From Editor’s Desk

Dear Readers,

Editor’s good read recommendation in this issue of CAB Watch is a Report titled ‘Alternative Data - Transforming SME Finance’ published by G20’s Global Partnership for Financial Inclusion (GPFI). Lack of access to finance has been a major stumbling block in the growth of SME sector
worldwide. In this context this report discusses the role of alternative data for expanding access to SME finance and looks at collaborative partnerships that are harnessing alternative and transactional data. Major findings of the report include – (a) Banks have valuable data, but are often not using it; (b) Digital SME lenders are developing new relationships with SME customers and their data; (c) New SME digital data streams are becoming more readily available and accessible; (d) There are a wide range of digital SME originator lending business models; (e) Digital SME lending is becoming more of a global trend; (f) Digital SME lender-bank collaboration is also a growing part of the future of SME finance; (g) Access to data is no longer the problem in SME lending; (h) However, access to data for SME lending brings new challenges.

As usual, this issue carries news/references/reports on various events and developments in the areas of agriculture and agri-banking, MSMEs, and financial inclusion, amongst others.

The Focus Note titled ‘Vision of the Future: Financial Inclusion 2025’ by CGAP discusses about plausible scenarios of financial inclusion in 2025, taking into account driving forces such as digital technologies, globalization, migration, and the changing world of work. Similarly, the paper titled ‘Catalyzing MSME entrepreneurship in India’ by KPMG examines the role of public policy, capital and technology in shaping up MSME entrepreneurship in India and how these levers are addressing the key challenges faced by small businesses.

Happy reading!

Madhumita Sarkar Deb
Access to financing remains one of the most significant constraints to the survival, growth, and productivity of micro, small, and medium enterprises (SMEs). The credit gap results from both demand and supply side problems. Digitizing SME finance and making use of transactional and alternative data offer an opportunity for addressing both sides of this problem. Therefore, this report focuses broadly on digital data for SME lending which includes new uses of both traditional data (bank, accounting, transactional, and sales data) as well as alternative data (online ranking and social media, mobile, and individual data, such as psychometric testing). This report identifies the landscape of alternative data being increasingly used to expand access to SME finance. It also explores some of the new operating models and the new breed of SME digital lending originators. It also looks at collaborative partnerships that are harnessing alternative and transactional data. And the report concludes by listing potential areas that policymakers and regulators need to understand in order to enhance SME access to finance. (GPFI)
An app to help rubber growers get their soil nutrition just right

There was once a time when the rubber farmer had to collect separate samples of top and bottom soils from representative locations in his holding and get it tested in laboratories to know their nutrient status, so that he could apply the correct dose of fertilizer. All this, and the associated hassles and expenses, will become history with the introduction of a mobile app-based online manurial recommendation developed by the Rubber Research Institute of India (RRII), the first of its kind for rubber farmers anywhere in the world and the first for any crop in India. The app, Rubber Soil Information System or RubSIS, will tell the farmer the current nutrient status as well as the quantity of fertiliser to be applied in his holding, irrespective of his location, through a satellite-based system. (Business Line)

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For MSMEs in broiler farming, feast has only just begun

CRISIL expects the credit profiles of micro, small and medium enterprises (MSMEs) engaged in the broiler farming business to improve in fiscal 2018. A surge in demand resulting from growing disposable incomes and acceptability of chicken and eggs as sources of protein, coupled with the fact that broiler meat is more affordable compared with other meats, has made poultry one of the fastest growing segments in the agricultural sector. (Business Standard)

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AP to set up MSME Corpn

The Andhra Pradesh Micro, Small and Medium Enterprises Development Corporation will be set up with a budget of ₹100 crore to strengthen MSMEs in the state, Chief Minister N Chandrababu Naidu has said. Launching the logo of AP MSMEDC on the occasion of International MSME Day, he said the corporation would help in marketing, branding, skill development and quality improvement of MSME products. (Business Line)

Centre extends interest subsidy on farm loans

Farmers will continue to get short-term farm loans up to ₹3 lakh at an interest rate of 4 per cent as the Union Cabinet approved an interest subvention scheme, and earmarked a sum of ₹20,339 crore for it. Under the scheme, which has been in place since 2006, the Centre will provide an interest subvention of 5 per cent per annum to those farmers who repay the short-term crop loan up to one year for a maximum of ₹3 lakh, an official statement said. The interest subsidy, however, would be only 2 per cent for farmers who do not repay on time, it said. The government said the interest subvention scheme will continue for a year and will be implemented jointly by Nabard and the RBI. (Business Line)
Saving the Gullak way

It is called the ‘Gullak (earthen piggy bank for coins) Bachcha Bank’ and run entirely by children at the Bal Bhavan Kilkari in Patna. This year, till March-end, it made a record ₹58 lakh worth of transactions, the highest by any bank managed by children in the country, enabling it to apply for an entry in the Limca Book of Records. Opened on Children’s Day, November 14, 2009 by Bihar Chief Minister Nitish Kumar, it was an experiment in thrift education. Gullak Bank had four objectives — help children understand the importance and correct use of money; develop the habit of saving; promote understanding of the banking system, and encourage the spirit of mutual cooperation. (Business Line)

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RBI working on co-origination model for MSMEs

The Reserve Bank of India is working towards a formal co-origination model to give a boost to the flow of credit to the micro, small and medium enterprises (MSME) sector, SS Mundra, Deputy Governor, said. A co-origination model is not about a bank financing a micro-finance institution (MFI) or non-banking finance company (NBFC) for on-lending to the ultimate borrowers. Rather, both of them (bank and the MFI/NBFC) join at each underwriting and loan level and share the loan amount at an agreed percentage with all other structures put in place. “The advantage is that it can bring the strengths of the two sectors together — MFIs have better understanding of the ground level and last mile reach and banks can supplement the resources,” Mundra said at a Bankers-Borrowers Business meet organised by. (Business Line)

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**Farm Loan waivers impact: Credit Suisse says lending to farmers may suffer a hit**

Farm loan waiver could undermine fresh lending to farmers. Agriculture loan growth could remain weak this year and a sharp slowdown in such lending could shave 1 percentage point off the banks' system loan growth. This is because banks could refrain from lending in areas where repayments might stall until the details of the farm loan waiver and the beneficiaries are finalised, according to a report by Credit Suisse. (Financial Express)

**Farm loan waivers: States to issue bonds directly to banks; pricing yet to be finalised**

The four states that have announced farm loan waiver are working on a mechanism to issue special bonds directly to the banks, sources said. "While discussions between the state governments and the Reserve Bank of India are still on, one of the probable solutions that they are looking at is issuing bonds directly to the banks," a source with knowledge of the development. The pricing of the bonds has not yet been finalised. This would allow the states to fund the scheme without increasing the issuance of state development loans (SDL) securities, which would have pushed up not only the states' cost of borrowing, but also the yields on the government bonds. (Financial Express)
Vision of the Future: Financial Inclusion 2025

It is 2025. Imagine that everyone around the world is using a broad range of affordable financial services that meet their various needs — full financial inclusion. This has contributed to a new wave of prosperity that is bringing greater economic and social progress. Financial services are central to the lives of everyone, allowing people to participate in the economy, access services, seize opportunities, build resilience, and pursue their dreams. That’s one scenario; here are a few others. In 2025, financial inclusion has become a victim of its own success. Providers are aggressively offering products and services that are not well suited for poor people. These products and services are actually harming them and adversely affecting their ability to participate in the economy and society — leading to further exclusion. Or maybe, in response to new risks such as hacking and identity and data theft, governments have implemented policies that drastically dampen private-sector innovation and leave most people either excluded from financial services or poorly served. Or maybe, the rise of social networks leads people to find new ways to engage with each other and to participate in the economy — all interactions, including financial ones, are conducted through these networks. All of these scenarios are plausible. They could happen. Can we influence the outcomes? (CGAP)

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Catalyzing MSME entrepreneurship in India

The MSMEs in India are celebrating their entrepreneurial spirit and energy but due to poor access to technology and capital, are unable to grow like their peers globally. This paper briefly examines the role of public policy, capital and technology in shaping up MSME entrepreneurship in India and how these levers are addressing the key challenges faced by small businesses. Further, the paper takes a deep dive into flexibility and innovation in access to capital, importance of digitally enabled infrastructure and growth conducive regulatory framework. (KPMG)

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Agriculture crisis: It's high time for govt to re-look at MSP as a tool to rescue farmers

Jagadish Shettigar

During the last couple of weeks a section of farm community are on agitation in Madhya Pradesh and Maharashtra. It is not for the first time that farmers have gone on agitation against the establishment. In fact, the country witnessed much stronger agitations led by more powerful kisan leaders in different regions. Every time the farmers have come out with the same demand that is remunerative prices for their produces. There is nothing wrong in a producer of a product or service demanding a just price. But the fundamental issue is why should only a farmer demand a just price for his product? Why cannot he command a price, especially, now that we have adopted market economy, in the same way as suppliers of non-agricultural produces? (Firstpost)

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Political economy structures perpetuate myopic understanding of agriculture sector

Nirvikar Singh

A half-dozen years ago, I participated in a conference on water resource challenges in India. I remember Upmanu Lall, professor at Columbia University, graphically and bluntly making the point that Punjab’s water table was not far from collapse. This has been known for years, and there have been feeble efforts to deal with the problem, but they have been far short of what is needed. Now, the wave of unrest among farmers in multiple parts of India reminds us that the problems of Indian agriculture are more pervasive
than just what ails Punjab. A timely analysis by Shoumitro Chatterjee and Devesh Kapur, first presented at the 2016 India Policy Forum, but much expanded since then, gives us an important set of insights. Chatterjee and Kapur identify six “puzzles in Indian agriculture,” namely, prices, procurement, political economy, trade, productivity, and exit. Their work represents a major attempt to provide an integrated macro overview of the failings of Indian agriculture, which continues to directly support—albeit poorly—a large fraction of the nation’s population. (Financial Express)

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A fundamental distortion in farm policy

Madan Sabnavis

Looking at the way the agrarian crisis has built up in different pockets, it does appear that the overall approach to agriculture is marked by reactive, rather than clear-sighted, proactive thinking. Almost all policies are geared towards ‘price’. It is assumed that getting this right is the panacea for all the problems. It is not surprising that the focus has deflected from enhancing productivity, which is the right answer to most problems in agriculture. (Business Line)

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Farm loan leakages: Aadhaar linkages critical to stop huge theft
Ashok Gulati and Prerna Terway (Financial Express)

Crop prices and farmers’ unrest
C P Chandrasekhar and Jayati Ghosh (Business Line)
**GST could cut warehouse numbers, ring-in better managed storage spaces**

India is still predominantly an agrarian society, with over 50% of the country’s workforce engaged in agriculture and allied activities. However, the sector contributes a meagre 18% to the GDP, despite being the largest producer of fruits and vegetables, and the second-largest producer of foodgrains in the world. Outdated storage facilities and inadequate management leads to a loss of about 10% of the produce, including foodgrains, fruits, vegetables and spices. Today, the distribution and spread of warehouses is largely influenced by the tax structure, hence it doesn’t come as a surprise that tax-friendly states attract more investments in this crucial backbone of the agriculture sector. The implementation of GST from July 1, 2017, promises to change the prevailing scenario and create a level-playing field across the country. (Financial Express)

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**Banks account for a fraction of all credit to poor farmers**

Do farm loan waivers actually benefit the intended beneficiaries? Data from NSSO surveys show that incidence of indebtedness among cultivator households has risen over the past decade. But, much of this lending flows from non-institutional sources such as money lenders and relatives. Institutional or formal credit accounts for 28 per cent of credit to the poorest of rural households and is priced at much lower interest rates compared to those informal sources. Part of the problem is that income from small farms is simply not enough. As such, households tend to rely on other sources such as livestock and non-farm sources. This in turn impacts the productive investment in agriculture. (Business Standard)

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How farm loan waivers can actually benefit the economy

Charan Singh

The fastest-growing major economy of the world cannot ignore its farmers as there is a genuine need to help the farming sector which is suffering from stress on account of indebtedness. The banking industry is also not able to extend credit to those farmers who are in default. A loan waiver can help bankers to renew the loans, and farmers can use the borrowed money for production of more crops, hopefully manifold than the amount of the loan waiver. In fact, a loan waiver can actually benefit the economy, but not in the way it is fashioned now. The analysis needs more depth. Thus, loan waivers need to be carefully crafted. (Financial Express)
Bringing GM to the table

Rama Mohana R. Turaga

On May 11, 2017, the Genetic Engineering Appraisal Committee (GEAC) — the scientific committee of the Ministry of Environment, Forests and Climate Change — that regulates genetically modified (GM) crops in India — had cleared GM mustard for commercial production. Anti-GM groups immediately opposed the decision and appealed to the Minister for Environment, who gives the final clearance, not to accept the GEAC’s recommendation. The question of whether India should allow commercial production of GM crops has been one of the more enduring public policy debates over the last decade-and-a-half. After the approval of Bt cotton in 2002, the attempt to bring Bt Brinjal into commercial production faced serious resistance in 2010. (The Hindu)

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Demonetisation apart, cheaper imports too hit the farm sector

Tejinder Narang

The current agitation of farmers on cereal, oilseeds and vegetables has attracted a lot of analysis with regards to the causes. Many such analyses have converged on low hikes in MSP in the last three-four years as the major cause, and the general public also believes so. Stocking limits, poor warehousing facilities, export bans, lack of a properly developed food processing industry and free trade in commodity exchanges are all proffered as the next lot of key reasons. Some have endorsed the logic that higher production has led to price crash. Another popular rationale being cited is that a cash-squeeze, thanks to demonetisation, has made disposal of produce difficult for farmers. Let us examine some of these factors.

(Financial Express)

Can agri-based start-ups transform the rural economy?

Varun Grover, Shivani Sehgal and Hemendra Mathur

Earlier this year, two India-based agri-technology (AgTech) start-ups hit the headlines for raising millions in funding from private equity firms. Securing access to funding for AgTech start-ups has been tough. Yet, this recent spurt may signify growing investor and corporate confidence in this nascent sector, known as farming-as-a-service, or FaaS. FaaS seeks to provide affordable solutions to technical and mechanized farming. It makes the fixed costs variable for farmers, thus making it more affordable for a majority of small farmers. Its services are available on a subscription or pay-per-use basis in three broad categories - farm management solutions, production assistance solutions and access to market solutions. (Mint)

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Farmers Need More Help to Adapt to Climate Change

Amarnath Tripathi and Ashok K Mishra

This study addresses an issue that has been widely discussed among policymakers – farmers’ perception of climate change and their adaptation to it. Information collected from medium, small and marginal farmers in eastern Uttar Pradesh is compared with climatic and agricultural data. The results reveal that farmers are aware of long-term changes in the weather pattern and change their practices to deal with socio-economic changes. Yet, most of them do not see these changes as constituting what academics refer to as “climate change.” (Economic & Political Weekly)

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Motivating Employees Is Not About Carrots or Sticks

Lisa Lai

Motivating employees seems like it should be easy. And it is – in theory. But while the concept of motivation may be straightforward, motivating employees in real-life situations is far more challenging. As leaders, we’re asked to understand what motivates each individual on our team and manage them accordingly. What a challenging task of leaders, particularly those with large or dispersed teams and those who are already overwhelmed by their own workloads. Leaders are also encouraged to rely on the carrot versus stick approach for motivation, where the carrot is a reward for compliance and the stick is a consequence for noncompliance. But when our sole task as leaders becomes compliance, trying to compel others to do something, chances are we’re the only ones who will be motivated. Why not consider another way to motivate employees? (Harvard Business Review)

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