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## Rural Credit Flow During Covid-19 in India

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### Abstract

Rural development and agricultural development still India is important components of national development. Several efforts were made for the development of these two sectors during the Five-year plans. Financial support for the investment in various activities of the rural economy with subsidized rates of interest and sometimes with subsidy has been extended to the rural poor. Commercial banks, regional rural banks, cooperative credit institutions, and recently microfinance institutions are involved in delivering rural credit. As in many sectors of the economy, the impact of Covid-19 on rural credit and its consequences has to be analyzed to understand the setback in rural development.

This paper attempts to analyse the impact of the Covid-19 pandemic on the financial sector of the Indian economy, specifically on the rural banking sector. To set the context, it is attempted to estimate the credit potential by aggregating grassroots assessment. The paper also highlights the short-term and long-term refinance during a pandemic. These issues have direct consequences for how the pandemic impacted the rural financial sector which is analyzed in the paper. Finally, attempted to describe the way forward for the Indian credit landscape in terms of the major opportunities and challenges.

**Keywords:** Agriculture, Rural Credit, Pandemic, Rural Development.

### Introduction

Rural development is an important sector in the Indian economy even now, and agriculture is the major economic activity in it. Several strategies have been adopted during the Five-year plan for the development of the rural economy combined with agriculture. Many supply-side supports have been experimented with and credit is one of the important supply-side factors contributing to agricultural production. It is realized that an efficient and effective rural credit delivery system is imperative for providing timely, adequate, and equitable access to credit for raising agricultural productivity and income. Equitable access to institutional credit is important in this context of the relative scarcity of credit and the high cost of informal credit, which has been networked through the multi-agency credit system in India.

During Covid-19, due to various measures to control it economies of the world collapsed and its impact on various sectors in India too was negative.

In the financial year 2021, agricultural credit outstanding grew by 12.3 per cent over the financial year 2020, despite it being an extremely difficult period in the history of India. Though this is partly explained by the better performance of agriculture in the financial year 2021, it also reflects the robustness and resilience of our formal rural credit system. Following the serious contraction of the economy (barring agriculture), the Government of India (GOI) announced a series of recovery packages (The Aatma Nirbhar Bharat packages), and the National Bank for Agriculture and Rural Development did not lose any time in collaborating on the revival process. Against this backdrop, an attempt has been made in the paper to focus on rural credit in pandemic times in India.

### Objectives

The main purpose of this paper is to analyse the rural credit scenario during pandemic times in India.

1. To analyse the ground-level credit flow to agriculture.
2. To analyse the credit schemes of the government of India.

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**Methodology**

The paper is descriptive and analytical in nature, discussing the issue related to the rural credit in pandemic times in India, and their performance. A review of the literature and secondary data are the major sources of information used in the analysis. Secondary information has been gathered through various sources such as books, journals, Government records etc.

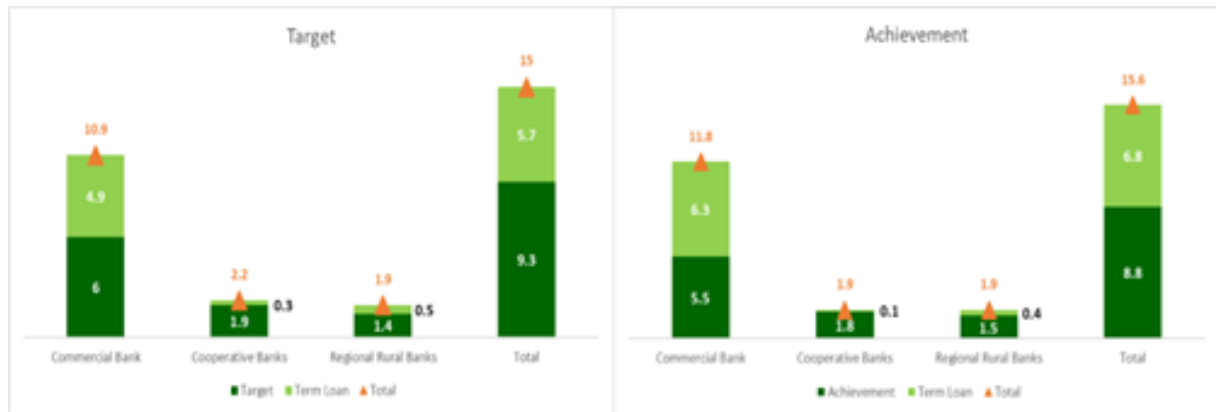
**Credit Potential and Achievement**

NABARD annually estimates credit potential by aggregating grassroots assessments given in district-wise

potential-linked credit plans. Credit potential estimates are shared with lead banking institutions in priority sector lending for evaluation and ratification. The aggregate priority sector credit potential estimated for the financial year 2022 is 38.4 lakh crore, of which the estimate for agriculture and allied sectors is 24 lakh crores. The Hallmark of this exercise includes consultations across districts and states during annual state credit seminars, instilling a sense of ownership among partners.

The target for the financial year 2022 is pegged at 16.5 lakh crore in the latest Union Budget is explained in below figure 1.

**Table-1:** Ground-level credit (agriculture): Target versus Achievement for Financial Year 2021 (Provisional) (Lakh Crore).



Source: NABARD Annual Report 2020-21.

**Table 1:** Agency-wise ground-level credit (agriculture) targets for Financial Year 2022 (Lakh crore).

Agency	Crop Loan		Term Loan		Total	
	Target	Achievements	Target	Achievements	Target	Achievement
Commercial Banks	6.0	5.5	4.9	6.3	10.8	11.8
Cooperative Banks	1.9	1.8	0.3	0.1	2.3	1.9
Regional Rural Banks	1.4	1.5	0.5	0.4	1.9	1.9
Total	9.3	8.9	5.7	6.7	15	15.6

Source: NABARD Annual Report 2020-21.

Although commercial banks form the more dominant agriculture credit channel and their share has gone up, regional rural banks (RRBs) and cooperative banks have

disbursed a higher share of agricultural loans to small and marginal farmers (who comprise an overwhelming majority of cultivators in India).

**Table-2:** Agency-wise ground-level credit (agriculture) targets for Financial Year 2022 (Lakh crore).

Agency	Crop Loan	Term Loan	Total
Commercial Banks	6.1	6.0	12.1 (73%)
Cooperative Banks	2.0	0.4	2.3 (14%)
Regional Rural Banks	1.6	0.5	2.1 (13%)
Total	9.7	6.9	16.5

Source: NABARD Annual Report 2020-21.

Despite the COVID-19 pandemic, trends in ground-level credit disbursement show that overall expected ground-level credit achievement has exceeded the target fixed for the year.

**National Bank for Agriculture and Rural Developments refinance supports Ground Level Credit flow.**

During Financial Year 2021, National Bank for Agriculture and Rural Development disbursed a total of 1,30,964 crore to state cooperative banks (State Cooperative Banks) and Regional Rural Banks (with respective shares of 77.2 per cent and 22.8 per cent) under short-term (ST) refinance facility to enable them to meet

production and working capital requirements of farmers, weavers, and artisans. Disbursements under Short Term credit support from National Bank for Agriculture and Rural Development grew at 30.5 per cent in Financial Year 2021 over Financial Year 2020, which was much higher than the 11.4 per cent growth in Financial Year 2020 over Financial Year 2019. Short-term facility to State Cooperative Banks grew at 21.4 per cent in Financial Year 2021 as opposed to 14 per cent in Financial Year 2020. Growth in disbursement to Regional Rural Banks peaked at 74.9 per cent in Financial Year 2021 following near stagnation in Financial Year 2020.



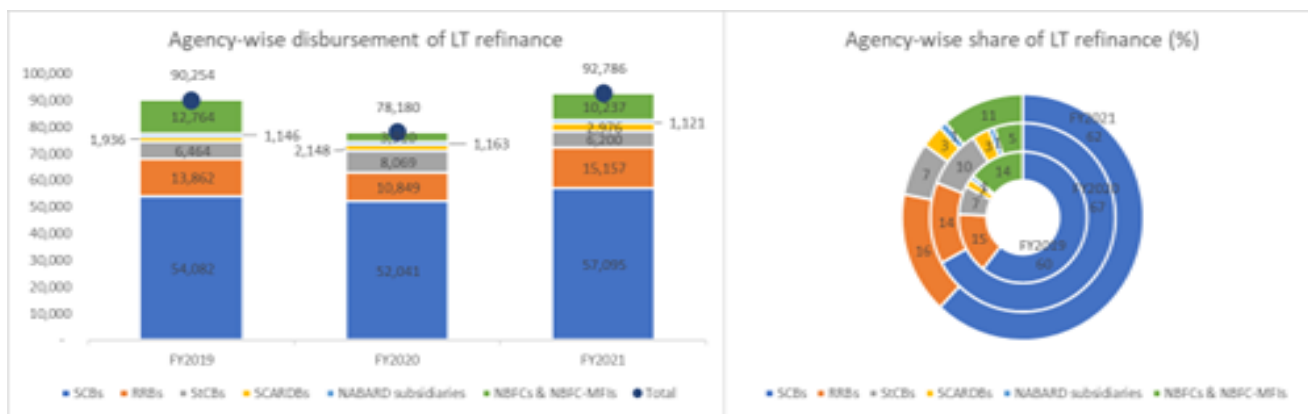
Source: NABARD Annual Report 2020-21.

Note:

1. SLF- Special Liquidity Facility, RRB- Regional Rural Bank, ST- Short Term, StCB- State Cooperative Bank, ST-SAO- Short- Term Credit for Seasonal Agricultural Operations.
2. ST- SAO is disbursed to StCBs through short- term Cooperative Rural Credit fund and to RRBs through short term RRB Refinance fund of the Government of

India.

Long-term (LT) refinance disbursements reached Rs. 92,786 crores in the financial year 2021 registering a year-on-year growth of 19.8 per cent. A sizeable share of disbursement went to schedule commercial banks (SCBs) (61.5 per cent), followed by Regional Rural Banks at 16.1 per cent.



Source: NABARD Annual Report 2020-21.

1. LT = Long-Term; MFI = Micro-Finance Institution; NBFC = Non-Banking Financial Company; RRB = Regional Rural Bank; SCARDB = State Cooperative Agriculture and Rural Development Bank; SCB = Scheduled Commercial Bank; StCB = State Cooperative Bank.
2. Disbursement to NBFCs & NBFC-MFIs in FY2021 included 2,000 crores disbursed under Special Liquidity Facility and 1,567 crores disbursed under Additional SLF.
3. SCBs include small finance banks.

A similar subvention is extended for loans against negotiable warehousing receipts to avoid distressed sales of products by small and marginal farmers. Rural cooperative banks and RRBs also provided interest subvention for women Self Help Groups in 250 districts under the Deendayal Antyodaya Yojana National Rural Livelihoods Mission (to the extent of difference between their lending rate and 7.0 per cent, subject to a maximum of 5.5 per cent for loans extended up to 3 lakhs at 7.0 per cent per annum). An additional incentive of 3.0 per cent is available to beneficiary women Self Help Groups on prompt repayment.

**Channeling Government of India schemes Interest subvention scheme**

National Bank for Agriculture and Rural Development channelled interest subvention provided by the Government of India to banks (at 2 per cent) and farmers (at 3 per cent) against prompt repayments on loans under Kisan Credit Cards. Recipient farmers included those in the animal husbandry and fisheries sector as well.

**Administering schemes for sugar farmers**

For sugarcane-growing farmers several schemes have been launched they are;

**Scheme for enhancement of ethanol production capacity**

This scheme helps in improving the liquidity of sugar mills, especially in the surplus season, thereby enabling them to clear the cane price arrears of farmers. National Bank for Agriculture and Rural Development is the nodal agency for

managing the Sugar Ethanol Interest Subvention Scheme of the Department of Food and Public Distribution, Government of India. Under the scheme, interest subvention at 6 per cent per annum or 50% of the rate of interest charged by banks on the loans (whichever is lower) is borne by the central government for five years. An amount of ₹66 crore was released to lending banks under the scheme during Five the year 2021.

#### **Sugar Soft Loan Scheme 2018–19**

National Bank for Agriculture and Rural Development is the nodal agency for implementing interest subvention under the central scheme of soft loans to sugar mills to facilitate the payment of cane dues of farmers. Under the scheme, interest subvention is available for a maximum period of one year at 7 per cent simple interest or at the actual rate charged by banks (whichever is lower). An amount of 174.4 crores was released to lending banks under the scheme during the financial year 2021.

#### **Special long-term refinance schemes**

To encourage the rural economy and reduce distress migration post-pandemic, National Bank for Agriculture and Rural Development introduced three special long-term refinance schemes in the financial year 2021. Additionally, it introduced a long-term refinance scheme in the water, sanitation, and hygiene (WASH) category to address adjunct health concerns amidst the COVID-19 outbreak.

#### **Scheme to transform primary agricultural credit societies into multi-service centres.**

Under this scheme, 35,000 primary agricultural credit societies (PACS) are envisaged to be developed as multi-service centres over the financial year 2021 (5,000 PACS), the financial year 2022 (15,000), and financial year 2023 (15,000) through concessional refinance to state cooperative banks at 3 per cent. The Primary Agriculture Cooperative Society will receive support to create quality infrastructure (capital assets) and increase its business portfolio under this line of credit. The interest rate to be charged to the primary agriculture cooperative society will not be more than 1 per cent over the interest rate charged by National Bank for Agriculture and Rural Development and will be shared by the state cooperative bank and District Central Cooperative Bank on mutually agreed terms. The repayment period of refinance will be up to seven years.

During the financial year 2021, 3,055 primary agriculture cooperative societies were given in-principal sanctions with an estimated project cost of 1,761 crores and an estimated bank loan of 1,568 crores by the National Bank for Agriculture and Rural Development. The State Cooperative Banks in Karnataka, Gujarat, and Rajasthan have disbursed loans to the Primary Agriculture Cooperative Society thus far under this product.

#### **Scheme for beneficiaries of the watershed and wadi project areas**

National Bank for Agriculture and Rural Development has earmarked refinance amount of 5,000 crores for the period between the financial year 2021 and financial year 2023 for this scheme. The objective of the scheme is to promote sustainable economic activities, livelihood, and employment opportunities in National Bank for Agriculture

and Rural Development-supported watershed and wadi project areas by encouraging banks to lend at concessional rates to these beneficiaries.

Refinance will be available to all the eligible banks/financial institutions (FIs) at 3.0 per cent for a maximum of five years. The ultimate lending rate to be charged by banks/ FIs under the scheme is revised as six months' marginal cost of funds-based lending rate +1 per cent or external benchmark-based lending rate +2.5 per cent whichever is lower. During the financial year 2021, refinance of 126.8 crore was disbursed under this product.

#### **Scheme for promoting Micro Food Processing Activities.**

The objective of the scheme is to encourage banks to lend support to micro food processing activities and create sustainable livelihood and employment opportunities for rural youth as well as reverse migrants displaced by the pandemic.

The scheme also envisages modernization, formalization, and improved competitiveness of existing rural micro-enterprises. The refinancing scheme will give a fillip to the recently launched 'Pradhan Mantri Formalisation of Micro Food Processing Enterprises Scheme (PMFME)' by the Ministry of Food Processing Industries, Government of India, under the Aatma Nirbhar Bharat Abhiyan. Concessional refinance at 4 per cent is available to eligible financial institutions such as commercial banks, small finance banks (SFBs), State Cooperative Banks, Regional Rural Banks, and National Bank for Agriculture and Rural Development subsidiaries.

#### **Water, Sanitation, and Hygiene Refinance Scheme**

India is a signatory to the Sustainable Developmental Goals (SDGs) of the United Nations, and Sustainable Development Goals-6 aims to provide clean water and sanitation for all, a goal made more pertinent by the pandemic. In this context, NABARD extended concessional refinance support to all eligible banks/FIs for deepening institutional credit in WASH-related activities and launched a pan-India sanitation literacy campaign on 2 October 2020. The campaign was designed to involve all stakeholders like State Level Bankers' Committees, District Level Consultative Committees, Non-Banking Financial Companies, Small Finance Banks, Regional Rural Banks, District Central Cooperative Banks, and public sector banks to create awareness about the WASH refinance scheme (Box 5.2).

#### **Conclusion**

Agriculture is the principal source of income for rural people. Rural farmers today have better access to institutional funding, and the importance of money lenders as a source of credit has declined. Looking at the current data, financial support for agriculture appears to be increasing substantially. Agricultural loans from scheduled commercial banks are spread throughout a large geographical area. Unlike in many sectors of the economy, the rural credit sector had little impact by Covid-19. The relationship between farm credit disbursement and agricultural productivity needs to be examined in light of regional differences in disbursement.

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