

*Rural and Agriculture Finance: Critical Input to Achieve Inclusive and Sustainable Development**

M. K. Jain

Mr Senarath Bandara, Chairman, APRACA (Asia Pacific Rural and Agricultural Credit Association), Dr. Harsh Kumar Bhanwala, Chairman National Bank for Agriculture and Rural Development (NABARD) and Vice-Chairman, APRACA, Dr. Prasun Kumar Das, Secretary General, APRACA, all other dignitaries present here, ladies and gentlemen, good afternoon!

At the outset, I would like to thank APRACA and NABARD for inviting me to give the valedictory address to the participants visiting from different countries here at the 6th World Congress. I would like to congratulate the organisers for having chosen the theme, *i.e.*, 'Rural and Agriculture Finance: Critical Input to Achieve Inclusive and Sustainable Development' with the aim of getting insights into the global best approaches to rural and agricultural finance. The topics of the business sessions are befitting the overarching objective of this forum for deliberating on policy priorities in developing sustainable and viable financial services to support and help in achieving the Sustainable Development Goals (SDGs) of the United Nations. Needless to say, all the topics resonate strongly with the development agenda of the Government and financial inclusion strategy of the Reserve Bank of India (RBI). We have been pursuing the goal of financial inclusion for a long time to ensure that access to formal finance becomes a greater enabler to achieve economic wellbeing of all sections of the economy. It is indeed a great pleasure for me to share my views on this subject.

The RBI's financial inclusion efforts can be traced back to the 1960s when the focus was on

* Shri. M. K. Jain, Deputy Governor, Reserve Bank of India, Speech Delivered on November 13, 2019.

channelizing of credit to the neglected sectors of the economy and weaker sections of the population. While the Government of India nationalized banking operations of few commercial banks in two tranches in 1969 and 1980; RBI took initiatives like laying down priority sector lending requirements for banks, formulation of the Lead Bank Scheme, establishment of Regional Rural Banks (RRBs-1975-76), Service Area Approach (1989), Self-Help Group-Bank Linkage Programme (1989-90), setting up of Local Area Banks and of late, Small Finance Banks and Payment Banks, all aimed at making available banking services to all. All these developments brought in a sea change in the flow of institutional credit to the rural population, including population dependant on agriculture. Gradually the country moved towards a multi-agency approach to meet the credit needs of the rural areas including farmers.

I am sure all distinguished panellists, international and local participants and the organisers have had fruitful discussions and deliberations during the last two days and have been able to draw upon actionable points for formulating strategies and the way forward.

Sustainable Development Goals

The sustainable development framework, adopted by the global community consists of 17 SDGs and 169 targets, to be achieved by 2030. While Goal 2 of the SDGs includes targets on agricultural productivity and sustainability, yet agriculture is also critical to achieve many other SDGs relating to hunger, malnutrition, climate change, gender equality, natural resources protection and jobs. Hence, to attain the SDGs of ending poverty and bringing in inclusive growth, policy measures related to agriculture need to be closely integrated with the SDG targets. Further, the policies should focus on a combination of resource efficient methods, dynamic cropping patterns, farming that is adaptive and responsive to climate change and intensive use of Information & Communication Technology (ICT). Against this backdrop, let me dwell upon the Indian agriculture

sector and the existing institutional framework for providing credit to the farming community.

A Brief on Indian Agriculture

Agriculture plays a significant role in the Indian economy and provides employment and livelihood to a large section of the Indian population. Approximately 44 per cent (as per ILO estimate of 2018) of the working population is employed in agriculture and allied sector¹. However, the contribution of agriculture to GDP has been declining from 52 per cent in the 1950s to 30 per cent in the 1990s and further below 20 per cent from 2010 onwards as per data from Ministry of Statistics and Programme Implementation (MoSPI)². In 2018-19, the share of Agriculture & Allied Gross Value Added (GVA) in overall GVA was 16 per cent (Ministry of Agriculture and Farmers' Welfare (MoA&FW) Annual Report 2018-19). Economic Survey 2018-19 suggests that the growth rate in GVA (at 2011-12 prices) over past five-six years has been higher for livestock, fishing and aquaculture as compared to crops³. Allied activities contribute approximately 40 per cent to agricultural output, whereas only 6-7 per cent of agricultural credit flows towards allied activities⁴. One important characteristic of Indian agriculture is that it is mainly small holders' farming with an average landholding size of 1.08 hectares⁵. The small and marginal farmers account for 86 per cent of all holdings and 47 per cent of the operated area⁶. They contribute more than 50 per cent of the total agricultural and allied output. In smallholder farming, it remains a challenge to raise agricultural productivity and farmers' incomes. It requires appropriate solutions starting with easy access to modern inputs and then selling the produce in most remunerative markets. Institutional credit at reasonable cost all along the value chain is one such catalytic instrument that can facilitate the

process by converting many subsistence farmers into vibrant commercial farmers. They can then diversify their agricultural operations in growing high value crops like fruits and vegetables, and engage in allied activities, like dairy, poultry, fishery, honey, beekeeping, *etc.* Allied has huge potential, which can be capitalised by improving credit flow towards it and by encouraging farmers to move towards allied activities.

From time to time, Government has given various policy thrusts, as a result of which, the Indian agriculture sector has not only become self-sufficient but has emerged as a net exporter of several commodities like rice, marine products, cotton, *etc.* Some of the important initiatives taken by the Government include the implementation of Interest Subvention Scheme (ISS) for providing credit for crop production at reduced interest rate, Soil Health Cards (SHC) for improving agricultural productivity, Pradhan Mantri Krishi Sinchai Yojana (PMKSY) to ensure irrigation facilities, Pradhan Mantri Fasal Bima Yojana (PMFBY), for providing a safety net against natural calamities and National Agriculture Market Scheme (e-NAM) for providing better price discovery through transparent auction process. There is also a renewed focus on allied activities to aid income of farmers.

Despite these initiatives, there are several challenges confronting Indian agriculture such as diminishing and degrading natural resources, rapidly growing demand for food (not just for quantity but also for quality), stagnating farm incomes, fragmented land holdings and unprecedented climate change, which need to be tackled for long term sustainability and viability of Indian agriculture.

What has been the Role of Institutional Credit in Indian Agriculture?

Banks in India have made commendable progress in terms of scale and outreach of formal credit to the agriculture sector. From ₹31.71 billion in 1981, the outstanding advances to agriculture and allied activities have grown significantly to

¹ <https://data.worldbank.org/indicator/SL.AGR.EMPL.ZS>

² Various reports of MoSPI

³ Economic Survey 2018-19, Volume II, Chapter 7 'Agriculture and Food Management'

⁴ RBI Report of the Internal Working Group to Review Agricultural Credit, 2019

⁵ Agriculture Census 2015-16

⁶ Agriculture Census 2015-16

₹13694.56 billion in 2017-18 (16 per cent of total bank credit). The long-term trend in institutional agricultural credit revealed that over time, significant progress has been achieved in terms of scale. Agricultural credit as a percentage to Agriculture GDP increased from 10 per cent in 1970s to 52 per cent by 2018, which shows that banks have made significant progress in lending to agriculture. In India, scheduled commercial banks (79 per cent) are the major players in supplying credit to agriculture sector followed by rural cooperative banks (15 per cent), regional rural banks (5 per cent) and micro finance institutions (1 per cent). Small finance banks set up with the objective of deepening financial inclusion have started their operations recently. They would be catering to small and marginal farmers, low income households, small businesses and other unorganised entities.

Challenges in Agriculture Financing

Despite the impressive growth in formal agricultural credit, there are still several challenges that need to be tackled. Data on the average loan taken by agricultural households, as per the NABARD's Financial Inclusion Survey Report 2016-17, indicated that 72 per cent of the credit requirement was met from institutional sources and 28 per cent from non-institutional sources. The report further states that out of the total agricultural households, approximately 30 percent still avail credit from non-institutional sources. The problem of financial exclusion gets aggravated due to lack of legal framework for landless cultivators as the absence of documentary evidence becomes a major hindrance for extending credit to this segment of the farming community, who take up cultivation work on oral lease. Further, the analysis of state wise flow of institutional agricultural credit has revealed uneven distribution of credit amongst states compared to their corresponding share in overall output. To a certain extent, such regional disparity is on account of variation in credit absorption capacity of these regions. Funds like Rural Infrastructure Development

Fund (RIDF) have been created out of priority sector lending shortfall of banks and established with NABARD with the underlying philosophy of lending to state governments to facilitate creation of enabling rural infrastructure to deepen the credit absorption capacity in rural areas.

An analysis of sanctions from RIDF indicates that states with higher credit flow made higher demands for resources under the fund. On the contrary, states with lower credit flow were lagging in borrowing funds from RIDF. Thus, the least developed states which are already credit starved are getting lower share of funds from the RIDF. This highlights the need to break this vicious cycle and think of certain measures by which funds can be earmarked to the most backward/ credit starved regions to ensure speedier development of the most backward areas in the country. We may also have to think of ways to incentivise banks to lend in these backward areas so that both demand and supply side issues are addressed. These issues and challenges impinge on the efficiency, inclusiveness and sustainability of the agricultural credit system, which is a matter of concern.

Internal Working Group Set Up by RBI

Considering this, RBI had set up an Internal Working Group (IWG) in February 2019, to understand the issues and recommend workable solutions to address the constraints. The IWG based on extensive data analysis and research held extensive consultations and deliberations with experts and practitioners in the field and submitted its report in September 2019.

The recommendations of the IWG include building up of an enabling ecosystem through digitisation of land records, reforming of land leasing framework, creation of a national level agency to build consensus among the state governments and central government with regard to agriculture-related policy reforms and innovative digital solutions to bridge the information gap between the banks and farmers for expediting the credit delivery process.

Other policy interventions recommended are suitable modifications in the Priority Sector Lending guidelines applicable to all banks and strengthening of credit delivery channels through Kisan Credit Cards, Self-Help Group Bank Linkage Programme, Farmer Producers Organisations, in a manner to make them more effective and efficient in ensuring credit flow to the credit starved regions of the country, as also to the excluded segments of the farming community. RBI would be initiating necessary steps for implementing these recommendations as these would go a long way in ensuring the long-term sustainability and viability of the Indian agriculture sector.

Financial Inclusion

Financial Inclusion (FI) is a policy thrust area for RBI and as a result of the various initiatives, tremendous progress has been made in the domain of financial inclusion since the country set out in mission mode about 10 years ago. Further, with the launch of Pradhan Mantri Jan Dhan Yojana (PMJDY), almost every household has been brought under the fold of formal financial system. Both in terms of deposit accounts and credit products there has been a steady improvement over the years. RBI has initiated setting up a National Strategy for Financial Inclusion with the objective of making financial products and services available, accessible, and affordable to all citizens in a safe and transparent manner to support inclusive and resilient multi-stakeholder led growth. The strategic pillars of the financial inclusion strategy would include universal access to financial services, providing basic bouquet of financial services, access to livelihood and skill development, financial literacy and education, customer protection and grievance redressal. The FI strategy aims for sustainable financial inclusion by leveraging technology and adopting a multi-stakeholder approach.

The key highlights of the FI strategy is enhancing digital infrastructure in the country through better networking of bank branches, Business Correspondent agents, Micro ATMs, PoS

terminals and Internet connectivity facilitating a move towards digital onboarding of customers. This would encourage adoption and acceptance of digital payments and promote efficiency and transparency through digital transactions. The strategy adopted has a customer centric approach, accompanied by appropriate efforts towards financial literacy and awareness drive. Finally, for building of trust and confidence of the new entrants to the formal financial system the strategy focusses on customer grievance and protection framework. The implementation of the national level financial inclusion strategy would be successful by effective coordination of all the stakeholders and encouraging decentralized approach by creating a forum to actively involve Gram Panchayats/Civil Society/NGOs to accelerate financial inclusion. We have come a long way in delivering financial services to hitherto excluded sections and segments of our vast country. Going forward, the FI strategy would focus on deepening the reach, usage and sustainability of financial inclusion.

Technology - A key Driver for Sustainable Agriculture

Technology has powered Indian agriculture time and again by helping overcome productivity stagnation, strengthening market linkages, and enhancing farm management. Globally, it has been established that technology adoption modernizes farmers' production practices and leads to uniform annual returns for farmers, reduced risk of crop failure, and increased yields. Hence, at the macro level, the agricultural development policies should focus on leveraging technology with the goals of (i) achieving high growth by raising productivity (ii) inclusiveness by improving coverage of lagging regions, small and marginal farmers, landless/tenant/oral lessee and women farmers, and (iii) sustainability of agriculture.

I feel that new age technological solutions in the form of product, service or application by agri-start-ups can build up a smart agriculture value chain that will enhance the sustainability of agriculture. Agri-

start-ups may focus on some key areas such as supply chain, infrastructure development, finance related solutions, farm data analytics and information platforms. In my opinion, agri-start-ups can succeed and can be scaled up only in a conducive ecosystem, which is possible if agri-business industry comes forward and deepens its engagement with agri-start-ups.

Conclusion

I would like to summarise that in the past, Indian agriculture faced a formidable challenge to grow more food. Today, we are a food surplus country and a net exporter of many agriculture and allied products. This requires the government policies related to agriculture

to be shifted from that of managing food scarcity to managing food surplus. Today, agriculture in India faces an even more demanding challenge: to grow agri-produce sustainably, inclusively and responsibly. This can be achieved when all the stakeholders align their policies and actions towards the SDGs. As far as financing of agriculture is concerned, going forward, banks will have to integrate 'sustainability' into their business strategy and decision-making processes in order to support environmentally responsible and sustainable projects in the agriculture sector. For this, banks will have to undertake innovative agricultural financing models so that environment friendly and sustainable projects can be supported. With this, I conclude and wish you all the best.