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Banks should lead the war on poverty

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The Hindu M.S. Swaminathan, Chairman, M.S. Swaminathan Research Foundation, addressing the BANCON 2011 conference in Chennai on November 6, 2011.

The banking community played an important part in enabling the Green Revolution. It should play such a role in ushering in the era of freedom from hunger.

At BANCON (annual bankers' conference) 2011 in Chennai, financial institutions explored avenues for greater participation in agriculture and rural development. There are a few areas in need of additional attention and investment.

Green Revolution technologies are scale-neutral but not resource-neutral. Inputs are needed for output; therefore market-purchased inputs become important in providing soil and plant healthcare for higher yields. Social scientists point out that small and marginal farmers will be excluded from the benefits of the Green Revolution since they would not have the financial resource to buy inputs. The Government of India initiated a Small and Marginal Farmers Programme specially to provide credit and other inputs. After bank nationalisation, provision of credit to small and marginal farmers got priority. Without this, the wheat revolution would not have covered all farmers. The smaller the farm, the greater is the need for marketable surplus, so that the family will have cash income to meet their needs.

The emerging phase in agriculture will be based on integrating the principles of ecology and equity in technology development and dissemination. This is the path to an ever-green revolution leading to sustained increase in productivity without associated environmental harm. In recent years, the government has stepped up credit for agriculture. However, the burden of indebtedness is still high in rural India, and the rural masses are exploited in the credit market. Much of the credit intended for farmers goes through indirect channels, and not directly to them.

Problems in the supply of credit to rural families include inadequate supply of formal credit on the whole, imperfect and fragmented rural credit markets, and unequal distribution of credit, particularly with respect to region, class, caste and gender. In spite of the dominant role played by women in both farming, they are denied credit as they lack land titles. Only a small percentage of Kisan Credit Cards goes to them. Consequently, the major source of credit to rural households, particularly income-poor working households, continues to be the informal sector. Many of the farmer suicides, particularly in the drought-prone areas, are attributed to lack of access to formal credit at reasonable interest rates.

If farmers have to take their lives, then there is something wrong in our economic and social structure. Unfortunately, this issue is being dealt with in statistical terms and not from the point of view of the real state of farming.

Financial inclusion

Apart from the initiatives taken by banks, some of which are commendable, the most important instrument to reach the unreached in terms of access to credit is microcredit. A number of non-banking finance companies have entered the rural microcredit market. Many microcredit agencies have been charging interest rates not very dissimilar to those charged by moneylenders. Borrowing then becomes more to meet pressing consumption needs, rather than for farming or small-scale enterprises. There are examples of micro-enterprises organised by women's Self-Help Groups with the help of microcredit. Production-oriented SHGs become sustainable if they have backward linkages with technology and credit and forward linkages with the market. The rationale for microcredit is to strengthen the livelihood security of the economically underprivileged sections, and its impact should be measured in terms of reduction achieved in poverty and hunger. Formal financial institutions should provide funds to non-banking finance companies only on the basis of a well-defined code of conduct that will help promote a win-win situation for the lending institution and the SHGs operating market-driven micro-enterprises.

The pervasive nature of malnutrition in India is evident from national and international surveys. International price volatility is high, both due to a continuous rise in petroleum prices, and unfavourable weather conditions. For the poor, including small and marginal farmers, food inflation increases their vulnerability to hunger. India's food inflation is now over 12 per cent. The Reserve Bank of India has raised interest rates 13 times in 19 months. They are up from 4.75 per cent in March 2010 to 8.5 per cent in October 2011. The inflation rate has been steady since March 2010, despite RBI interventions. A fresh approach is needed, going beyond merely altering interest rates to contain inflation. In measures to contain food inflation, a disaggregated approach is needed. Look at a few commodities:

- **Vegetables:** Prices have gone up by 63.95 per cent in the last six months. The National Horticulture Mission with an outlay of about Rs. 20,000 crore, meant to increase production of vegetables and fruits, puts emphasis on commercial vegetables, including for export, rather than on malnutrition. For every nutritional malady there is a horticultural remedy. The nutrition and food inflation containment dimensions in the Horticulture Mission should be mainstreamed. Mapping the hot-spots with reference to the gap between demand and supply and planning the production and distribution strategy will help check inflation.
- **Pulses:** Budget 2011 provided funds to establish 60,000 Pulses Villages. If the programme is implemented holistically, price rise can be halted. Banks can help establish Pulses Seed Villages to provide seeds, as Indian Overseas Bank did over 10 years ago in Tamil Nadu.
- **Potato and onion:** In a report on managing the prices of perishable commodities submitted to Indira Gandhi in 1982, a detailed strategy for the management of output and prices in the case of crops such as onion and potato was dealt with. The approach suggested was similar to what was done in the case of milk by Dr. V. Kurien and the National Dairy Development Board, where the emphasis was on post-harvest infrastructure and management. Unfortunately, the National Horticulture Board has not been able to play a similar role. It is time we developed a mechanism that can ensure remunerative prices.
- **Milk:** Nearly 80 per cent of the price of milk is accounted for by the cost of feed and fodder. We are exporting concentrates like the soyabean meal while we have nearly one billion farm animals to feed. Often, common grazing grounds are diverted for other uses. Seeds of good fodder varieties are not available. In areas where there are large numbers of dairy cattle, SHGs can organise fodder and feed banks with support from banks.
- **Rice, wheat and nutri-cereals:** Prices of these staples have remained relatively stable largely because of

procurement and public distribution policies. This has a lesson for other crops: food inflation can be contained if a disaggregated commodity-centred approach based on a clear understanding of the causes for price rise is adopted.

Over 60 per cent of India's population is engaged in agriculture. Our greatest challenge is the technological upgradation of small-farm operations to improve small-farm productivity, profitability and sustainability. There is a growing gap between scientific know-how and field-level do-how. Indian Overseas Bank is helping to organise Farm Schools in the fields of outstanding farm women and men to bring those from other areas to stay for a few days with the farmer-achievers, helping multiply successes. Members of the banking family could take up such activities under their corporate social responsibility programme.

There is a need for greater credit and insurance literacy among farm families. Financial institutions interested in increasing their lending for food security could locate a staff member in Krishi Vigyan Kendras. I initiated the KVK pathway of knowledge and skill empowerment in 1974 with the first one located at Puducherry. Now there are over 500 KVKs operated by the Indian Council of Agricultural Research, agricultural universities and non-government institutions that can provide locations for financial institutions to launch a credit and insurance literacy movement.

If agriculture goes wrong, nothing else will have a chance to go right in India. With a National Food Security Bill on the anvil, we must redouble our efforts to increase farm production on an environmentally sustainable basis. The banking community played an important part in enabling the Green Revolution. It should now play such a role in ushering in the era of freedom from hunger.

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