Restructuring of Credit Policy to Boost up the Weaker Sections of the Society

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Introduction

Easing credit Constraints for the poorest and the weakest must be a priority to reinforce and sustain their health status. The government is ensuring that credit priority, as spelt out and implemented by RBI, is aimed at precisely this Credit is key input into agriculture and allied activities and for many small and micro enterprises run by the section that forms the country's 30-crore unorganized workforce. Ensuring that access to constraint-free and timely credit is widespread and functioning efficiently in the rural areas becomes urgent against the new economic policies that destabilize their existing modes of livelihood, including widespread acquisition of arable land for SFZs and liberalization of the retail sector in foal As crucial would be professional advice on new investment ease the rigorous of a livelihood switchover by building an effective social security net, since the in-depth in fact of such policy-inspired livelihood destabilization would only be visible over a period of time.

Arjun Senguptha: -led National commission for enterprises in the unorganized sector (NCEUS), which submitted its report to PM Manmohan Singh recently, has delivered a scathing indictment of the RBI's Priority Sector Lending Policy (PSLP) commitment to weaker section credit. Here is an unwittingly state-sponsored kid, gloves-of critique of a deliberately lopsided policy, which has been designed, not by branch managers and loan officials, but by the decision makers at the top of RBI to benefit what could be only be a travesty of the phrase 'weaker sections', NCEUS has asserted. Stopping just short of calling it a sham in terms of virtually every fundamental count, it has criticized recent policy changes that have shortened the period for declaring a loan an NPA, which can spell death knell to many one-person enterprises in the unorganized sector. A tawdry application of the mind is evident in RBI's own PSLP, which has set a target of 40% of the adjusted net banking credit (ANBC) for priority sector lending by bank& Of the 40%, 18% target has been set for agriculture and another 10% has-been set for weaker sections.

The fault, NCEUS has charged, lies with RBI credit policymakers, who refused to reduce the 40% (of ANBC) target set for priority sector lending despite the difficulties of banks in achieving it and attendant Narasimham Committee recommendations, mainly due to political compulsion& What the authorities did, instead, was to "nullify, through the back door, the operational relevance of the priority sector target, by including many items, which can be conceived of as belonging to the weaker section borrowable of small loans who would not possess other bankable projects and who would otherwise face difficulty in getting bank credit .." They diluted the definition of, priority sector to suit the achievement of statistical targets. Diversion of unachieved disbursals under to NABARD's RIDF and SIDBI has helped banks show lending target achievements for the priority sector on paper. Quoting RBI's latest report on trend and progress of banking in India 2004-05, NCEUS has pointed out that it 'speaks volumes of the extent to which coverage under PS lending has increasingly moved away from the original intentions of the programme. Banks, the panel report points out, are not interested in making advances to unorganized sector borrowers in the absence of collateral, irrespective of what RBI guidelines say. They openly subvert and ignore guidelines that say no collateral for loans up to Rs 5 lakh.

According to Rural Finance Access Survey of WB and NCAER (2003), a majority of the loan extended by commercial banks, RRBs and cooperative banks are collateralized with 89% of the households surveyed who borrowed from RRBs and 87% who borrowed from commercial banks, reporting that they had to provide collateral. Also, small borrowers are forced to compete with small and large borrowers since the credit system operates under the existing RBI guideline and RBI's PSL guidelines of April 30, 2007, prove, BCEUS has said, that in the agricultural sector, too, the small or poor farmer has to compete with large and strong borrowers such as corporate houses, traders and institutions. In 2003-04, 70% of the total priority sector credit for agriculture from scheduled commercial banks (SCBs) went to the relative fat cats.

Small and marginal farmers - although they account for 83.9% of the total farmer households and operate in 43% of the total farmland — received only 30% of credit to agriculture. In that year, SCBs advanced about Rs 96,000 crore to the agricultural sector. Of tins, marginal fanners received only Rs 15,000 crore and small farmers only about Rs 14,000 crore. What's worse is that the percentage break-up in credit to different segments of cultivators in agriculture has remained the same since 2000-01. Ditto situation pertains to the education and housing sectors. "Here, again, it is evident that due to dilution of PSL policy, the poor are competing with comparatively stronger claimants. Such a PSL guideline has made a mockery of the weaker sections," NCEUS has held. Nor have interest rates for the weaker sections been lower and easier in practice. On paper, the rate of interest on agricultural credit up to Rs 3 lakh is 7% and unorganized enterprises have to pay an interest of 9.5%(2% lower than PLR). However, a plethora of service charges levied by banks hike the total cost by another 2%. This, even while large industries often have to pay an interest rate lower than PLR on account of "better credit" These costs become so high that in spite of comparatively lower rates charged by formal institutions, they work out often higher or equal to the informal rage. Hence, asserts the commission, small borrowers prefer informal channels (money lenders, etc) since they take on the spot decisions.

Poor institutional infrastructure - available for credit has made the matter worse. Add to that the loss of momentum in distribution of bank credit to small borrowers from 212 additional bank accounts by SCBs, of which 93.1% were accounts with Rs 10,000 or less of credit limits in the 1970s. Between March 1992 and March 2001, there has been an absolute decline of about 13.5 million in aggregate bank accounts due to a much larger decline of 25.3 million accounts for the redefined small borrowable accounts of Its 25,000 or less. In recent years, the number of commercial bank branches in rural areas declined from 35,134 in March 1991 to 30,572 in March 2006. Many vacancies remain unfilled in rural areas and new-generation banks have been hiring employees on contract. "These unhealthy practices could prove to be counterproductive to the long-term credibility of banking institutions," NCEUS warns.

Signs of success

Lifelong Learning for Farmers is, a success by many measures. The State Bank of India has made loans of about US$ 200,000 to 120 villagers, with approximately the same amount in the pipeline for 100 more villager& Another 300 people are preparing loan applications. This is in a region where one of the villages had previously been blacklisted by the banks because of a poor loan repayment record. About 60 percent of the farmers involved are women. In the past, buying a cow was traditionally the men's responsibility; they would' buy it and then hand it over to the women to care for it. Lifelong Learning for Farmers has taught both women and men how to select and purchase healthy cows, how to insure the cows and how to claim insurance if a cow dies. When a woman recovered the insured amount after her cow died, her fellow villagers were amazed. Insurance was a new concept for them. Some 500 villagers regularly attend the ICT-based learning sessions. Initially the communities were hesitant to use the Internet, but once they started to hear local voices and see familiar faces, they relaxed and lost their fear of the technology. Learning materials have also been developed about topics such as managing a dairy shed, nutrition management in dairy, quality milk production, agricultural techniques and bio-fertilizer production. A number of CDs, newsletters and internet/intranet presentations have been completed. Lifelong Learningfor Farmers is changing the lives of many people, according to Dr Patrick Spaven, a UK based professional external evaluator who recently completed a case study about the programme for COL. "For anyone who met the stakeholders and visited the villages, it would be difficult to come away without a very positive impression," said DrSpaven.

"The optimism and excitement among the stakeholders was palpable. This even included hard-nosed banking officials. The interests of all the stakeholders are being addressed and the mutual awareness of this among the consortium members underpins their confidence in the project."

Conclusion and Agenda

Operationalizethe Khan Committee recommendations follows, Supervise Banks and allow banks to find mechanisms of more effective his risk. [Can be done immediately]

Urgently mandate all banks to carry out product costing exercise -- they need to understand if they are losing money doing this business. Do not change the priority sector mandate. Strictly enforce the "weaker section" target. There is no need to have any other mandates like doubling of credit. It will naturally grow if the overall balance sheet is growing.

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