

Money for Nothing

A Comparison of the Rural Credit System between India and Bangladesh

Abstract

Agriculture needs working capital to operate. Smooth credit availability boosts and ensures agricultural productivity. This paper focuses on India and Bangladesh which are considered to be developing, though at different paces, are heavily dependent on the agricultural sector; and attempts to confirm the role and utmost importance of credit availability and rural banking system for agricultural growth and wellbeing of the mass engaged, in a comparative way in these two economies by examining the current state of the agricultural and rural banking in both the nations.

Keywords: Rural, Credit, India, Bangladesh, Agriculture, Loan, Bank.

Introduction

Credit is an important input for rural development, which can be short term or long term; it is distributed to meet the needs of the farmers during the gestation period between sowing, harvesting and marketing cycles. Long term loans are provided to purchase irrigation equipment, agricultural machinery, livestock, land, agro based industries etc. short term loans on the other hand are provided with a shorter time period for repayment (usually after harvest) for the farmers' short term needs such as the purchase of seed, fertilisers, payment of wages for workers. In India farmers face a great deal of rural indebtedness and are exploited by the credit market due to high interest rates and lack of convenient access to credit. Cash flows and savings in the majority of rural households are low and so the dependency on credit is quite high for consumption needs such as education, housing, food, household functions, etc. Rural households need access to financial institutions that can provide credit at lower rates and at reasonable terms from the traditional money lenders and thereby avoid the debt traps that are predominant in rural India. Agriculture, in Bangladesh, comprises of around 14% of the national GDP, agriculture production should be kept up to sustain the GDP growth. Convenient access to agriculture credit promotes agricultural productivity and therefore ensures production stays high. The farmer population is consisted of mainly small or marginal farmers and out of that a small proportion has access to institutional credit. Almost all farmers of all size categories report the need for credit to obtain agricultural inputs, without adequate access production cannot be finished on time. The people involved in agriculture are mainly poor and subsistence farmers, they depend on their production of food supplies. A lack of agricultural inputs due to a lack of capital will hamper production and therefore hamper their food security as well as the nation.

Structure of the Banking System (India)

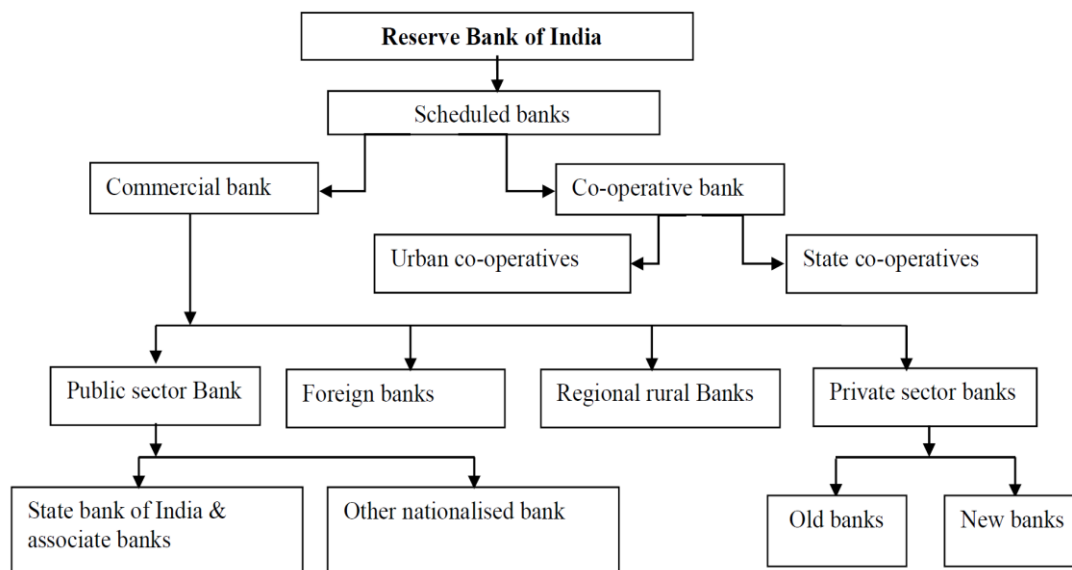
The Indian agriculture banking system started in 1975 with the goal of expanding banking facilities to the rural areas. The Government and the Reserve Bank of India (RBI) encouraged agricultural banking, in 1975 the Regional Rural Bank (RRB) was set up by the RBI to promote banking in the rural areas and for the farmers to benefit from the banking facilities. In 1982, RBI further established the National Bank for Agricultural and Rural Development (NABARD), an agricultural financial corporation, to provide finance and carry out agricultural schemes and policy in favour of the farmers. In 1949 the State Bank of India was established after the banking regulation act was enacted. It handles the central and state's banking transactions while also functioning as a principle agent of the RBI, they also provide agricultural credit to the rural farmers- a major source of credit in India.



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Fig. 1: Structure of the Organised Banking Sector.



Source: A.N Patil. 2016. Impact of agricultural banking on farmers. Vol. 2 issue 6. International Journal of Commerce and Management Research.

National Bank for Agriculture & Rural Development (NABARD)

Established in 1982, NABARD provides long term refinance for minor irrigation, plantations, horticultures, fisheries etc. along with short term loans for financing seasonal agricultural operations. NABARD was established to prevent the post-independence exploitation of the rural poor in the hands of money lenders and traders with their high levels of interest on loans. It has been given the powers to establish itself as the apex banking body of rural India regulating all credit and banking activities of rural India.

Regional Rural Bank (RRB): Established in 1975, its main purpose is to provide financial credit to farmers at low interest rate. It fulfils the basic need of working capital of farming, provides loans and advances to the co-operative society and other societies related to agricultural activities, to small entrepreneurs and others engaged in trade, commerce and industry. RRB's enjoy concessions by the RBI such as lower interest rates and refinancing facilities from NABARD such as lower cash ratio, lower statutory liquidity ratio, lower rate of interest on loans taken from sponsoring banks, managerial and staff assistance from the sponsoring bank and reimbursement of the expenses on staff training. The RRBs are under the control of NABARD. NABARD has the responsibility of laying down the policies for the RRBs, to oversee their operations, provide refinance facilities, to monitor their performance and to attend their problems. RRBs are jointly owned by, the concerned State Government and Sponsor Banks (27 scheduled RRBs and one State Cooperative Bank); the issued capital of a RRB is shared by the owners in the proportion of 50%, 15% and 35% respectively.

Bangladesh

Bangladesh on independence inherited a weak banking system. All financial institutions in Bangladesh operate under the central bank, the Bangladesh Bank (BB). Dispersion of rural institutional credit is mainly done through Bangladesh Krishi Bank (BKB) and Rajshahi Krishi Unnayan Bank (RKUB), its northern region counterpart, Nationalised Commercial banks, Bangladesh Samabaya Bank (the apex bank for all central co-operative societies, co-operative land mortgage banks, central sugarcane growers associations and thana co-operative societies), and Grameen Bank (GB). Between 1971 and 1976, Bangladesh Krishi Bank (formerly the Agricultural Development Bank) and the co-operatives were the only two institutions that were meeting the need of agricultural credit. To increase the flow of credit for agriculture, the government inducted the Nationalised Commercial Banks (NCB) in the field of agricultural credit in 1976 under a new programme called Special Agricultural Credit Programme (SACP) which was designed to cater to all seasonal crop loans. Rural branches of NCBs are now engaged in agricultural credit. For each financial year, the central bank of the country formulates and promulgates the agricultural credit policy according to which banks and other institutions operate their agricultural credit-giving activities. The NGOs operating in the country with microcredit programmes also constitute a major group of formal institutions providing rural finance. They work with the rural and urban poor who are largely bypassed by the banking system and other credit-giving agencies. To simplify, the banking sector in Bangladesh now can be divided into four main categories which are Nationalised Bank, Local Private Commercial Bank, Specialised Financial Institution and Foreign Bank. The state owned banks play a leading role in rural finance whereas the scheduled

banks including private and foreign banks operating in Bangladesh are now under the agriculture credit scheme. The government has simplified the Agricultural Credit Distribution Policy and in many cases the scheme is being implemented through some NGOs including Bangladesh Rural Advancement Committee (BRAC) under a linkage programme. The involvement of banks in poverty alleviation programme through micro-credit scheme has increased significantly. Beside the banks, the government managed palli karma sahayak foundation' (PKSF) which along with NGOs plays a significant role in alleviating poverty through micro-credit scheme. PKSF disbursed about 147,318 million taka loan till December 2009 to over 26 million beneficiaries mostly live in rural areas. The recovery rate of the credit is 99%.

Aim of the Study

India and Bangladesh both being basically agrarian in nature suffers from adequate finance/credit availabilities and a broad and deep agrarian banking system to foster and support agricultural growth and wellbeing of the mass engaged. This is an attempt to investigate, analyse and understand the present problems to find out solutions for the same.

Review of Literature

Alauddin, Biswas. 2014. Agriculture Credit in Bangladesh: Present Trend, Problems and Recommendations: This paper gives a thorough explanation about the role agricultural credit in Bangladesh and elaborates on the introduction and rationale for agriculture credit, the sources of credit, the distribution of credit in different sectors of agriculture and further suggests improvements on the provision of credit.

Patil, A. N. 2016. Impact of agricultural banking on farmers: This work describes the structure of the Indian banking system and elaborates on the different sectors of the rural banking sector. It also examines the sources of agricultural credit from institutional and non-institutional organisations and gives an idea about the uses and need of agricultural banking in India.

Md. Ariful Islam, Md. Rayhan Islam, Mahmudul Hasan Siddiqui, Luthful Karim. 2014. Importance of Agricultural Credit for Rural Development of Bangladesh: A descriptive approach: This paper gives a detailed structure of the Bangladeshi banking system. All institutional and non-institutional sources of credit such as the micro credit financial institutions and the Grameen bank are explained in this paper in great detail. The paper also describes the process of loan recovery.

Methodology

Research Question-Comparison of the rural credit facilities between two countries- India and Bangladesh

Type of Research- Mixed method. There is the use of both qualitative and quantitative measures.

Research Design- This has an explanatory and descriptive design along with textual reading.

Methods of Data Collection- Qualitative and quantitative involving secondary data collected from various sources.

Methods of Data Analysis- Qualitative and quantitative method of analysis using textual reading and content analysis with data presented in tables.

Inference-There is a growth in the number of loans provided by the banks and other institutions in both countries. Along with the growth of credit there seems to be an increase in the repayment amount as well as the outstanding amount. The need for rural credit increased without improving the financial condition of the farmers.

Analysis and Findings

Sources of credit-India

The various sources for agricultural credit can be sorted into two categories:a) Non Institutional Agencies, b) Institutional Agencies. Formal institutions include all commercial banks, regional and rural, cooperative societies, NABARD. Services provided by the banks include: 1:Cash credit: One of the major sources of credit, it is provide against the crops on a farmer's land. It is a short term loan with a low interest rate attached to it not more than 4%. 2. Term loan- A long term loan, also a major source of credit and is given out to promote agricultural development and productivity.3: Gold loan-Credit issued on behalf of the farmer's gold. This is an immediate solution to meet the needs of working capital. 4: Crop Insurance. 5: Mobile Banking. 6: Online Banking. Non institutional agencies include moneylenders, their agents, landlords, self -help groups (SHG). Self-help groups are very important in the provision of credit;although steps are taken to introduce formal credit in the rural sections they require collateral in exchange of loans. Most households in need of immediate credit do not possess any collateral. To bridge this gap between formal and informal credit self-help groups are created to provide small loans to needy members who have submitted a small sum in an initial pool of resources. Loans taken from the pool can be returned with very cheap interest rates. These self-help groups can also be called microcredit institutions. About 64% of loans were issued by the formal sector with banks accounting for 71%. The informal sector still accounts for 36% per cent of credit issuance and money lenders account for 64% of the credit issued, with friends and relatives, who do not charge any interest, falling second with 24%.

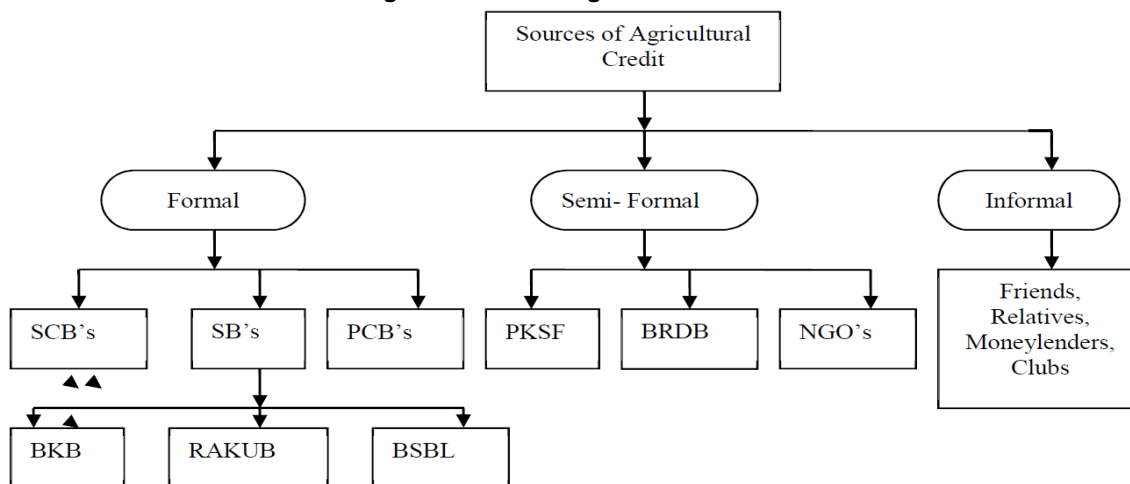
Bangladesh

The rural financial market of Bangladesh is composed of three categories: Formal sector, Semi-Formal sector and Informal sector. These are the three principle credit source in the rural economy where the formal credit sector includes state owned commercial banks, specialized banks and private commercial banks. In the Fiscal Year of 2012 the formal sector made up 36% of the source of credit. The semi-formal credit sector includes autonomous credit institutions like the Palli Karma Sahayak Foundation (PKSF), Bangladesh Rural Development Board (BRDB) which finances employment and production programs for the rural poor and farmers associated with the Thana Central Cooperative

Associations and their primary societies such as the Krishi Samabaya Samity (KSS), the Bangladesh Small and Cottage Industries Corporation (BSCIC) which renders advisory and financial services to small and cottage industries and numerous NGOs. Now NGOs are in a significant role in rural economic upliftment by generating growth & creating

employment through agricultural credit disbursement. The informal credit agents are a mix of professional and personal sources including moneylenders and traders, village shopkeepers, landlords and rich farmers, as well as the relatives and the friends of borrowers.

Fig. 2: Sources of Agriculture Credit



Source: Md. Alauddin, J. Biswas. 2014. Agricultural Credit in Bangladesh: Present Trend, Problems, Policy Recommendations. Vol. 5 No. 27 Journal of Economics and Sustainable Development.

Disbursement of Credit

Agriculture Credit Performance of Formal

Lenders It was apparent that in the last five years the target level of disbursement has gone up and the actual level of disbursement surpasses it each year and continues to increase and diverging away from the targeted level. The outstanding level of credit rises through the years (with a fall in 2015 but rises from 2016 again) with the recovery rate but the growth of the recovery rate is not enough to bridge the gap between the disbursement level and their returns as the outstanding level as well as the overdue charges are also rising. The data for the years 2013 to 2017 of the loans and advances of the formal sector including Co-operatives, Regional Rural Banks (RRB), Primary Agricultural Credit Societies (PAC), State Co-operative Agricultural and Rural Development Bank (SCARDB), Primary Co-operative Agricultural and Rural Development Bank (PCARDB) indicated that over the last 5 years, the amount of loans issued increased but simultaneously the level of loans outstanding has also went up. The difference between them was particularly high in 2017.

Performance of Refinance Institutions

Refinancing facilities were stopped by the banks in 2015. The repayment levels increased with slight ups and down but the total outstanding level of payments steadily decreased indicating a positive effect of credit availability and rose again in the last few years with the state owned cooperative banks taking up an increasing percentage share of the disbursement. Cooperative banks and the regional rural banks being the major channels of investment credit.

Performance of Micro Credit Institutions

The level of disbursement has increased steadily over the years and along with it so the level of recovery. The gap between the level of disbursement and recovery shranked with each passing year. But the amount of outstanding loans also increases particularly the amount of overdue in the last two years. Just like the level of formal institutional credit, the number of Self-help groups also rose along with it the amount of loans and level of refinance.

Present Situation of Agriculture sector

In India more than 50% of the total workforce is based in the agricultural sector and it contributes to 17-18% of the national GDP according to the Economic Survey of 2017-18. According to former chief economic advisor Arvind Subramanian "At present, Indian farmers are adapting farm mechanization at a faster rate in comparison to recent past. Although, the sale of tractors in India cannot be taken as the only measure of farm mechanization but to a great extent it reflects the level of mechanization." This suggests that the availability of agricultural credit is of utmost importance in the present situation. It is estimated that by 2050 the percentage of agricultural workforce should drop to 25.7% of the total workforce, therefore there is an intense need to enhance this current growth in farm mechanisation and also boost agricultural productivity. Despite this over 12,000 suicides are reported in the agricultural sector since 2013. Farmer suicides account for 10% of all suicides in India. Both marginal and small farmers are committing suicides, Maharashtra, Karnataka, Telangana, Madhya Pradesh, Chhattisgarh, Andhra Pradesh and Tamil Nadu account for most of the suicides. Punjab also has a record of 4687 suicides in the period of 1995-2005 despite benefitting the most

from the Green Revolution. There are several economic factors behind this rising problem: 1.A surge in input costs- there is an increasing burden of inflated prices of agricultural inputs, cost of chemicals, seeds, fertilisers, agricultural equipment has become expensive, while an increase in the wages of labourers and cost of hiring animals is an indicator of an improvement in socio-economic status it increases the costs of the farmers and does not boost the agricultural sector.2. Distressed due to loans- Around 80% of farmer suicides in 2015 were due to the pressure of unpaid loans. Only 9.8% of these loans were from the moneylenders and therefore they were not a major force of the pressure on the farmers. There has been a strong linkage between the high level of indebtedness of the farmers and their suicides such as in Karnataka and Maharashtra where both the level of indebtedness and the level of suicides were high. 3.Lack of direct integration with the market- Although initiatives like the National Agricultural Market and contract farming are helping integrate the farmers' produce directly with the market, cutting the role of intermediaries, the reality is still lagging behind.4. Lack of awareness- The digital divide, as well as the literacy gap, has made the marginal and small farmers particularly vulnerable due to their inability to utilise the positives of government policies. 5.India's urban consumer driven economic policies- The urgency to impose price controls in case of price rises and a failure to withdraw them once the price is control imposition of minimum import price limits the profit margin of the agricultural sector and hinders the farmers' chances of breaking free from the cycle of indebtedness. 6.Loan waivers instead of restructuring, re-investment measures- The approach of handling farmer indebtedness and hence farmer suicides has been appeasement politics like the recent move by the UP government to waive off Rs 36000 crore worth of loans rather than a restructure of the system to prevent further cycles of indebtedness.In contrast to India, Bangladesh's rural economy, and specifically agriculture, has been powerful drivers of poverty reduction in Bangladesh since 2000. Indeed, agriculture accounted for 90 per cent of the reduction in poverty between 2005 and 2010, 87% of rural households depend on agriculture for their income. Bangladesh has made commendable progress over the past 40 years in achieving food security, despite frequent natural disasters and population growth (food grain production, for example, tripled between 1972 and 2014, from 9.8 to 34.4 million tons). Bangladesh's agricultural sector has benefited from a sound and consistent policy framework backed up by substantial public investments in technology, rural infrastructure and human capital. But Bangladesh is among the most vulnerable countries to climate change, which poses a long-term threat to the country's agricultural sector, particularly in areas affected by flooding, saline intrusion, and drought.

Conclusion

There are several sources of credit and through the years the availability of credit has increased greatly. The banking sector especially

RRBs have played an important role in the implementation of various special schemes such as the Integrated Rural Development Programme. The microfinance services provided through self-help groups bank linkage has so far been the most successful initiative in financial inclusion. Therefore RRB's involvement in these Self-help groups has increased financial inclusion at more than faster rate than it was before. RRBs have not only provided financial services to the SHG-Bank Linkage Program, but have also played a significant role as self-help promotional institution.In spite of all this the agriculture sector has not been able to elevate rural poverty. With the rise in the availability of credit from various sources it can be seen from the data presented before that the gap between the loans and repayment have also increased suggesting that it has not become any easier to repay the loans. Farmer suicides form a large percentage of all suicides in the country and a direct correlation can be found between the suicides and rural indebtedness. In response the Government of India has announced relief packages and debt waiver schemes: a) 2006 relief package – primarily aimed at 31 districts in the four states of Andhra Pradesh, Maharashtra, Karnataka, and Kerala with a high relative incidence of farmers' suicides., b) Agricultural debt waiver and debt relief scheme, 2008 – Agricultural Debt Waiver and Debt Relief Scheme in 2008 benefited over 36 million farmers at a cost of 65000 crore rupees (US\$10 billion). This spending was aimed at writing off part of loan principal as well as the interest owed by the farmers, c).2013 diversify income sources package – In 2013, the Government of India launched a *Special Livestock Sector and Fisheries Package* for farmers suicide-prone regions of Andhra Pradesh, Maharashtra, Karnataka and Kerala. The package was aimed to diversify income sources of farmers.

Suggestions

1. Lower fertilizer costs – Policies should be taken for fertiliser industries to cut down costs through internal funding rather than external borrowing by pushing the input costs down.
2. Farm equipment must focus on imported equipment to provide for cheaper local manufacture, some incentives like grant of duty credits should be provided.
3. Subsidies must be rerouted towards capital generation and entrepreneurial Custom Hiring Centres (CHCs) and the implementation must be ensured in a timely fashion.
4. Corporate Social Responsibility(CSR) must be encouraged in the agricultural sector, particularly towards capacity-building, skill development and the establishment of CHCs. Institutional financing must also be ensured to be adequate and inclusive rather than catering to the elites within the farming community.
5. Cooperative farming must be promoted amongst small and marginal farmers to ensure that they are not left lurking while the big farmers reap the benefit at their cost.
6. Restructure of the system: Loan waivers are not effective for a long term plan. Instead,

sustainable agriculture that thrives on re-investment & restructuring is the way ahead. The role that the state has been playing is one of emancipation, but what the primary sector and the farmer needs is empowerment.

7. Direct interventions: a) Early-warning signals for unsustainable loans to launch a 2-pronged approach catering to both the burdened farmers as well as stressed banks, b) Options for restructuring loans must be used wherever possible, c) Insurance claim settlements must be speedy and just, d) District wise list of indebted farmers and efforts in de-stressing them through counselling and other alternative mechanisms should be tried, e) NABARD and local administration must take control of the situation and play a greater role in curbing farmers' suicides, f) Innovative efforts like Crowd funding can be employed through the involvement of Civil Society Organizations (CSOs); g) Efforts like Agro-Climatic zoning, education through DD Kisan, Soil Health Card Scheme, various crop insurance and facilitative schemes like PM Krishi Sinchayi Yojana will go a long way in helping out, h) Community-led awareness must be taken employing a role model approach highlighting progress of farmers who have benefited from sustainable & climate-tailored agricultural practices. Measures are being taken to help the women in agricultural sector, 30% of the budget is allocated for women beneficiaries in all on-going schemes and development activities. Initiating women centric activities ensures that the benefits of the various beneficiary-oriented programs/schemes reach them and focusing on women self-help group (SHG) to connect them to micro-credit through capacity building activities and to provide information and ensuring their representation in different decision-making bodies. Bangladesh is still an agro-based economy where real economic development depends on the improvement of this sector, which is why the government always prioritizes this sector. Agricultural production and the sector's growth in Bangladesh is improving over the years due to the government's policies and actions even though there has been some cutback on loans granted by the government due to the low level of loan recovery in the rural areas, the agriculture sector is faring well. A few more suggestions to improve the system of credit availability would be to reduce long institutional procedures for taking a loan, loans should be used to buy modern equipment and promote

efficiency, monitoring by the Bank should ensure that the credit goes to the due farmer and those who are genuine farmers, promote mobile banking and any other method which ensures the easy availability of credit.

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