

# **Trends & Issues in the Access to Agricultural Finance in India: Review of Micro-finance as an Innovative Credit Delivery Mechanism**

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## **Design of the Paper**

- **PART – I**
  - Rural Finance Environment – I & II
  - Objectives
  - Methodology
- **PART – II**
  - Informal Finance and Models thereof
  - Observations and Findings
- **PART – III**
  - Conclusions
  - Recommendations



## Rural Finance Environment – I

- Rural finance – a key problem
- Plan emphasis and extension of supply of credit through
- Bank nationalisation,
- Expansion in Rural Bank Networking,
- Priority Sector Approach,
- Lead Bank Scheme and Service Area Approach
- Now the stress is on the informal finance and informal-formal collaboration
- Micro-finance (Mf)
- Mf and effective self-employment
- Mf Models
- SGSY model and rural finance for self-employment venture

## Rural Finance Environment – II

- **Post Bank-nationalisation**
  - Change in the operational policies and practices
  - Increased credit demand in the green revolution of 1960s
  - Increased outreach and access to agro-credit
  - Failure to ensure hassle-free, timely and adequate credit flow
  - Rural banking institutions became ineffective
  - Viability and sustainability became the big question marks
  - Security-orientation of loan
- **Banking reforms of 1990s and rural finance**
  - Variation in credit flow amongst various regions
  - Credit flow to N-E and Eastern regions are far from satisfaction
  - Spread of rural branch-banking followed a downward trend (1980s and 1990s)
  - Percentage of rural bank offices to total reduced from 58.5% in 1991 to 44.5 % during 2006

## Objectives of the Paper

- Review credit policies
  - Assess the trends and progress in credit flow and access
- Examine the suitability of government-directed micro-finance
  - Alternate credit delivery mechanism
  - Enhance access to credit in rural areas
- Analyse the issues relating to
  - Sustainability of the government micro-finance programme

## Methodology & Data Sources

- **Methodology**
  - Trend analysis of the supply of formal rural credit with respect to policies
  - Examine the need of formal finance in rural areas and its impact
  - Performance analysis of Government supported microfinance venture
- **Data Sources**
  - Secondary data
    - RBI, M/o RD, M/o Agriculture, Ministry of Finance, Planning Commission
  - Primary Data
    - Field level data from Orissa



## Why Informal Finance?

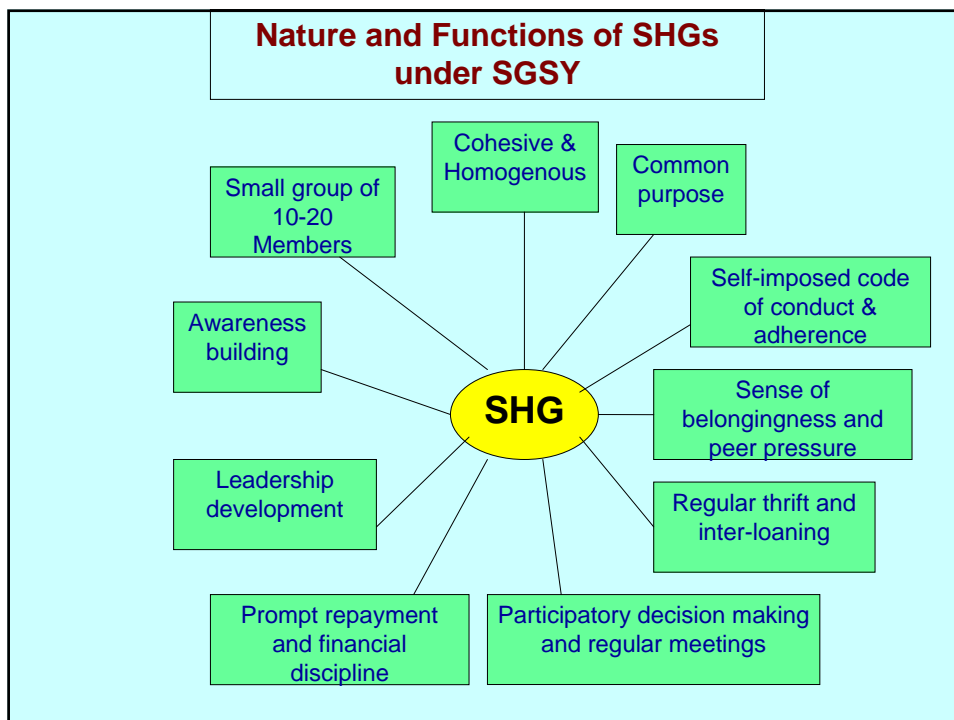
- Post-1992 era financial reform measures and viability issue
- Informal credit – participation of client farmers in SHGs
- Credit + approach
- Focuses on multiple doses based on absorption approach
- Repayment presumably higher
- Inculcation of banking habits
- Reduction of dependence on money lenders

## Models of Microfinance

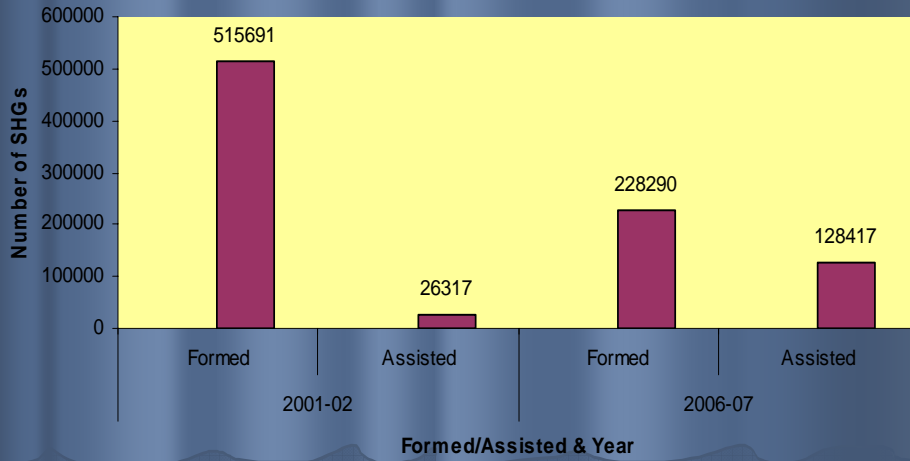
- Bank – SHG (Without NGO/SHPI intervention)
- SHG – Bank (with NGO/SHPI intervention)
- NGO/MFI – SHG (NGO/SHPI are facilitators and financiers)
- Grameen Bank Approach

## SGSY Model

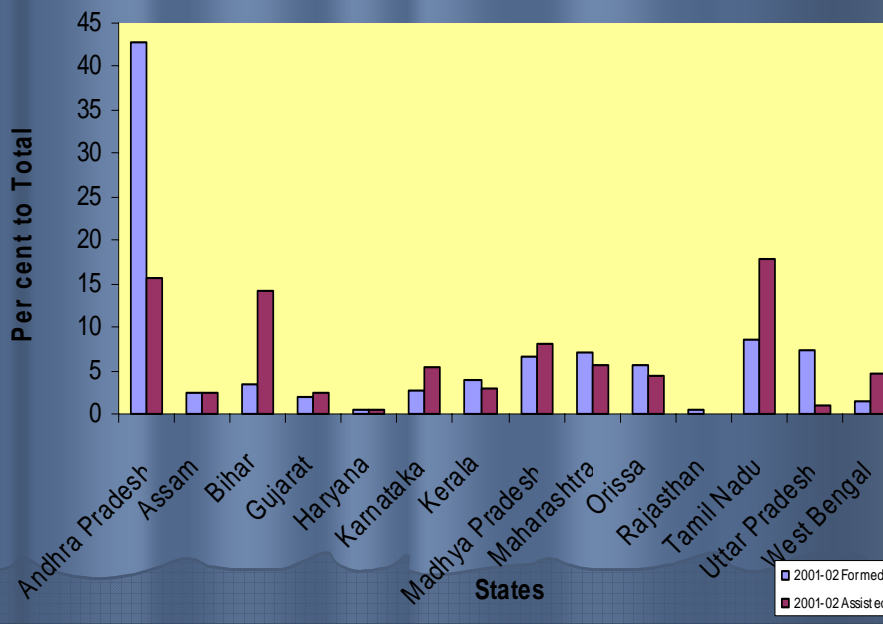
- A holistic approach covering
  - social mobilisation,
  - organisation of poor into SHGs,
  - training, credit, technology, infrastructure & marketing
- Emphasises group financing for key activities
- Ensures & demands participation

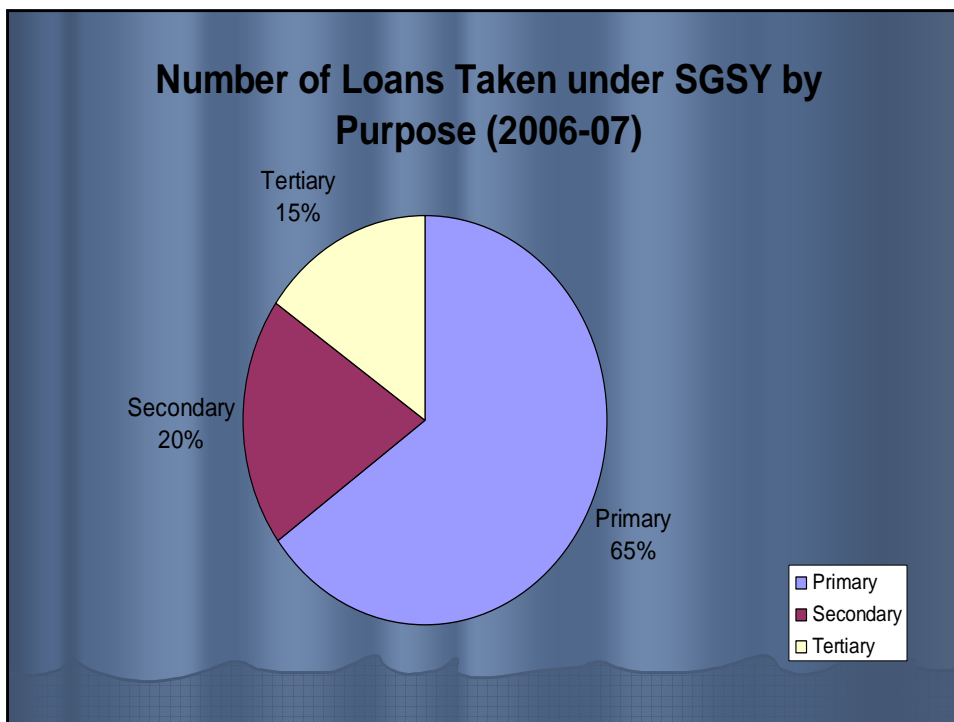
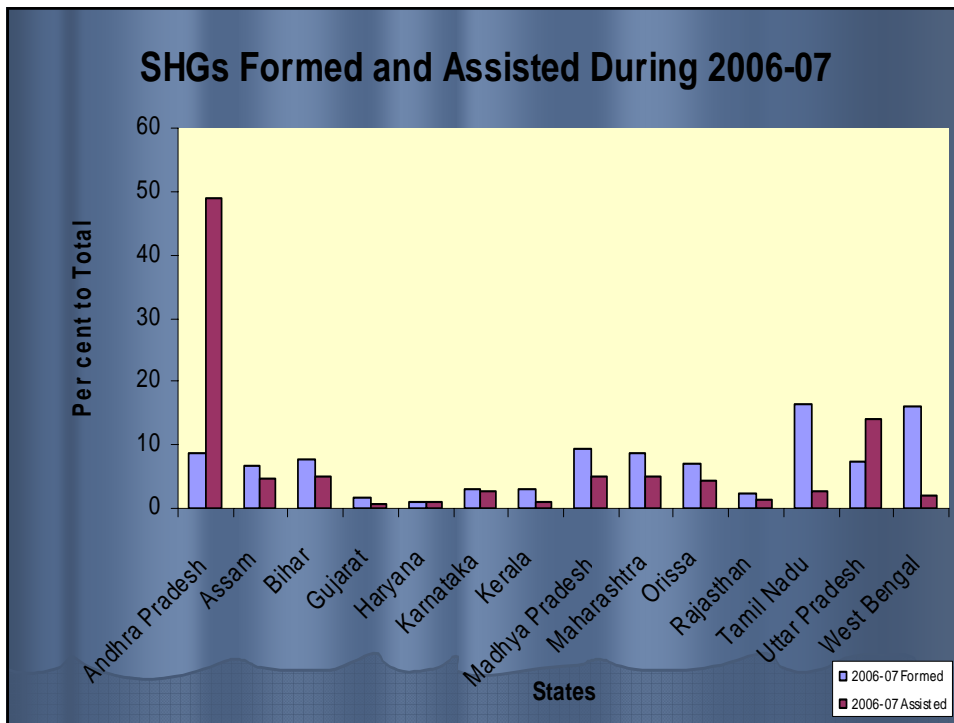


### SHG Formed and Assisted in India under SGSY (2001-02 & 2006-07)

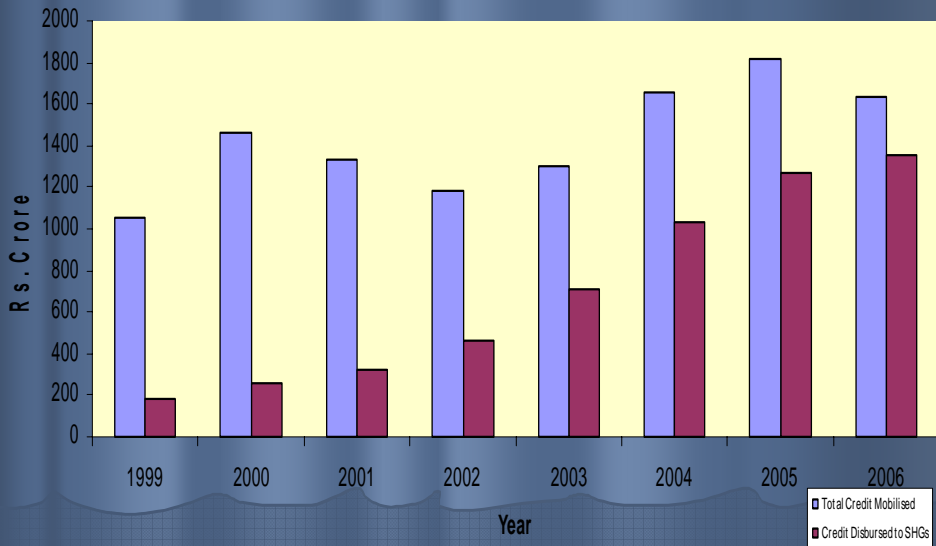


### SHGs formed and Assisted During 2001-02

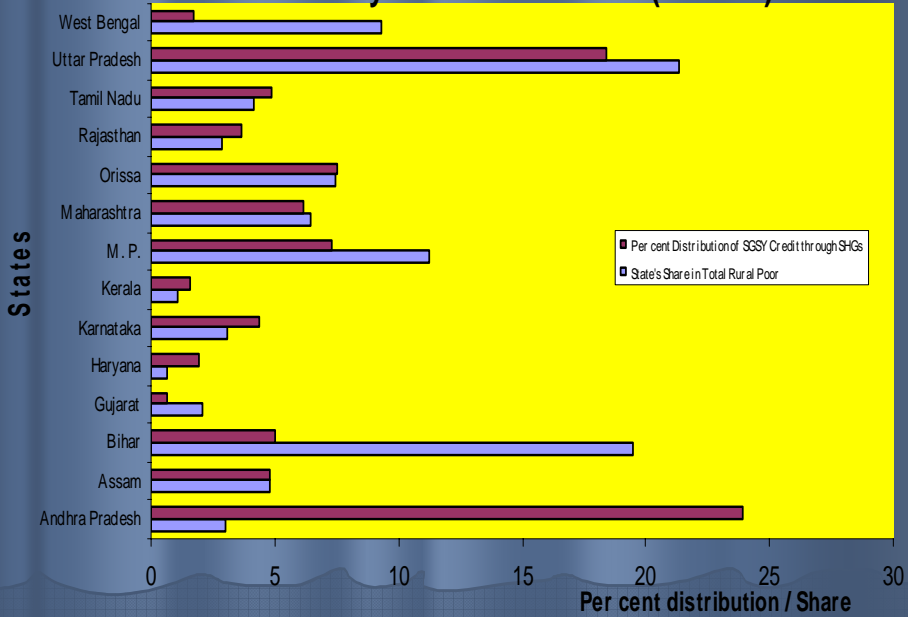




### Credit Mobilised and Disbursed to SHG under SGSY (1999-2006-07)



### State-wise Poverty and SGSY Finance (2006-07)



## Field Survey

- Field study in June - August 2006 & March-April 2007
- Jagatsingpur and Nuapara Districts
  - 32 GPs in 2 CDBs each
  - 64 SHGs covering 256 households
- Basic information sought on:
  - occupation structures
  - income and asset ownership
  - programme structure & participation

## Structure and Operation

- 4,124 (J. Pur) & 2,206 (N. Para) SHGs formed (2006-07)
- Member size – 17 mostly from BPL
- Illiteracy 13 % & 82 %
- Credit-to-Subsidy ratio – 2.5 & 1.8
- Exclusively women groups.
- Monthly deposit ranged between Rs. 30 and 60 a month.
- VLWs formed and nurtured these groups
- Basic accounting and managerial skills were lacking
- 31.6 % were landless & 57% have land upto 1 Acre

| <b>Occupational Status of Members Before and After Joining SGSY</b> |                        |                |                     |                |
|---|------------------------|----------------|---------------------|----------------|
| <b>Occupation</b>   | <b>Before</b>          |                | <b>After</b>        |                |
|   | <b>Pre-1999 Period</b> |                | <b>1999-2006-07</b> |                |
|   | <b>Jagatsingpur</b>    | <b>Nuapara</b> | <b>Jagatsingpur</b> | <b>Nuapara</b> |
| <b>1</b>  | <b>2</b>               | <b>3</b>       | <b>4</b>            | <b>5</b>       |
| Agri & Related  | 34.4                   | 67.2           | 57.8                | 64.1           |
| Household Industries  | 39.8                   | 26.6           | 15.6                | 35.2           |
| Trade & Commerce  | 0.0                    | 0.0            | 17.2                | 0.8            |
| Transport & Communication   | 8.6                    | 0.0            | 9.4                 | 0.0            |
| House work/others   | 17.2                   | 6.3            | 0.0                 | 0.0            |

Source: Survey Data

| <b>Investment in the SHGs</b>   |                           |                       |                        |
|---------------------------------|---------------------------|-----------------------|------------------------|
| <b>Investment Range (in Rs)</b> | <b>No. of Respondents</b> |                       |                        |
|                                 | <b>Jagatsingpur</b>       | <b>Nuapara</b>        | <b>Total</b>           |
| <b>1</b>                        | <b>2</b>                  | <b>3</b>              | <b>4</b>               |
| upto 25,000                     | 40<br>(15.6)              | 12<br>(4.7)           | 52<br>(20.3)           |
| 25,001 to 50,000                | 24<br>(9.4)               | 4<br>(1.6)            | 28<br>(10.9)           |
| 50,001 to 1 lac                 | 64<br>(25.0)              | 8<br>(3.1)            | 72<br>(28.1)           |
| 1 to 5 lac                      | 0<br>(0.0)                | 104<br>(40.6)         | 104<br>(40.6)          |
| above 5 lakh                    | 0<br>(0.0)                | 0<br>(0.0)            | 0<br>(0.0)             |
| <b>Total</b>                    | <b>128<br/>(50.0)</b>     | <b>128<br/>(50.0)</b> | <b>256<br/>(100.0)</b> |

Source: Survey Data  
Figures in the parantheses refers to the percentage to total

| <b>Income Profile of the Beneficiary Households (Pre and Post-SHG)</b> |                                     |                       |                        |                                      |                       |                        |
|--|-------------------------------------|-----------------------|------------------------|--------------------------------------|-----------------------|------------------------|
| <b>Income Range (in Rs/day)</b>  | <b>No. of Respondents (Pre-SHG)</b> |                       |                        | <b>No. of Respondents (Post-SHG)</b> |                       |                        |
|  | <b>Jagat-singpur</b>                | <b>Nuapara</b>        | <b>Total</b>           | <b>Jagat-singpur</b>                 | <b>Nuapara</b>        | <b>Total</b>           |
| <b>1</b>   | <b>2</b>                            | <b>3</b>              | <b>4</b>               | <b>5</b>                             | <b>6</b>              | <b>7</b>               |
| upto 25  | 116<br>(45.3)                       | 128<br>(50.0)         | 244<br>(95.3)          | 39<br>(15.2)                         | 96<br>(37.5)          | 135<br>(52.7)          |
| 25-50  | 11<br>(4.3)                         | 0<br>(0.0)            | 11<br>(4.3)            | 83<br>(32.4)                         | 32<br>(12.5)          | 115<br>(44.9)          |
| 51-100   | 1<br>(0.4)                          | 0<br>(0.0)            | 1<br>(0.4)             | 4<br>(1.6)                           | 0<br>(0.0)            | 4<br>(1.6)             |
| 101-150  | 0<br>(0.0)                          | 0<br>(0.0)            | 0<br>(0.0)             | 2<br>(0.8)                           | 0<br>(0.0)            | 2<br>(0.8)             |
| above 150  | 0<br>(0.0)                          | 0<br>(0.0)            | 0<br>(0.0)             | 0<br>(0.0)                           | 0<br>(0.0)            | 0<br>(0.0)             |
| <b>Total</b>   | <b>128<br/>(50.0)</b>               | <b>128<br/>(50.0)</b> | <b>256<br/>(100.0)</b> | <b>128<br/>(50.0)</b>                | <b>128<br/>(50.0)</b> | <b>256<br/>(100.0)</b> |

Source: Survey Data  
Figures in the parantheses refers to the percentage to total

| <b>Difficulties Faced</b>    |                           |                       |                        |
|------------------------------|---------------------------|-----------------------|------------------------|
| <b>Difficulty Categories</b> | <b>No. of Respondents</b> |                       |                        |
|                              | <b>Jagatsingpur</b>       | <b>Nuapara</b>        | <b>Total</b>           |
| <b>1</b>                     | <b>2</b>                  | <b>3</b>              | <b>4</b>               |
| Marketing                    | 29<br>(11.3)              | 10<br>(3.9)           | 39<br>(15.2)           |
| <b>Finance</b>               | <b>51<br/>(19.9)</b>      | <b>100<br/>(39.1)</b> | <b>151<br/>(59.0)</b>  |
| Product & Quality            | 29<br>(11.3)              | 10<br>(3.9)           | 39<br>(15.2)           |
| Infrastructure               | 14<br>(5.5)               | 7<br>(2.7)            | 21<br>(8.2)            |
| Facilitator's Support        | 5<br>(2.0)                | 1<br>(0.4)            | 6<br>(2.3)             |
| <b>Total</b>                 | <b>128<br/>(50.0)</b>     | <b>128<br/>(50.0)</b> | <b>256<br/>(100.0)</b> |

Source: Survey Data  
Figures in the parantheses refers to the percentage to total



## Concluding Observations

- Microfinance
  - Innovative rural finance
    - Can be an effective channel of credit delivery
    - Prioritisation, credit rationing in-built
  - has had a very **limited impact**
    - Cannot be a panacea for eradication of poverty
  - **Credit + approach and not Credit only**
- Need of the Hour
  - Convergence,
  - Monitoring,
  - Collaboration and co-ordination



SHG involved in bamboo activities in Khariar Block of Nuapara District

# Recommendations

- **Co-ordinate** among govt. & SHPIs
- Form **quality groups**
- Widen financial base - enhanced thrift and credit
- Select appropriate **economic activities**
- **Monitor** periodic **progress**
- Expand bank/MFI network & **link** SHGs with **credit**
- Improve **mktg.** & **tech. infra.**
- **Tie-up** with technical institutions, market players
- Enhance **product quality**
- **Design** group-specific **brand**



SHG members dealing with Minor Forest Produce collection and trading in Boden Block of Nuapara District

# Thank You