is any evidence, it is regarding the reverse-graduation i.e. small borrowers who repay loan once often are denied second loan with or without subsidy, Unless it is assumed that a small farmer family can become viable in the single run of an enterprise such a policy may clearly be violative of household approach to poverty alleviation. Even if working capital support has to be continued for further production activities, the scale of such financing for bigger farmers should be gradually reduced. Unless this aspect is given careful attentions, banks may continue to finance more and more well endowed farmers in the non-drought prone regions of drought prone districts and trickle-around of credit to other farmers and regions may not take place.

7. Instalment collection system

As mentioned earlier, the low population density in DPAP areas has implications for the ability of bank as well as borrower to contact each other frequently. This problem becomes important for recovery when a borrower may not like to come to bank for depositing small instalment, because the cost of transportation is too high. It is suggested that some innovating instalment collection system is tried on pilot basis in which either some collection agent on the p attern of small saving collectors are appointed on commission basis or amongst the borrowers who would take the responsibility to collect small repayments could be given some incentive on collection.

It appears difficult to imagine how else Bank could otherwise collect the instalments frequently given the manpower limitation. An alternative, although less advisable, will be to entrust the clerical and award staff i rural branches the recovery work and give some incentives on recoveries just on the pattern of incentives for deposit collecti n. In this connection, an interesting method was narrated by a banker in Haryana. He had entrusted the responsibility of contacting borrowers living along the bus routes of various staff members who while either coming to office or going back were to just pursue them. The conveyance was provided to the staff for one such visit. The results reportedly were spectacular.

In case of collection agent, fidelity insurance of the agents would also need to be provided for.

Another alternative which could be tried in these regions is the linkage between Bank-Post Office network.

Either money-order charges need not be collected from the borrower for small repayments routed through already existing extensive network of Post Offices or some special concession could be given by Bank for such remittances. Many times, farmers did not have all the instalment amount at one time and Banks did not prefer repayment in smaller bits. Also the cost of the transportation could well be high that small farmers may not deposit small instalments and there might never be sufficient savings to deposit full instalment.

Both of these suggestions could be tried out on pilot basis in some regions to judge their effectiveness in practice.

8. Policies for risk diffusion, negotiations and elimination by small farmers:

Risk diffusion is an ex-ante strategy adopted by the farmer to operate in several markets as well as in different enterprises, so as to put his eggs in number of baskets. Two points need to be noted here: one, the farmer does not put equal number of eggs in all the baskets and second, he does not rely on each basket equally.

Risk negotiations is fire fighting response in the event of actual occurrence of risk and risk elimination refers to preventive strategy of making permanent or durable changes in resource endowment as well as in the allocation systems.

The credit policies for strengthening the Risk adjustment mechanisms through Risk diffusion are mentioned below:

a. Sustaining multiple cropping systems:

The scale of finance developed by Banks for different regions currently concern only signle crops. However, in dry regions, farmers generally grow multiple crops to deal with risk. Therefore, scales of finances for commonly prevalent crop mixtures in different regions should also be devised urgently and bank should be encouraged to finance the combination of crops rather than only single crops.

b. Promoting pulses and oil seeds:

Despite highest governmental attention at the national level for boosting the production of pulses and oilseeds, no noticeable change has come about so far. While specific policies by which risks can be reduced will be discussed later it may be important to mention here that these crops are characterised by low mean and high variance in production i.e. on an average the mean level of yields are very low but the fluctuations in yield around these means is very high. Therefore, the component of rescheduling in case of failure which is frequent in these crops will have to be built in the original sanction itself so that without gazzette notification or fresh execution of documents, rephasement may be possible. Further, the rephasement by itself does not mitigate the misery of farmers. Therefore, to revitalise the farmers' economy rehabilitationary finance should also be provided so that acreage under these crops does not fall drastically after a year of failure.

To take care of the inherent risk in crop and other investment like well, cattle etc. there is need for devi ng credit-linked insurance scheme in which case special concessionery rate may be provided by GIC. State gcwernments coulu also provide for a risk fund to strengthen this scheme.

9. Portfolio Financing

The studies have shown that farmers in dry regions adjust with risk through diversification at intra-enterprise level (i.e different species of livestock crop) and inter-enterprise level (i.e mix of different economic activities). Current practice of financing only for single enterprise discourages diversification.

It is suggested that in dry regions, rather than encouraging finance for only cattle, sheep or goats, various combinations of these should be financed, i.e. a portfolio of economic activities should be supported.

Many times defaults in loans are attributed to diversion of credit from one purpose to another. However, the shuffling of enterprise is one of the proven ways to adjust with the risk in dry regions. For example, if a farmer is engaged in different enterprises, say, crop, livestock, craft and labour and if after the first rain farmer realised that crop prospects were bleak, he may not like to invest any further resources on crop and instead may concentrate on live-stock or craft activities by diverting the remaining resources from enterprise 1 to enterprise 2, 3 or 4 etc. Likewise, within the livestock if, say cattle does not conceive or its milk yield is reduced considerably, and is uneconomical to manage, farmers may prefer to dispose it off and invest money in sheep, goat or crop cultivation etc. This capacity of the farmer has to be reinforced in the gamut of portfolio financing so that diversion from one source to another no more qualifies to be called as misutilization. Withdrawal of resources from one enterprise to another, in fact, is a part of the strategy farmers attempt at the household level. It is in the interest of the Bank's business, that farmer is encouraged to shuffle enterprises efficiently.

One suggestion was that farmer should do it with prior permission of the bank but knowing the bank-customer relation in such regions, it would almost mean refusing the concept altogether.

It may be clarified here that farmer may not seek finance for all the activities in the portfolio. He may seek small loan for only one of the activity but operationally he might seek discretion to shuffle it the best possible way. If such a view is accepted then banks would not be expected to recall the entire loan on account of disposal of security no matter however genuine.

10. <u>Non-farm activities:</u>

More than 10-11 activities like sisal processing, making brooms, rope leather goods (like water career), woollen blanker, baskets, pots, idols, minor machine tools, beedi making etc. have been identified as having greater potential for providing employment to artisans and marginal farmers in dry regions. The specific policies for supporting these activities would need an intensive study. However, some of the issues that emerge from the quick review are given below:

a. Activities being extremely seasonal, it is likely that in case of failure of rain leading decrease in the income from crop, the demand for these goods from the farmers' side may go down. The loans would become overdue in such a case. The concept of rephasing of loan coupled with rehabilitationary finance will have to be adequately given importance in case such artisans have to be brought into the fold of formal credit.

b. Many of the activities engaged women, old people or even young kids in whose name giving a loan is notvery easy. Therefore, some provision for borrowing by women without insistence on coobligant may be made.

c. Working Capital Support: For families having non-farm as well as farm activities, the working capital support at times may be very low but may nevertheless be extremely crucial for maintenance of an enterprise. For example, in case of blanket weavers, it was found that the artisans had to borrow at two weeks credit but had to sell blankets on 4-6 weeks credit. The overdraft facilities in such cases will have to waive the need of conventional stock statements to be submitted every quarter because neither these artisans would be able.to fill it up nor they will be able to have regular stock of any sizable sum. The credit sales also will be generally without any written documents. This issue needs further enquiry.

It should be noted that traditionally the craft activities constituted one of the important constitutent of household strategies to deal with risk in semi-arid regions. It is in these regions only that these activities still survive to a very large extent though under a very serious stress. Policy reform for credit in these regions should necessarily give non-farm activities lot of weightage notwithstanding the fact that market for goods produced in cottage sector is highly disorganised.

11 Scale of Operation - Unit Size

Farmers may find different sizes of an economic unit viable in different ecological context. Following issues are worth noting in this regard:

a. In some of the enterprises like sheep and ram, while universally supported mix is 20+1 but numerous studies including this have shown that farmers may prefer to maintain varying combinations depending upon earlier endowment and eco-specific conditions. Banks should encourage the divergence in unit size.

b. In most of the NABARD projects the unit size sanction is on average basis whereas the banks often interpret it as the maximum amount. To enable farmers to operate at different scales, banks need to issue very precise instructions on this subject. To ensure that message has gone home, a sample test could be done to find out in how many cases the deviations have been permitted.

B. Risk Negotiation Strategies

Having invested money in an enterprise, farmers try to negotiate risk through various strategies including shuffling of enterprises (discussed already), investing own rather than borrowed funds, irrigation etc. We are discussing following options here.

1) Consultancy - contracting - curative services
2) Refinancing farmers' own investment
3) Rescheduling - rehabilitationery finance or Nursing Finance
4) Insurance Policies

12. Capital/interest Subsidy

Before discussing the scope for various services that might help in stimulating demand for credit from dry regions, it would be worthwhile to state the current views on subsidies, one of the underlying notion is that using capital subsidy as margin money the very concept of margin particularly when margins are insisted to let farmers have some stake in the investment.

In this context subsidies on rural credit can be looked at from, at least, four different agencies:

a. Instead of subsidising the cost of the enterprise in the beginning, bonus for timely and quick repayment is given.
b. The interest cost is to be waived to the marginal farmers rather than providing 1/3 to 1/4 subsidy to smaller farmers.
c. Subsidy funds progressively used for building risk fund to liquidate the loan where the enterprises have failed rather than to subsidise the interest cost through interest rebate.

d. The interest cost subsidy is to be disproportionately ploughed for small, medium, and larger farmers and in dry and irrigated villages. For example, the small irrigated farmers need not be given interest subsidy or loan at subsidised rate of interest in the same way as a small dry farmer. Further, the cost of followup for larger accounts could be debited to them like in industrial, and trading accounts so that resources for servicing smaller farmers' account may be generated.

13. Apart from these views the fact remains that farmers might prefer certain services rather than merely the cheap credit. The three possible ways in which demand for credit can be generated from drought prone regions by providing these services linked with credit are mentioned below:

a. Consultancy Services:

Consultancy services imply hiring or contracting of technical professionals in government or private sectors to provide a specialised advise to client farmers about their farming, livestock, veterinary care, soil conservation, machine repairs and maintenance etc. District level government officials as well as college teachers, competent to provide consultancy may be permitted to coordinate with rural development agencies at the branch level so that the follow up of bank loans is more professionalised; and at the same time, the overhead cost for maintaining technical staff by the bank is reduced.

b. The curative services:

The bank could undertake provision of remedial facilities in case of disease of plants, animals etc. and the debit per head cost of each borrower to provide this facility. Since it is difficult for farmers to join hands and engage directly doctors or other experts or achieve scales of economy of bulk purchases, the banks by organising these resources through their agencies can more easily manage it. Firms manufacturing various productive inputs may also be asked to bear part of the cost. It may be underlined here that while public plant protection and veterinary facilities in semi-arid regions are abysmally poor, the private entrepreneurs also feel shy of making any effort to serve sparcely populated (no matter if more vulnerable) dry regions.

c. Contracting:

The contracting facility would mean tying up insurance cover with supply of professional andextension support in such a way that by paying minimal essential cost, service of various types can be made available to the clients regularly on year to year basis e.g. by paying say Rs.50/-, a pumpset farmer may get 3-4 servicing of the engine in one year.

14. Refinancing Farmers' Own Initial Investment:

One of the issues brought out strikingly by the case studies was that farmers in risk prone dry regions prefered not to take risk with formally borrowed funds particularly in the case of wells. They preferred to dig wells either with their own family labour or by taking help of others or by using hired labour funded through informal borrowing. They wish to approach the bank only after they were confident about the possibility of striking water. The banks at present do not refinance such costs even when it can be established that the well is new and that further work was required. There is a need for specific policy to sustain such initiatives of farmers by considering such expenses as legitimately eligible for refinance. Other reasons which support the above contention are as follows:

1 Several cases in the study showed that the enterprise purchased through banks tended invariably to be more costly than what the farmer would have been able to buy on his own in cash. This is true in the case of pumpset, cattle, sheep, cart, etc. Several possible reasons could be responsible for such an anomaly. Apart from certain transaction costs appropriated by the dealers,

the lumpinese of purchases contributes significantly to price escalation. The sellers almost always get advance information about the impending bulk purchase particularly under subsidy scheme. It has been commented by some in this context that the subsidy meant for buyers actually passed on to sellers through this escalation.

2 The extent of manoeuvrability that a buyer has while selecting the enterprise is more when transaction is on cash and also is on one-to-one basis.

3 The numerous malpractices reported in bulk purchases can also be checked through individual transactions which can be refinanced after confirming that the farmer has really invested or contracted to invest in a particular enterprise.

4 The commission which dealers normally provide on cash transactions is denied to borrowers merely because payment is made through draft or pay order. This matter needs to be taken up with the manufacturer or wholesaler so that enterprises funded by bank should not only prove to be cheaper but also of better quality and right specifications (particularly in case of H.P. about which an ARDC study has found high wastage of energy because of defective or inappropriate choice of specifications). In case of Insurance, the decision has already been taken many years agro to pass on the commission to consumers.

Very often, in the case of bullocks, the farmers had to pay some initial advance (Sahi) to finalise the deal. And, in such cases too, if the payment was made in cash on the spot, the price was different from the one which would be charged if payments were to be made through draft or at the bank premises. Too much has been made of the misutilization of credit because of which more and more strict controls have been added. Rather than distorting the p rice mechanism by compromising the buyers' bargaining power in the market, we could ensure that the money has been properly utilized through follow ups and pre-loan-inspection. The fact still remains that the fungibility characteristics of credit makes it well-nigh impossible to ensure or ascertain the exact or equivalent use of the credit amount. Taking a wholistic view of the farmers' household economy, such a strict and narrow view of credit intervention does not appear to be prudent.

It is suggested that refinancing of the farmers' initial investment should be considered as one of the genuine banking practices and thus the decision should be left to the discretion of the local branch offices, rather than consider it unethical or improper.

15. Nursing Finance:

One of the greatest inadequacies of the current policy framework is the absence of explicit monitoring of the extent to which nursing finance/rehabilitationary finance is provided to the farmers, particularly in drier regions. Many a times, on account of either genuine environmental contingencies or inadequate initial advance (i.e. partial financing), or untimely release, the returns from the enterprise were extremely sub-optimal. At times the enterprise even failed.

It has been generally observed that in times of drought or epidemics, the banking system often withdraw from the scene instead of making the credit delivery system more efficient and quick. Thus apart from the fact that the cases already financed suffer losses it is important to note that farmer at such times need immediate working capital support. The procedures for additional credit facilities to a defaulter account, even for genuine reasons, are so cumbersome that even the rephasing of the loans (because of the need of fresh documents) is avoided. Unlike in industry where sickness could be more often due to managerial weakness or at times due to enterprise characteristics, in agriculture certain enterprises are inherently more risk prone than others. For example, in drought prone regions, well, sheep, crops-bred cattle, oil seeds, some of the millets, and cottage industries like carpet weaving, sisal product, basket making etc. are extremely risk sensitive.

There is a specific need for a policy departure from the conventional refinance approach by providing separate refinance facilities for the nursing component of the agricultural finance. NABARD might explore the possibility of either giving 100 per cent refinance for these components or devising some other mechanisms for encouraging banks to provide nursing finance. It may be mentioned here that even in terms of meeting repayment performance, genuine defaults due to enterprise failure could certainly be reduced through this facility. Although we do not have any concrete date, it can be seen from many of the cases that a default has been due to the problems at the delivery level or at the enterprise level rather than at the level of the farmers' intention.

16. Insurance Policy/CGG Corner

Currently the credit guarantee corporations (CGC) and insurance schemes in vogue cover the risk element in various enterprises. As mentioned earlier these policies do not discriminate much between the inherently low risk or high risk enterprise. In fact there is a discrimination against higher risk enterprise. Invoking CGC cover is extremely difficult and efforts on the part of the CGC appear to be to find ways of refusing the cover by showing negligence on the part of the banks rather than to encourage them to take the risk by providing effective and quick cover. In one of the cases where the land had been waterlogged because of seepage loss from a canal and loan had become almost 3-4 times the original amount, the bank was advised by CGC to inform as to why it had not disposed all the land before invoking CGC cover. It is a most point whether such land would have any value for the buyer. In view of this, it is suggested that the credit guarantee cover policy should be reviewed to make it become an effective instrument to encourage banks for ensuring greater flow of credi- to the drier regions.

Although our focus is on credit policy, certain other aspects like insurance cannot be put aside because they influence the credit flow to a considerable degree.

Some of the activities that need to be included for the insurance cover are:

i) The non-conception of cattle particularly the cross-bred ones besides miscarriages. It has been found that despite ecological mismatch, the cross-bred cattle programme is being propagated in many dry regions with the result that the lot of some of the farmers is worsened as a consequence of sub-optimal returns from the investments.

ii) The failed well scheme seems to be operating with a lot of snags. The cases where water is brackish, or wells which go dry seasonally or which have very low recouperation capacity, have to be specifically distinguished as far as compensatory mechanisms are concerned. Failed well subsidy scheme has been working extremely un-satisfactorily (in Ahmednagar because of infliexible norms the concerned authority had to refund lots of funds as unspent while there were large number of cases needing accommodation under scheme). How could this subsidy be linked with payment of insurance premia is a question which should be explored if untapped ground water potential in semi-arid region has to be exploited!

iii) During harvest season, losses due to fire are frequent because of high temperature and hot winds. This aspect also needs attention.

iv) The procedures for claiming insurance refund also needs to be suitably oriented so that more farmers can avail of this facility. Just like the dis-inclination in case of banks for a small accounts, it is quite likely in insurance companies also the business of small amount would be discouraged explicitely or implicitely. Thus the question of using insurance mechanism to help farmers in negotiating risk and help institutions in sustaining certain preferable combinations of crops or livestock should be looked into in conjunction with other related issues.

Risk Elimination Strategies:

While considering digging of wells, installation of pumpsets and tube wells, land development and appropriate preventive veterinary care as risk preventive strategies, the credit policies specifically will have to take into account the following features:

1. It is possible to eliminate the risk of some farmers totally while at the same time leaving a side others. Thus there should be a tradeoff between stabilizing the production of many farmers vis-a-vis boosting the production of only some of them. It appears that the lift irrigation societies financed by the banks suffer from this basic contradiction. Hence, instead of financing lifts which provide some farmers, say, five to seven irrigations, it would be advisable to support the designs which can provide at least two irrigation to a large number of farmers. In some cases it may also be necessary to couple lift and sprinkler systems.

2. Some of the case studies showed that farmers on their own have been trying to conserve soil through practices such as collecting the top layer of soil of the entire field prone to erosion through runoff into a small plot and protecting it by digging drainage around it. Such plots are used for vegetable cultivation. The banks could certainly support such efforts of the farmers by developing schemes of soil

<u>conservation which may have very long question period.</u> At present this is one of the most neglected aspects of resource management in drought prone areas.

3. Pasture development on either government or private land has not received any attention from the financial institutions. It was found that land for grazing was becoming a bone of contention between the landless livestock owners and the landed farmers who may or may not have much livestock. The fallow lands are not available any more for grazing in many regions. It is necessary, therefore, to support pasture development on private as well as government land by linking of such credit projects with that of government.

   The recent policy of Maharashtra Government linking employment guarantee scheme with water-shed development; may thus need modification.

4. Absence of drainage was found to be a very serious problem in Mula dam region leading to serious problems. To prevent the farmers' lands in low lying areas becoming totally useless the financial institutions should explore the possibility of the irrigation authorities developing a large drainage system while banks could provide finance for linking minor drinage systems. It is true that with the experience of land development levy which was very difficult to recover the banks might have doubt about this suggestion also. However while in the case of land development levy, development had been made and people knew that it would not be possible to withdraw it, in case of drainage systems farmers can distinctly see how soon their land would become uncultivable and thus realize the necessity of their involvement.

5. Many of the artisans engaged in non-farm activities are also working as labourers in publicworks. Since cottage activities are largely seasonal, the possibility of the banks advancing credit to buy raw materials when they are cheap can be

explored on the basis of some minimum assured employment under E.G.S. schemes. There was no need for collecteral security in the case of small entrepreneurs as loans are supposed to be clean (without any need of security) in practice, the bankers discourage participation in various credit schemes by people who do not have any tangible assets. In light of this linkage between the two it might be more reassuring for the banks because part of the money could be recovered through the payments under E.G.S.

17. Incentives for Field Staff of Banks:

There is no reason for a bank officer to spend excessive time in developing business in backward low populated undulating topography regions so long as his performance is judged on the basis of either the total outlay or even the total number of accounts irrespective of the purpose and size. There is a need for explicit bias in the performance budgeting system.of banks towards spatial and portfolio characteristics of credit by giving some specific incentives to the officers who perform well on these indices.

Technical officers should not be engaged in the routine general banking work like preparation of statements, releasing the slips etc. as this task required much lesser skills and thereby involving technical officiers in these desk-work amounted to wastege of human resources and skills. Posting in drought prone region should not be considered a punishment and as mentioned above, some performance cum posting linked indices should be worked out.

Some other suggestions in this regard made were as follows

1. Additional weightage for promotion given for average unit of time spent in backward regions so that at least who are ambitious could find the posting in these regions rewarding for their own career growth.

2. A minimum duration should be insisted for every employee to be spent in adverse conditions like drought prone regions.

3. Certain benefits like car/jeep facili / which were linked with higher outlay should be delinked from outlay and linked with number of accounts.

4. The recovery performance should also be monitored in terms of number of accounts besides total amount.

5. Some team awards should be instituted for the branch level performance.

6. Compensatory posting could be given to those who have spent some years in the backward regions. For example, a person having spent a part of the tenure in the drought prone region should be given the choice of posting at the next level.

18. Credit Climate:

It has been repeatedly highlighted that success of any financial intermediation will depend much on the extent to which rules of the game are followed by borrowers as well as lenders. Following attempt might be helpful in this regard:

a. Effective use of All India Radio by way of devoting specific time at peak hours to broadcast the case studies about those who have succeeded in getting and utilising credit as well as of those who have failed to get the credit. Further, a social stigma will have to be attached on those who have defaulted because they affect adversely the flow of credit to others in the villages. This will help in highlighting the social cost of individual default.

b. The mass media should be also geared to disseminate the institutional response to natural calamities like drought, floods, hail-storms etc. This will put pressure on various official institutions so that they coordinate their efforts with financial institutions whose investment in absence of coordination may become infructuous. Publication of the name of defaulters may call for amendment in the Banking Regulation Act.

19. Land Records:

In case where the enterprises are not land based like livestock, craft activities, smaller machines etc. the land record should not be insisted upon particularly so if the loan amount is less than Rs. 10,000/-.

20. Character Certificate:

Demanding certificate from Sarpanch either regarding the character of the person or his asset holding should be avoided as it has led to numerous malpractices. Further, there is no reason to believe that certification by rich would in any way be more reliable or genuine than, say, the certification by the committee of poor in the village.

21. Rolling Discretion Limit:

To enable farmers to receive loan timely without being constrained by the availability of discretion limits at the branch, some sort of rolling discretion limits for short and midterm loans need to be developed. The limits for renewal as well as fresh loans should be separately provided to the branches. Although they will have only marginal impact on the lending yet it might encourage bankers to find more reasons for lending.

22. No Dues Certificate:

Despite numerous studies having pointed out the problem faced by the farmer in this regard, nothing substantial seems to have happened in this regard to help the farmers. It may be worthwhile to experiment (as was attempted by the author in another district in Haryana) to prepare bankwise village-wise credit maps. Also to share details of individual lending indifferent villages, all the banks should compulsorily exchange the list of beneficiaries under any program, along with the old account holders so that farmers don't have to seek fresh no dues certificates. The system could be streamlined by making it obligatory for every bank to mark a copy of a new sanction letter to other banks in the region who could thus update their maps or lists.

The cost of not sharing information amongst banks has to be borne by the farmers for no fault of their. In urban area, such a practice for lending is never resorted to.

Another suggestion was to empower branch manager with authority of Notary Officer so that oath taken before him could be considered a legally valid statement. This might obviate the need for any further certification.

Summing-up

Summary of our recommendations presented above covers various aspects of credit policy in Drought Prone Regions which have a bearing on demand as well as supply of credit.

Some suggestions call for major revision in the basic assumptions of rural lending e.g., portfolio approach implies questioning of Project Lending approach. In any case in semi-arid regions with acknowledged ecological diversity, designing projects on a typical farm basis is quite inapprop riate. To have typologies of farming situations would only be a step forward. Perhaps a view akin to farmers' i.e., multi-enterprise oriented perspective might lead to better understanding of farmers' constraints.

Likewise, the repayment schedule, nursing finance, contracting-consulting-curative services, timing of loan, collection agent etc. are some other aspects of this note which suggest need for experimentation on at least pilot basis.

The incentives for individuals and institutions can not be overemphasized. With stagnation in agricultural productivity in high growth regions, planners have to realize urgently the need for accelerating development in rainfed regions where problem of poverty is most serious, which supply maximum migrants to urban areas and where non-farm activities constitute an important means of labour absorption. Perhaps some minor but important organizational innovations are called for if banking has to be accessible to people in low population density poorly endowed semi-arid regions.

A clearing house at block level for exchanging information on weekly or monthly basis might help banks reduce the cost of farmers in collecting no dues certificate. Already the demand for credit in these regions is low, the procedural bottlenecks might further slow down the demand.

NABARD could certainly trigger the process of development in these regions through appropriate policy reform. There is definitely a need for explicit bias in credit policy towards poor farmers, artisans and labourers of drought prone regions, if 'stability' and 'equity' are the watchwords on food production front in eighties besides 'growth'.

Supporting Studies by the Author

Project Documents:

1. Characteristics of a Drought Prone Region : Ahmednagar District, Maharashtra, p. 58, 1981.
2. Drought-Deficit-Indebtedness : Developmental and Deprivational alternatives before small farmers, p.84, 1981.
3. View from above - Decision making at District Level: An Issue Note based on Recent Documented Minutes of D.C.C. Meetings in Ahmednagar 1980-81, p.24, 1981
4. A Field Study on Rural Banking in Ahmednagar: Purpose and Process" (A Methodological Note) p.15; 1981
5. A Note on "Ways and Means to augment Small Farmers' Income in Semi-Arid Regions," prepared for a farmer's seminar held at Ahmednagar on December 1 and 2, 1981 along with seminar proceedings "View from Below", April 1982.
6. Improverishment in Prone Regions: A View from Below p.113, 1982

Other Relevant Studies

Anil K. Gupta

1. A Note on Internal Resource Management in Arid Regions - Agricultural Systems, (U.K.), Vol. 7(2), 1981 pp. 157-161
2. Small Farmers: Credit Constraints: A Paradigm, published in Social Administration Development and Change, edited by T.N. Chaturvedi and Shanta Kohli Chandra, IIPA, New Delhi
3. "Social Effects" of Rural Projects; monitoring through people's participation. International Review of Administrative Sciences, 1981, Vol. XLVII - No. 3, pp. 241-251.
4. Viable projects for unviable farmers: An action-research enquiry into the structures and processes of rural poverty in arid regions, symposium on Rural Development in Sough Asia, IUAES Inter-Congress, Amsterdam, 1981.

5. Farmers' Response to Co-operative Project Implementation: Cases in Dairy and Sheep, Pasture Develo[p]ment in Arid Regions - Paper presented at IUAES Symposium on "Traditional Co-operation & Modern Cooperat[iv]e Enterprises" - April 23-24, 1981 at Amsterdam.

6. A perspective for micro-level intervention "Transformation of sectors into 'access space': A critique of growth centre model of decentralised development, 1981, p.51

7. "Planning and Monitoring Rural Credit in Semi-Arid Regions: Process and Implications for Intervention," A Note on spatial monitoring of credit flow, 1980, p.55.

8. Under Development Process: An action Research Enquiry in a semi-arid regions of North asia and Rural Development in South Asia, Ed. by L.P. Vidyarthi, Concept, New Delhi, 1981, pp 113-130

9. Mathur, Kuldeep and Anil K Gupta, Report of action research project on district project planning cells, IIPA mimeo, 1983

10. Seasonality, stratification and Staying - On process in Semi Arid Regions', Economic & Political Weekly, 1983, forthcoming, p.49.

Part II

Seminar to design appropriate credit arrangements for drought prone areas - 16th May 1983.

Summary record of discussions

The Seminar to discuss and suggest appropriate credit arrangements for drought prone areas sponsored jointly by the Swiss Development Co-operation (SDC) and the NABARD was held in SBI Conference Hall at Bombay 16 May 1983. The seminar was presided over by Shri M. Ramakrishnayya, Chairman, NABARD & Deputy Governor of Reserve Bank of India, and was attended by representatives of Swiss Development Co-operation (SDC), Government of India, Reserve Bank of India, State Governments, slected Commercial Banks, Land Development Banks and State Cooperative Banks, LDB and SCB Federations, IIM and other institutions viz.ICRISAT, GIC, DICGO. Some of the senior officials from NABARD's Head Office and Regional Offices also participated in the discussions. The list of participants is given in the Annex.

2. Chairman in his opening address outlined the role of NABARD in the development of drought prone and dry land areas in the context of Sixth Five-Year Plan and the New Twenty-Point Economic Programme. He mentioned that restwhile ARDC had announced its policy in early 1982 to provide financial assistance for all schemes received from the State Governments and credit institutions for the purpose of dry land farming in the country. In consultation with the ICAR and the ICRISAT. Technical Specialists in NABARD had formulated a few model projects for implementation. It was against this background that the joint field study conducted by the SDC in collaboration with IIM, Ahmedabad

and the Department of Economic Analysis & Publications of NABARD in the drought prone District of Ahmednagar in Maharashtra had acquired considerable significance. Based on the findings of the study, the team had come out with certain suggestions and recommendationsto improve the credit delivery system in the drought prone areas. These recommendations which were summarised in the theme paper prepared for use in the seminar, were quite thought provoking and needed careful consideration.

3. The study encompassed many aspects of the rural credit system and did not merely confine itself to the verification of assets or end-use of credit. Although some of the problems identified and the suggestions made were not entirely new and were voiced earlier at one forum or the other, almost all the issues relating to the credit arrangements in the drought prone/rainfed areas were brought out in one place by the study team and had even established certain inter-relationships with the avowed objective of ensuring an integrated credit and banking approach for the various problems faced in these areas.

4. The recommendations related mainly to ensuring improvements in the institutional and organisational arrangements, imparting flexibility in lending terms and conditions for larger credit dispensation and to bring about certain refinements in operational procedures. Some of the recommendations in fact had wider implications as they touched upon the system of taxation as applicable to the income of commercial banks and the RBI's policy of branch licensing. Chairman wanted all the participants to discuss the various aspects covered in the theme paper from an analytical angle, on the basis of their own experience in the field and contribute

to evolving a suitable approach and appropriate strategies to make the credit delivery system in the dry land and drought prone areas less complex, more meaningful and effective.

5. Chairman had further observed that the credit in dry land areas should not lead the farmer into a 'debt trap'. Credit should be an instrument of uplift and change and not a source of perpetual burden to the farmer. This would be possible if adequate income generation was ensured to the farmer from the investment. It would also be necessary to create an atmosphere of confidence in the bank's branch managers operating in the rural areas that the money lent was repaid within the prescribed repayment period and the farmers should not be given the impression that the loans would be written off or that the instituitional finance could also be treated as government grants or subsidies. Continuing, Chairman said that co-ordination between the credit agencies and the government agencies providing subsidies and grants was of paramount importance and a system of bringing together both the sources of funds should be properly evolved so that the developmental programme could be adequately and effectively implemented with institutional finance using the subsidies as an incentive to attract the farmers to a new type of investment, as also improving the viability of the investment proposition. Chairman cautioned that the system of grants and subsidies should not contaminate the development field and detract the farmers from taking recourse to credit for developmental purposes. The role of NABARD was not that of a mere purveyor of credit; as an Apex Development Bank in the field of rural credit, it would have to ensure that the <u>principles of "development through credit"</u> were also followed by the farmers as well as the credit agencies. In dry land areas

the farmer would have to 'save for the rainy day'. The banker, while formulating schemes, sh uld keep in view the farmer's attitutdes and behavioural pattern so that the investment propositions were realisatic in nature and would evoke a quick response.

6. Chairman mentioned that the joint field study of the SDC & NABARD pointed out the need for a more comprehensive look at the problem of drought prone regions and the focus should not be merely dry farming. In this context, he made a reference to the pilot project prepared by NABARD in Medak district in Andhra Pradesh where SBI had played a very significant role. Although the size of the programme was moderate, it did provide a nucleus for taking up such programmes in other areas. This experience had shown that compulsions of new technology and considerations of ecology would have to be blended together while formulating programmes in drought prone areas. While making a reference to a seminar on forestry held in Panchmadhi in Madhya Pradesh a week before, Chairman said that the basic approach in dry land areas should be to combineeven the limited irrigation with dry land farming and for this purpose conservation of rain water under a 'micro-water shed approach' was a sine qua non. He also made a reference to the experience of ICRISAT in low risk areas (i.e. average 750 mm rainfall) in promoting a method of ridges and furrows for maximising yields. ICRISAT laid a lot of emphasis on adopting a suitable sowing technology in dry regions for optimum results.

7. Chairman stressed the need <u>for a multi-disciplinary approach</u> for tackling the risks in dry regions. The compartmentalisation in government sponsored programmes would hamper-

progress; proper co-ordination of various activities was the only answer and ensuring such co-ordination was a challenge to one and all concerned with the developmental efforts and particularly to the credit agencies Chairman made a reference to the observation in the theme paper that the corpping enterprise would have to be combined with other allied activities and said this was the only answer to protect the farmers in these areas against ecological risks. The attempt by all the developmental agencies should be to improve dry land farmer and not merely his farm. A family approach, ie. family/farmer based pilot projects would be more relevant to deal with the dry land farmer. However, if we really wanted to help the farmer, he should also be subjected to certain discipline. Some kind of systems and procedures would be necessary. While repayment period had to be fixed even if there was no guarantee of the crop some adjustment on a cyclical financing pattern might be necessary without restricting the short-term loans for a maximum period of 18 months. Bankers were familiar and had supreme confidence in cash credit system where suitable changes would be made in repayments based on the production and market conditions etc. A similar system could be thought of even in the agricultural sector.

8. Chairman made a reference to the present system of declaring "annewari" and said that to protect the farmer affected by natural calmity, state governments were declaring 'annewari' in an area but the benefit often was going to others not genuinely affected. The question to be thought of was whether a special lime of credit with less stringent conditions should not be sanctioned in areas which were prone to natural calamities. Chairman also posed the question that instead of basing the dicision of postponement or rescheduling of recoveries on the basis of the age old system of 'annewari', whether the bankers themselves could not on the basis of the knowledge of the area and condition of the far-

mers extend such facilities. If such a system was established it would not only be quick in coming to the rescue of the needy farmer but would also ensure that there was no extraneous interference in the system and the benefits would not accure to those who were not genuinely affected by such natural calamities.

9. Chairman also stressed the need for having an effective extension service in dry regions for the successful implementation of the developmental programmes. In this connection he said the Volunteer Vikas Vahini (VVV) launched by NABARD should serve as an excellent extension wing in spreading the principles of the developmental credit. NABARD's experience in implementing the VVV programme in Tiruchirappalli and Madurai districts in Tamil Nadu had clearly established the usefulness of the programme and given confidence and encouragement to spread the VVV message throughout the country.

10. Chairman thereafter invited Mr.S. Chappatte of SDC to introduce the subject. At the outset Mr. Chappatte conveyed his thanks on behalf of the Government of .witzerleand and the SDC and expressed his satisfaction to the NABARD for convening the Seminar to discuss the various aspects relating to the credit flow to the Drought Prone Areas in India, a subject of great interest to them. He also expressed his thanks to the State Bank of India for their co-operation in holding the Seminar.

11. Mr. Chappatte thereafter referred to the collaboration the SDC had with NABARD from 1979-80. SDC is an agency of the Government of Switzerland channelising credit to the Third World countries. The funds are provided by its Parliament and priority is given to the programmaes for the development of poorer sections of the population in these countries. SDC started collaboration with ARDC for implementation of its

developmental programme from the year 1979 and very happy relations had continued with it and now NABARD since then. NABARD was found to be a suitable and appropriate agency for channelising the developmental funds of the SDC to reach the rural farmers. The Government of Switzerland through SDC provided two tranches of credit to ARDC/NABARD through GOI for an aggregate amount of Sw.Fr.65 Million and SDC was happy that the funds were utilised properly. It was however customary for the SDC to sit down and evalute the detailed pattern of utilisation of funds so that it would have adequate feedback not only on the end-use of funds but also on the various policies, problems and operational constraints in the field. SDC would like to get a closer insight into all the problems in the rural credit system and from a specific angle i.e., a 'view from below' as also a 'view from within'. It was with this objective that the SDC approached NABARD for conducting an on-the-spot study in one of the drought prone areas viz.Ahmednagar District in Maharashtra State. NABARD had readily agreed to the proposal and a team was constituted for the purpose with the representatives of NABARD, SDC and its consultant, the IIM, Ahmedabad which had undertaken a detailed field study and on the basis of the feed-back obtained, prepared an exhaustive report. It had come out with various suggestions and recommendations. These recommendations might have a great bearing on the policies and procedures which would result in further improvement of the credit delivery system so that the system could be an effective instrument of change in the socio-economic scene of rural areas. Mr.Chappatte added that he would be immensely ~~happy~~ happy if the recommendations made in the report and brought out in the theme paper circulated in the Seminar were purposefully and objectively discussed by the representatives of the various policy making bodies viz., Governments and institutions, and on the basis of the consensus arrived at, evolve suitable strategies for financing the development of Drought Prone Areas in the country. Thereafter Chairman invited Prof. Anil K. Gupta of IIM, Ahmedabad who was also a member of the Study Team to initiate the discussions. Prof. Gupta outlined the major issues for discussions particularly those relating to the institutional and organisational improvements, the modifications called for in lending terms and conditions, refinements in the operational procedures and the recommendations relating to tax incentives and government subsidies intended to partially relieve banks from high operating costs in Drought Prone backward areas/regions.

12. Conference thereafter took up the various items listed out in the theme paper for a detailed discussions. To the question whether any concessions to the banks in respect of high cost lending in low population density areas could be given, Shri Bose of Bank of Baroda, observed that the banks even in the absebce of any such incentives were catering to the credit needs of drought prone areas as the cost of funds was not the main consideration for them in view of the socio-economic obligations cast on them. Reinforcing this point, Shri.M. Gopalakrishnayya of Andhra Bank observed that, as per the guidelines issued by the RBI, 40% of their total lending should be earmarked for priority sectors and out of agricultural lending itself 50% of the resources thereof should be channelised for the benefit of small and marginal farmers. Banks did not have any difficulty in financing these special categories which were covered by the various

national priority programmes such as IRDP/DPAP/MFAL etc. Intervening, Chairman enquired from Prof. Gupta whether there was adequate empirical data to show that the banks were not rationally channelising resources to the drought prone areas in the country in general and in Ahmednagar district in particular. Replying to the query, Prof.Gupta said that there was sufficient empirical data which was obtained from a review of the implementation of the District Credit Plan in Ahmednagar district in Maharashtra and one or two other districts in Gujarat and Haryana States. His findings were that in spite of the very clear guidelines from RBI and despite sufficient branch network in the area, not even one per cent of the total credit was utilised for enterprises like sheep, goats etc. in Ahmednagar which were the main stay of the dry farmer in DPAs. Prof. Gupta also added that there was distinct tendency for credit allocated to drought prone districts to get concentrated in non-drought prone pockets of the district. He further observed that there was an inherent contradiction in the allocation of financial outlays. The question that arose out of this was, how effectively one should monitor the implementation of the Annual Action Plans and District Credit Plans. On the question of cost of lending, Shri G.P. Bhave of NABARD observed that cost of lending to the banks would increase if there was no proper mobility of rural population from one area to the other. He further added that cost of lending could be reduced if the infrastructural facilities such as Groundwater Survey,extension serbices, etc. were provided by the Government agencies in adequate measure. Thereafter Chairman made a reference to interest margins to the banks and observed that it was not possible to subsidise lending costs of banks branches in drought prone regions. While the commercial banks cross-subsidise their lending costs in drought prone areas through the larger margins available in other sectors of lending, the co-operative banks did not have a larger diversified portfolio to subsidise such higher costs of lending in DPAP areas. Chairman added however that this problem was duly recognised.

13. On the suggestion to RBI to consider modifying its branch licensing policy so as to insist banks to link up opening of urban branches with not only rural centres but backward areas within the rural centres, Chairman sought the views of Dr. M.R. Kotdawala of Reserve Bank of India. Dr.Kotdawala said that during the Sixth Five Year Plan, 7000 rural branches would have to be opened in the country. On the proposals to expand branch net work in rural areas, RBI was seeking the views of District Consultative Committees. If State Governments request for issuing a licence to open a branch in any particular centre, RBI would give its utmost consideration for such a proposal. He, however, added that 70% of rural branches were running in losses and it would, therefore, be necessary not only to go by the population criteria but also the business potential existing in an area. Continuing the discussions on the same issue, Chairman observed that the criteria of 17,000 population per branch was not a rigid and sacrosanct principle. It is a broad guide-line and could be modified wherever necessary. It was, however, mentioned in response to views of Dr. Kotdawala that population size intended to be covered by each branch should be considerably less than in densely populated regions. There was no reason to expect that the uniform coverage would lead to opening of more branches in backward region which in turn could trigger off flow of credit. Shri J.S.Varshneya of SBI added thatin the next 3 years 1500 offices would have to be opened in rural areas and 80% of these would be RRBs, there was a very strong tendency for branch net work

to be concentrated in well endowed regions as was recently seen in Jhabua district (Madhya Pradesh) Panchmahal district (Gujarat), GGB Mahendragarh (Haryana). Chairman further observed that for exploiting the potential in these areas the DCP and the AAP would be good tools. Adequate attention would have to be paid while formulating DCP/AAP to take into account the requirements of DPAs in the district. The suggestion that 'village adoption' would be helpful for the purpose was not acceptable is the past experience had shown that these villages remained by and large neglected. While concluding the discussion on this aspect, Chairman stated that:

(a) the population criteria for a branch need not be considered sacrosanct and could be relaxed on merits of individual case, particularly for opening branches in dry regions,

(b) instructions and guidelines may be issued to ensure

(i) that the District Credit Plans and the Annual Actior Plans take into account the requirements of dry regions and provide suitable outlays for the same in these plans.

(ii) monitoring of the credit flow in dry regions as provided in the DCP and

(iii) considering the scope of the existing branches in dry areas providing credit assistance for dry farming on a cluster basis in a few selected villages.

14. On the question of recovery performance of branches, Prof. Anil Gupta said that there was no evidence that the recovery of performance in backward regions would be different from that of other areas and gave the example of Ahmednagar District Central Co-operative Bank having all its overdues concentrated in the sugar factory area of the district. While agreeing with the general view that irrigated areas were not free from the problem of overdues and that some of the reason were common to both dry and irrigated areas, Chairman asked Sri Sinari of the National Federation of State Cooperative Bank

to comment on the position of concentration of overdues in Ahmednagar District Shri Sinari said that there was no proper tie up with sugarcane purchases and this was responsible for the overdues. Prof. Gupta thereafter pointed out that in Ahmednagar district the MT lending was not up to the satisfactory level. He enquired whether this was because of inadequate infrastructural facilities. Commenting on this aspect Shri UB Raghavendra Rao, Managing Director, APSCB said that under IRDP the SCBs were required to lend for capital investment but the questions that cropped up in this regard would be whether infrastructure was adequate, whether there was proper technology and whether proper tie-up of credit with the official programme in the area was ensured. Shri Nayak of Karnataka LDB stated that more data was required to be generated to examine this aspect. Shri Wayse of CBI observed that the credit flow in irrigated lands in Ahmednagar district was indeed higher than in any other area in the district.

Chairman observed that bankability was not less in DPAs. Since the total cropping loan was less, the volume of credit in DPAs also tended to be less. The cost norms stipulated would have to be scrupulously observed by all the financing banks so that there was neither under-financing nor over-financing. He further clarified that if cost norms were not clear for different investments, NABARD woul issue a fresh circular on the subject.

Clarifying the point of Prof. Anil Gupta about the validity of principle of average in fixing the cost norms, Chairman said that NABARD would examine and consider whether a range approach would be more appropriate.

15. Shri Prabhu of SLDB Federation said that the rewailing of credit was expensive not only in DPAs but also for SFs in other areas. The risk for lending to SFs was greater and their recovery performance was in no way better than the other farmers. The tendency was therefore to go in for more and more lending to corporate bodies such as State Electricity Boards

by the cooperative land development banking system. A number of incentives such as liberalised share capital contribution from LTO by NABARD will serve as a possible cushion for overdues.

Chairman then requested Shri Saxena, Secretary to Government of Rajasthan to comment on the sheep rearing activity in Rajasthan. Shri Saxena stated that in view of branch expansion by RRBs and their low cost of lending the cost factor was not coming in the way of implementing the programme. The question is to ensure continuous flow of credit. The sheep rearing experience in Rajasthan was found to be quite satisfactory.

16. Commenting on the issues relating to credit guarantee and insurance cover, Shri KK Saksena, General Manager DICGC stated that a bank which had granted direct crop loans could convert maximum of crop loans for 3 agricultural seasons and grant fresh crop loan to any individual farmer in areas affected by natural calamities upto Rs. 10,000 in aggregate. Term loans given to farmers in DPA for natural calamities can be extended upto a period of 15 years and if not repaid fresh term loans could be given by banks with the condition that earlier loan should not be treated as bad debt. Banks also can grant loans for allied agricultural activities under the guarantee cover of DICGC. To a query from Chairman, Shri Saksena replied that the claims received in DICGC in the current year doubled over the previous year. He further mentioned that the DICGC had not brought out a new scheme to cover loans by cooperatives, i.e. PACS, PLDBs and branches of SLDBs, effective from 1 January, 1983.

17.(i) On an enquiry by Chairman, Shri Anil Shah of Government of Gujarat said that taking into account the special problems of DPAs the government in his state was trying to evolve new schemes and incentives, such as, 50% capital subsidy were provided under Farm Forestry Schemes. Shri Jodha of ICRISAT observed that the projects in DPA should ensure transfer of latest technology which would help farmers in getting higher yields.

Chairman observed that banks should provide credit to only viable schemes and dispensing with the schematic approach was out of question. While LRDP is one of the priority programmes, pressure to support this programme should not be at the expense of viability of the investment proposition.

Shri Mehra, Assistant Secretary of MORD, GOI referred to the problems in watershed areas of allocation of expenditure amongst farmers and government agencies. Chairman observed that he was not in favour of arguing for higher subsidies and less credit. The subsidy mentality has to be corrected and the farmers should be encouraged to go in for more and more credit for their investment programmes.

He stressed the need fora comprehensive plan to tackle the issue.

(ii) Chairman asked Shri Mehra to write to NABARD on the subject of formulating watershed projects with financial assistance from banks. Prof. Anil Gupta thereafter referred to the issue of adequate credit flow to SFs. Commenting on this Shri Sant Dass, MD, NABARD observed that a study in NABARD had revealed that 66 to 70% of NABARD credit was receivedby small farmers and there was no ground to assume that small farmers were neglected.

18. On the question of ensuring greater credit flow to DPAs, Chairman observed that each branch of the bank should have a technical person. NABARD could support proposals for providing additional technical staff by LDBs. Initiating discussions on repayment schedules, Shri G.P. Bhave of NABARD stated that introduction of separate Kharif and Rabi crop loan/cash credit limits had helped the farmers. They can also take up other allied activities and apply for separate limits. The repayments for these loans generally coincided

with harvest time. Shri U.B. Raghavendra Rao of APSCB observed that the bankers were not helping farmers even in deserving cases. When they required additional limits on account of failure of crops, banks insist on repayment of the earlier loan. We should develop an automatic system of elongating the repayment periods. In the case of failure of one crop the farmers should have a contingent cropping pattern. Government of Andhra Pradesh is attempting this.

19. On the question of shuffling of enterprises, Shri Rao of APSCB added that when there was crop failure the entire economic activity in the area would get depressed and switch over to other avocation also would not be easy.

Shri Nayak of KSLDB was not sure that automatic shuffling of enterprises suggested was a feasible proposition. Regarding the portfolio of financing and freedom to the farmer-borrower for automatic reshuffling of the activities, Chairman however, added that if alternative portfolio and activities were built into the original scheme and, if such alternatives flexibility into banking procedures to permit portfolio shuffling by the borrowers. Chairman further observed that in no country so much progress was made in developing the rural credit systems under several diverse conditions. When there was involuntary default, rephasing of the loans was allowed. In rural areas, a new culture of repayment ethics is gradually developing. We have to change the attitude to look at overdues. In many cases the practices and procedures followed in computing overdues might not be sound with the result a realistic picture of overdues is not forthcoming. The World Bank asks when there are production increases how overdues can mount up. The overdues are perhaps more psychological than real. The NABARD and bankers should sit down and have a new look at the concept and come out with fresh norms in this regard.

20. Reacting to the suggestion made in the theme paper that banks might refinance farmers for initial investment out of their own resources or borrowed capital, particularly for wells, Shri Sant Dass, MD, NABARD stated that if the borrower had taken prior approval of the bank in advance, there was no problem in refinancing such expenditure. Chairman stated that NABARD could consider permitting such refinancing if the expenditure on sinking a new well had been incurred within a year from the date of application to a bank. If farmer also approaches for a loan for installation of pump-set in addition to the request made for refinancing the initial investment on the well, NABARD could consider approving such propositions subject to certain safeguards.

21. Regarding the suggestion to undertake a study to find out the extent of graduation of big farmers into either 'self-financing' or atleast to the 'limited financing condition' through availing of credit from the banking institutions for some years with a view to making lending after certain cycles of enterprise, Chairman stated that such a study was not necessary and the farmers would have to be provided credit for their seasonal farm needs for production investment purposes to the extent they did not have their own resources.

22. On a point raised by bankers, Chairman said that the repayment schedule fixed in respect of each scheme should be scrupulously adhered to by the bank and in case deviation was noticed he would not hesitate to call back refinance given by NABARD foreclosing the account. He added that it was necessary for each bank to take up project planning of the farmer's multiple activities by way of identifying them, calculating credit requirements by taking into account possi-

bility of investment failures which is inherent in DPA. Banks should be ready to finance alternative investments. In case of successive crop failures, loans could be rephased over 5 to 7 years. Even Government agencies should actively take up the task of rehabilitation and ensure proper assistance to farmers in right time.

23. Prof. Gupta observed that the IIM studies had revealed number of problems faced by borrowers in rescheduling of loans such as execution of fresh agreements. The borrower would have to visit the bank with sureties again and again for the purpose. Chairman observed that the procedure of equitable mortgage and hypothecation were creating more problems in view of the non-existence of law of limitation. In his view automatic revision of repayment schedule was not advisable. Shri Udupa of Syndicate Bank also opined that facility of automatic revision of repayment schedule without banker's prior permission if extended could be misused. Chairman reiterated the point whether for rescheduling and rephasing of loans instead of depending on the "declaration of annewari" the banker could constitute a seperate committee for the purpose and take decision. Shri U,B. Raghavendra Rao of AFSCB felt that even under this system there could be extraneous pressures to declare an area as affected by natural calamities. Chairman said that the idea should be developed and refined further and a shape be given. He said this method could prove much better for giving relief as he found that in some states "annewari" was declared properly, while it was not so in other states.

24. On the question of instalment collection system, Chairman observed that the mechanism of saving through post offices and transfer of the amount to bank account was not practicable. As regards recovery system it was not suffi-

cient to advise farmers of default but it it was necessary for banks to make effective physical arrangements for receiving repayment. For this purpose bank managers should invariably establish direct contact with farmers and collect dues from them from time to time.

25. While discussing suggestions made for financing non-farm activities in drought prone regions, particularly those undertaken by women, Chairman atated that there should not be any problem to permit borrowing by women without insisting on a coobligant in situations where one male applicant/partner temporarily migrated in search of any gainful economic activities etc.

26. Dr.Jodha of ICRISAT suggested that services of dealers in agricultural implements could be utilised for recovery purposes. It was, however, felt that as these dealers would expect returns for the services rendered and in view of the price tag that might be attached for such services, the suggestion might not find favour for implementation. Regarding the suggestion that banks would provide consultancy services to farmers by hiring on contract, technical professionals and provide services (e.g., plant diseases, animal diseases, pumpset required ~~xkxx~~ etc) the consensus was that organising such facilities through the banking institutions would be operationally difficult. Chairman, however desired that banks should explore the possibility of developing tripartite agreements between themselves, pump dealers and farmers to ensure repairs and maintenance of the pumpsets financed.

27. Prof. Anil Gupta dealt with incentives to be provided to the field level staff of the banks. He stated that the rural centres should not be taken as punishment centres for posting purposes. There should be a system

of rotation of the staff and due encouragement should be available to the staff showing better r sults/performance in rural areas. Additional weightage for better performance in rural centres etc. were the measures that would go a long way in encouraging the staff to serve in rural areas. Regarding the compensatory mechanism and incentives for bank staff suggested in the theme paper, Chairman stated that it was necessary to distinguish between 'field facilities' and 'incentives'. Rural development administration was one of the essential responsibilities of the civil servants and banking personnel and in his view no separate monetary and other incentives would be necessary for the purposes. He added that it would be important to provide field facilities, such as vehicles necessary to enable the bank staff to carry out the assigned tasks. He also added that staffing norms for the rural branches of the CBs should be clearly specified.

28. Prof. Anil Gupta raised the issue regarding coverage of certain activities under insurance schemes such as, (i) failure of land for cultivation due to water logging and failure of drainage system etc. (ii) non conception/delayed conception of live stock. Dr.B.S.Sathe of NABARD said that the delayed conception of livestock was not covered under the insurance scheme as also the non-conception of livestock. It would be difficult to prove the failure in such cases. However, mortality could be covered unde the insurance schemes. Mr.Saksena of DICGC stated that, DICGC was aware of such risk being faced by the farmers and the necessity to provide cover for such activities. However, in view of the very high risk being faced by the farmers and the necessity to provide cover for such activities. However, in view of the very high risk involved, it would be necessary to fix high premium for covering such activities.

29. On the suggestion of appointing some of the small farmers with proper repayment record as "collection agent" of bank to reduce cost of collecting repayments, Chairman desired to have a note from GIC on fidelity insurance and stated that this was required by the cooperative banks for various purposes.

30. Credit linked insurance scheme was another suggestion on which G.I.C.I. was requested to develop elaborate guidelines for further processing at NABARD's end.

31. Idea of shift from Project lending to Portfolio approach required some more elaboration and further work was required to prove its feasibility even if it appeared desirable.

32. While commenting on the farmer-based projects, Chairman observed that the farmer was trained to adopt to the extent he can, the farming practices at low level of technology. When we are discussing the upgradation of the technology in drought prone areas to the higher levels and the adequate credit support to carry on farming operations, it was necessary to plan such operations and buildx up sound technical schemes with appropriate backward and forward linkages.

33. Concluding the seminar Chairman observed that the various proposals raised in theme paper and discussed in the seminar required further detailed examination. These mught be examined in NABARD and appropriate actions initiated in due course.

The seminar ended with a vote of thanks by Shri Sant Dass, Managing Director to the Chair and all the participants for their very willing and actibe participation and valuable contributions to the subject discussed. Managing Director also extended his thanks to the Management of SBI for the excelllent arrangements made by them for convening the Seminar.