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RURAL BANKING

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SYLLABI-BOOK MAPPING TABLE

Rural Banking

Syllabi	Mapping in Book
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BLOCK - II RURAL CREDIT INSTITUTIONS **Unit-5** Cooperative Banks, Commercial Banks, Regional Rural Banks and Local Area Banks, Payment and Small Finance Banks - Their Functions **Unit-6** Micro Finance: Self Help Groups (SHGs) - Micro Finance Institutions - Business Correspondents - Their Functions	**Unit 5:** Introduction to Rural Banking **(Pages 56-85);** **Unit 6:** Micro Finance **(Pages 86-114)**
BLOCK - III ROLE OF RURAL BANKING FOR DEVELOPMENT **Unit-7** Institutional Supporting Rural Development: Reserve Bank of India - National Bank for Agriculture and Rural Development - Their Role and Performance - Problems and Prospects of Rural Banking **Unit-8** Small Industries Development Bank of India - District Industries Centre - District Rural Development Agency (DRDA): Their Role and Performance - Problems and Prospects of Rural Banking. **Unit-9** Financing for Rural Development: Lead Bank Scheme: State Level and District Level Credit Committees. **Unit-10** Financing Agriculture and Allied Activities: Crop Loans, Term Loans for Irrigation, Farm Mechanization, Godowns / Cold Storage, Allied Activities of Agriculture **Unit-11** MSME Sector: Definition and Importance, Financing of MSMEs - MUDRA Scheme.	**Unit 7:** Institutional Supporting for Rural Development **(Pages 115-131);** **Unit 8:** Institutional Support for Rural Development-II **(Pages 132-142);** **Unit 9:** Financing for Rural Development **(Pages 143-153);** **Unit 10:** Financing Agriculture and Allied Activities **(Pages 154-167);** **Unit 11:** MSME Sector **(Pages 168-185)**
BLOCK - IV GOVERNMENT INITIATIVES AND SCHEMES **Unit-12** Priority Sector Lending and Government Initiatives: Priority Sector Lending - Components, Lending Norms, RBI Guidelines **Unit-13** Financing Poor as Bankable Opportunities: Micro Credit - SHG Bank Linkage Programme **Unit-14** Government Initiatives: Poverty Alleviation Programmes: Mahatma Gandhi National Rural Employment Guarantee Scheme-(MGNREGS) - National Rural Livelihood Mission (NRLM) - Deen Dayal Upadhyaya Grameen Kaushalya Yojana (DDU GKY) -Jan DhanYojana - Recent Initiatives.	**Unit 12:** Priority Sector Lending and Government Initiatives **(Pages 186-211);** **Unit 13:** Financing Poor as Bankable Opportunities **(Pages 212-227);** **Unit 14:** Government Initiatives **(Pages 228-244)**

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INTRODUCTION

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Rural banking refers to providing banking services to individuals living in rural areas. Rural banking has become integral to the Indian financial markets with a majority of Indian population still living in rural or semi-urban areas. The Government of India and the Reserve Bank of India have been continuously working to achieve complete financial inclusion i.e. timely and sufficient access to financial services and credit at an affordable cost, in the vast expanse of our country. Rural banking in India began in earnest with the formation of the regional rural banks on October 2, 1975. Today, these rural banks are present in over 21,398 locations throughout the length and breadth of the country.

This book, *Rural Banking*, is divided into fourteen units that follow the self-instruction mode with each unit beginning with an Introduction to the unit, followed by an outline of the Objectives. The detailed content is then presented in a simple but structured manner interspersed with Check Your Progress Questions to test the student's understanding of the topic. A Summary along with a list of Key Words and a set of Self Assessment Questions and Exercises is also provided at the end of each unit for recapitulation.

BLOCK - I
RURAL INDIA

NOTES

UNIT 1 INTRODUCTION TO RURAL INDIA

Structure

1.0 INTRODUCTION

The concept of rural has been discussed a lot in various contexts. On the one side, it is considered as a geographical concept, referring to a location with identifiable boundaries on a map, on the other, it is understood to be a social representation, a community of interest, a culture and way of life. Across the world, various researchers from different disciplines have made attempts to operationalize the definition of the term 'rural' and therefore, several interpretations of the term exist in literature.

This unit aims at analysing demographic features of rural India that include population, occupation and literacy.

1.1 OBJECTIVES

After going through this unit, you will be able to:

- Understand the concept of rural India
- Explain the demographic features of the rural India
- Analyze population of rural India
- Examine the occupation and literacy profile of rural India

NOTES

1.2 RURAL INDIA: DEMOGRAPHIC FEATURES

As it has been broadly acknowledged, all rural societies have distinctive characteristics that make them different from their urban counterparts. The Indian rural society also possesses certain distinctive characteristics. Reddy (1985) has identified few characteristics of Indian rural society. These are as follows:

1. The unit of the rural society is the village. People live in the villages in a cooperative manner within the rules prescribed by a unique framework of caste and social custom.
2. The village itself possesses a uniform structure and organization.
3. The character and structures of the villages are decided by the religious, caste, linguistic and ethnic composition of the population living in it.
4. Women in Indian rural society do not enjoy equal rights in many aspects of life.
5. Indian rural society is predominantly agriculture in nature.
6. Villages are characterized by its own organisational set up, authority and sanctions.
7. Rural setups in India are governed by certain regional and local traditions.

Also, according to Reddy (1985), hospitality, feminist traditionalism, fatalism, religiousness often combined with superstitious beliefs, leisure attitude to life, and low standard of living characterized the typical rural Indian villages. However, over the years, rapid urbanization, technological changes, women empowerment, education and other factors have brought several changes in the few characteristics of rural India.

The following are the few differences between the rural and urban set up that shall make things all the more clearer.

NOTES

Table 1.1 *Differences between Rural and Urban Set up*

Sr. No.	Parameters or Criteria	Rural	Urban
1.	Occupation	Predominantly agriculture and allied activities.	Multiple occupational opportunities exist in non-agricultural professions including manufacturing, trade, etc.
2.	Environment	Nature takes the priority. High dependence on natural resources exist.	Existence and predominance of man-made environment. Isolation from nature exists.
3.	Size of community	Relatively small in nature.	Bigger in nature.
4.	Heterogeneity/ Homogeneity	More Homogeneity	More Heterogeneity
5.	Culture	Conservative and traditional	Open and modern
6.	Social stratification	Traditional stratification exists and is prominently visible.	Traditional stratification might exist but not prominently visible.
7.	Social mobility	Lack of social mobility.	Social mobility is prominently evident.
8.	Systems of interaction	Lesser contacts and interactions	Numerous contacts and interactions
9.	Social control	Informal social control exist	Formal social control exist
10.	Social change	Very slow social change process	Rapid social change processes are present.
11.	Solidarity	Greater solidarity exists among the community members.	Lower solidarity exists among the members.
12.	Income	Relatively low and is dependent on agriculture and allied activities	High income levels are prevalent
13.	Sense of belongingness	Higher sense of belongingness	Lower sense of belongingness

1.2.1 Rural Population in India

India is predominantly an agricultural and village based society. It is been said and believed that India lives in its villages. Rural population refers to people living in rural areas as defined by national statistical offices. It is calculated as the difference between total population and urban population. According to recent data as of 2019, there are a total of 664,369 villages, up from the 640,867 in the 2011 Census of India and the 638,588 recorded in the 2001 Census of India. Over the decades, the rural population has steadily declined owing to massive industrialization and urbanization. However, as of now 65 per cent of the total population still lives in rural India. The following table provides a snapshot of the rural population of the country.

NOTES

Table 1.2 *Rural Population of India*

Year	Total Population	Rural Population	% of Rural Population
1901	23,83,96,327	21,25,44,454	89.16
1911	25,20,93,390	22,61,51,757	89.71
1921	25,13,21,213	22,32,35,046	88.82
1931	27,89,77,238	24,55,21,249	88.01
1941	31,86,60,580	27,45,07,283	86.14
1951	36,10,88,090	29,86,44,156	82.71
1961	43,92,34,771	36,02,98,168	82.03
1971	54,81,59,652	43,90,45,675	80.09
1981	68,33,29,097	52,38,66,550	76.66
1991	84,63,87,888	62,88,36,076	74.3
2001	1,02,70,15,247	74,16,60,293	72.22
2011	1,210,193,422	833,087,662	68.84

Source: *Census of India*

The rural population from 2011 to 2019 declined further and was registered at 65.53 per cent as per the data provided by the World Bank. In terms of numbers the total rural population in the year 2019 was 895,386,226. According to the World Bank, the rural population growth (annual %) in India was reported at 0.34285 % in 2019.

Rural Population Growth in Indian States

Rural population trends are different in states. Rapid urbanization and industrialization in the country and in almost every state has resulted in large scale rural to urban migration. Resource constraints of various states have also resulted in population shifts. The following table provides a snapshot of rural population trends as per the Census of India, 2011.

Table 1.3 *Rural Population Trends*

Sr. No.	State	Population	Population Distribution		Rural Population
			Rural (%)	Urban (%)	
1.	Andhra Pradesh	84,665,533	66.50	33.50	56,311,788
2.	Arunachal Pradesh	1,382,611	77.30	22.70	1,069,165
3.	Assam	31,169,272	86.00	14.00	26,780,526
4.	Andaman &	379,944	64.30	35.70	244,411
5.	Bihar	103,804,637	88.70	11.30	92,075,028
6.	Chhattisgarh	25,540,196	76.80	23.20	19,603,658
7.	Chandigarh	1,054,686	2.70	97.30	29,004
8.	Dadra and Nagar	342,853	53.40	46.60	183,024
9.	Daman and Diu	242,911	24.80	75.20	60,331
10.	Delhi	16,753,235	2.50	97.50	419,319
11.	Goa	1,457,723	37.80	62.20	551,414
12.	Gujarat	60,383,628	57.40	42.60	34,670,817
13.	Haryana	25,353,081	65.20	34.80	16,531,493
14.	Himachal Pradesh	6,856,509	89.90	10.10	6,167,805
15.	Jammu and	12,548,926	72.80	27.20	9,134,820
16.	Jharkhand	32,966,238	76.00	24.00	25,036,946
17.	Karnataka	61,130,704	61.40	38.60	37,552,529
18.	Kerala	33,387,677	52.30	47.70	17,445,506
19.	Lakshadweep	64,429	22.00	78.00	14,121
20.	Madhya Pradesh	72,597,565	72.40	27.60	52,537,899
21.	Maharashtra	112,372,972	54.80	45.20	61,545,441
22.	Manipur	2,721,756	69.80	30.20	1,899,624
23.	Meghalaya	2,964,007	79.90	20.10	2,368,971
24.	Mizoram	1,091,014	48.50	51.50	529,037
25.	Nagaland	1,980,602	71.00	29.00	1,406,861
26.	Orissa	41,947,358	83.30	16.70	34,951,234
27.	Punjab	27,704,236	62.50	37.50	17,316,800
28.	Pondicherry	1,244,464	31.70	68.30	394,341
29.	Rajasthan	68,621,012	75.10	24.90	51,540,236
30.	Sikkim	607,688	75.00	25.00	455,962
31.	Tamil Nadu	72,138,958	51.60	48.40	37,189,229
32.	Tripura	3,671,032	73.80	16.20	2,710,051
33.	Uttar Pradesh	1,99,581,477	77.70	22.30	1,55,111,022
34.	Uttarakhand	10,116,752	69.40	30.60	7,025,583
35.	West Bengal	91,347,736	68.10	31.90	62,213,676

Source: Census of India, 2011

NOTES

According to the Census 2011, the rural population of the north eastern states is high with only Mizoram registering the less that 50 per cent rural population. The top five states with highest rural inhabitants in the country as per the data were: Uttar Pradesh, Bihar, West Bengal, Maharashtra and Andhra Pradesh.

Spatial Distribution and Density of Rural Population

India is diverse country. The rural population of the country also characterizes its diversity and is therefore very uneven. Several factors affect the distribution and density of its rural population especially the natural resources including land water and forests. The availability of cultivable land, depth and fertility of soil, depth of the underground water table, availability of water for irrigation, etc. all affect the population patterns. The distribution and density of population in the country varies from place to place.

Sex Ratio of the Rural Population

NOTES

Sex ratio is yet another important demographic feature of any country. It is one of the most basic parameters that provide a measure of both the relative survival of females and males and the future breeding potential of a population. The parameter is used to describe the number of females per 1000 of males. Biologically normal sex ratio at birth is 1,050 males to 1,000 females or 950 females to 1,000 males. The Census 2011 showed a positive upward trend from the Census 2001 in reference to Sex Ratio. According to the Census 2011 and 2001, the sex ratio in the country was 940 and 933, respectively. According to Census 2011, there are 949 females to 1000 men in rural areas, while there are 929 females to 1000 males in urban areas. Also associate with sex ratio is the parameter of child sex ratio which is the ratio of girls to boys in the age group of 0–6 years. A ratio above 1 means that there are more females than males and vice versa. The child sex ratio as per the 2011 Census of the country was 919, as against the 927 according to 2001 Census.

According to 2011 Census, the top five states in terms of sex and child sex ratio were: Kerala, Tamil Nadu, Andhra Pradesh, Chhattisgarh and Meghalaya. The states of Haryana, Sikkim, Punjab, Uttar Pradesh and Bihar were the bottom five states registering the lowest sex and child ratio in the country. Puducherry was listed as the top performing union territory while Daman and Diu was at the lowest in terms of sex ratio. Chandigarh registered the lowest child sex ratio of 845 in the 2011 Census.

The following table provides a snapshot of all sex and child sex ratio of the country including states and union territories.

NOTES

Table 1.4 *Sex and Child Ratio in India*

		2011 Census		2001 Census	
Rank	**State**	**Sex Ratio**	**Child Sex Ratio**	**Sex Ratio**	**Child Sex Ratio**
S1	Kerala	1084	964	1058	960
UT1	Puducherry	1037	967	1001	967
S2	Tamil Nadu	996	943	987	942
S3	Andhra Pradesh	993	939	978	961
S4	Chhattisgarh	991	969	989	975
S5	Meghalaya	989	970	972	973
S6	Manipur	985	930	974	957
S7	Telangana	985			
S8	Odisha	979	941	972	953
S9	Mizoram	976	970	935	964
S10	Goa	973	942	961	938
S11	Karnataka	973	948	900	940
S12	Himachal Pradesh	972	909	968	896
S13	Uttarakhand	963	890	962	908
S14	Tripura	960	957	948	966
S15	Assam	958	962	935	965
S16	West Bengal	950	956	934	960
S17	Jharkhand	948	948	941	965
UT2	Lakshadweep	946	911	948	959
S18	Arunachal Pradesh	938	972	893	964
S19	Nagaland	931	943	900	964
S20	Madhya Pradesh	931	918	919	932
S21	Maharashtra	929	894	922	913
S22	Rajasthan	928	888	921	909
S23	Gujarat	919	890	920	883
S24	Bihar	918	935	919	942
S25	Uttar Pradesh	912	902	898	916
S26	Punjab	895	846	876	798
S27	Sikkim	890	957	875	963
UT3	Jammu and Kashmir	889	862	892	941
S28	Haryana	879	834	861	819
UT4	Andaman and Nicobar Islands	876	968	846	957
UT5	Delhi	868	871	821	868
UT6	Chandigarh	818	880	777	845
UT7	Dadra and Nagar Haveli	774	926	812	979
UT8	Daman and Diu	618	904	710	926

Source: Census of India 2001 and 2011

The sex ratio in rural areas is also very important parameter to be aware of. According to 2011 Census, the top states in the descending order of sex ratio in rural areas were: Kerala (1078), Goa (1003), Chhattisgarh (1001), Uttarakhand

(1000) and Andhra Pradesh (996). The Union Territory of Puducherry (1028) was the top while that of Chandigarh (690) was the lowest in terms of rural sex ratio.

NOTES

1.2.2 Occupation of Rural India

Labour in India refers to employment in the economy of India. In 2020, there were around 501 million workers in India, the second largest after China. Out of which, agriculture industry consist of 41.19%, industry sector consist of 26.18% and service sector consist 32.33% of total labour force. Of these over 94 per cent work in unincorporated, unorganised enterprises ranging from pushcart vendors to home-based diamond and gem polishing operations. While the share of Indians working in agriculture is declining, it is still the main sector of employment. The organized sector includes workers employed by the government, state-owned enterprises and private sector enterprises. While most of the Indian workforce is still employed in the agricultural sector, it is the services sector that generates most of the country's GDP. In fact, when looking at GDP distribution across economic sectors, agriculture lags behind with a mere 15 per cent contribution. Some of the leading services industries: are telecommunications, software, textiles, and chemicals, and production.

1.2.3 Literacy in Rural India

Literacy, for the purposes of the census, is considered as a person aged seven and above who can both read and write with understanding in any language. Such persons are treated as literates. A person, who can only read but cannot write, is not literate. In the censuses prior to 1991, children below five years of age were necessarily treated as illiterates. It was decided at 1991 Census that all children in the age group 0-6 would be treated as illiterate by definition and the population of aged seven years and above only would be classified as literate or illiterate. The same criterion was retained in the Censuses of 2001 and 2011. Further, a person need not receive any formal education or acquire any minimum qualification to be treated as literate.

The results of 2011 Census reveal that there has been an increase in literacy in the country. The literacy rate in the country is 74.04 per cent — 82.14 for males and 65.46 for females. Kerala retained its position by being on top with a 93.91 per cent literacy rate, closely followed by Lakshadweep (92.28 per cent) and Mizoram (91.58 per cent). Bihar with a literacy rate of 63.82 per cent ranks last in the country preceded by Arunachal Pradesh (66.95 per cent) and Rajasthan (67.06 per cent).

The following table provides a glimpse of literacy rates of the Indian states and union territories in accordance with the Census 2011.

NOTES

Table 1.5 *Literacy Rate in Indian States*

Sr. No.	States/Union Territories	Literacy	Male	Female	% Change
1	Kerala	94.00	96.11	92.07	3.14
2	Lakshadweep	91.85	95.56	87.95	5.19
3	Mizoram	91.33	93.35	89.27	2.53
4	Goa	88.70	92.65	84.66	6.69
5	Tripura	87.22	91.53	82.73	14.03
6	Daman and Diu	87.10	91.54	79.55	8.92
7	Andaman and Nicobar Islands	86.63	90.27	82.43	5.33
8	Delhi	86.21	90.94	80.76	4.54
9	Chandigarh	86.05	89.99	81.19	4.11
10	Puducherry	85.85	91.26	80.67	4.61
11	Himachal Pradesh	82.80	89.53	75.93	6.32
12	Maharashtra	82.34	88.38	75.87	5.46
13	Sikkim	81.42	86.55	75.61	12.61
14	Tamil Nadu	80.09	86.77	73.44	6.64
15	Nagaland	79.55	82.75	76.11	12.96
16	Uttarakhand	78.82	87.40	70.01	7.2
17	Gujarat	78.03	85.75	69.68	8.89
18	Manipur	76.94	83.58	70.26	10.33
19	West Bengal	76.26	81.69	70.54	7.62
20	Dadra and Nagar Haveli	76.24	85.17	64.32	18.61
21	Punjab	75.84	80.44	70.73	6.19
22	Haryana	75.55	84.06	65.94	7.64
23	Karnataka	75.36	82.47	68.08	8.72
24	Meghalaya	74.43	75.95	72.89	11.87
25	Orissa	72.87	81.59	64.01	9.79
26	Assam	72.19	77.85	66.27	8.94
27	Chhattisgarh	70.28	80.27	60.24	5.62
28	Madhya Pradesh	69.32	78.73	59.24	5.58
29	Uttar Pradesh	67.68	77.28	57.18	11.41
30	Jammu and Kashmir	67.16	76.75	56.43	11.64
31	Andhra Pradesh	67.02	74.88	59.15	6.55
32	Jharkhand	66.41	76.84	55.42	12.85
33	Rajasthan	66.11	79.19	52.12	5.7
34	Arunachal Pradesh	65.38	72.55	57.70	11.04
35	Bihar	61.80	71.20	51.50	14.8

Source: Census of India, 2011

NOTES

However, serious disparities are evident in the literacy rate of the country especially in terms of female literacy rates. The results are evident that it is the females who have to sacrifice for their education in all parts of the country. The state of Bihar has the lowest female literacy rate (51.50) according to 2011 census, followed by Rajasthan (52.12) and Jharkhand (55.42)

Six Indian states account for about 60% of all illiterates in India: Uttar Pradesh, Bihar, Madhya Pradesh, Rajasthan, and Andhra Pradesh (including Telangana). Slightly less than half of all Indian illiterates (48.12%) are in the six states of Uttar Pradesh, Bihar, Rajasthan, Madhya Pradesh, Jharkhand and Chhattisgarh.

Check Your Progress

1. List some of the characteristics of Indian rural society.
2. What, according to a recent data, is the number of villages in India?
3. Why is sex ratio an important demographic feature of any country?
4. Which sector generates most of India's GDP?
5. Who are considered as literates in India?
6. Which states account for most illiterates in India?

1.3 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Some of the characteristics of Indian rural society are:
    (i) The unit of the rural society is the village. People live in the villages in a cooperative manner within the rules prescribed by a unique framework of caste and social custom.
    (ii) The village itself possesses a uniform structure and organization.
    (iii) The character and structures of the villages are decided by the religious, caste, linguistic and ethnic composition of the population living in it.
    (iv) Women in Indian rural society do not enjoy equal rights in many aspects of life.
    (v) Indian rural society is predominantly agriculture in nature.
2. According to recent data as of 2019, there are a total of 664,369 villages, up from the 640,867 in the 2011 Census of India and the 638,588 recorded in the 2001 Census of India.
3. Sex ratio is an important demographic feature of any country. It is one of the most basic parameters that provide a measure of both the relative survival of females and males and the future breeding potential of a population. The parameter is used to describe the number of females per 1000 of males.

NOTES

4. While most of the Indian workforce is still employed in the agricultural sector, it is the services sector that generates most of the country's GDP. In fact, when looking at GDP distribution across economic sectors, agriculture lags behind with a mere 15 per cent contribution.
5. Literacy, for the census purpose, is considered as a person aged seven and above who can both read and write with understanding in any language. Such persons are treated as literates.
6. Six Indian states account for about 60% of all illiterates in India: Uttar Pradesh, Bihar, Madhya Pradesh, Rajasthan, and Andhra Pradesh (including Telangana). Slightly less than half of all Indian illiterates (48.12%) are in the six states of Uttar Pradesh, Bihar, Rajasthan, Madhya Pradesh, Jharkhand and Chhattisgarh.

1.4 SUMMARY

- According to Reddy, hospitality, feminist traditionalism, fatalism, religiousness often combined with superstitious beliefs, leisure attitude to life, and low standard of living characterized the typical rural Indian villages.
- India is predominantly an agricultural and village based society. It is been said and believed that India lives in its villages. Rural population refers to people living in rural areas as defined by national statistical offices.
- Rural population trends are different in states. Rapid urbanization and industrialization in the country and in almost every state has resulted in large scale rural to urban migration.
- The top five states with highest rural inhabitants in the country as per the data were: Uttar Pradesh, Bihar, West Bengal, Maharashtra and Andhra Pradesh.
- Several factors affect the distribution and density of its rural population especially the natural resources including land water and forests.
- Sex ratio is yet another important demographic feature of any country. It is one of the most basic parameters that provide a measure of both the relative survival of females and males and the future breeding potential of a population.
- According to Census 2011, there are 949 females to 1000 men in rural areas, while there are 929 females to 1000 males in urban areas.
- The states of Haryana, Sikkim, Punjab, Uttar Pradesh and Bihar were the bottom five states registering the lowest sex and child ratio in the country.
- The sex ratio in rural areas is also very important parameter to be aware of. According to 2011 census the top states in the descending order of sex ratio in rural areas were: Kerala (1078), Goa (1003), Chhattisgarh (1001), Uttarakhand (1000) and Andhra Pradesh (996). The Union Territory of

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Puducherry (1028) was the top while that of Chandigarh (690) was the lowest in terms of rural sex ratio.

- Labour in India refers to employment in the economy of India. In 2020, there were around 501 million workers in India, the second largest after China. Out of which, agriculture industry consist of 41.19%, industry sector consist of 26.18% and service sector consist 32.33% of total labour force.
- While most of the Indian workforce is still employed in the agricultural sector, it is the services sector that generates most of the country's GDP. In fact, when looking at GDP distribution across economic sectors, agriculture lags behind with a mere 15 per cent contribution.
- It was decided at 1991 Census that all children in the age group 0-6 would be treated as illiterate by definition and the population of aged seven years and above only would be classified as literate or illiterate.
- Kerala retained its position by being on top with a 93.91 per cent literacy rate, closely followed by Lakshadweep (92.28 per cent) and Mizoram (91.58 per cent).
- The state of Bihar has the lowest female literacy rate (51.50) according to 2011 census, followed by Rajasthan (52.12) and Jharkhand (55.42).
- Six Indian states account for about 60% of all illiterates in India: Uttar Pradesh, Bihar, Madhya Pradesh, Rajasthan, and Andhra Pradesh (including Telangana).

1.5 KEY WORDS

- **Demography**: This is the statistical study of populations, especially human beings.
- **Urbanization:** This refers to the population shift from rural to urban areas.
- **Sex Ratio:** This is the ratio of males to females in a population.
- **GDP**: GDP is the final value of the goods and services produced within the geographic boundaries of a country during a specified period of time, normally a year. GDP growth rate is an important indicator of the economic performance of a country.
- **Census**: A census is the procedure of systematically enumerating, and acquiring and recording information about the members of a given population.
- **Literacy rate**: This is the total number of literate persons in a given age group, expressed as a per centage of the total population in that age group.

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1.6 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are distinctive characteristics that make rural societies different from their urban counterparts?
2. What led to large scale migration of population from rural to urban areas?
3. Which are the top five states in terms of sex and child sex ratio in India?
4. Write in brief about the occupation of people in rural India.
5. What is the main reason of lower female literacy rate in India?

Long-Answer Questions

1. Discuss why rural population trends are different in states.
2. What, according to the latest Census, is the child sex ratio in India?
3. What is the contribution of unorganised sectors in country's employment?
4. Critically analyze the existing disparities in India's literacy rate.

1.7 FURTHER READINGS

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UNIT 2 ECONOMIC FEATURES

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Structure

2.0 INTRODUCTION

Despite big strides in industry and service sector, India's economy is predominantly agriculture-based. As India is the nation of villages and most of the population of villages depend on agriculture, it is known as an agricultural country. Also, what separates agriculture economy from other sectors is that it depends excessively on nature and very limited infrastructure. However, over the years, a lot of changes have taken place in the rural economic scene. Successive governments have launched a series of development programmes for rural areas to remove backwardness in agriculture and village industries, high poverty and unemployment.

This unit aims at analysing economic life of rural people and discusses trends in per capita income and rural poverty.

2.1 OBJECTIVES

After going through this unit, you will be able to:

- Understand the economic life of rural people
- Explain trends in disparity and per capita income and rural poverty

2.2 ECONOMIC LIFE OF RURAL PEOPLE

India is predominantly an agriculture based economy. The Indian economy at a glance consists of two main sectors namely, rural sector and non-rural sector. The rural sector can be further divided into agricultural subsector and non-agricultural subsector. The agricultural subsector includes agriculture and allied economic activities like animal husbandry and dairying, poultry, fishery, horticulture, etc. The non-agricultural subsector includes activities like small scale village industries (cottage and village industries, khadi, handloom, handicrafts, rural craft), business (micro-enterprises, trading of goods, small shops, petty traders) and services (transportation, communications, banking, marketing).

India has a long history of experimenting with rural development initiatives. Since Independence, the country has launched several programs for the development of the communities that reside in rural locations. It has witnessed programs and schemes in almost every aspect of development including agriculture, rural economy, rural livelihoods, health, education, environment, natural resources, livestock, infrastructure, women, men, youth, children and the elderly. A review of resources earmarked for the rural development interventions clearly highlights the gargantuan investment all the governments and administrative machinery has made to bring the difference. However, as we look back, the results look not that great. The rural landscape of the country poses several problems and challenges before those planners and policy makers who are involved in undertaking the requisite interventions for the betterment of rural landscape.

2.2.1 Importance of Rural Indian Economy

Over the last two decades, India has been among one of the fastest growing economies in the world. The country is mainly rural with 65 percent of population residing in rural areas. Despite rapid urbanization, rural India is still the largest contributor to India's Gross Domestic Product (GDP) alongside contribution of 46 percent to National Income. Since 2000 the rural per capita GDP of the country has grown steadily at a rate of 6.2 percent.

With majority of population residing in the rural India, the growth, income and consumption patterns are the driving force for demand generation, reviving the economy and sustaining the economic growth. The Indian rural markets have become powerful market drivers. The businesses are super excited by the growth propelled by these Indian markets especially due to increase in purchasing power of the rural consumer. Several factors have contributed towards the increased confidence in rural India's economy:

- Increase in income of the rural migrants promoting higher remittances.
- Increase in share of non-farm activities in the rural areas.
- Increase in farm income with due support from the government.
- Increase in government spending in rural projects.
- Easy availability of rural finance and credit for rural population.

As stated above, the rural economy consists of two subsectors that hold key to its growth and development. These are the agricultural subsector and non-agricultural subsector. The roles of both these sectors cannot be undermined in the rural economy and development.

1. The Role of Agricultural Subsector in Rural Economy

The rural sector including the rural industries, trade and commerce are the basic foundation of India's economy. Over the years, it is evident that attention to the programs and schemes that impact the rural sector positively are the key emphasis of planning and execution of the national development. The agriculture and allied activities are the mainstay of the rural economy and contribute to the same in the following ways:

(i) Contribution in GDP

Agriculture sector in India has been the county's pride and is expected to maintain the same in foreseeable future. The sector has demonstrated its resilience amid the adversities of Covid-19 lockdowns. According to the Economic Survey 2020-2021 the share of agriculture in gross domestic product (GDP) has reached almost 20 per cent for the first time in the last 17 years. The survey also highlighted that the gross value added (GVA) for the entire economy shrunk by 7.2 percent, but growth in GVA for agriculture and allied industries sustained a positive growth of 3.4 percent. According to another report published by ASSOCHAM, the agriculture, forestry and fishing (AFF) emerged as the second largest contributor to India's GDP. The contribution of AFF to country's GDP, as gross value added, has stood at 18 percent in the first quarter of 2020-21, registering a sharp rise from about 13 percent during the April-June quarter of the previous fiscal.

(ii) Mainstay of Livelihood and Employment

Agriculture subsector is the mainstay of livelihood and employment for the rural India. With 65 percent population living in rural India and dependent on the agriculture and allied activities for their living, the agriculture subsector become very important and has passed the testing times. Though the share of agricultural sector in GDP has declined in the past, the population dependent on agriculture and allied activities have remained stable over the years. According to the World Bank, employment in agriculture (% of total employment) in India was reported at 41.49 % in 2020.

(iii) Source of Raw Materials

Agriculture is one of the major sources of raw materials for the country's leading industries like sugar, cotton, jute, textiles, tobacco, leather, edible oils and many more. Industries like food processing, handlooms, cereal processing and oil production are solely dependent on agriculture for the raw material.

(iv) Source of Foreign Exchange

The agriculture is also an important source of foreign exchange for the country. The rising dominance of the country in agricultural export has resulted in increased contribution to national overall economic development. Today, the nation occupies a leading position in agricultural exports and is not only supporting the local population but also fetching higher net foreign exchange. Today, the country is a leading exporter of raw cotton, oil meals, rice, spices, sugar, tea, coffee, fresh vegetables, pulses, dairy products and many more. According to the Economic Survey, marine, rice, sugar and spices have witnessed an increasing export trend in 2019-20.

(v) Market for Industrial Goods and Services

Agriculture and allied industries also contribute to the rural economy by providing a huge market to the industrial goods and services. Pesticides, insecticides, fertilizers, seeds, farm equipment, livestock feed, veterinary medicines and services, agricultural services including consulting, etc. are serving markets for the agriculture subsector.

2. The Role of Non-agricultural Subsector in Rural Economy

Yet another segment that contributes towards the rural economy is that of non-agricultural subsector also referred to as non-farm sector or activities. The sector has recently been highlighted owing to its potential to augment the income of the rural population. While the agriculture still remains the mainstay of the rural economy, the fact cannot be overlooked that its share is steadily declining. Also not the entire rural population is engaged in agriculture and allied services. Many are landless and are engaged in non-farm activities like household and non-household manufacturing, handicrafts, processing, repairs, construction, mining and quarrying, transport, trade, communication, community and personal services, etc. in rural areas. The rural non-farm sector is therefore very important and offers livelihood opportunities to men, women and youth in the various non-farm activities.

Understanding the significance of non-farm sector, the government since long has been developing roadmaps to increase its impact on the rural economy. Several bodies and schemes have been launched to add impetus to the growing contribution of non-farm sector in rural economy and development. The Khadi and Village Industries Commission (KVIC) runs several programs for the development of the sector. It has identified industries that are categorized into the seven types including, mineral, forest, agro, polymer and chemical, engineering and non-conventional energy based, textile and service based industries.

A Slew of Government-funded Schemes

Over the years, the Government of India has introduced a large number of schemes to diversify the rural population into non-farm activities. Some of them are as follows

- **The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), 2005:** It provides one hundred days of guaranteed wage employment in every financial year to every household whose adult members volunteer to do unskilled manual work.

- **Deendayal Upadhyaya Grameen Kaushal Yojana:** It is implemented by the Ministry of Rural Development to drive the national agenda for inclusive growth, by developing skills and productive capacity of the rural youth from poor families. It funds training projects benchmarked to global standards, with an emphasis on placement, retention, career progression and foreign placement.
- **Deendayal Antyodaya Yaojana-NRLM:** It seeks to alleviate rural poverty through building sustainable community institutions of the poor.
- **Aajeevika Grameen Express Yojana (AGEY):** It is related to operating road transport service in backward areas by the SHGs which provide an additional avenue of livelihood for the people living in the area.
- **Pradhan Mantri Mudra Yojana (PMMY):** Under this scheme collateral free loans are provided by Banks, Non-Banking Financial Companies (NBFCs) and Micro Finance Institutions (MFIs) to small/micro business enterprises in the non-agricultural sector to individuals to enable them to set up or expand their business activities.

2.2.2 Trends in Disparity, Per Capita Income and Rural Poverty

The reduction in economic disparity remains a major goal of development in an economy. This section examines trends in disparity in income per worker (worker productivity) between farm and non-farm workers in rural areas.

Disparity in worker productivity between farm and non-farm workers in rural areas

Estimates of income of worker in various categories and in rural and urban areas since 1970- 71 are presented in Table 2.1. In year 2011-12 per worker income varied from ` 33,937 for agricultural labour to `1,71,836 for rural non-farm workers. In the same year a cultivator earned 2.27 times the income earned by a labourer from agriculture (Table 2.1). At the same time, per capita income of non-farm workers was more than twice the income of cultivators. These results show that among rural workers, agricultural labours are at the bottom in terms of worker productivity. Rural non-farm sector offers 2.76 times productive employment than the farm sector. The disparity in worker productivity between different categories of rural workers remained consistently high during the past four decades. Nevertheless after 2004-05, disparity among different categories of workers (except between non-farm workers of rural and urban areas) witnessed declining trend.

Table 2.1 *Trends in worker productivity (at current prices) across different worker categories in India*

(Rs/worker)

Year	Agricultural labour	Cultivator	Farm workers	Non-farm rural workers	All rural workers	Urban
1970-71	821	1114	1018	2294	1203	3829
1980-81	1788	2425	2216	6248	2878	8456
1993-94	5040	12271	9410	25822	12947	38934
1999-00	9246	22807	17059	51789	25380	89180
2004-05	10480	25183	19933	82990	37273	120419
2011-12	33937	77144	62208	171836	101755	282515

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The wide variation in worker productivity arises due to composition of rural output, overdependence on agriculture sector and nature of the work performed by different categories of workers. In the year 1970-71, 85.5 per cent of the rural workers engaged in agriculture produced only 72.4 per cent of the rural output and worker productivity in non-farm sector was 2.25 times the worker productivity in farm sector. Subsequently, due to significantly higher growth in non-farm sector, the share of agriculture in rural output declined by 33.5 percentage points till the year 2004-05 but agriculture share in rural workforce declined by meagre 12.9 percentage points. Consequently, the disparity in worker productivity between farm and non-farm sectors increased to more than four times by the year 2004-05.

Table 2.2 *Disparity in per worker income between different worker categories*

Year	CULT/ AGL	NFW/ CULT	NFW/ AGL	NFW/ FW	URBAN/ NFW	URBAN/ RURAL
1970-71	1.36	2.06	2.79	2.25	1.67	3.18
1980-81	1.36	2.58	3.50	2.82	1.35	2.94
1993-94	2.43	2.10	5.12	2.74	1.51	3.01
1999-00	2.47	2.27	5.60	3.04	1.72	3.51
2004-05	2.40	3.30	7.92	4.16	1.45	3.23
2011-12	2.27	2.23	5.06	2.76	1.64	2.78

CULT: Cultivator, AGL: Agricultural labour, NFW: Non-farm worker, FW: Farm worker

During 2004-05 and 2011-12, acceleration in rate of agricultural growth coupled with simultaneous withdrawal of agricultural workers and increase in relative prices of agricultural produce resulted in the narrowing down of disparity in worker productivity between farm and non-farm sectors to the level of the year 1993-94. These trends clearly indicate scope to reduce disparity between farm and non-farm sectors through employment diversification towards non-farm sectors and acceleration in the growth in farm output. It is to be noted that disparity between non-farm workers and agricultural labours reduced by 2.86 percentage points as compared to 1.07 percentage points reduction in disparity between non-farm workers and cultivators between 2004-05 and 2011-12. The reason for a steeper reduction in disparity between non-farm workers and agricultural labours was a higher rate of withdrawal of agricultural labours as compared to cultivators from the agricultural workforce. Another reason was a significant increase in the wages rates and therefore wage earnings of the agricultural labours during this period (Chand and Srivastava 2014). One of the measures to accelerate non-farm employment and reduce dependency on agriculture is to impart skills and technical know-hows to the largely unskilled agricultural labours in the rural areas.

The rising labour wages also narrowed down the disparity between agricultural labour and cultivators between 2004-05 and 2011-12.

Rural Poverty

Many of the rural poor are family farmers, subsistence producers, or landless agricultural workers. They include pastoralists, fisherfolk, and forest-dependent peoples with limited access to productive means.

Rural families increasingly depend on non-farm incomes. When infrastructure or basic services are lacking, credit is difficult to get and institutions are weak, small rural enterprises and earners of non-farm wages are the hardest hit.

Without social protection, the poor are the most vulnerable especially those with disabilities and the elderly. Rural women and members of female-headed households also struggle to maintain substantive livelihoods as they tend to face discrimination in accessing productive resources, such as land, extension services, such as technical training, and markets.

Since independence in 1947, Indian governments have been deeply concerned with widespread poverty and have implemented various anti-poverty schemes. However, rural poverty remains persistent, with the headcount ratio being 30.2 per cent in 1999/2000 (Deaton, 2003a). The presence of such disparity in the incidence of poverty has long histories in India. Most of India's poor live in rural areas.

Poverty Alleviation Initiatives in Rural India

"Growth with Social Justice" has been the basic objective of the development planning in India since independence. At the beginning of the first Five-Year Plan, almost half of the Indian population was living below the poverty line, 80% of which lived in the rural areas. The incidence of poverty in villages was widespread. This problem was further aggravated by disparities that existed among the States, between men and women and among different social groups. The magnitude of poverty and disparities that existed between various social groups necessitated planned State intervention to provide succour and relief to millions reeling under poverty, particularly the disadvantaged and marginalised social groups, such as Scheduled Castes, Scheduled Tribes, other backward castes, women, children, the physically handicapped and the disabled.

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Given below are some major initiatives taken by the government to alleviate poverty in rural areas:

1. The first such initiative was the Community Development Programme started in 1952. The programme aimed basically at integrated development at the local level through co-operation of people and convergence of technical knowledge in various fields.
2. The second initiative was taken in the country by introducing the measures for abolition of intermediary institutions and systems of land holdings such as Zamindari, Jagirdars etc. The systems were highly exploitative and were responsible for a caste and land-based nexus perpetuating poverty. This was followed by a comprehensive policy of Land Reforms.
3. The third measure adopted was the strategy of Five Year Plan for economic development. There were Plan-specific strategies towards this end. The first Five Year Plan focussed on ways and means to immediately tackle the food requirement. The second Five Year Plan emphasized on the Heavy Industries. In this context it was felt that the Public Sector would be the leader of the industrialization process in the country through acquiring the much perceived "commanding height".

Check Your Progress

1. Which are the two subsectors in the rural sector?
2. Which activities are included in the non-agricultural subsector?
3. List the main factors that have contributed towards increased confidence in rural India's economy.
4. What is the share of agriculture in gross domestic product (GDP)?
5. What is the reason for wide variation in worker productivity?
6. What has been the basic objective of the development planning in India since independence?

2.3 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The rural sector can be divided into agricultural subsector and non-agricultural subsector.
2. The non-agricultural subsector includes activities like small scale village industries (cottage and village industries, khadi, handloom, handicrafts, rural craft), business (micro-enterprises, trading of goods, small shops, petty traders) and services (transportation, communications, banking, marketing).

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3. Several factors have contributed towards the increased confidence in rural India's economy:
   - Increase in income of the rural migrants promoting higher remittances.
   - Increase in share of non-farm activities in the rural areas.
   - Increase in farm income with due support from the government.
   - Increase in government spending in rural projects.
   - Easy availability of rural finance and credit for rural population.
4. According to the Economic Survey 2020-2021, the share of agriculture in gross domestic product (GDP) has reached almost 20 per cent for the first time in the last 17 years. The survey also highlighted that the gross value added (GVA) for the entire economy shrunk by 7.2 percent, but growth in GVA for agriculture and allied industries sustained a positive growth of 3.4 percent. According to another report published by ASSOCHAM, the agriculture, forestry and fishing (AFF) emerged as the second largest contributor to India's GDP.
5. The wide variation in worker productivity arises due to composition of rural output, overdependence on agriculture sector and nature of the work performed by different categories of workers.
6. "Growth with Social Justice" has been the basic objective of the development planning in India since independence.

2.4 SUMMARY

- India has a long history of experimenting with rural development initiatives. Since Independence, the country has launched several programs for the development of the communities that reside in rural locations.
- The issues and challenges for rural economic development in India stem from the characteristics of the rural sector itself.
- The mainstay of rural economy is agriculture and allied activities. The dependence therefore exists heavily on nature including weather and climatic conditions
- Low factor productivity is yet another challenging issue that affects the rural development programs. Inadequate capital for production inputs, raw materials, machines and equipment, etc. adversely affects and does not complement the rural development process at many instances.
- Over the last two decades, India has been among one of the fastest growing economies in the world. The country is mainly rural with 65 percent of population residing in rural areas.

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- With majority of population residing in the rural India, the growth, income and consumption patterns are the driving force for demand generation, reviving the economy and sustaining the economic growth.
- According to the Economic Survey 2020-2021 the share of agriculture in gross domestic product (GDP) has reached almost 20 per cent for the first time in the last 17 years.
- Agriculture subsector is the mainstay of livelihood and employment for the rural India. With 65 percent population living in rural India and dependent on the agriculture and allied activities for their living, the agriculture subsector become very important and has passed the testing times.
- The agriculture is also an important source of foreign exchange for the country. The rising dominance of the country in agricultural export has resulted in increased contribution to national overall economic development.
- Many are landless and are engaged in non-farm activities like household and non-household manufacturing, handicrafts, processing, repairs, construction, mining and quarrying, transport, trade, communication, community and personal services, etc. in rural areas. The rural non-farm sector is therefore very important and offers livelihood opportunities to men, women and youth in the various non-farm activities
- The Khadi and Village Industries Commission (KVIC) runs several programs for the development of the sector. It has identified industries that are categorized into the seven types including, mineral, forest, agro, polymer and chemical, engineering and non-conventional energy based, textile and service based industries.
- Over the years, the Government of India has introduced a large number of schemes to diversify the rural population into non-farm activities.
- The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), 2005 provides one hundred days of guaranteed wage employment in every financial year to every household whose adult members volunteer to do unskilled manual work.
- Aajeevika Grameen Express Yojana (AGEY) is related to operating road transport service in backward areas by the SHGs which provide an additional avenue of livelihood for the people living in the area.
- The disparity in worker productivity between different categories of rural workers remained consistently high during the past four decades. Nevertheless after 2004-05, disparity among different categories of workers (except between non-farm workers of rural and urban areas) witnessed declining trend.
- During 2004-05 and 2011-12, acceleration in rate of agricultural growth coupled with simultaneous withdrawal of agricultural workers and increase

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in relative prices of agricultural produce resulted in the narrowing down of disparity in worker productivity between farm and non-farm sectors to the level of the year 1993-94.

- The rising labour wages also narrowed down the disparity between agricultural labour and cultivators between 2004-05 and 2011-12.
- Without social protection, the poor are the most vulnerable especially those with disabilities and the elderly. Rural women and members of female-headed households also struggle to maintain substantive livelihoods as they tend to face discrimination in accessing productive resources, such as land, extension services, such as technical training, and markets.
- "Growth with Social Justice" has been the basic objective of the development planning in India since independence.
- The magnitude of poverty and disparities that existed between various social groups necessitated planned State intervention to provide succour and relief to millions reeling under poverty, particularly the disadvantaged and marginalised social groups, such as Scheduled Castes, Scheduled Tribes, other backward castes, women, children, the physically handicapped and the disabled.

2.5 KEY WORDS

- **GVA**: In economics, gross value added (GVA) is the measure of the value of goods and services produced in an area, industry or sector of an economy.
- **The Economic Survey**: This is the flagship annual document of the finance ministry. It reviews the economic development in India over the past financial year by giving detailed statistical data of all the sectors-industrial, agricultural, manufacturing among others.
- **Foreign exchange**: It is the conversion of one country's currency into another.
- **Rural Non-Farm Sector**: It includes all economic activities viz., household and non-household manufacturing.
- **The Khadi and Village Industries Commission**: This is a statutory body formed in April 1957 by the Government of India, under the Act of Parliament.

2.6 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the two main sectors of the Indian economy?

2. Write in brief about the role of agricultural subsector in rural economy.
3. Explain the significance of the rural non-farm sector.
4. What is the objective of Deendayal Upadhyaya Grameen Kaushal Yojana?
5. Mention the reasons of a steeper reduction in disparity between non-farm workers and agricultural labours.

Long-Answer Questions

1. Critically analyze the major challenges for rural economic development in India.
2. Discuss how agriculture is an important source of foreign exchange for the country.
3. Analyze the role of various schemes in augmenting rural economy.
4. Describe poverty alleviation initiatives in rural India.

2.7 FURTHER READINGS

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UNIT 3 ROLE OF AGRICULTURE

NOTES

Structure

3.0 INTRODUCTION

With over 70 per cent of the rural households depending on it for their occupation and livelihood, agriculture plays a crucial role in the Indian economy. Significance of this sector of Indian economy can be gauged from the fact that it also contributes about 17% to the total GDP and provides a massive employment to the vast population of the country. Although the economic contribution of agriculture to India's GDP is steadily declining with the country's broad-based economic growth, it is demographically the broadest economic sector and plays a significant role in the overall socio-economic fabric of India.

Today, India, with its large and diverse agricultural sector, is one of the largest agricultural exporters in the world. Over the years, India has made immense progress towards food security. There has been a substantial increase in available food-grain per capita. As of now, the country is the largest producer of milk and has one of the largest and fastest growing agricultural products.

This unit aims at analysing various features and emerging issues in Indian agriculture.

3.1 OBJECTIVES

After going through this unit, you will be able to:

- Understand the role of agriculture in India
- Explain the salient features of Indian agriculture
- Analyze emerging issues that impact agricultural productivity

3.2 INDIAN AGRICULTURE: AN OVERVIEW

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A number of the agricultural commodities like tea, coffee, spices and tobacco constitute our main items of export. This amounts to almost 15 per cent of our total exports. Hence, agriculture provides foreign exchange which helps us to buy machines from abroad. It also maintains a balance of payments and makes our country self-sufficient. Tertiary sector provides helpful services to the industries and agriculture like banking, warehousing, etc. Internal trade is mostly done in agricultural produce. For example, various means of transport get the bulk of their business by the movement of agricultural goods. State governments get a major part of their revenue in terms of land revenue, irrigation charges, agricultural income tax, etc. The Central Government also earns revenue from export duties on the agricultural production. Moreover, our government can raise substantial revenue by imposing agricultural income tax. However, this has not been possible due to some political reasons.

Our agriculture has brought fame to the country. India enjoys first position in the world as far as the production of tea and groundnuts are concerned. Agriculture plays an important role in internal trade. It is because of the fact that 90 per cent of our population spends 60 per cent of their income on the purchase of the items like food, tea, milk, etc.

Agriculture has been a way of life and continues to be the single most important livelihood of the masses. Agricultural policy focus in India across decades has been on self-sufficiency and self-reliance in food-grains production. Considerable progress has been made on this front. Food grains production rose from 52 million tonnes in 1951-52 to 284.83 million tonnes in 2017-18.

Agriculture sector grew by an average 1.6 per cent per annum in first four years of the last Five Year Plan (2012-17) as against the targeted 4 per cent annual growth due to lower production. Table 3.1 provides the key indicators of the agricultural sector in India as per the Economic Survey 2017-18.

Table 3.1 *Agriculture Sector: Key Indicators*

Item	2012-13	2013-14	2014-15	2015-16	2016-17 (PE)	2017-18 (AE)
Growth in GVA in Agriculture & Allied Sectors (at constant 2011-12 prices)	1.5	5.6	-0.2	0.7	4.9	2.1
Share of Agriculture & Allied Sectors in total GVA (at current prices)	18.2	18.6	18.0	17.5	17.4	16.4
Share of Agriculture & Allied Sectors in total GCF, *of which*	7.7	9.0	8.3	7.8	na	na
Share of crops*	6.5	7.7	6.9	6.5	na	na
Share of livestock*	0.8	0.9	0.8	0.8	na	na
Share of forestry and logging*	0.1	0.1	0.1	0.1	na	na
Share of fishing *	0.4	0.5	0.5	0.5	na	na

Note: * : Shares in total GCF. Based on NAS, 2017 and 1st AE of 2017-18, na : Not Available

Source: Central Statistics Office

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The Economic Survey 2017-18 further says:

'As per the fourth Advance Estimates for 2016-17 released by Department of Agriculture, Cooperation and Farmers' Welfare, India achieved a record production of food grains estimated at 275.7 million tonnes during 2016-17. As per the 1st AE released on 22nd September 2017, food grains production for the Kharif Season during 2017-18 is estimated at 134.7 million tonnes, lower by 3.9 million tonnes as compared to 2016-17. The total production of rice during 2017-18 is estimated at 94.5 million tonnes vis-a-vis 96.4 million tonnes (4th Advance Estimates) in 2016-17. The production of pulses during 2017-18 is estimated at 8.7 million tonnes, sugarcane at 337.7 million tonnes, oilseeds at 20.7 million tonnes and cotton at 32.3 million bales of 170 kgs each.'

3.2.1 Features of Indian Agriculture

Generally, economies are classified on the basis of per capita income and the living standards of the people in any country. In most of the developing countries like India, where agriculture is the main occupation, it is known as agricultural economy.

Some salient features of agricultural economy in India are as follows:

1. **Low productivity:** Productivity (output per hectare of land) is extremely low in India compared to advanced nations in the world. Among the wheat producing countries, output per hectare of land in the UK is 8040 kg, 7449 kg in France, whereas in India, it is only about 2770 kg. Productivity of rice shows a similar picture. In the USA, it is 7372 kg per hectare, in Japan it is 6582 kg and in India it is only 2915 kg per hectare. In case of maize, it is 1705 kg per hectare in India against 8813 kg in Japan and 5022 kg in China. Low level of productivity is also observed in case of commercial crops like cotton and sugarcane. Therefore, low productivity highlights the backwardness of Indian agriculture.
2. **Disguised unemployment:** Disguised unemployment is a situation of hidden unemployment. It is massive in case of Indian agriculture. Because of the joint family system, number of persons engaged on a piece of land is much more than what is actually needed. So, it appears that all are employed. But, in reality, some are unemployed; even when some are withdrawn, total output will not fall. Disguised unemployment is a situation of zero (or negative) marginal productivity of labour.
3. **Dependence of rainfall:** Agriculture in India is heavily dependent on rainfall, specifically monsoon. As rainfall in India is seasonal, unpredictable and unreliable, agriculture is dependent on a regular supply of water by irrigation. Irrigation enables to carry out cultivation all the year round, and it also allows better use of land.

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4. **Subsistence farming:** Farming in India is subsistence-oriented. It means that the primary objective of the farmer is to secure subsistence for his family; it is not to earn profits. It implies that farming in India is semi-commercial in nature.
5. **Traditional inputs:** Most of the farmers in India rely on traditional inputs, like cow dung as manure. Modern inputs like chemical fertilizers, insecticides and pesticides are not judiciously used. It is owing to poverty of the bulk of farming population in India.
6. **Small holdings:** Small holdings (or small size of a farmer's land under cultivation) are a characteristic feature of the Indian agriculture. It compounds the problems of subsistence outlook of the farmers.
7. **Acrimonious agrarian relations:** Huge areas are cultivated by the tenants who are not owners of the soil. While the bulk of surplus (excess of output over inputs) is appropriated by the landlords, the tenants are often deprived of even a meaningful compensation. Accordingly, farming in India is seldom taken as a commercial venture.
8. **Backward technology:** As bulk of the holdings in India is small and majority of the farming population is poor, use of backward technology becomes a compulsion. Even now, we find heavy reliance of cultivators on cattle power and manpower rather than on modern equipment like tractors and thrashers.

The above-mentioned features of Indian agriculture render it as extremely backward, though it is an important means of subsistence for a vast population in the countryside. It depends on backward technology on the one hand and is exposed to vagaries of the weather on the other. Above all, it is dominated by a conventional outlook of the farmers, taking agriculture more as a means of subsistence than as a business enterprise. Agrarian relations (landlord-tenant relationship) are also not conducive to the growth of agriculture as a commercial venture.

Check Your Progress

1. How does agriculture play an important role in internal trade?
2. List some of the features of Indian agriculture.
3. Why is farming in India still not taken as a commercial venture?

3.3 EMERGING ISSUES IN INDIAN AGRICULTURE

Agriculture plays a very important role in the Indian economy. It is one of the significant sectors that contribute robustly in the economy and has grown consistently

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in the last few decades. The sector contributes 17 percent in GDP and also provides livelihoods to a close to 60 percent population in the country. During the 2019-2020 crop year, agriculture sector grew steadily through a record 295.67 million tonnes (MT) production. The financial year 2020 registered a Gross Value Added (GVA) estimated at ₹ 19.48 lakh crore (US$ 276.37 billion) by agriculture, forestry and fishing. The investments in the agriculture and food industry also increased steadily in the financial year 2020.

Over the years, agriculture has consistently played a significant role in the Indian economy through its share in national income, provision of employment to the largest section, capital formation, supporting industries through provision of raw material and providing market support for industrial products.

Despite growth in the sector, the Indian agriculture still needs an overhaul. With climate change affecting the weather adversely and a large population that is growing very rapidly the sector needs systematic interventions to be able to feed country's future generation. Over the years, several issues have surfaced in the agriculture sector that requires utmost attention. These are as follows:

Raising Food Grain Production: One of the most important issues that have emerged to the forefront in the Indian agriculture is that of raising food production. Food production facilitates food security which is very necessary in a country like India. India's cereal production stands at about 230 million tons to meet the needs of 1.3 billion people. With increase in India's population anticipated at 1.5 billion by 2030, the food production challenge lies ahead. Also it is to be kept in mind that the increased production needs are to be achieved in face of decreasing per capita arable land and irrigation. Also, we often are forgetful of food requirements of ever increasing livestock and poultry. According to an estimate, the food production in the country must be doubled in order to cater to an estimated population of 1.8 billion in 2050.

Diversification of Agriculture: Agriculture in the country must also diversify in order to reduce pressure on the cereal crops. Over the years, the agriculture has been diversified to include horticulture, floriculture, vegetables, commercial crops and many more. A systematic increase in diversified agriculture shall be more beneficial to the agricultural sector and the economy.

Increase in Horticulture Output: Horticulture has got tremendous scope. The production of horticulture has doubled in the last decade 146 million tons in 2001-02 to 314 million tons in 2018-19. The government under the ambit of National Horticulture Board has spearheaded several schemes for the increased production of horticulture products. Today, India is the second largest producer of fruits and vegetables in the world with first rank in the production of banana, mango, lime & lemon, papaya and okra.

Increase in Floriculture Output: Floriculture is an upcoming area in the agriculture sector and has grown steadily over the years. According to a recent estimate in 2019-20, the floriculture exports in the country stood at ₹ 541.61 Crores/75.89

USD Millions. Indian floriculture industry includes flowers such as rose, tuberose, glads, anthurium, carnations, marigold, etc.

Agriculture Exports: From a country that imported food grains to feed its population at the time of Independence, we have rose to a situation of leading exporters of agricultural products in the world. The exports in the country registered a remarkable growth even at the time of Covid-19 pandemic. According to a report shared by the Union Ministry of Agriculture, the agricultural exports rose by 43.4 percent during the pandemic. Indian agricultural and horticultural products, including processed foods, are exported to more than 100 countries in the world. However, despite its leading position, the agricultural exports still account for a very meagre amount in the global agricultural trade at 2 percent. It is, therefore, required that its share in the global agricultural exports is increased.

Improvement in Food Processing: Food processing industry in India that constitutes grains, sugar, edible oils, beverages and dairy products is on a rapid growth. Rapid urbanization in the country has assisted the food processing market which is expected to grow to $543 billion by 2020 from $322 billion in 2016, at a CAGR of 14.6%. The sector is very important as it links the Indian farmers to consumers in the both domestic and international markets. The Ministry of Food Processing Industries (MoFPI) is making all efforts to encourage investments across the value chain. The industry engages approximately 1.93 million people in around 39,748 registered units with fixed capital of $32.75 billion and aggregate output of around $158.69 billion.

Tackling Subsidies: Indian agriculture is dependent on subsidies to a great extent. The increasing volumes of subsidies have added huge burden on the government. The farmers in the country access input subsidies like seeds, power, irrigation, fertilizers and credit subsidies. Other subsidies like price, export and infrastructural subsidies also exist within the framework of Indian agricultural policy.

Agricultural Credit: Agricultural credit is a very important issue that needs serious attention in the country. Often the poor farmers get into the vicious circle of local lenders and landlords and end up losing all that they have including their land. Affordable credit services at the doorstep are the need of the hour to present exploitation of the small and marginal farmers.

Unemployment in Agriculture: Increased urbanization has resulted into increased unemployment in the Indian agriculture. Also large scale mechanization of farms has also resulted into loss of opportunities.

Check Your Progress

4. What was the growth of agriculture during the 2019-2020 crop year?
5. What led to the improvement in food processing industry in India?

3.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

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1. Agriculture plays an important role in internal trade. It is because of the fact that 90 per cent of our population spends 60 per cent of their income on the purchase of the items like food, tea, milk, etc.
2. Some of salient features of agricultural economy in India are as follows:
   - (i) Low productivity: Productivity (output per hectare of land) is extremely low in India compared to advanced nations in the world. Among the wheat producing countries, output per hectare of land in the UK is 8040 kg, 7449 kg in France, whereas in India, it is only about 2770 kg. Productivity of rice shows a similar picture. In case of maize, it is 1705 kg per hectare in India against 8813 kg in Japan and 5022 kg in China. Low level of productivity is also observed in case of commercial crops like cotton and sugarcane.
   - (ii) Disguised unemployment: Disguised unemployment is a situation of hidden unemployment. It is massive in case of Indian agriculture. Because of the joint family system, number of persons engaged on a piece of land is much more than what is actually needed. So, it appears that all are employed. But, in reality, some are unemployed; even when some are withdrawn, total output will not fall. Disguised unemployment is a situation of zero (or negative) marginal productivity of labour.
   - (iii) Dependence of rainfall: Agriculture in India is heavily dependent on rainfall, specifically monsoon. As rainfall in India is seasonal, unpredictable and unreliable, agriculture is dependent on a regular supply of water by irrigation. Irrigation enables to carry out cultivation all the year round, and it also allows better use of land.
   - (iv) Subsistence farming: Farming in India is subsistence-oriented. It means that the primary objective of the farmer is to secure subsistence for his family; it is not to earn profits. It implies that farming in India is semi-commercial in nature.
   - (v) Traditional inputs: Most of the farmers in India rely on traditional inputs, like cow dung as manure. Modern inputs like chemical fertilizers, insecticides and pesticides are not judiciously used.
3. Huge areas are cultivated by the tenants who are not owners of the soil. While the bulk of surplus (excess of output over inputs) is appropriated by the landlords, the tenants are often deprived of even a meaningful compensation. Accordingly, farming in India is seldom taken as a commercial venture.

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4. During the 2019-2020 crop year, agriculture sector grew steadily through a record 295.67 million tonnes (MT) production. The financial year 2020 registered a Gross Value Added (GVA) estimated at ₹ 19.48 lakh crore (US$ 276.37 billion) by agriculture, forestry and fishing.
5. Food processing industry in India that constitutes grains, sugar, edible oils, beverages and dairy products is on a rapid growth. Rapid urbanization in the country has assisted the food processing market which is expected to grow to $543 billion by 2020 from $322 billion in 2016, at a CAGR of 14.6%. The sector is very important as it links the Indian farmers to consumers in the both domestic and international markets. The Ministry of Food Processing Industries is making all efforts to encourage investments across the value chain. The industry engages approximately 1.93 million people in around 39,748 registered units with fixed capital of $32.75 billion and aggregate output of around $158.69 billion.

3.5 SUMMARY

- A number of the agricultural commodities like tea, coffee, spices and tobacco constitute our main items of export. This amounts to almost 15 per cent of our total exports. Hence, agriculture provides foreign exchange which helps us to buy machines from abroad
- State governments get a major part of their revenue in terms of land revenue, irrigation charges, agricultural income tax, etc. The Central Government also earns revenue from export duties on the agricultural production.
- Agriculture plays an important role in internal trade. It is because of the fact that 90 per cent of our population spends 60 per cent of their income on the purchase of the items like food, tea, milk, etc.
- Agriculture sector grew by an average 1.6 per cent per annum in first four years of the last Five Year Plan (2012-17) as against the targeted 4 per cent annual growth due to lower production.
- Generally, economies are classified on the basis of per capita income and the living standards of the people in any country. In most of the developing countries like India, where agriculture is the main occupation, it is known as agricultural economy.
- Productivity (output per hectare of land) is extremely low in India compared to advanced nations in the world. Among the wheat producing countries, output per hectare of land in the UK is 8040 kg, 7449 kg in France, whereas in India, it is only about 2770 kg.
- Disguised unemployment is a situation of hidden unemployment. It is massive in case of Indian agriculture. Because of the joint family system, number of

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persons engaged on a piece of land is much more than what is actually needed.

- Farming in India is subsistence-oriented. It means that the primary objective of the farmer is to secure subsistence for his family; it is not to earn profits. It implies that farming in India is semi-commercial in nature.
- Small holdings (or small size of a farmer's land under cultivation) are a characteristic feature of the Indian agriculture. It compounds the problems of subsistence outlook of the farmers.
- Agrarian relations (landlord-tenant relationship) are also not conducive to the growth of agriculture as a commercial venture.
- Agriculture plays a very important role in the Indian economy. It is one of the significant sectors that contribute robustly in the economy and has grown consistently in the last few decades.
- Despite growth in the sector, the Indian agriculture still needs an overhaul. With climate change affecting the weather adversely and a large population that is growing very rapidly the sector needs systematic interventions to be able to feed country's future generation.
- The government under the ambit of National Horticulture Board has spearheaded several schemes for the increased production of horticulture products. Today, India is the second largest producer of fruits and vegetables in the world with first rank in the production of banana, mango, lime & lemon, papaya and okra.
- From a country that imported food grains to feed its population at the time of Independence, we have rose to a situation of leading exporters of agricultural products in the world.
- Food processing industry in India that constitutes grains, sugar, edible oils, beverages and dairy products is on a rapid growth. Rapid urbanization in the country has assisted the food processing market which is expected to grow to $543 billion by 2020 from $322 billion in 2016, at a CAGR of 14.6%.
- Indian agriculture is dependent on subsidies to a great extent. The increasing volumes of subsidies have added huge burden on the government.
- Agricultural credit is a very important issue that needs serious attention in the country. Often the poor farmers get into the vicious circle of local lenders and landlords and end up losing all that they have including their land.
- Increased urbanization has resulted into increased unemployment in the Indian agriculture. Also large scale mechanization of farms has also resulted into loss of opportunities.

3.6 KEY WORDS

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- **Agrarian**: An agrarian society, or agricultural society, is any community whose economy is based on producing and maintaining crops and farmland.
- **Floriculture:** This is a discipline of horticulture concerned with the cultivation of flowering and ornamental plants for gardens and for floristry, comprising the floral industry.
- **Horticulture**: This is the science, art, and practice of cultivating plants, flowers, fruits, vegetables, spices, and medicinal and aromatic crops.
- **Food processing**: This is the transformation of agricultural products into food, or of one form of food into other forms.
- **Subsidies:** A subsidy or government incentive is a form of financial aid or support extended to an economic sector generally with the aim of promoting economic and social policy.
- **Agricultural Credit**: This is the amount of investment funds made available for agricultural production from resources outside the farm sector.

3.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. How do State governments get a major part of their revenue?
2. How did agriculture grow in the last Five Year Plan?
3. How pervasive is disguised unemployment in agriculture in India?
4. Why does India need to raise food grain production?
5. As an exporter where does India stand in the global agriculture trade?

Long-Answer Questions

1. Discuss the contribution of agriculture in the Indian economy.
2. Analyze critically the low agriculture productivity in India as compared to advanced countries.
3. Explain why, despite growth in the sector, Indian agriculture still needs an overhaul.

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3.8 FURTHER READINGS

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UNIT 4 PROBLEMS

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Structure

4.0 INTRODUCTION

With two-thirds of India's people still depending on agriculture for their livelihood, and one-third of rural landscape is still below the poverty line, rural development remains the core of the overall development of the country. A proper understanding of problems and challenges in rural areas is crucial for bringing in any transformative changes and enhancing the livelihoods opportunities of rural individuals. The major problems that have been identified in rural area are: high poverty, illiteracy, unemployment and unskilled workforce, excessive dependence on nature, low productivity, lack of basic infrastructure, etc. In addition, there are problems related to marketing and pricing of agricultural products in rural areas.

This unit aims at analysing problems related to rural development while additionally focusing on difficulties people face in marketing and pricing their agricultural products.

4.1 OBJECTIVES

After going through this unit, you will be able to:

- Explain the major problems in rural development
- Understand problems related to rural marketing
- Analyze problem of pricing agricultural products

4.2 PROBLEMS RELATED TO RURAL DEVELOPMENT

The concept of problems and challenges for rural development in India stems mostly from the characteristics of the rural sector itself. These include:

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(i) Excessive dependence on nature
(ii) Prevalence of small and uneconomic land and livestock holdings
(iii) Low capital – labour ratio
(iv) Low factor productivity
(v) Low gestation and low rate of turnover
(vi) High poverty
(vii) Predominantly illiterate and unskilled workforce
(viii) Lack of basic infrastructure

Let us briefly explain these factors.

(i) Excessive dependence on nature: The mainstay of rural economy is agriculture and allied activities. The dependence therefore exists heavily on nature including weather and climatic conditions. Natural calamities like draught, flood, etc., affect activities in the rural area and not much can be done to mitigate the risks associated with them.

(ii) Prevalence of small and uneconomic land and livestock holdings: The rural sector is also characterised by small and uneconomic land and livestock holdings. The fragmented holdings of small and marginal farmers in the country are highly unproductive and not financially viable. The high number of small and marginal farmers in the country is a challenge for the policy makers.

(iii) Low capital-labour ratio: The capital-labour ratio in the country is very low, thereby affecting the productivity negatively. A large amount of public and private investment therefore is the key requirement to facilitate development of any kind which at times is highly challenging.

(iv) Low factor productivity: Low factor productivity is yet another challenging issue that affects the rural development programs. Inadequate capital for production inputs, raw materials, machines and equipment, etc., adversely affects and does not complement the rural development process at many instances.

(v) Long gestation & low rate of turnover: Most of the activities in the rural sector are characterized by long gestation period and low rate of turnover. The slow output often restricts the return on investment and poses a challenge.

(vi) High poverty: Rural poverty has posed serious challenges in realising the dream of better life for rural India. The data from NSSO survey reveals that poverty in the rural areas still remain the biggest challenge for any government.

(vii) Predominantly illiterate and unskilled workforce: Rural sector is also plagued by illiterate and unskilled workforce. The higher level of illiteracy and lack of skills are a serious impediment to rural development.

(viii) Lack of basic infrastructure: One of the most serious challenges faced by the rural sector is that absence of basic infrastructure. Over the years several attempts have been made to create basic infrastructure in the rural areas. Schemes like MNREGS, NRHM, SSA, etc., have made it possible to a great extent. However, lack of basic infrastructure in rural villages cannot be unaccounted for and is a challenge for the rural development landscape.

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Check Your Progress

1. Why do people in rural India excessively depend on nature?
2. Which is the biggest challenge that a government faces in rural areas?

4.3 PROBLEMS RELATED TO RURAL MARKETING

The problems related to rural marketing are as follows:

1. Underdeveloped People and Underdeveloped Market

With the advent of agricultural technology, efforts have been made to develop the people and markets in rural areas. However, the impact of technology has not been uniform throughout the country. For instance in states like Punjab, Haryana and Western Uttar Pradesh, a rural consumer can be compared with the urban consumer. However, there are many areas and people who still remain untouched by technological breakthroughs.

The rural population is mostly known to be very traditional and bound by age-old customs and practices and thus not considered financially stable.

In the present day, there are at least 75 districts in India which are drought-prone and the only source of irrigation depends on monsoons. Till date, no major technology has been developed to provide a solution to these drought-prone areas and enhance the living standards of people residing in these areas. People involved with agriculture on a small scale are also not able to take advantage of technological developments. Also, the people below the poverty line are still an alarming number. As rural markets are defined by underdeveloped people, the markets tend to be underdeveloped as well.

2. Lack of Proper Physical Transport Facilities

Nearly half of the villages in India do not have all-weather roads. Just getting to these villages physically is highly taxing. Even today, many villages in eastern parts of the country are inaccessible during the monsoons. Therefore, the distribution efforts put in by a manufacturer turn out to be expensive and at times ineffective. In order to be effective, it is imperative to physically move the products to different places of consumption or points of purchase. Anyway, there seems to be a ray of hope. The Pradhan Mantri Gram Sadak Yojana (PMGSY) promises to connect all the villages with 500 persons and above in plains and 250 persons and above in hill areas by all-weather roads. This should considerably ease the distribution logistics for marketers.

3. Media for Rural Communication

During the late fifties and early sixties, amongst mass media, the radio was the potential communication medium for people in rural areas. A large number of rural families in prosperous areas owned radios and there were also community radio sets. Radio programmes are being extensively used to diffuse agricultural technology to rural areas.

The advent and expansion of television network, appears to be offering another potential medium for easy communication with rural masses. The question arises that how many rural people have access to television viewing? The viewership pattern has gone up drastically in the last many years. There is still a need to examine the ownership pattern of television sets in rural areas to judge the potential reach of this medium. Some surveys indicate that secondary viewing of television is widely prevalent in rural areas. In other words, lots of rural people view television in others' homes.

Another form of mass media is cinema. Statistics reveal that the cinema viewership in rural areas is satisfactory. Again, research indicates that rural areas are accountable for 3,000-3,500 mobile theatres, a total that is less than the number of villages. Under such circumstances, a company is forced to use its own promotion vans. Companies like Hindustan Unilever Limited, who use such vans, have found it to be very expensive in as much as the per viewer cost is about 10 to 12 times higher in rural areas as compared to per viewer cost in urban areas. In addition, due to the bad roads in rural areas, the wear and tear on such promotion vans and their costly equipment is also high. Here again, a few companies like Video-on-Wheels, Sampark Marketing and Advertising Solutions and Video Express specialize in rural van promotion and this can be taken advantage of by marketers.

With all these disadvantages, it has to be recognized that, to motivate rural people, communication is a must. Today it appears that one can take advantage also of television network and cable television specializing in regional languages. Though one is tempted to totally rule out the print media because of low literacy and poor reach of newspapers and journals like weeklies and monthlies in rural areas, there are always exceptions like the states of Kerala and Tamil Nadu, where high literacy is an enabling factor.

4. Many Languages and Dialects

Despite assumptions of media being available for communication, the company commissions its own media vans or hires them from professional operators, the next road-block is intelligibility of programmes across a broad spectrum of the rural population. The number of languages and dialects vary widely from state to state, region to region and probably from district to district. Messages have got to be delivered in the local languages and dialects. Irrespective of state boundaries, languages and dialects vary from region to region. It is imperative that the message be delivered in local language or dialects. Although there are only 16 recognized languages, however the number of dialects is more than 850. Multi-dialect dubbing in AV presentations is a viable solution, but again, cost is a factor.

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5. Vastness and Uneven Size

There are more than five lakh villages in India. One important aspect of Indian villages is that they are not uniform in size. Almost 67 per cent of Indian villages have a population under 500 people. This accounts for 26 per cent of India's rural population. About half of the rural population lives in villages with a population size ranging from 1,000 to 5,000 persons, such villages being considered as 'medium-sized'. Only 18 per cent of the population lives in villages with populations of 5,000 persons and above. Hence, one can only think of tackling about 2 lakh medium and large villages, which can be considered as having adequate potential. This kind of population distribution limits proper distribution and promotion strategies that are critical in deciding the coverage of rural market.

6. Low Per Capita Incomes

Data suggest that in India, 30 per cent of the GDP is generated in rural areas and is shared by 72 per cent of population. Due to this reason, the per capita income in rural areas is lower than the per capita incomes in urban areas. Also, the distribution of income is not consistent because of the land-holding pattern that is the basic asset and is not consistent itself. Due to these reasons, the rural population is representative of a highly heterogeneous character. Given low per capita incomes and the population spread in the villages, what will be the off-take of any product by rural consumers, say from a village shop? What inventory levels should be maintained by a rural shopkeeper and how long will it take for him to liquidate his stocks? If a company opts to distribute the products up to village shop level, what should be the frequency of distribution? It is imperative to consider these aspects carefully while formulating distribution strategies for rural markets.

7. Logistics, Storage, Handling and Transport

Due to the widespread nature and varying size of villages, organizing a distribution set-up poses a number of questions. Are there good storage facilities available in rural areas? Transport facility is generally in poor condition in rural areas. However, it has been observed that even a leading company will use bullock carts or camel backs as means of transportation when it comes to supplying its consumable products in inaccessible places in rural areas. There have been instances where there is no shop available in the village from where the products can be supplied to the rural consumers. Several questions that come to mind are: how do you motivate a rural person to open a shop in the village? Will he have the requisite capital for the same? What will be the off-take from the shop in a day or in a week? How many times will he be able to turn over the capital invested?

Besides the willingness to enter the rural market, the marketer also needs to identify potential shopkeepers, providing credit, assurance of timely supplies along with motivation is considered to be majorly effective in rural marketing. Since rural consumers have identified a hierarchy of markets, the extent to which the distribution system should percolate, needs attention. This will obviously have an adverse impact on the distribution costs. Again, whether a company can afford such costs needs to be examined and therefore a cost-benefit analysis is required.

8. Market Organization and Staff

In order to retain effective control, the size of the market organization and staff strength is of great significance. In comparison to urban areas, catering to rural markets requires a larger marketing organization and staff. However, not many manufacturers and marketers can afford to make such investments in terms of personnel and maintaining effective control over them.

9. Product Positioning

Product positioning is considered to be a cumbersome task in a highly heterogeneous market. Therefore, the product range should be large. However, distribution problems arise with the presence of a larger product range. A typical example is that of cigarette companies, which have numerous brands to suit the different income segments of both the rural and urban population. For a product like tractors, the positioning becomes fairly easy since it is meant for progressive farmers with good irrigation facilities and having at least 20-25 acres of land. But again a consumable input like fertilizers is required by all farmers irrespective of the area of operation in varying quantities. All these obviously lead to the question of size of packing. Here again, the example of a consumable product like tea is interesting. Even very large tea companies like the erstwhile Hindustan Unilever Ltd have tea packets priced from one rupee onwards so that all segments of population are taken care of. This type of product positioning limits the market to a segment of farmers. This product positioning is feasible in terms of durables however positioning of consumables pose a problem. This may hamper the launching of new products or the makeover of existing products in order to suit rural expectations and buying power.

10. Hierarchy of Markets

As seen earlier, rural consumers have identified market places for different items of their requirements. So there cannot be a uniform distribution policy for all products. It has been seen that 90 per cent of the farmers visit the nearest town, where an agricultural-produce-assembling market is situated, at least, once a quarter, for either selling their produce or for purchasing their requirements. So towns/*mandi* centres with large hinterland villages become the focal point. Thus, depending upon the purchase habits of rural people, the distribution network for different commodities needs to be different.

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11. Low Levels of Literacy

In comparison to urban areas, the literacy rate in rural areas is relatively low. A low literacy rate can pose as a challenge for promotional purposes. Print medium proves to be irrelevant and ineffective in rural areas as its reach is limited. In rural areas, electronic media such as radio, television and cinema will have more effect as they are easily available. While the access to cinema and radio appears to be fairly easy and common in villages it is not so in the case of television. In addition, television advertising is very expensive. As regards mobile advertising, the problems in operating company owned media vans have already been discussed so also its advantages. As mentioned earlier, it may be prudent to use professional promotion van operators, who specialize in mobile rural advertising. Companies like HMT, Karnataka Soaps and Detergents Ltd. and others have already adopted the concept of hired rural promotion vans. Most of the fertilizer companies operate their own mobile promotion vans. Recently, Colgate-Palmolive also has commissioned vans in collaboration with their distributors. Many are resorting to the promotion of their product along with distribution by vans.

12. Seasonal Demand

The distribution of any product in the rural areas—agricultural inputs, consumables or durables—should necessarily follow a seasonal pattern. Since 75 per cent of rural income is generated through agricultural operation which is seasonal, the demand pattern is also seasonal. A typical example is that of fertilizers. The demand for fertilizer is always high during the start of the *kharif* and *rabi* seasons. The fertilizer manufacturers have evolved a distribution pattern so that seasonal demands can be met. Likewise, the demand for consumables and durables will be during the peak crop harvesting and marketing seasons. This is the time when rural people have substantial cash inflows. Hence, the distribution should be fairly intensive during peak crop harvesting and marketing seasons. This arrangement would result in adequate sales realizations. During summer, in places that lack irrigation facilities, demand will be very minimal. Thus the distribution system has to be geared to meet the seasonal pattern of demand. In addition, festival seasons like *Sankranthi* or *Pongal* in the South as opposed to *Baisakhi* or *Deepavali* in the North are also demand seasons. These festivals also coincide with the harvest seasons like *Sankranthi* during the *kharif* harvest and *Baisakhi* during *rabi* harvest. So the distribution for the rural areas should be more and frequent during the harvest and festival seasons as opposed to a fairly uniform demand pattern in urban areas. Rural markets are highly heterogeneous markets characterized by seasonal demand.

Another feature of rural markets is highlighted in terms of its inadequate and poor transport and communication facilities, which is evident from the physical

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movement of products and target audience communication. The problem of transport and communication can be divided under the following categories:

(i) Consumer motivation
(ii) Purchasing habits
(iii) Location
(iv) Degree of demand
(v) Availability of dealers
(vi) Attitude of dealers
(vii) Motivation of dealers
(viii) Mass communication media
(ix) Logistics
(x) Storage
(xi) Transport
(xii) Handling
(xiii) Marketing organization and staff

While formulating a strategy for rural marketing to recover investments easily, the above-mentioned issues should be taken into consideration.

The Need of Infrastructural Support

The vastness of the area is combined by the fact that rural markets are scattered. The issues in development of infrastructure needed to grow the markets, the issues on roads, communication in terms of towers for the mobile phones, infrastructure on electricity and distribution are causes for concern for the marketers.

The reach of the government machinery in terms of development is still missing. The support of the banking facilities and the marketing companies need to develop.

Check Your Progress

3. Why is the market in rural India still underdeveloped?
4. How does the uneven size of villages hamper the rural market in India?
5. Why there cannot be a uniform distribution policy for all agricultural products in India?

4.4 PRICING OF AGRICULTURAL PRODUCTS

With a view to achieve the agricultural price policy objectives, the government of India announced price policies every year through the Commission for Agricultural Costs and Prices (CACP). This commission was set up in 1965 as agricultural prices commission got renewed as CACP in 1985 in India. Price stabilization policy of the government included the following:

- Determination of minimum support prices, issue prices and procurement prices
- Buffer stock operations

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A brief description of these components of price is as follows:

- **Minimum support price (MSP), issue price and procurement price:** Commission for Agricultural Costs and Prices (CACP) in every season declares minimum support price, issue price and procurement price for various agricultural products. Minimum support price is the guaranteed minimum price a farmer will get by selling his product. If market price falls below this price, the government buys the surplus from the farmers at the declared minimum price. Issue price is the price at which government sells agricultural products and other consumer goods to the consumer through fair price shops. Procurement price is the price at which government purchases agricultural products from the farmers to maintain its stocks for Public Distribution System (PDS). Procurement prices are generally more than the minimum support price declared by the government because unless the procurement price is higher than the MSP, farmers would not sell their products to the government. They would then prefer to sell in open market where prices are generally higher than MSP.

  In 2007–2008, government announced MSP for wheat to be ₹ 850 per quintal, ₹ 754 per quintal for paddy of common varieties and ₹ 775 per quintal for grade–A varieties. In 2006–2007, MSP for wheat was ₹ 750 per quintal and for paddy's common varieties it was ₹ 610 per quintal. Over the years, government's MSP for wheat and paddy has been increasing. The MSP for wheat was further increased to ₹ 1,000 per quintal for Rabi Marketing Season (RMS) 2008–2009. MSP of ₹ 850 per quintal for common varieties of paddy and ₹ 880 per quintal for Grade 'A' varieties was announced for Kharif Marketing Season (KMS) 2008–2009 and made applicable from 24th June 2008.

- **Buffer stocks:** Buffer stock operations refer to purchase of agricultural goods through farmers, domestic markets or imports to build up or to maintain stocks. The basic aim is to moderate price fluctuations in the economy when production shows wide variations. The government adds to stocks during periods of surplus production and releases stocks, in the market during periods of deficient production. While buying to build stocks, the government adds to market demand and combats its deficiency. While releasing stocks, the government adds to market supply and combats its deficiency. Thus, buffer stock operation tends to maintain the balance between demand and supply in the market for agricultural products.

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Building up buffer-stocks of agricultural products is an important component of government price policy. Food Corporation of India (FCI) is the agency that conducts buffer stock operations and state trading. FCI purchases foodgrains from the farmers and markets, and sells them (at the subsidized price) through fair price shops to the specified sections of the society. During the year 2001 and 2003, foodgrains stocked in the central pool were estimated to be 64.7 million tonnes. It reduced in the year 2003-2004, because of low production in 2002–2003 combined with relatively high offtake of foodgrains, especially for drought relief operations. The stock of foodgrains, which was 15.7 million tonnes on April 1, 2006 against the buffer norms of 16.2 million tonnes increased to 17.88 million tonnes on April 1, 2007. The stock position as on April 1, 2008 was comfortable at 19.64 million tonnes against buffer stock norms of 16.2 million tonnes. The stock position of foodgrains as on April 1, 2009 was 35.03 million tonnes comprising of 21.60 million tonnes of rice, of 13.43 million tonnes of wheat against buffer norm of 12.2 million tonnes and 4 million tonnes, respectively.

- **Organization of food zones:** To introduce an element of stability in agricultural prices, food zones were organized in March 1964. The country was divided into eight wheat zones. Rice zones were formed south India. On the failure of this experiment, each state was made a separate zone. Movement of foodgrains within a zone was free but restrictions were imposed on movements from one zone to the other. The government took upon itself the task of procuring foodgrains from the surplus states and distributing them to the deficit states through the public distribution system.
- **Ration and sale through fair price shops:** The PDS in our country operates through a network of ration shops and fair price shops. Fair price shops are intended to meet the minimum needs of the vulnerable sections of the society. However, these shops are, at present, meeting the requirements of all and sundry. For their extra need of foodgrains, if any, the consumers can turn to the free market. The total number of fair prices shops has increased from 2.39 lakh in March 1979 to about 4.75 lakh. Despite this apparently massive coverage the PDS is in fact unable to meet the total requirements of foodgrains of all vulnerable sections of the society.
- **Other steps:** In addition to the measures discussed above, the government initiated a number of other steps to ensure favourable returns to the farmers and reasonable prices to the consumers. These included building up of buffer stocks, state trading, nationalization of wholesale trade in wheat and rice, procurement from wholesalers, import of foodgrains, etc.

Evaluation of agricultural price policy

The basic objective of the agricultural price policy is to assure the farmers a reasonable return and install an element of certainty and confidence in them. The agricultural price policy in India has succeeded in achieving this objective to a certain extent.

- **Distortions in cropping pattern:** A point in the 'Report on Currency and Finance', 2001–2002, hints that the agricultural price policy of the government has led to distortions in the cropping pattern, this is due to the reason that while the MSP of rice and wheat (particularly of wheat) has generally been higher but the cost of production of coarse cereals and pulses has been less than the cost of production. This has made the cultivation of rice and wheat more attractive than pulses and coarse cereals leading to a diversion of area towards them.
- **Faulty criterion being used for calculating MSP:** CACP uses cost of production as the main criterion to decide the level of MSPs. As correctly pointed out by Ramesh Chand, Director of IABM, this is justified when there is a situation of scarcity and augmenting supply is the primary objective. However, when there are signs of emerging surplus, than demand side factors should get primacy in determining the MSP. However, this principle is not being followed in the case of rice and wheat, even though their stocks are accumulating and causing a severe burden on fiscal resources.
- **Adverse impact on investment:** Hike in procurement prices leads to an additional expenditure by the government. Given the overall resource constraints the additional expenditure comes at the cost of a decline in fixed investments. While this additional expenditure on stocks favours only rice and wheat; it is the procurement price of these two crops that has been raised considerably year after year. The decline in fixed investments adversely affects the demand for many non-agricultural GDP, which is not adequately compensated by an increase in agricultural GDP.
- **Bias in favour of surplus states:** The MSPs benefitted farmers in only a few states. Nearly all states in India grow rice, and approximately 20 states grow wheat. However, FCI procures approximately 95 per cent of wheat from three states–Punjab, Haryana and Western U.P. and approximately 95 to 90 per cent of rice is procured from five states–Punjab, Andhra Pradesh, Haryana, U.P. and Tamil Nadu.
- **Contribution to inflationary trend:** CACP has been recommending a hike in procurement prices year after year. In fact, an increase in procurement and minimum support prices (MSP) has become more or less a ritual performed twice a year. In recent years, the large farmers' lobby has become very powerful in political decision-making processes and has been able to force increases in procurement prices much higher than those recommended by CACP.
- **Bias in favour of large farmers:** Increases in MPS and procurement prices over the years have acted as an incentive to producers to increase

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their output. However, most of the benefits have been cornered by the large farmers who were able to implement the new agricultural strategy and obtain credit and other inputs easily. It has been estimated that whether for wheat or rice. In each state the average income transformer to large farmers is approximately ten or more times greater than those received marginal farmers.

- **Flaws in PDS:** The main draw backs of this system are as follows:
  - o It is restricted mainly to wheat and rice only while inferior grains, which are the main food of poor people, have been generally ignored.
  - o For a considerable period of planning, the PDS remained limited mostly to urban areas.
  - o PDS supplies are inadequate in regions with a higher proportion of population below the poverty line.
  - o PDS has so far been expensive because no efforts were made for targeting.
- **Impact on rural poor:** As a consequence of increases in foodgrain prices (flowing from increases in procurement prices) hardships of landless labourers and small farmers, who constitute a major portion of rural population have increased considerably. Benefits of high prices hardly accrue to these sections because they do not supply much marketed surplus and depend mostly on the market for meeting their consumption requirement.
- **Price incentives and fiscal square:** According to J. Mohan Rao and Servaas Storm, when agricultural prices rise as a consequence of price incentive, public investment relevant to potential output in agriculture actually declines because of a consequent fiscal squeeze.

  In conclusion, it needs to be pointed out that announcing procurement prices has become one of the primary tools of intervention in agriculture while other crucial issues like fall in capital formation in agriculture, developing irrigation facilities, need for changing land holding patterns etc. have been ignored.

Objectives of Agricultural Price Policy

Following are the principal objectives of the agricultural stabilization policy:

- To stabilize prices of agricultural products so that farmers do not suffer the impact of low prices and households do not suffer the impact of high prices.
- To stabilize the prices of agricultural commodities so that the external trade of the country does not suffer through unfavourable terms of trade.
- To stabilize income of the farmers so that they are not trapped in the 'paradox of plenty'.

- To stimulate the level of investment and output in agricultural sector. Here, it may be noted that any rational policy of stabilization would not seek to liquidate fluctuations of agricultural prices but only to regulate and moderate them.

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Instruments of Agricultural Stabilization Policy

The principal instruments of stabilization programme may broadly be classified into the following categories:

- **Price support:** Price is a programme under which the government guarantees a certain minimum prices to farmers. It may take any of the following forms:
  - **i. Parity prices:** It refers to fair prices received by farmers for what they sell relative to the prices they pay for non-farm products. The government passes legislation to fix parity prices.
  - **ii. Storage and loan programme**: Under this programme, the government advances loans to farmers at the harvest time. The loan amount is the multiple of support price quantity in storage.
  - **iii. Government's purchases and sales at a minimum price:** Under this method, the government fixes a certain minimum price for an agricultural product. The government buys whatever amount the farmer wishes to sell at the minimum price. Purchases of the government are kept as a buffer stock. The government releases the stocks to meet deficiency of market supplies and to combat any spurt in market price.
- **Supply management:** Supply management refers to any government programme whose goal is to limit farm output. The government generally employs various methods to reduce supplies of price supported products. The common methods are as follows:
  - i. By restricting the area on which a particular crop is to be planted
  - ii. By fixing marketing quotas and specifying the amounts that an individual farmer can market at support prices
- **Target price:** Target price is a price that is guaranteed to farmers by the government. When the market price falls below the target price, the government pays the farmers the difference. The difference paid by the government is also called subsidy. This method gives consumers a better deal.

Check Your Progress

6. How is procurement price related to minimum support price (MSP)?
7. How do buffer stocks of foodgrains operate?
8. Which are the common methods of supply management?

4.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

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1. The mainstay of rural economy is agriculture and allied activities. The dependence therefore exists heavily on nature including weather and climatic conditions. Natural calamities like draught, flood, etc., affect activities in the rural area and not much can be done to mitigate the risks associated with them.
2. Rural poverty has posed serious challenges in realising the dream of better life for rural India. The data from NSSO survey reveals that poverty in the rural areas still remain the biggest challenge for any government.
3. With the advent of agricultural technology, efforts have been made to develop the people and markets in rural areas. However, the impact of technology has not been uniform throughout the country. For instance in states like Punjab, Haryana and Western Uttar Pradesh, a rural consumer can be compared with the urban consumer. However, there are many areas and people who still remain untouched by technological breakthroughs. The rural population is mostly known to be very traditional and bound by age-old customs and practices and thus not considered financially stable.
4. Almost 67 per cent of Indian villages have a population under 500 people. This accounts for 26 per cent of India's rural population. About half of the rural population lives in villages with a population size ranging from 1,000 to 5,000 persons, such villages being considered as 'medium-sized'. Only 18 per cent of the population lives in villages with populations of 5,000 persons and above. Hence, one can only think of tackling about 2 lakh medium and large villages, which can be considered as having adequate potential. This kind of population distribution limits proper distribution and promotion strategies that are critical in deciding the coverage of rural market.
5. Rural consumers have identified market places for different items of their requirements. So there cannot be a uniform distribution policy for all products. It has been seen that 90 per cent of the farmers visit the nearest town, where an agricultural-produce-assembling market is situated, at least, once a quarter, for either selling their produce or for purchasing their requirements. So towns/mandi centres with large hinterland villages become the focal point. Thus, depending upon the purchase habits of rural people, the distribution network for different commodities needs to be different.
6. Procurement price is the price at which government purchases agricultural products from the farmers to maintain its stocks for Public Distribution System (PDS). Procurement prices are generally more than the minimum support price declared by the government because unless the procurement price is higher than the MSP, farmers would not sell their products to the government.

They would then prefer to sell in open market where prices are generally higher than MSP.

7. Buffer stock operations refer to purchase of agricultural goods through farmers, domestic markets or imports to build up or to maintain stocks. The basic aim is to moderate price fluctuations in the economy when production shows wide variations. The government adds to stocks during periods of surplus production and releases stocks, in the market during periods of deficient production.
8. Supply management refers to any government programme whose goal is to limit farm output. The government generally employs various methods to reduce supplies of price supported products. The common methods are as follows:
   (i) By restricting the area on which a particular crop is to be planted
   (ii) By fixing marketing quotas and specifying the amounts that an individual farmer can market at support prices.

4.6 SUMMARY

- The mainstay of rural economy is agriculture and allied activities. The dependence therefore exists heavily on nature including weather and climatic conditions.
- The rural sector is also characterised by small and uneconomic land and livestock holdings. The fragmented holdings of small and marginal farmers in the country are highly unproductive and not financially viable.
- The capital-labour ratio in the country is very low, thereby affecting the productivity negatively. A large amount of public and private investment therefore is the key requirement to facilitate development of any kind which at times is highly challenging.
- Rural poverty has posed serious challenges in realising the dream of better life for rural India. The data from NSSO survey reveals that poverty in the rural areas still remain the biggest challenge for any government.
- One of the most serious challenges faced by the rural sector is that absence of basic infrastructure. Over the years several attempts have been made to create basic infrastructure in the rural areas
- With the advent of agricultural technology, efforts have been made to develop the people and markets in rural areas. However, the impact of technology has not been uniform throughout the country.
- Nearly half of the villages in India do not have all-weather roads. Just getting to these villages physically is highly taxing. Even today, many villages in eastern parts of the country are inaccessible during the monsoons.

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- There are more than five lakh villages in India. One important aspect of Indian villages is that they are not uniform in size. Almost 67 per cent of Indian villages have a population under 500 people. This accounts for 26 per cent of India's rural population.
- Data suggest that in India, 30 per cent of the GDP is generated in rural areas and is shared by 72 per cent of population. Due to this reason, the per capita income in rural areas is lower than the per capita incomes in urban areas.
- Besides the willingness to enter the rural market, the marketer also needs to identify potential shopkeepers, providing credit, assurance of timely supplies along with motivation is considered to be majorly effective in rural marketing.
- In order to retain effective control, the size of the market organization and staff strength is of great significance. In comparison to urban areas, catering to rural markets requires a larger marketing organization and staff.
- Product positioning is considered to be a cumbersome task in a highly heterogeneous market. Therefore, the product range should be large. However, distribution problems arise with the presence of a larger product range. A typical example is that of cigarette companies, which have numerous brands to suit the different income segments of both the rural and urban population.
- Rural consumers have identified market places for different items of their requirements. So there cannot be a uniform distribution policy for all products.
- In comparison to urban areas, the literacy rate in rural areas is relatively low. A low literacy rate can pose as a challenge for promotional purposes.
- The distribution of any product in the rural areas—agricultural inputs, consumables or durables—should necessarily follow a seasonal pattern. Since 75 per cent of rural income is generated through agricultural operation which is seasonal, the demand pattern is also seasonal.
- Another feature of rural markets is highlighted in terms of its inadequate and poor transport and communication facilities, which is evident from the physical movement of products and target audience communication.
- With a view to achieve the agricultural price policy objectives, the government of India announced price policies every year through the Commission for Agricultural Costs and Prices (CACP).
- Commission for Agricultural Costs and Prices (CACP) in every season declares minimum support price, issue price and procurement price for various agricultural products.
- Buffer stock operations refer to purchase of agricultural goods through farmers, domestic markets or imports to build up or to maintain stocks. The

basic aim is to moderate price fluctuations in the economy when production shows wide variations.

- Building up buffer-stocks of agricultural products is an important component of government price policy. Food Corporation of India (FCI) is the agency that conducts buffer stock operations and state trading.
- The PDS in our country operates through a network of ration shops and fair price shops. Fair price shops are intended to meet the minimum needs of the vulnerable sections of the society.
- The basic objective of the agricultural price policy is to assure the farmers a reasonable return and install an element of certainty and confidence in them. The agricultural price policy in India has succeeded in achieving this objective to a certain extent.
- Hike in procurement prices leads to an additional expenditure by the government. Given the overall resource constraints the additional expenditure comes at the cost of a decline in fixed investments
- FCI procures approximately 95 per cent of wheat from three states–Punjab, Haryana and Western U.P. and approximately 95 to 90 per cent of rice is procured from five states–Punjab, Andhra Pradesh, Haryana, U.P. and Tamil Nadu.
- Increases in MPS and procurement prices over the years have acted as an incentive to producers to increase their output. However, most of the benefits have been cornered by the large farmers who were able to implement the new agricultural strategy and obtain credit and other inputs easily.
- It needs to be pointed out that announcing procurement prices has become one of the primary tools of intervention in agriculture while other crucial issues like fall in capital formation in agriculture, developing irrigation facilities, need for changing land holding patterns etc. have been ignored.
- Parity prices refers to fair prices received by farmers for what they sell relative to the prices they pay for non-farm products. The government passes legislation to fix parity prices.
- Supply management refers to any government programme whose goal is to limit farm output. The government generally employs various methods to reduce supplies of price supported products.
- Target price is a price that is guaranteed to farmers by the government. When the market price falls below the target price, the government pays the farmers the difference.

4.7 KEY WORDS

- **The Pradhan Mantri Gram Sadak Yojana(PMGSY):** This is a nationwide plan in India to provide good all-weather road connectivity to unconnected villages.

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- **Kharif crops**: These are grown in the monsoon season.
- **Rabi crops**: These are grown in the winter season.
- **MSP**: Minimum support price (MSP) is the guaranteed minimum price a farmer will get by selling his product. If market price falls below this price, the government buys the surplus from the farmers at the declared minimum price.
- **Buffer stocks**: It refers to purchase of agricultural goods through farmers, domestic markets or imports to build up or to maintain stocks.
- **Food Corporation of India (FCI)**: This is the agency that conducts buffer stock operations and state trading.
- **Parity prices**: It refers to fair prices received by farmers for what they sell relative to the prices they pay for non-farm products.
- **Supply management**: This refers to any government programme whose goal is to limit farm output.
- **Target price**: This is a price that is guaranteed to farmers by the government.

4.8 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. Why is these low capital-labour ratio in rural India.
2. Which are the flagship schemes that have helped to create basic infrastructure in rural areas?
3. Write in brief about the problems related to rural marketing.
4. What is the relevance of product positioning in India's rural market?
5. Why is demand pattern in rural area also seasonal?
6. What are the main objectives of the Commission for Agricultural Costs and Prices (CACP)?

Long-Answer Questions

1. Discuss the major problems that rural India is facing today.
2. "The rural population is representative of a highly heterogeneous character." Justify this statement.
3. What are the main problems that impact transport and communication system in rural India?
4. Critically analyze the purpose of buffer stocks of foodgrains.
5. Discuss the basic objectives of the agricultural price policy in India.

4.9 FURTHER READINGS

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BLOCK - II
RURAL CREDIT INSTITUTIONS

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UNIT 5 INTRODUCTION TO RURAL BANKING

Structure

5.0 INTRODUCTION

Due to the rapid expansion in the banking sector especially after the Green Revolution, there is no denying the fact that rural sector in India witnessed a positive and transformative impact on farming and non-farming output, employment, and income. Over the years, a slew of credit institutions launched by the Government opened a new vista of opportunities to rural people engaged in agriculture activities. Consequently, they could start availing different credit services and various loans to meet their requirements. Setting up of Co-operative Credit Societies to facilitate the complete credit needs brought in the most economical and important source of rural credit for small and medium farmers. Under the aegis of credit societies, the farmers in a significant way are being given the short-term loans by Primary Agricultural Credit Societies (PACs). Commercial banks, Land Development Bank and Regional Rural Banks play a crucial role in ensuring that both short- and long-term loan option is provided to the farming communities, thus bolstering the overall growth and development in rural India.

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This unit aims at analysing the role and scope of rural credit institutions and enumerates how Cooperative Banks, Commercial Banks, Regional Rural Banks, Local Area Banks, Payment and Small Finance Banks function and support rural India.

5.1 OBJECTIVES

After going through this unit, you will be able to:

- Explain the role of rural credit institutions
- Understand the structure and functions of cooperative banks
- Analyze the contribution of commercial banks as credit institutions in rural India
- Discuss the functions regional, local and small finance banks in rural India

5.2 COOPERATIVE BANKS

Cooperative banks, another component of the Indian banking system, originated with the enactment of the Cooperative Credit Societies Act of 1904, which provided for the formation of cooperative credit societies. Under the Act of 1904, a number of cooperative credit societies were started. Owing to the increasing demand for cooperative credit, a new Act was passed in 1912, which provided for the establishment of cooperative central banks by a union of primary credit societies and individuals. The chief functions of these banks were:

(i) To attract deposits from non-agriculturists;

(ii) To use excess funds of some societies temporarily to make up for shortage to another; and

(iii) To supervise and guide the affiliated societies.

In 1914, the Maclagan Committee was appointed to examine the cooperative movement and to make recommendations regarding the improvement of the movement. It recommended the establishment of a State Cooperative Apex Bank. On the basis of the recommendation, a Central Cooperative Bank was established in Bombay. Other provinces also took action on similar lines. Although these may be considered as the early beginnings in the direction of establishing cooperative banks to meet the financial needs of agriculturists, the movement received momentum only after the Second World War.

It may be made clear at the very outset that under the Banking Regulation Act, 1949, only Urban Cooperative Banks, State Cooperative Banks (StCBs) and District Central Cooperative Banks (CCBs) are qualified to be called as banks in the cooperative sector. It may be noted that the discussion that follows in the

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chapter also covers issues relating to other credit cooperatives, namely, Primary Agricultural Credit Societies (PACs), State Cooperative Agriculture and Rural Development Banks (SCARDBs) and Primary Cooperative Agriculture and Rural Development Banks (PCARDBs)2; in short, the organization, structure and contemporary developments in the cooperative credit structure as a whole.

It may be repeated here that the cooperative banking sector, with its more than a century old existence, plays an important role in enlarging the reach of institutional credit both from geographic and socio-economic perspective. Though it supplements the efforts of commercial banks in credit delivery and deposit mobilization, its extensive branch networks with reach even in remote areas, makes it an important instrument for achieving greater financial inclusion. However, the financial health of the cooperative banks has been a cause for concern and has so far proved to be a serious handicap in reaching out to the larger population. Thus, the focus of recent policy measures is on revitalizing and strengthening the cooperative banking sector in India. The ongoing task of revitalizing the rural cooperative sector is progressing on the lines of the recommendations of the Task Force to review the problems of rural cooperative sector and for the UCBs, based on Vision Document, 2005, the details of which are given subsequently.

5.2.1 Structure of Cooperative Banking Sector

The structure of the cooperative banking sector in India is complex. Credit needs of diverse sections of the population, both in terms of location and tenor, are addressed by different segments of the cooperative banking sector. While the urban areas are served by the urban cooperative banks with a single tier structure, the rural areas are largely served by two distinct sets of institutions extending short-term credit and long-term credit. The short-term cooperative credit institutions have three tiers comprising state cooperative banks (StCBs) at the apex level, district central cooperative banks (DCCBs) at the intermediate level and primary agricultural credit societies (PACs) at the base level. The long-term cooperative credit institutions have, generally, a two-tier structure comprising state cooperative agriculture and rural development banks (SCARDBs) at the state level and the primary cooperative agriculture and rural development banks (PCARDBs) at the district or block level. Long-term cooperative credit institutions have a unitary structure in some states with state level banks operating through their own branches, while in other states they have a mixed structure with the existence of both unitary and two-tier system. The states which do not have long-term cooperative credit entities are served by state cooperative banks.

Fig 5.1 shows, in summarized form, the organizational structure of cooperative credit system in the country:

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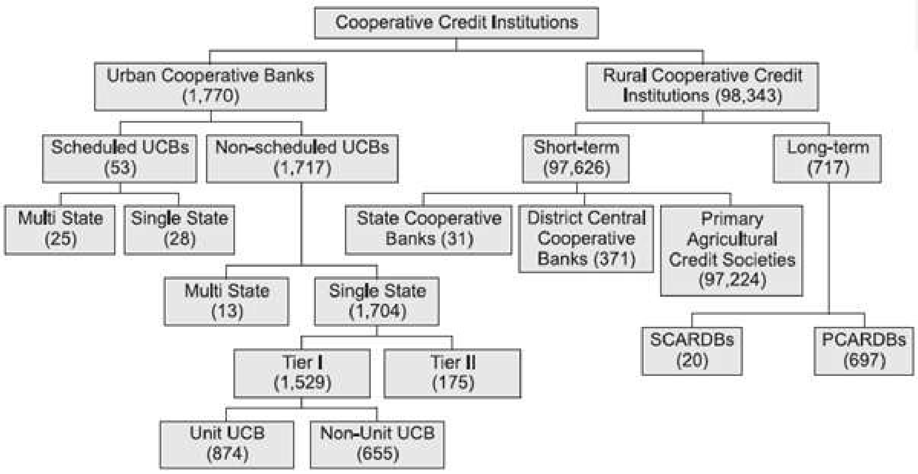

SCARDBs: State Cooperative Agriculture and Rural Development Banks.
PCARDBs: Primary Cooperative Agriculture and Rural Development Banks.
Note: Figures in parentheses indicate the number of Institutions at March-end 2008 for UCBs and at March-end 2007 for rural cooperative credit institutions.

Fig. 5.1 *Structure of Cooperative Credit Institutions in India*

5.2.2 Rural Cooperative Banks

Rural cooperative credit institutions include state cooperative banks (StCBs), district central cooperative banks (DCCBs), primary agricultural credit societies (PACs), state cooperative agriculture and rural development banks (SCARDBs) and primary cooperative agriculture and rural development banks (PCARDBs). Recognising the wide outreach of rural cooperative credit institutions, particularly among the rural and vulnerable segments of the society, and their role in purveying rural credit and deposit mobilization, efforts are being made to restore operational viability and financial health of those institutions. The financial performance of rural cooperative credit institutions is characterized by several weaknesses such as high NPAs, poor recovery and accumulated losses. As on 31 March 2007, four out of 31 StCBs, 97 out of 371 DCCBs, 48,078 out of 97,224 PACs, eight out of 20 reporting SCARDBs and 342 out of reporting 697 reporting PCARDBs incurred losses, which together amounted to ₹ 1,524 crore (excluding PACSs).

Rural Cooperative Banks—Long-term Structure

As at March-end 2007, the long-term cooperative credit structure consisted of 20 SCARDBs and 697 PCARDBs. In those states which do not have the long-term structure, separate sections of StCBs look after the long-term credit requirements as well.

Primary Agricultural Credit Societies (PACSs)

PACSs deal directly with individual farmers, provide short and medium-term credit, supply agricultural inputs, distribute consumer articles and also arrange for the

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marketing of products of its members through a cooperative marketing society. PACSs lie at the lowest level of the short-term structure of rural cooperative credit institutions. A large number of them, however, face severe financial problems primarily due to erosion of own funds, deposits and low recovery rates. Various policy initiatives have been taken to improve the financial health of PACSs in recent years. NABARD has been providing support for developing the infrastructure in PACSs out of Cooperative Development Fund (CDF). The number of PACSs stood at 97.227 at March-end 2007. The total membership stood at 126 million and the number of borrowing members stood at 48 million at March-end 2007. For the country as a whole, as at March-end 2007, one PAC on an average covered seven villages.

The process of implementation of the recommendations of the Task Force on revival of short-term cooperative credit structure (Chairman being Prof. A Vaidyanathan) started with the announcement of a package by the Government of India. Twenty five states have signed MoUs with the Government of India and NABARD. At March-end 2008, 59,294 PACSs completed the required special audit. Until August-end 2008, eight states have amended their respective Cooperative Societies Acts. Common Accounting System (CAs) and Management Information System (MIS) were introduced along with several human resources development (HRD) initiatives. Recapitalization of eligible PACSs has been initiated.

5.2.3 Central Cooperative Banks (CCBS)

Central Cooperative Banks (CCBs) form the middle tier of cooperative credit institutions. CCBs are independent units inasmuch as the State Cooperative Banks have no authority to control or supervise their affairs. They are of two kinds, viz., ‘pure’ and ‘mixed’. Those banks the membership of which is confined to cooperative organizations only are included in the ‘pure’ type, while those banks the membership of which is open to cooperative organizations as well as to individuals are included in the ‘mixed’ type. The pure type of central banks can be seen in Kerala, Bombay, Orissa, etc., while the mixed type can be seen in Andhra Pradesh, Assam, Tamil Nadu, etc. The pure type of banks is based on strict cooperative principles. However, the mixed type has an advantage over the pure type in so far as they can draw their funds from the non-agricultural sector too. But by allowing individuals to hold shares, loan facilities are necessarily extended to them. If some of them happen to be middlemen, who may utilize the proceeds of the loans to carry on their trading operations, then it would be a hard blow on the very basic principle of cooperation, which strive for the elimination of the middlemen.

The CCBs draw their funds from share capital, deposits, loans from the State Cooperative Banks and where state banks do not exist from the RBI, NABARD and commercial banks. Deposits constitute the major component of sources of funds, followed by borrowings. The main function of CCBs is to finance the primary credit societies. In addition, they carry on commercial banking activities like acceptance of deposits, granting of loans and advances on the security of first class gilt-edged securities, fixed deposit receipts, gold, bullion, goods and documents of title to goods, collection of bills, cheques, etc., safe custody of valuables and agency services. They also act as 'balancing centres', making available excess funds of one primary to another which is in need of them.

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5.2.4 State Cooperative Banks

State Cooperative Banks (StCBs) are at the apex of the three-tier cooperative structure dispensing mainly short/medium-term credit. StCB is the principal society in a state which is registered or deemed to be registered under the Government Societies Act, 1912, or any other law for the time being in force in India relating to cooperative societies and the primary object of which is the financing of the other societies in the state which are registered or deemed to be registered. In addition to such a principal society in a state or where there is no such principal society in a state, the state government may declare any one or more cooperative societies carrying on business in that state to be a State Cooperative Bank (or, banks).

As in the case of CCBs, State Cooperative Banks may be 'pure' in which case it will be a federation of CCBs only, or 'mixed' in which case it will be a federation of both CCBs and individual members. The StCBs receive current and fixed deposits from its constituent banks as well as savings, current and fixed deposits from the general public and from local boards, other local authorities, etc. Further, they receive loans from commercial banks and seasonal loans from the RBI and NABARD. The state governments contribute a certain portion of their working capital.

The principal function of StCBs is to assist the CCBs and to balance excesses and deficiencies in the resources of CCBs. This function of the apex bank to act as a 'balancing centre' is important since direct lending is not allowed among the CCBs. The connection between the StCBs and the primary cooperative societies is not direct. The CCBs are acting as intermediaries between the StCBs and primary societies. Of course, in the absence of a CCB, the StCB may act as a CCB and in that case its connection with primary societies will be direct.

State Cooperative Agriculture and Rural Development Banks (SCARDBs)

State Cooperative Agriculture and Rural Development Banks constitute the upper-tier of long-term cooperative credit structure. Though long-term credit cooperatives have been allowed to access public deposits under certain conditions, such deposits constitute a relatively small proportion of their total liabilities. SCARDBS are mostly dependent on borrowings for on-lending. As on 31 March 2002, as against deposits of ₹ 536 crore, outstanding borrowings of SCARDBS were ₹ 14,888 crore. On the same date, their loans outstanding were ₹ 14,000 crore.

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Primary Cooperative Agriculture and Rural Development Banks (PCARDBs)

Primary Cooperative Agriculture and Rural Development Banks are the lowest layer of long-term credit cooperatives. As in the case of SCARDBS, PCARDBS are primarily dependent on borrowings for their lending business. As on 31 March 2002, deposits and borrowings of PCARDBS were at ₹ 251 crore and ₹ 9,077 crore, respectively, while loans extended by them were of the order of ₹ 8,960 crore.

5.2.5 Revitalization of Rural Cooperative Banks

Cooperative credit institutions play a significant role in the disbursement of credit for agriculture and rural sector and account for 45 per cent of the total credit for the rural sector. These institutions, however, lack professionalism, sound management system and autonomy in decision-making. Low volume of business/ low resource base, low borrowing membership, high incidence of overdues, and dual control have adversely affected the health of cooperative credit institutions. In addition, poor recovery performance has affected the ability of these institutions to cater to the credit needs of new and non-defaulting members and resulted in low paid-up share capital. The vital link in the short-term cooperative credit system, viz., the PACS at the grassroots level is weak. Their size is small and uneconomical and many of them are dormant. Cooperatives need to augment their resource base, especially the capital base and pay greater attention to specialization and diversification of loan business, non-fund business, efficient financial intermediation, risk management and reduction in NPAs. In recognition of the importance of cooperative banks in the development process of the rural economy and the need for its revitalization so as to make them efficient and cost effective instruments for delivery of rural credit, a task force (Chairman being Shri Jagdish Capoor) was constituted in April 1999 to study the cooperative credit system and suggest measures for its strengthening. The terms of reference of the task force were:

(i) To review the functioning of the cooperative credit structure and suggest measures to rationalise and improve and to make cooperatives as member-driven and professional business enterprises;

(ii) To study aspects relating to costs, spreads and effectiveness at various tiers of cooperative credit structure;

(iii) To study the financial performance of the cooperative banks with a view to improving their financial health so that they can become efficient and cost effective in the delivery of rural credit and

(iv) To review the existing supervisory and regulatory mechanism for cooperative credit institutions and suggest measures for strengthening the arrangements.

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Major Recommendations of the Task Force

The task force submitted its report to the Central Government on 24 July 2000. The major recommendations of the task force are given below. The implementation of these recommendations will go a long way towards re-energising the cooperative sector. These are as follows:

(a) Resource Base

In view of the limited resources of cooperative banks, the task force has emphasised the need for strengthening the resource base, especially the capital.

(b) Regulation and Control

The report recognized the need for reducing government control over cooperatives, giving them maximum autonomy and making them 'member driven'. The report encouraged state governments to adopt Model Cooperative Societies Act or dovetail the essential features of the Model Act in their respective State Cooperative Societies Acts so as to reflect the spirit of democratization and self-reliance enshrined in the Model Act. Specific action plans need to be prepared to remove the overlapping of controls and endow functional autonomy and operational freedom to cooperatives. The duality of control between the state governments on the one hand and the Reserve bank/NABARD on the other, has adversely affected the working of cooperative banks. In view of this, the bank-related functions should be exclusively brought under the purview of the BR Act, 1949 and regulated by the Reserve Bank.

(c) Professionalism in Cooperative Banks

The cooperative banks should work like professional organizations on sound managerial systems. The banks' boards should be professional and accountable ones. Cooperative banks will have to evolve sound personnel policies encompassing proper manpower planning and assessment. Banks should have objective and transparent policies for recruitment of staff.

(d) Business Diversification

The task force emphasized diversification of business products as the prime need at all levels in the cooperative credit institutions. The diversified avenues may include, *inter alia*, housing loans, consumer loans, consortium financing, financing of services sector, distribution of insurance products, etc. Banks should upgrade their skills and technology to provide efficient and affordable services. The task force recommended that the cooperative banks may be permitted to lend up to 10 per cent of their deposits outstanding as at the end of the previous year for commercial and technology intensive projects outside the cooperative fold.

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(e) Costs, Margin and Funds Management

In the view of the task force, to ensure viability, cooperative banks will have to necessarily charge such rates of interest on their loans and advances as will cover the cost of raising funds, transaction and risk costs, and ensure a positive net rate of return. Interest rates offered by cooperative banks on deposits need to be market driven. No unremunerative business should be thrust upon the PACS and they should be allowed the discretion to accept or otherwise any non-credit business such as participation in Public Distribution System. Further, institution-specific investment policies need to be evolved taking into account, *inter alia*, composition of funds, maturity pattern of assets and liabilities, availability of money market instruments, exposure limits and efficient monitoring and control mechanism.

(f) De-layering in Cooperative Banks

The task force is of the view that continuance of the existing three-tier structure in the short-term cooperative credit structure in bigger states is generally necessary. However, measures should be taken to strengthen cooperatives, if necessary, by voluntary amalgamation/merger based on economies of scale, particularly in areas where CCBs are unviable and are not in a position to ensure uninterrupted credit flow to agriculture. Further, the integration of ST and LT structures into a 'single window' organization may be an advantageous proposition. In case a merger is not possible, both types of institutions may be allowed to handle long-term as well as short-term credit.

(g) Revitalization Package

The task force expressed an urgent need to initiate measures for the rehabilitation of potentially viable cooperative banks. Strengthening of base level institutions would be the key for strengthening the entire structure. The revitalization package for cooperative banks consists of a four-dimensional programme encompassing financial, operational, organizational and systemic aspects. The state of the Central Governments need to take the lead in formulating the rehabilitation package, which should be unit-specific and not across the board and should be taken-up after studying its viability and possibility of turnaround in five to seven years. Given the need to progressively reduce the control of the state governments over the cooperatives, the financial assistance from the state governments should be by way of loans and not in the form of equity. The financial burden of rehabilitation will be shared by members contributing 20 per cent of the costs by mobilising additional share capital. The balance amount will be equally provided by the Central and respective state governments by way of interest bearing bonds to be redeemed in a phased manner. In case of long-term structure, the members' contribution will be 10 per cent and balance amount will be shared equally by the Central and concerned state governments.

(h) Cooperative Rehabilitation and Development Fund

A Cooperative Rehabilitation and Development Fund may be set up at NABARD by an initial contribution of ₹ 500 crore from the Central Government for implementation of the rehabilitation package in states which fulfil the necessary pre-conditions for such plans, and also for certain other purposes.

(i) Mutual Assistance Fund

Furthermore, Mutual Assistance Fund may be set up at the state level by contributions from cooperative institutions in the state for rendering assistance and providing soft loans to weak primary units to enable them to overcome temporary difficulties.

(j) Capital Adequacy

The cooperative banks need to move in the direction of strengthening their capital base and conform to the applicable norms over a period of time.

(k) Recovery Management

The task force suggests that the provisions of the existing DRT may be made applicable to cooperative banks also where loan size is more than ₹ 1 lakh so as to expedite recovery of chronic overdues. There is a need to evolve compromise/settlement procedure for closing of long pending overdue loans. The government should support the cooperative banks in their recovery efforts and desist from providing across the board interest subsidy and making loan waiver announcements.

(l) Internal Checks, Control and Audit

Lack of appropriate internal control systems like inspections, internal and concurrent audit and periodic branch visits by the higher tier officials in cooperative banks is a matter of increasing supervisory concern. This has led to poor MIS in these banks. These banks should strengthen their internal checks and controls and MIS so that supervision over these banks could be more effective. Audit of cooperative institutions should be conducted on a regular basis and the criteria for the audit classification should be uniform in all the states and be transparent. NABARD may formulate suitable guidelines for this purpose. The task force is of the view that audit at all levels may be entrusted to the firms of Chartered Accountants.

(m) Branch Licensing of CCBs

Branch licensing of CCBs needs to be brought under the provisions of the Banking Regulations Act, 1949.

(n) Transparency and Disclosure Norms

The apex cooperative banks and CCBs may be advised to disclose certain critical information in their balance sheets like movements in NPAs, provisions, return on assets, business per employee, profit per employee, etc.

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Check Your Progress

1. List the chief functions of cooperative banks.
2. Why is the structure of the cooperative banking sector in India complex?
3. Which credit institutions come under the aegis of rural cooperative banks?
4. How do Primary Agricultural Credit Societies (PACSs) function?
5. What is the structure of State Cooperative Banks (StCBs)?

5.3 COMMERCIAL BANKS

The funds offered by our banks in financing agriculture is not sufficient. In a country where about 45 per cent of its GNP is provided by farming, the funds pumped in for this activity by the commercial banks are barely 13 to 14 per cent of their total resources. It is true that the commercial banks finance to a certain extent the movement of crops. But the benefit out of this is largely derived by big traders.

In the USA, credit to farms is given in a big way by commercial banks. In India, on the other hand, by and large, direct assistance to agriculture is not considered by the commercial banks as their business. A variety of reasons may be pointed out which discourage the banks from devoting their attention to agricultural finance. Among the reasons pointed out by the Central Banking Enquiry Committee, the uneconomic nature of land holdings, the poor resources of the agriculturists and lack of securities acceptable to the banks are the important ones. Further, lack of adequate warehousing facilities and lack of standardization and grading of agricultural produce are problems confronting the banks in actively participating in agricultural finance. Certain other difficulties may briefly be stated as follows:

1. In many rural parts, especially in the former zamindari areas, land records are still in no shape. In tribal areas, non-transferability of land, absence of cadastral survey and variations in tribal rights from one tribe to another create many difficulties.
2. Agriculturists are often discouraged by the heavy financial burden which they have to bear as a result of high stamp duties. Although the farmer needs and certainly deserves timely credit facilities, the procedural delays associated with the cumbersome and time consuming process involved in the creation of mortgage makes the farmer even lose a crop. It may be pointed out in this connection that the Talwar Committee had gone into the legal aspects of these issues and had suggested certain remedial legislative and administrative measures. But some of the state governments have not yet implemented these suggestions.

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3. There is lack of precise demarcation of the areas within which the different financial institutions catering to the rural sector are to operate. This leads to overlapping of operational areas, double financing, etc.
4. Although many of our commercial banks have already established separate agricultural departments to help the agriculturists, they have yet to chalk out appropriate policies with vision and enthusiasm.
5. The average amount of advance per agricultural borrower is not very high. This increases the cost of providing agricultural credit as compared to other sectors.
6. The loan application forms are often complicated which do not conform to the level of literacy of the agricultural borrower. The processing of loan application forms aggravates the problem. The processing delays in many cases can be attributed to the hesitance/indecision on the part of the branch manager.

The observations made by Shri L.K. Jha, the former Governor of the RBI, are pertinent in this connection. According to him:

> '…Let us not forget that if banks are unaccustomed to deal with agriculturists, agriculturists are even less familiar with the ways of the banks. The agriculturists as a class have to be made aware of the fact that the banking system is not merely willing but anxious to help them. They will have to be encouraged to apply for loans. If the applications reveal some defects, if what they want to do is not economically sound, it will not be enough to say no to them; they will have to be told and helped to improve their scheme in order to make it creditworthy in every sense of the term… .'

To encourage the commercial banks in taking a more effective and active role in the field of agricultural financing, the Rural Banking Enquiry Committee made certain recommendations such as the establishment of a network of warehouses throughout the country; the provision of facilities for standardization and grading of agricultural produce; the widening and cheapening of remittance facilities from one rural centre to another; the removal of impediments in the way of extension of modern banking facilities to the rural areas, etc. Proposals have also been made regarding the grant of cash subsidies to cover wholly or partly deficits which the banks are likely to experience for some years in the initial period of spreading themselves into the rural areas and the placing of interest free deposits by the government during the initial period with a view to encouraging the opening of rural branches by commercial banks.

The RBI, to encourage the commercial banks to participate actively in rural finance, is extending credit facilities to scheduled banks in the form of rediscount of bills drawn for the purpose of financing seasonal agricultural operations or the marketing of crops. In this connection, the establishment of the National Bank of Agricultural and Rural Development (NABARD) in 1982 deserves special mention. NABARD has taken over the developmental and refinancing functions of the

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erstwhile Agricultural Refinance and Development Corporation on the one hand and the RBI on the other.

With the nationalization of major commercial banks and under the impact of the initiatives taken by the RBI, there has been a greater involvement of banks in the agricultural sector. As explained subsequently, the public sector banks were advised to formulate Special Agricultural Credit Plans since 1994–95, and fix self-set targets for achievement during the year (April–March). Since the introduction of these plans, there has been a substantial flow of credit to agriculture.

It is not encouraging to note that the recovery performance of the banks in respect of their agricultural advances is not very satisfactory. Improved recoveries of earlier advances are of paramount importance for effective recycling of credit in the rural sector. Of course, a number of steps have been taken to improve the recovery performance of banks. The guidelines issued to banks in this regard include taking effective measures like strengthening and gearing up organizational structure, both at controlling offices and field level, adopting schematic approach to lending, toning up pre-lending appraisal system and post-lending supervision techniques, involving, inter alia, constant contact with the beneficiaries to ensure that the defaults are brought down to minimum, launching of recovery drives with the help of the state government machinery at the block level, etc. Banks have also been advised to create separate 'Recovery Cells' for a cluster of nearby branches for continuous and effective supervision and recovery where overdues exceed 50 per cent of demand and agricultural advances are sizeable. Lead Banks have been advised to effectively utilize the forums of State Level Bankers' Committee, etc., for discussing problems of recovery and elicit proper support from state government machinery in dealing with wilful defaults.

During 1973-74, in pursuance of the recommendation of the National Commission on Agriculture, a scheme for financing farmers through Farmers' Service Societies came into operation. Such societies are organized and financed by commercial banks, central cooperative banks and regional rural banks for providing agricultural credit in rural areas. The societies which are multi-purpose in character are expected to function as the single contact point for providing credit, as also guidance for adoption of improved agricultural practices, etc. Other services cover supply of inputs and consumer goods, marketing of produce, customer service for the maintenance of agricultural equipment.

Further, commercial banks participate in projects sanctioned with the assistance of IBRD/IDA for financing programmes in various states. The involvement of commercial banks in the implementation of projects assisted by IBRD/IDA through the NABARD is steadily deepening.

With all this, the fact remains that it is difficult to promote a direct contact between agriculturists and commercial banks to any appreciable extent. The majority of rural population consist of small farmers spread over nearly six lakh villages with different topography and climatic conditions. To reach them all with 61,132 branches (as at March-end 2008) is certainly a difficult task. At the same time, we have to admit the fact that even the opening of these branches, though impressive at the first sight, has been partially a 'numbers game' than appreciating their true role. Most of the banks have not the right type of machinery to handle rural credit for the continuous monitoring of the funds deployed and to provide the correct technical advice to the borrowers so that the borrower and the lender benefit to the full.

The banks on their part try to defend themselves about their unsatisfactory performance by pointing out that too many agencies are handling rural credit. Banks provide credit to the cooperative banking organizations. How far can the banks keep a check over the funds deployed is a moot point especially since many of the cooperatives are cesspool of politics and the farm lobby is powerful enough to keep the banks at bay for any length of time. At the same time, the fact has to be admitted that the commercial banks have necessarily to depend on the base level credit outlets already existing in the cooperative structure in order to contribute effectively to the regeneration of rural economy.

Financing of Primary Agricultural Credit Societies (PACSs) by Commercial Banks

The RBI, in consultation with the Government of India, had formulated in 1969 a scheme of Financing Agricultural Credit Societies with a view to filling up the credit gaps existed in the areas of some of the District Central Cooperative Banks which were financially and administratively weak. The scheme provided a network of retail outlets to commercial banks in the form of viable/potentially viable PACSs for extending credit facilities to cultivators spread out in the remote villages. Under the scheme, a branch of a commercial bank would, in identified areas, take over about ten PACSs within a radius of 20 kms of the branch with a potential loan business of ₹ 20 lakh. The commercial banks would charge to the PACSs the rate of interest as decided by the RBI from time to time. In providing the credit facilities, the commercial banks would generally follow the production-oriented system of lending.

The main objectives of the scheme were that commercial banks should:

(a) Meet the production and investment credit needs of agriculturists;

(b) Finance small farmers by encouraging them to become members of PACSs;

(c) Revitalize the PACSs so that they become efficient business organizations at the village level and

(d) Help in the process of speedy rehabilitation of weak District Central Cooperative Banks by taking over their affiliated societies for financing.

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Action Taken on Gupta Committee Report

The one man committee under the Chairmanship of Shri R.V. Gupta, which examined the problems faced by the borrowers in agricultural sector, had made several recommendations for ameliorating the problems in the flow of agricultural credit. The recommendations relating to several procedural modifications on agricultural credit have been advised to banks for implementation. These recommendations cover greater flexibility and discretion to the lending banks in matters of collateral, margin, security, dispensing with no dues certificates; introduction of a composite cash credit limits to cover farmers' production, post-harvest and household requirements, etc. Besides, IBA has been requested to work out simplifying application forms for agricultural loans and banks have been advised to delegate sufficient powers to their branch managers. Similarly, the recommendations, which are to be considered by the government like abolition of stamp duty for agricultural loans, assistance from state governments for recovery of banks dues, matters relating to mortgage of land, banks finance to tenant farmers and also matters pertaining to subsidy-linked credit, have been forwarded to the government for necessary action. The action taken by banks was reviewed at a meeting of select bankers on 26 September 1998. Bankers reported that they have initiated action for implementing the recommendations of the committee.

Integrated Rural Development Programme (IRDP)

Commercial banks used to take an active role in providing finance under the erstwhile IRDP, which was a major poverty-alleviation programme, to provide assistance to families below the poverty line so as to enable them to improve their income level and cross above poverty line. The two-pronged strategy adopted under the IRDP was:

(i) Consolidation of the progress made earlier and provision of supplementary assistance to those who had not been able to cross the poverty line for no fault of theirs and

(ii) Selection of new beneficiaries to be assisted in such a way that they are able to cross the poverty line with a single dose of assistance.

Swarnajayanti Gram Swarozgar Yojana (SGSY)

The government had launched a restructured poverty alleviation programme, the Swarnajayanti Gram Swarozgar Yojana in April 1999, which subsumed the erstwhile IRDP and its allied programmes, viz., Training of Rural Youth for Self-Employment (TRYSEM), Development of Women and Children in Rural Areas (DWCRA), Supply of Improved Toolkits to Rural Artisans (SITRA), Ganga Kalyan Yojana (GKY) and Million Wells Scheme (MWS).

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SGSY is a holistic programme covering all aspects of self-employment such as organization of the poor into self-help groups (SHGs), training, credit, technology, infrastructure and marketing. Subsidy will be uniform at 30 per cent of the project cost subject to a maximum of ₹ 7,500. In respect of SCs/STs, it will be 50 per cent with a maximum of

₹ 10,000. The subsidy for group loans will be 50 per cent of the project cost subject to a maximum ceiling of ₹ 1.25 lakh. There will be no monetary limit on subsidy for irrigation projects. The sub-targets have been stipulated for borrowers under various categories, viz., SCs/STs (at least 50 per cent), women (40 per cent), and physically challenged (3 per cent).

Micro Credit by Banks

Provision of micro-credit by banks has emerged as an important instrument for alleviating poverty, particularly in rural areas, as this raises the productive capacity of the beneficiaries. Banks were accordingly advised in February 2000 to make micro-credit an integral part of their corporate credit plan. Micro-credit is reckoned as part of banks' priority sector lending since February 2000. Further, with a view to providing an additional avenue for bank's lending to agriculture and increasing the outreach of banks in rural areas, lending by banks to non-banking financial companies (NBFCs) for on-lending to agriculture is reckoned for the purpose of priority sector lending as indirect finance to agriculture since April 2000. In a significant move, micro-credit/rural credit has been included in the list of eligible NBFC activity for being considered for FDI/OCB/NRI investment. This would cover extension of credit facilities at the micro level to small producers and small enterprises in the rural and urban areas.

Recent Developments

The scope of priority sector lending was expanded during 2001-02 to include financing of activities relating to setting up of agri-clinics and agri-business centres and purchase for agricultural purposes by small and marginal farmers. Further, the limit for financing of distribution of inputs for allied activities such as cattle feed, poultry feed, etc., was increased from ₹ 5 lakh to ₹ 25 lakh. In order to help the farmers in marketing their products, credit limit for marketing of crops was increased to ₹ 5 lakh from ₹ 1 lakh and the repayment period for such credit was enhanced to 12 months from 6 months. To avoid double counting, it was decided that sponsor banks of regional rural banks, while computing their performance under priority sector lending, should exclude funds provided to the regional rural banks for on-lending to priority sector.

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Check Your Progress

6. Why are funds offered by banks in financing agriculture not sufficient?
7. What were the recommendations of the Rural Banking Enquiry Committee to encourage the commercial banks in taking a more active role in the field of agricultural financing?
8. What is the role of the RBI in rural financing?
9. What was the objective of Integrated Rural Development Programme (IRDP)?

5.4 REGIONAL RURAL BANKS

On the birth anniversary of Mahatma Gandhi, October 2, 1975, Regional Rural Banks were established with a view to increasing the availability of rural credit. Among the various institutional agencies engaged in rural credit, Regional Rural Banks (RRBs) play a significant role. These are specially designed financial institutions working under the guidance of NABARD. They are spread across rural areas with a wide network of branches catering to credit needs of the farmers and other segments of the rural economy.

Objectives

The main need and objective of the RRBs is to provide credit and related facilities to the small and marginal farmers, agricultural labourers and artisans, who had, not been adequately served by the existing credit institutions.

Organization

The RRBs are promoted by ‘Sponsor banks’, which are usually public sector banks. The steering committee on RRBs identifies the districts requiring these banks. Later, the Central Government sets up RRBs with the consultation of the state government and the sponsor bank. Each RRB operates within local limits as specified by the Government. The bank can establish its branches at any place within the notified area.

Capital

The authorized capital of an RRB is ₹ 5 crore, which may be increased or reduced by the Government but not below its paid up capital of ₹ 25 lakh. Of this, 50 per cent is subscribed by the Central Government, 15 per cent by the State Government and 35 per cent by the sponsor bank. At present, the subscription ratio to RRBs has been fixed at 60: 20: 20 for the Central Government, State Government and the sponsor bank, respectively.

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Management resources

Each RRB is managed by a Board of Directors. It includes a general superintendent and nine members as Board of Directors. The Central Government nominates three directors, the State Government has two directors and the sponsor bank nominates three directors. The chairman, usually an officer of the sponsor bank, is appointed by the Central Government. The Board of Directors is required to act on business principles and in accordance with the directives and guidelines issued by the Reserve Bank. At the state level, State Level Coordination Committees have also been formed to have uniformity of approach of different RRBs.

Resources

RRBs generate their resources by way of following:

- Share capital
- Deposits from the public
- Borrowing from sponsor banks
- Re-finance from NABARD

The Reserve Bank of India puts RRB at par with the co-operative banks, offering refinance at 2 per cent below the bank rate. Like commercial banks, the RRBs, have been made eligible for accommodation against a mere declaration of eligible loans and advances by them. Further, RRBs have also been granted the status of scheduled banks by the Reserve Bank of India. They are allowed to maintain cash reserves at the rate of 3 per cent of their demand and time liabilities till December, 2002. The RRBs are allowed to offer 1½ per cent additional rate of interest on their deposits over the rate offered by commercial banks. The deposits of the banks are also insured by Deposit Insurance and Credit Guarantee Corporation of India Ltd. This is to protect the interest of the depositors.

Functions

Functions of RRBs are broadly categorized as follows:

1. **Functions related to agricultural activities**: In the context of agricultural activities, RRBs performs the following functions:
   - RRBs grant loans and advances to small and marginal farmers and agricultural labourers. The loans and advance are granted to individual farmers or groups of farmers or to co-operative societies. It is done to ensure that the loans are invested in productive activities so that there is value addition and generation of employment. The agricultural marketing societies (receiving such loans) are expected to sell the farmers produce at the right time, right place and the right price. By offering loans to the small and marginal farmers, RRBs play a crucial role in eliminating the menace of moneylenders and land landlords who would desire to keep the borrowers in a state of perceptual dependence and vulnerability.

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- **Doorstep banking service:** RRBs provide banking services at the doorsteps of the rural people, particularly in those areas that are not served by the commercial banks. The RRBs mobilize rural saving and accept deposits. These are channelized into productive activities. This function of the RRBs motivates rural people to save, avoiding conspicuous consumption.

2. **Functions related to non-agricultural activities:** RRBs perform the following functions relating to non-agricultural activities:
   - **Loans to artisans:** RRBs provide loans to artisans to encourage the production of the artistic and related goods. We know, artisans in the rural areas have extremely meagre resources and barely manage to make a living by selling their handmade artistic goods. They do have an enterprising spirit, but it remains dormant owing to the lack of funds. By offering easy and cheap credit, the RRBs enable the artisans and skilled workers to make their both ends meet by selling their artistic goods in the market. If these fellows get a financial help, they will be able to buy raw material and other required material for the production of their goods and thus they can improve the quality of their goods. The sale of the improved quality of goods can provide them with good income and thus they can raise their standard of living.
   - **Loans to small entrepreneurs:** There are a large number of small entrepreneurs in the villages, sub-urban areas and small towns who are engaged in retail trade, commerce and other productive activities. These entrepreneurs have insufficient means to carry on their business activities. The RRBs offer loans to them at a very low rate of interest. It is to help them buy raw materials and spare parts for the maintenance of their fixed assets. The RRBs also grant loans to self-employed persons enabling them to enhance their income for a reasonable standard of living.
   - **Consumer loans:** RRBs offer consumer loans to weaker sections including small and marginal farmers, scheduled castes, scheduled tribes and other borrowers of small means. This is to ensure that weaker sections of the society do not suffer deprivation in essentials of life.
   - **Poverty alleviation programme:** RRBs are expected to play a pivotal role in bringing people below poverty line into the mainstream of national life. As a part of the national agenda on economic reforms, RRBs are expected to launch such programmes that strive to lift the poor out of the dark-hole of poverty. Generation of employment opportunities at the grass root level is to be the central theme of the poverty alleviation programmes.

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Over the time, banking functions of RRBs have tended to expand. They have also started giving loans and advances for the purchase of consumer durables and other purposes, on the security of gold ornaments. They have also been permitted to issue guarantees on behalf of their clients. These banks can also issue travellers cheques as agents of their sponsoring bank and also provide locker facilities. They can purchase drafts and cheques up to the value of ₹ 25,000 and ₹ 1, 00,000, respectively per customer and per branch.

5.4.1 Local Area Banks (LABs)

In continuation of the announcement made by the then Union Finance Minister regarding the establishment of private local area banks in the Budget speech for 1996–97, the Reserve Bank of India, in August 1996, announced the guidelines for the setting-up of these banks. According to the announcement, these banks will have a minimum paid-up capital of ₹ 5 crore and will have to operate in a maximum area of three contiguous districts. The head or registered office of these banks will be located at a centre within the area of operation of the banks. The voting rights of an individual shareholder will be according to Section 12 (2) of the Banking Regulation Act in terms of which there is a ceiling of 10 per cent of the total voting rights. The provisions of the Reserve Bank of India Act, the Banking Regulation Act and other relevant statutes will be applicable to these banks. They will be permitted to open branches only in the respective areas of operation. Branch licensing shall be governed by the existing policy.

These banks shall be registered as public limited companies under the Companies Act and they will be licensed under the Banking Regulation Act and will be eligible for inclusion in the Second Schedule of the Reserve Bank of India Act. In the application for a banking licence, the details of the initial contribution of promoters and the manner and method through which the minimum share capital of ₹ 5 crore will have to be raised should be specified. The promoters, which may comprise individuals, corporate entities, trusts and societies, must contribute at least ₹ 2 crore towards the paid-up capital. Proposals having diversified shareholdings will be preferred.

It has been made clear by the Reserve Bank that the focus of these banks will be rural oriented. According to the Bank: '…With a view to providing an institutional mechanism to promote rural savings and provide credit to viable economic activities in local areas, it has been decided to allow the establishment of new local banks in the private sector. Since these banks are being set up in district towns, their activities will be focused on local customers….' The Bank has emphasized that it expects these banks to lend to agriculture and allied activity, small-scale industries, agro-industrial units, trading units and non-farm sector with a view to providing timely and adequate credit to the local clientele of operation.

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The lending rates and deposit rates for these banks will be as governed by the provisions for regional rural banks. So will the liquidity requirements. These banks will have a priority sector target of 40 per cent of their net bank credit which is the same as those for other banks. Within this target, they must lend 10 per cent to the weaker sections. This will be monitored strictly on an ongoing basis. From the very beginning, these banks will be subject to the prudential norms of income recognition, asset classification and provisioning. So also they will have to maintain the prescribed Capital Adequacy Ratio.

There were four local area banks in the country at March-end 2008. During 2007-08, aggregate assets of LABs increased by 32.2 per cent and deposits and gross advances by 32.4 per cent and 35.5 per cent, respectively.

Check Your Progress

10. What role do Regional Rural Banks (RRBs) play in rural financing?
11. How do RRBs generate their resources?
12. How were Local Area Banks established?

5.5 PAYMENT AND SMALL FINANCE BANKS: THEIR FUNCTIONS

Payments banks is a new banking model in India. The establishment of payments banks is a result of recommendations made by a Committee on Comprehensive Financial Services for Small Businesses and Low Income Households, headed by Nachiket More and conceptualized by the Reserve Bank of India (RBI). According the operational guidelines for payments banks, these banks can accept a restricted deposit, which is currently limited to ₹ 100,000 per customer and may be increased further. Also, the payment banks are not allowed to issue loans and credit cards. The banks can operate both current account and savings accounts and can issue debit cards and provide online or mobile banking. In India, Bharti Airtel was the first company to set up country's first payments bank.

The basic objective of Payment banks was to increase financial inclusion in the country especially in the rural areas by providing access to small savings accounts and payments/remittance services to the unbanked migrant labour, low income group families, small businesses, other unorganised sector organizations and users.

The following are the various activities or functions the payment banks are allowed to undertake:

- Accepting deposits restricted to holding a minimum balance of ₹ 1, 00, 000 per individual customer.
- Issuing of ATM/Debit cards. The payment banks cannot issue credit cards.

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- Providing payment and remittance services to customers.
- Issuing of pre-paid payment instruments.
- Functioning as Business correspondent of other banks
- Cross selling and distribution of mutual fund units, insurance products, pension products, etc. with the prior approval of the RBI and after complying with the requirements of the sectoral regulator.
- Payment services for utility bill etc.

Yet another significant step in increasing the financial inclusion in the country is that of establishment of Small Banks. The Small banks are also type of niche banks in India that provide basic banking services of deposits and lending. Unlike the payment banks that cannot provide any kind of lending services, the small finance banks are able to do so. The main objective of establishing these banks is to enable financial inclusion to unbanked sections of the society that is not being served by other banks. These unbanked customers include small business units, small and marginal farmers, micro and small industries and unorganised sector entities.

Basic objectives of setting up of small finance banks are to promote financial inclusion through provision of savings vehicles, and supply of credit to small business units; small and marginal farmers; micro and small industries; and other unorganised sector entities, through high technology-low cost operations.

Small finance banks can undertake following activities or functions:

- Provide to its customers the basic services of accepting deposits.
- Provide to its customers the basic services of lending.
- Provide lending services to unserved and underserved sections including small business unit, micro and small industries and small and marginal farmers.

Check Your Progress

13. What led to the establishment of payments banks?
14. What activities can small finance banks take?

5.6 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The chief functions of cooperative banks are:
   (i) To attract deposits from non-agriculturists;

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(ii) To use excess funds of some societies temporarily to make up for shortage to another; and

(iii) To supervise and guide the affiliated societies.

2. The structure of the cooperative banking sector in India is complex. Credit needs of diverse sections of the population, both in terms of location and tenor, are addressed by different segments of the cooperative banking sector. While the urban areas are served by the urban cooperative banks with a single tier structure, the rural areas are largely served by two distinct sets of institutions extending short-term credit and long-term credit.

3. Rural cooperative credit institutions include state cooperative banks (StCBs), district central cooperative banks (DCCBs), primary agricultural credit societies (PACs), state cooperative agriculture and rural development banks (SCARDBs) and primary cooperative agriculture and rural development banks (PCARDBs).

4. PACSs deal directly with individual farmers, provide short and medium-term credit, supply agricultural inputs, distribute consumer articles and also arrange for the marketing of products of its members through a cooperative marketing society. PACSs lie at the lowest level of the short-term structure of rural cooperative credit institutions.

5. State Cooperative Banks (StCBs) are at the apex of the three-tier cooperative structure dispensing mainly short/medium-term credit. StCB is the principal society in a state which is registered or deemed to be registered under the Government Societies Act, 1912, or any other law for the time being in force in India relating to cooperative societies and the primary object of which is the financing of the other societies in the state which are registered or deemed to be registered.

6. The funds offered by banks in financing agriculture is not sufficient. In a country where about 45 per cent of its GNP is provided by farming, the funds pumped in for this activity by the commercial banks are barely 13 to 14 per cent of their total resources. It is true that the commercial banks finance to a certain extent the movement of crops. But the benefit out of this is largely derived by big traders. In the USA, credit to farms is given in a big way by commercial banks. In India, on the other hand, by and large, direct assistance to agriculture is not considered by the commercial banks as their business.

7. To encourage the commercial banks in taking a more effective and active role in the field of agricultural financing, the Rural Banking Enquiry Committee made certain recommendations such as the establishment of a network of warehouses throughout the country; the provision of facilities for standardization and grading of agricultural produce; the widening and cheapening of remittance facilities from one rural centre to another; the

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removal of impediments in the way of extension of modern banking facilities to the rural areas, etc.

8. The RBI, to encourage the commercial banks to participate actively in rural finance, is extending credit facilities to scheduled banks in the form of rediscount of bills drawn for the purpose of financing seasonal agricultural operations or the marketing of crops. In this connection, the establishment of the National Bank of Agricultural and Rural Development (NABARD) in 1982 deserves special mention.
9. Commercial banks used to take an active role in providing finance under the erstwhile IRDP, which was a major poverty-alleviation programme, to provide assistance to families below the poverty line so as to enable them to improve their income level and cross above poverty line.
10. Among the various institutional agencies engaged in rural credit, Regional Rural Banks (RRBs) play a significant role. These are specially designed financial institutions working under the guidance of NABARD. They are spread across rural areas with a wide network of branches catering to credit needs of the farmers and other segments of the rural economy.
11. RRBs generate their resources by way of following:
    (i) Share capital
    (ii) Deposits from the public
    (iii) Borrowing from sponsor banks
    (iv) Re-finance from NABARD
12. In continuation of the announcement made by the then Union Finance Minister regarding the establishment of private local area banks in the Budget speech for 1996–97, the Reserve Bank of India, in August 1996, announced the guidelines for the setting-up of Local Area Banks. According to the announcement, these banks will have a minimum paid-up capital of ₹ 5 crore and will have to operate in a maximum area of three contiguous districts. The head or registered office of these banks will be located at a centre within the area of operation of the banks.
13. The establishment of payments banks is a result of recommendations made by a Committee on Comprehensive Financial Services for Small Businesses and Low Income Households, headed by Nachiket More and conceptualized by the Reserve Bank of India (RBI). According the operational guidelines for payments banks, these banks can accept a restricted deposit, which is currently limited to ₹ 100,000 per customer and may be increased further.
14. Small finance banks can undertake following activities or functions:
    - Provide to its customers the basic services of accepting deposits.
    - Provide to its customers the basic services of lending.

- Provide lending services to unserved and underserved sections including small business unit, micro and small industries and small and marginal farmers.

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5.7 SUMMARY

- Cooperative banks, another component of the Indian banking system, originated with the enactment of the Cooperative Credit Societies Act of 1904, which provided for the formation of cooperative credit societies.
- In 1914, the Maclagan Committee was appointed to examine the cooperative movement and to make recommendations regarding the improvement of the movement. It recommended the establishment of a State Cooperative Apex Bank
- It may be repeated here that the cooperative banking sector, with its more than a century old existence, plays an important role in enlarging the reach of institutional credit both from geographic and socio-economic perspective
- The structure of the cooperative banking sector in India is complex. Credit needs of diverse sections of the population, both in terms of location and tenor, are addressed by different segments of the cooperative banking sector
- Rural cooperative credit institutions include state cooperative banks (StCBs), district central cooperative banks (DCCBs), primary agricultural credit societies (PACs), state cooperative agriculture and rural development banks (SCARDBs) and primary cooperative agriculture and rural development banks (PCARDBs).
- PACSs deal directly with individual farmers, provide short and medium-term credit, supply agricultural inputs, distribute consumer articles and also arrange for the marketing of products of its members through a cooperative marketing society.
- The process of implementation of the recommendations of the Task Force on revival of short-term cooperative credit structure (Chairman being Prof. A Vaidyanathan) started with the announcement of a package by the Government of India.
- Central Cooperative Banks (CCBs) form the middle tier of cooperative credit institutions. CCBs are independent units inasmuch as the State Cooperative Banks have no authority to control or supervise their affairs.
- The CCBs draw their funds from share capital, deposits, loans from the State Cooperative Banks and where state banks do not exist from the RBI, NABARD and commercial banks
- State Cooperative Banks (StCBs) are at the apex of the three-tier cooperative structure dispensing mainly short/medium-term credit.

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- As in the case of CCBs, State Cooperative Banks may be 'pure' in which case it will be a federation of CCBs only, or 'mixed' in which case it will be a federation of both CCBs and individual members.
- State Cooperative Agriculture and Rural Development Banks constitute the upper-tier of long-term cooperative credit structure. Though long-term credit cooperatives have been allowed to access public deposits under certain conditions, such deposits constitute a relatively small proportion of their total liabilities
- Cooperative credit institutions play a significant role in the disbursement of credit for agriculture and rural sector and account for 45 per cent of the total credit for the rural sector. These institutions, however, lack professionalism, sound management system and autonomy in decision-making
- Lack of appropriate internal control systems like inspections, internal and concurrent audit and periodic branch visits by the higher tier officials in cooperative banks is a matter of increasing supervisory concern.
- In the USA, credit to farms is given in a big way by commercial banks. In India, on the other hand, by and large, direct assistance to agriculture is not considered by the commercial banks as their business.
- Although the farmer needs and certainly deserves timely credit facilities, the procedural delays associated with the cumbersome and time consuming process involved in the creation of mortgage makes the farmer even lose a crop.
- The establishment of the National Bank of Agricultural and Rural Development (NABARD) in 1982 deserves special mention. NABARD has taken over the developmental and refinancing functions of the erstwhile Agricultural Refinance and Development Corporation on the one hand and the RBI on the other.
- With the nationalization of major commercial banks and under the impact of the initiatives taken by the RBI, there has been a greater involvement of banks in the agricultural sector.
- It is not encouraging to note that the recovery performance of the banks in respect of their agricultural advances is not very satisfactory. Improved recoveries of earlier advances are of paramount importance for effective recycling of credit in the rural sector.
- During 1973–74, in pursuance of the recommendation of the National Commission on Agriculture, a scheme for financing farmers through Farmers' Service Societies came into operation.
- The majority of rural population consist of small farmers spread over nearly six lakh villages with different topography and climatic conditions. To reach them all with 61,132 branches (as at March-end 2008) is certainly a difficult task.

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- The RBI, in consultation with the Government of India, had formulated in 1969 a scheme of Financing Agricultural Credit Societies with a view to filling up the credit gaps existed in the areas of some of the District Central Cooperative Banks which were financially and administratively weak.
- The one man committee under the Chairmanship of Shri R.V. Gupta, which examined the problems faced by the borrowers in agricultural sector, had made several recommendations for ameliorating the problems in the flow of agricultural credit.
- Commercial banks used to take an active role in providing finance under the erstwhile IRDP, which was a major poverty-alleviation programme, to provide assistance to families below the poverty line so as to enable them to improve their income level and cross above poverty line.
- SGSY is a holistic programme covering all aspects of self-employment such as organization of the poor into self-help groups (SHGs), training, credit, technology, infrastructure and marketing.
- Provision of micro-credit by banks has emerged as an important instrument for alleviating poverty, particularly in rural areas, as this raises the productive capacity of the beneficiaries.
- In a significant move, micro-credit/rural credit has been included in the list of eligible NBFC activity for being considered for FDI/OCB/NRI investment.
- The scope of priority sector lending was expanded during 2001-02 to include financing of activities relating to setting up of agri-clinics and agri-business centres and purchase for agricultural purposes by small and marginal farmers.
- On the birth anniversary of Mahatma Gandhi, October 2, 1975, Regional Rural Banks were established with a view to increasing the availability of rural credit.
- The authorized capital of an RRB is ₹ 5 crore, which may be increased or reduced by the Government but not below its paid up capital of ₹ 25 lakh.
- The Reserve Bank of India puts RRB at par with the co-operative banks, offering refinance at 2 per cent below the bank rate. Like commercial banks, the RRBs, have been made eligible for accommodation against a mere declaration of eligible loans and advances by them.
- RRBs provide banking services at the doorsteps of the rural people, particularly in those areas that are not served by the commercial banks. The RRBs mobilize rural saving and accept deposits.
- By offering easy and cheap credit, the RRBs enable the artisans and skilled workers to make their both ends meet by selling their artistic goods in the market.

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- There are a large number of small entrepreneurs in the villages, sub-urban areas and small towns who are engaged in retail trade, commerce and other productive activities. These entrepreneurs have insufficient means to carry on their business activities. The RRBs offer loans to them at a very low rate of interest.
- In continuation of the announcement made by the then Union Finance Minister regarding the establishment of private local area banks in the Budget speech for 1996–97, the Reserve Bank of India, in August 1996, announced the guidelines for the setting-up of Local Area Banks.
- The lending rates and deposit rates for Local Area Banks will be as governed by the provisions for regional rural banks. So will the liquidity requirements.
- Unlike the payment banks that cannot provide any kind of lending services, the small finance banks are able to do so. The main purpose of establishing these banks is to enable financial inclusion to unbanked sections of the society that is not being served by other banks.
- Basic objectives of setting up of small finance banks are to promote financial inclusion through provision of savings vehicles, and supply of credit to small business units; small and marginal farmers; micro and small industries; and other unorganised sector entities, through high technology-low cost operations.

5.8 KEY WORDS

- **NABARD**: National Bank for Agriculture and Rural Development is an apex regulatory agency for Regional Rural Banks and Cooperative Banks under the jurisdiction of Ministry of Finance, Government of India.
- **Primary Agricultural Credit Society (PACS**): This is a basic unit and smallest co-operative credit institutions in India. It works on the grassroots level.
- **Swarna Jayanti Gram Swarozgar Yojana (SGSY):** This is being implemented since April 1999 as a major anti-poverty scheme for the rural poor.
- **Micro credi**t: This is the extension of very small loans to impoverished borrowers who typically lack collateral, steady employment, or a verifiable credit history.
- **IRDP**: It stands for Integrated Rural Development Programme. It is a rural development program of Government of India launched on 2 October 1980 across the country.
- **Regional Rural Banks**: These are Indian Scheduled Commercial Banks operating at regional level in different States of India.

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- **Local Area Banks**: Unlike Cooperative Banks the Local Area Banks are set up under private sector like a Private Limited Company to cater to the credit and other financial needs of the local people in a competitive form.
- **Payments banks**: An Indian new model of banks conceptualised by the Reserve Bank of India.

5.9 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. Which credit institutions are qualified to be called as banks in the cooperative sector?
2. Enumerate the structure of long-term cooperative credit institutions.
3. What are the principal functions of State Cooperative Banks (StCBs)?
4. Which banks constitute the upper-tier of long-term cooperative credit?
5. Which are the lowest layer of long-term credit cooperatives in rural India?
6. What are the main reasons which discourage banks from devoting their attention to agricultural finance?
7. How do commercial banks finance Primary Agricultural Credit Societies (PACSs)?
8. When was Swarnajayanti Gram Swarozgar Yojana (SGSY) launched?
9. What is the main objective of RRBs?
10. How are the lending rates and deposit rates for Local Area Banks governed?
11. What is the basic objective of payment banks?

Long-Answer Questions

1. What led to the establishment of cooperative banks in India?
2. Critically analyze how cooperative credit institutions play a significant role in agriculture and rural sector.
3. Discuss the various recommendations of the task force towards re-energising the cooperative sector.
4. Explain how there has been a greater involvement of banks in the agricultural sector post-nationalization of banks.
5. Discuss how the scope of priority sector lending has been expanding in agriculture sector.
6. How do RRBs perform the various functions relating to non-agricultural activities?
7. Discuss the functions of payment and small finance banks in rural India.

5.10 FURTHER READINGS

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UNIT 6 MICRO FINANCE

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Structure

6.0 INTRODUCTION

Rural economy can't sustain and flourish if credit institutions don't reach out to masses involved in both agricultural and non-agricultural activities. The situation is challenging as it is acknowledged that majority of the rural households still do not have access to credit. Simply put, micro finance refers to small scale financial services provided by financial institutions to the financially backward classes. These services include savings, credit, insurance, etc. Today, micro-finance also focusses on the women of rural India belonging to self-help groups. Thanks to institutional support, the micro finance sector in India is thriving and has empowered lakhs of poor and underprivileged people in rural India even as the sector faces numerous challenges.

This unit aims at analysing role and functions of various forms of micro finance institutions in rural India and also discusses the contribution of Self Help Groups (SHGs) and business correspondents.

6.1 OBJECTIVES

After going through this unit, you will be able to:

- Explain the role of microfinance in rural India
- Understand functions of Self-Help Groups (SHGs)
- Analyse the role and functions of microfinance institutions in rural India
- Learn about the functions business correspondents in rural India

6.2 MICRO FINANCE: AN OVERVIEW

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Microfinance is another term for microcredit. Microfinance can be understood as a system of credit or financial services that caters to the needs of the lower-income class. On a larger scale, microfinance is an effort towards a world where low-income groups have access to affordable financial services which include savings, credit, insurance, remittances and payments.

In 1999, the task force on microfinance that was set up by National Bank for Agriculture and Rural Development (NABARD) defined it as:

> 'Microfinance is provision of thrift, credit, and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards.'

Microfinance can thus be defined broadly as the provision of a range of financial services to the poor which among others includes skill upgradation, entrepreneurial development and marketing input that would enable them to overcome poverty. Microfinance has immensely helped the poorest of the poor, especially women groups to generate income for themselves and for their families.

Microfinance provides credit support in small doses along with training and other related services to the people who are poor in resources but are able to undertake economic activities. Microfinance rests on the following principles:

- Self-employment/enterprise formation is a viable means for poverty alleviation
- Lack of access to capital assets/credit is a constraint for existing and potential microenterprises
- The poor are able to save despite their low-level and sporadic incomes

The concept of microfinance was created by Professor Muhammad Yunus, founder of Grameen Bank in Bangladesh. Microfinance includes a range of services such as microcredit, saving, insurance and funds transfer. Traditional banks do not provide facilities to low income earners. They provide services to people after assessing the profile of clients according to certain criteria such as pay, credit history and assets of the clients. Since poor people have no assets to provide as collateral to bank when taking a loan, they are not liable to receive loans from banks. Moreover, since they do not have access to traditional banks, they have to borrow money with high interest rates from other sources such as pawnbroker and local money lender sometimes with 100 per cent interest rate, as borrowing from them is fast and flexible. Microfinance is the provision of financial intermediation through the distribution of small loans, acceptance of small savings and provision of other financial products and services to the poor.

The mission of microfinance to assist the weaker sections started in 1970 with the launch of Twenty Point Economic Program, where certain activities were identified and included for extending credit facilities. To make this effort more

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intensified and also to assist rural segment in remote areas, Regional Rural Banks (RRBs) were also started in October 1975. Subsequently, many government schemes and programmes were linked through the banking system. All the efforts and strategies in banking sector were focused on the goal of 'serving better the needs of the development of the economy in tune with the national policy of achieving growth in rural areas and assist to downtrodden.' The Reserve Bank of India (RBI) laid focus on in all its credit policies in between 1969 and 1980 on expanding heavy credit to small projects and thus expanding micro credit at a wider scale. In this period, thousands of new bank branches were established across rural India. The strategies and policies during 1970s and 1980s emphasized lead role of the public sector commercial banks, thereby bridging the gap between traditional informal sector money lenders through the use of targeted, low priced loans.

By the end of 1980s, a wide range of players had jumped on to involve and expand microfinance in view of enormous opportunities available under this activity. A good number of NGOs emerged to assist lending institutions, developmental professionals who promoted microfinance firms and banks that have experimented with working exclusively with groups and therefore have 'microfinance branches'. The NGOs range from not-for profits that see microfinance as having a role in 'development', to commercial banks that view microfinance as 'good, sound banking', an excellent way of raising deposits, and lending at low risk. The success of groups lending in microfinance has attracted the attention of many players to use these groups for variety of purposes and needs. A good number of governmental schemes were routed through microfinance, including a project funded by the World Bank and being implemented in the state of Andhra Pradesh. Similarly, organizations like Hindustan Lever have looked at the potential of these groups as a channel for retailing and have launched a programme called 'Project Shakti' to tap the smaller villages through the microcredit channel. Microfinance leaders are gaining prominence and it is said that some of the leaders, particularly women, have been taking a more active role in other social spheres, including contesting elections for the *panchayat* and so on.

In our country, the model of microfinance sector is a combination of several approaches which are found across the world. Indian microfinance has adopted the Grameen blueprint. It has replicated some aspects of the Indonesian and the Bolivian model. In addition to the imported version of microfinance, we also have the home-grown model of SHGs. The four major issues related to microfinance are:

- Economic attractiveness of microfinance both to NGOs and to commercial banks
- Relative merits of various delivery channels
- Issue of growth
- What lies beyond microcredit

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Another concept, the 'service area approach' was adopted by banks to focus on their clients. Under this, rural branches were given a service area of 15-20 villages, where other banks were allowed to set up a branch after obtaining a no objection certificate. The 1990s saw increased competition and liberalization in the Indian financial sector. There was a significant movement to rationalize the interest rates on loans and advances. They were largely deregulated, although lending rates on small loans (under

₹ 2,00,000) were capped as the prime lending rate (PLR), that banks are free to set. Priority sector credit requirements are being eased. Debt or interest waiver schemes are used frequently, thereby increasing the competition in the banking sector.

6.2.1 Core Principles for Microfinance

The principles on which microfinance is based are as follows:

- The poor needs access to appropriate financial services.
- The poor has the capability to repay loans, pay the real cost of loans and generate savings.
- Microfinance is an effective tool for poverty alleviation.
- Microfinance institutions must aim to provide financial services to an increasing number of disadvantaged people.
- Microfinance can and should be undertaken on a sustainable basis.
- Microfinance NGOs and programmes must develop performance standards that will help define and govern the microfinance industry towards greater reach and sustainability

Characteristics and Features of Microfinance

Characteristics	Distinguishing Features
Type of client	i. Low Income
	ii. Employment in informal sector; low wage bracket
	iii. Lack of physical collateral
	iv. Closely interlinked household/business activities
Lending Technology	i. Prompt approval and disbursement of micro loans
	ii. Lack of extensive loan records
	iii. Collateral substitutes, group-based guarantees
	iv. Conditional access to further micro-credits

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	v. Information-intensive character-based lending linked to cash flow analysis and group-based borrower selection
Loan Portfolio	i. Highly volatile
	ii. Risk heavily dependent on portfolio management skills
Organizational Ideology	i. Remote from/non-dependent on government
	ii. Cost recovery objective vs. profit maximizing
Institutional Structure	i. Decentralized
	ii. Insufficient external control and regulation
	iii. Capital base is quasi-equity (grants, soft loans)

6.2.2 Scope and Challenges of Microfinance

As stated above, microfinance institutions first came into existence in 1976, with the establishment of the Grameen Bank in Bangladesh. Nobel laureate Muhammad Yunus is credited with laying the foundation of the modern microfinance institutions. Microfinance was initiated in the early 1980s in India. An attempt to introduce microfinance has been seen with the formation of Self-Help Groups (SHG). These informal self-help groups gave access to the much-needed savings and credit services to the marginal population, especially in rural areas. In the past decades, the microfinance sector has seen significant growth. National groups like Small Industries Development Bank of India (SIDBI) and National Bank for Agriculture and Rural Development (NABARD) have made immense contributions to the microfinance sector.

The World Bank refers to South Asia as the 'cradle of microfinance.' Recent studies reveal that approximately 45 per cent of the world population who avail microfinance services reside in South Asia. In the Indian context, only a small amount of lower-income group population have access to these financial services and account for only 20 per cent of the poor households in India.

Microfinance has become an integral part of Indian policy as it ensures financial services to poor and unbanked sections of Indian population. Microfinance is now considered an effective tool to reduce poverty. In India, microfinance includes the formation of SHGs. These SHGs may include groups of 5 to 20 people who are then provided credit through bank linkage. Therefore, it is also referred to as SHG Bank linkage programme.

NGOs in the microfinance sector are a link between banks and SHGs. These NGOs are also referred to as microfinance institutions. These NGOs and SHGs provide guidance and assistance which help alleviate the lower-income population from poverty. Microfinance in India also helps to bridge the gap of gender equality to a certain extent as most of the beneficiaries of the SHG movement are women. The growth of the microfinance industry in India have led to the establishment of many small and larger microfinance institutions (MFI). SKS Microfinance Ltd. is the largest MFI in India which is also listed in the stock market. The microfinance sector is presently a ₹ 20,000 crore industry and is steadily growing. The SHG-Bank Linkage Programme and the Microfinance Institutions together achieved a growth in their customer base by about 10.8 per cent. There was an increase from 86.3 million to 93.9 million this year in the combined borrowing customer base.

Although the microfinance sector has seen steady growth over the years, it has also seen a number of concerns emerge. Some of the concerns have been listed as follows:

(i) Regulation

(ii) Transparent pricing

(iii) Low financial literacy

(iv) Cluster formation

(v) Insufficient funds

(vi) Multiple lending

(vii) Over-indebtedness

Most of these concerns emerge due to the increasing competition among MFIs.

The government has taken initiatives to strengthen the regulations of the microfinance sector, some of which have been mentioned below:

(i) Enactment of microfinance regulation bill by the Government of Andhra Pradesh

(ii) Implementation of sector-specific regulation by Reserve Bank of India

(iii) Release of Draft Microfinance Institutions (development and regulation) Bill.

(iv) RBI credit policy capped household income at ₹120000/- and credit limit at

₹ 50000 for all MFI customers. This is to better target the beneficiary population to the bottom quartile population.

The microfinance industry faces numerous challenges in India. Most of the challenges are related to finance, governance and management, demand for low interest rates and management competition. Other challenges of microfinance include the following:

(a) The main issue with regards to microfinance lies in training and capacity development.

(b) With reference to the supply side, there is a dearth of service providers along with comprehensive, integrated and relevant training modules.

(c) Difficulty in reaching the northern and eastern parts of India.

(d) Limited range of products in accordance to simple credit offerings

(e) With reference to the demand side, enough attention is not given for senior management training.

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(f) In many cases there is an absence of social audit.

In order to improve the structure of microfinance in India, the Malegam Committee recommended certain measures that would improve the functioning of microfinance institutions with respect to certain practices such as interest rates, lending and recovery practices to find out trends that impinge on borrowers' interests, to delineate the objectives and scope of regulation of NBFCs undertaking microfinance by the Reserve Bank and the regulatory framework needed to achieve those objectives. Although some of the recommendations were accepted by the government, however, more reforms are needed in the sector to assure sustainable and pro-poor growth of the industry.

A microfinance institution by the name of Utkarsh has been established by the International Finance Corporation (IFC). Utkarsh mainly functions in the states of Bihar and Uttar Pradesh for the development of microfinance. This will increase access to microfinance services in areas which are relatively under served. With IFC's backing, Utkarsh is trying to diversify its products, develop sound internal systems and processes along with introducing a system of social audit.

The potential of microfinance to ensure financial inclusion and thereby inclusive development is not a hidden fact and therefore the challenges mentioned earlier must be redressed on urgent basis. A better understanding of the diversity of women's livelihood and a better understanding of the range of constraints, motivations, skills and capabilities of women through the livelihood framework might help in better operation of microfinance services.

Check Your Progress

1. What do you mean by the term 'microfinance'?
2. What are the basic principles of microfinance?
3. When did the mission of microfinance to assist the weaker sections start in India?
4. Why was the concept of 'service area approach' adopted by banks?
5. Why is South Asia referred to as the 'cradle of microfinance'?

6.3 SELF-HELP GROUPS (SHGS)

Self-Help Group (SHG) can be defined as a group or association of poor people who belong preferably to the same socio-economic background. Self-help and mutual help are some of the ways by which these people come together in their difficult times to solve their common problems. SHG helps people by promoting small amount of savings among its members and these savings are kept in banks. It is formed democratically without any political affiliations. The members in this group consist of 15-20 women and/or men, but the group generally consists of women members.

NABARD has been one of the pioneers in implementing and conceptualizing the concept of group initiatives and it also started the Self Help Group-Bank Linkage Programme (SBLP) in 1992. The concept of SHG services works with the principle of, 'by the women, of the women and for the women'. People having common interests usually come together to form self-help groups which are voluntary union of people. The purpose of this group is to achieve collective social and economic goals. Such groups are organized for mutual help and benefit. In India, more than 90 per cent groups are formed by women. The initial procedure of this group started with the collection of savings from its members. These groups inculcate the habit of thrift among the members. By collecting small savings, huge amount can be raised. These groups advance loans to the needy members. The total funds owned by the group are thus circulated in the form of loan among the members.

NGOs, banks and other development agencies are responsible for the formation, identification and nurturing of these associations and there are even promoters who help in inculcating the habit of thrift among the members. These groups are then associated to the banks that are close by once they are trained and strengthened which happens usually within six months of its evolution. Collateral-free credit are provided by banks in increasing proportion to the group's accumulated savings.

6.3.1 Formation, Functions and Operations of SHGs

In general, SHGs perform the following functions:

(a) **Savings and Thrift:** The amount may be small, but savings have to be a regular and continuous habit with all the members. 'Savings first credit later' is the motto of every group (SHGs) member. Group members learn how to handle large amounts of cash through savings. This is useful when they use bank loans.

(b) **Internal lending:** The savings are to be used as loans for members. The purpose, amount, rate of interest, etc., are decided by the group itself. Proper accounts are to be kept by the SHG. Opening savings bank account with bank enables SHG members to obtain loans from banks, and repay the same.

(c) **Discussing problems:** Every meeting, the group will discuss and try to find solutions to the problems faced by the members of the group.

In India, Self Help Groups (SHGs) especially women's SHGs are playing a major role in poverty reduction and women's empowerment through financial inclusion. SHGs emerged initially as a result of financial exclusion, which is

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the failure of mainstream institutions to reach the poor and women. SHGs are now seen as partners by mainstream institutions. Financial exclusion has been a major issue in the rural areas especially after the Financial Sector Reforms (FSR) initiated in 1991. In spite of a remarkable spread of formal banking network across the country and several initiatives of various governments, about 51.4 per cent of farmer households are unable to access either formal or informal sources of financial services. Only 27 per cent of farmer households are able to access credit from formal sources (59th Round NSSO Report). Further, 64 per cent of population in North Eastern, Eastern and Central regions is financially excluded. Only 19.7 per cent of the population has access to formal sources of finance in these regions. Studies by NABARD during 2000 and 2002 reported many positive results on the impact of participation of rural poor in the SHGs. There have been perceptible and wholesome changes in the living standards of the SHG members in terms of ownership of assets increase in savings and borrowing capacity, income-generating activities (IGAs) and in income levels.

As Indian microfinance model was based on the existing banking infrastructure, the programme could take off without calling for any major legal hurdles and institutional restructuring. Several innovations have taken place and various models have been experimented with and standardized. These models have been explained in the next section.

6.3.2 Genesis of SHGs in India

Over the decades of planned development, the shift of emphasis of women's programmes from purely welfare-oriented approach to a more pragmatic and development-oriented one, has recognized women as productive workers and contributors to the economy. The formal financial institutions have failed to perform their role of supplying institutional credit to the women folk in our country for undertaking the income generating activities. As a result, a large segment of poverty stricken people and particularly the women who constitute a significant number still remain outside the need for the emergence of a new institution to tackle the situation. As stated above, the concept of SHG originated from Grameen Bank of Bangladesh, which was founded by the economist, Prof. Mohammed Yunus of Chittagong University in the Year 1975, to provide microfinance to rural women. In Bangladesh, microfinance has been established as a most powerful instrument to tackle poverty.

The SHGs in India were formed by Mysore Resettlement and Development Agency (MYRADA), an NGO in 1985 due to the breakdown of large cooperatives organized by MYRADA. By 1986-87, there were nearly 300 SHGs in MYRADA's projects. MYRADA then approached NABARD for an action research project on self-help groups which funded the research. Within the same timeline, Asian and Pacific Regional Agricultural Credit Association (APRACA) weighed options and agreed on further action for effectively increasing credit access

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for the poor. In India, NABARD and a member of APRACA, carried out an elaborate study which gave useful insights into the dynamics of group organization, saving potential and repayment ethics of the poor. Encouraged by the results of the study and action research project of MYRADA, NABARD, in consultation with the Reserve Bank of India (RBI), commercial banks and NGOs, launched a pilot project in 1991-92 for linking SHGs with banks. Thus, the microfinance activity is the result of NABARD's work that started in February 1992 through an initial pilot project promoting 500 SHGs. RBI had advised commercial banks in July 1991 to extend finance to SHGs as per NABARD guidelines. Subsequently, the linkage project was extended to RRBs and Cooperatives.

The self-help group movement became a silent revolution within a short span in the rural credit delivery system in many parts of the world. It has been documented that nearly 53 developing countries including India, have taken up this on a large scale. The Government of India is supporting the SHG movement.

The SHG bank linkage programme, starting with the NABARD-led pilot project in 1992 that aimed at promoting and financing 500 SHGs across the country, witnessed significant growth. There are more than 6.12 million SHGs having savings account with banks and more than 4.22 million SHGs which have been financed by banks. As on March 2013, a total of 73.18 lakh SHGs were having ₹ 8217.25 crore savings with banks. Further, a total of ₹ 39375.30 crore loan amount was outstanding against 44.51 lakh SHGs, leading to greater financial outreach for poor as the programme covered 95 million households as on 31 March 2013, making it the largest microfinance programme in the world. Over 35,290 bank branches of 48 commercial banks, 96 Regional Rural Banks (RRBs) and 352 cooperatives are involved in financing these groups.

The main object of National Policy for Empowerment of Women (NPEW), 2001 is economic empowerment of women. The policy aims at enhancing supply of credit to the women through SHGs.

6.3.3 Objectives of Self-Help Groups (SHGs)

Self-help Groups form with certain objectives such as to inculcate the habit of saving and banking bait among the rural women, to build up trust and confidence between the rural people and the bankers, to develop group activity so that various welfare and developmental programmes can be implemented in a better way with the participation of these groups and to achieve women and child welfare programme goals by actively involving women groups in Universal Immunization Programme, small family norm, and Universal Elementary Education.

As the formation of SHGs begins with an assessment of members' strength, people are motivated to collect information on initiatives they have taken in the past to resolve problems and to initiate collective or group action.

The SHGs form the focal point of all the micro level activities and systematic facilitation is needed at each and every step in the formation of a sustainable SHG.

To develop SHGs in a sustainable manner, there are four important stages in the process of promotion of SHGs.

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1. **Forming stage:** This is the first stage during which the Non-Governmental Organizations (NGOs) explain the concept of self-help groups. Interested people give their names but it is observed that there exists an innate fear and anxiety. Some come forward to give their contribution on the same day and some others after two or three meetings. It takes one week to 3 months' time between their first meeting and first lending. The group is trained to maintain their accounts. Each member gets their pass-book from the group for ready reference. The members choose a name to identify their group. Group initiation is the first and fundamental stage in the formation of a sustainable SHG, the activities in this stage have to be undertaken in a planned and sequential manner.
2. **Storming stage:** In this stage, a lot of queries arise in the minds of the members of the Self-Help groups. The hidden anxiety and fear flare up. The conflict between the individual interest and group interest happen to flash. The members tend to argue with the organizers that their savings will have to be distributed to them after a period of one year or so. When the members are told the self-help group is a continuous process, some of them may withdraw their membership claiming or their contributions.

   This is a crucial stage for NGOs when the members are clearly educated and the self-help group has been organized not like a chit fund group which will be wound up after a said period, sharing their savings and profits. The members are appraised that the group's growth is a continuous process which can run not only all through their lives but even by generations if they wish. Any problem will have to be solved only through the decisions of the members themselves and not by the organizers. In this stage, the group members are ensured that everyone is the owner of the group and not a nominee by the NGO or any outsider. The members have their sole authority to decide as to what to make as by-laws, whom to select as members, how much to contribute, how much to lend to each individual, how to settle the account if any untoward incident happens to any individual, what welfare activities are to be undertaken for the village, how they can avail credit from banks and facilities from the government, how to make the credit and lending systems accountable to each member of the group and also the financing institutions, etc.
3. **Worming stage:** In this stage, members want to internalize the concept of self-help groups. In the process of discussions in the group meetings, interaction's contributions, savings and lending's, a mutual trust is built and established among the members. Once the sense of being together is enjoyed by the group they tend to speak good about the groups to

others. Group morale and group dynamics are found emerging. Collective decision making gains prominence.

4. **Performing stage:** Both the task and the maintenance functions of the group are clearly realized by the members of the group at this stage. Saving, lending and recovery activities go on smoothly with a sense of implied responsibility on the part of the members. They approach the bankers for further credit assistance. They discuss about their family as well as village problems. Social obligations of the group are found articulated. They widen their hopes and thoughts that the group can surely be a tool for achieving socioeconomic development through income generation and empowerment through collective action. At this stage the group matures to function on its own.

   The borrowers repay the bank's loan properly. They remit the loan dues to the group leader at group meetings and the group leader repays the same to the bank. The group undertakes the responsibility of delivering non-credit services such as literacy, health and environmental issues.

The concept of SHG moulds people as responsible citizens of the country and help them achieve social and economic status.

Check Your Progress

6. What is a Self-Help Group (SHG)?
7. List the main functions of SHGs?
8. When were SHGs in India formed for the first time?

6.4 MICRO FINANCE INSTITUTIONS (MFIS)

Microfinance institutions, also known as MFIs, offer financial services to the poor and impoverished communities belonging to the rural and urban areas. An increasing number of microfinance institutions (MFIs) are seeking non-banking finance company (NBFC) status from RBI to get wide access to funding, including bank finance. Recently, microfinance has come under fire from the Andhra Pradesh government and state level regulations have been implemented to restrict microfinance practices in the state.

Forms of Microfinance Institutions

In the effective implementation of financial inclusion, the Microfinance institutions (MFIs) play an important role and extend financial services to the microfinance sector in the country by raising resources from banks and other institutions and extending loans to individuals. There are different forms of MFIs. Some of them are as follows:

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- **NGO MFIs:** Registered under the Societies Registration Act, 1860 or the Indian Trust Act, 1880
- **Cooperative MFIs:** Registered under the State Cooperative Societies Act or Mutually Aided Cooperative Societies Act or Multi State Cooperative Societies Act
- **NBFC MFIs:** Incorporated under Section 25 of Companies Act, 1956
- **NBFC MFIs:** Incorporated under the Companies Act, 1956 and registered with RBI

The MFI is not eligible to raise resources from institutional sources at concessional rate of interest. They cannot even raise funds through public deposits. However, they can raise resources through their internal resources. In addition to their internal resources, these MFIs have been allowed to seek and obtain bulk loans from banks/other financial institutions for providing microcredit to individuals or members of SHGs. This makes the cost of funds to the MFIs high and in turn they also charge higher rate of interest from the ultimate beneficiary. Most of MFIs entered the microfinance sector only after the SHG-bank linkage programme was well received. The turnover of these institutions grew at a much larger scale than the former. They were more aggressive and innovative in reaching out to the rural poor than the formal banking system.

Of late, however, the functioning of these institutions (mostly 'for profit' NBFCs) are being subjected to closer public scrutiny on account of alleged unethical business practices and questionable recovery practices. These developments resulted in Andhra Pradesh Government promulgating an ordinance severely restricting their lending operations and recovery mechanism. As a result, the lending operations of these institutions virtually came to a halt not only in Andhra Pradesh where most of their lending operations were concentrated but in other areas as well while the recovery of loans nosedived.

The Reserve Bank of India has notified guidelines for the lending operations of MFIs based on the Malegam Committee recommendations. A new class of financial organizations known as NBFC–MFIs has been created and subject to certain conditions regarding the capital to be employed, lending to SHG members, cap on interest to be charged and margin to be retained. The loans extended to these NBFC-MFIs by banks now qualifies for priority loan category. These norms were implemented from 1 July 2013 vide RBI circular.

Legal Structures of MFIs

MFIs may be of the following five types:

- NGO MFIs, which are NGO's offering microfinance, comprising of trusts and societies
- Cooperatives registered under the conventional state-level cooperative Acts, the national level Multi-State Cooperative Societies Act (MSCA 2002), or

under the new State-level Mutually Aided Cooperative Societies Act (MACS Act)

- Section 25 Companies (not-for profit)
- For-Profit NBFCs
- NBFC-MFIs

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NGO MFIs: About 500 NGOs provide microfinance services and operate as non-profit organizations. However, a number of these NGO MFIs also carry out non-financial operations. NGO MFIs can be registered as a society under the Societies Registration Act of 1860 or as a Trust under the Indian Trust Act of 1882.

Cooperative Societies: Around 100 MFIs function in India as cooperatives, registered under the Cooperative Societies Act of the respective state, Central Multi-state Cooperative Act, 1984, or the new state-level MACS Act. The MACS Act was first implemented in Andhra Pradesh, because it wanted to minimize interference by politicians in the operation of cooperative societies. Some large cooperatives have obtained banking licenses from the RBI to enable them to operate as cooperative banks.

Non-profit companies: Many NGO MFIs attain a formal corporate recognition and structure by registering under the Companies Act, 1956 as a Section 25 Company. The structures of these companies are more conducive to operating as an NBFC—while they can accept equity investments, they are unable to provide dividends. Moreover, equity investments cannot be withdrawn if the company closes. So, it becomes difficult for these companies to attract equity investments.

The RBI norms divide the financial sector in India into two main categories—banks and NBFCs. The regulations imposed on banks are much more stringent, however, because they are seen to be facing constant risk as they are allowed to accept public deposits. NBFCs may be of many different types of financial institutions but adhere to the same regulations. So, usually, MFIs register as NBFCs so that they can access the capital markets. As a result, NBFCs make up for a large part of the microfinance segment in India—50 NBFCs take care of 80 per cent of all microfinance portfolios.

As per the guidelines of the RBI, all banks are to allocate a percentage of their lending to specific priority sectors at reduced interest rates. Priority sector lending is an RBI initiative to help poor sectors. At present, only MFIs registered as NBFC-MFIs are considered to be a priority sector. Recently, the number of priority sectors has been brought down, which means that for banks to meet their priority sector rules, they will have to depend more on lending to MFIs. For an institution to qualify as an NBFC-MFI, RBI registration requirements must be fulfilled:

(a) A minimum of 75 per cent of a NBFC-MFI's loan portfolio must be dedicated wholly to income-generating activities.

(b) An NBFC-MFI must have 85 per cent of its total assets as qualifying assets (excluding cash, balances with banks and financial institutions, government securities and money market instruments).

A qualifying asset is a loan which meets the following criteria:

- Borrower's household annual income does not exceed ₹ 60,000 or ₹ 1,20,000 for rural and urban areas respectively
- Maximum loan size of ₹ 35,000 (first cycle) and ₹ 50,000 (subsequent cycles)
- Maximum borrower total indebtedness of ₹ 50,000
- Minimum tenure of 24 months when loan is more than ₹ 15,000
- No prepayment penalties
- No collateral
- Repayable by weekly, fortnightly or monthly instalments as the borrower chooses

An NBFC-MFI must also adhere to the following pricing requirements:

- Margin cap of 12 per cent
- Interest rate cap of 26 per cent
- Interest rate
- Processing fee (maximum 1 per cent)
- Insurance premium
- No penalty for delayed payment
- No security deposit or margin can be taken

It is the responsibility of the banks to ensure that institutions which receive priority sector funds are following these stipulations and have been verified by Chartered Accountant's Certificate every quarter. In some instances, securitized assets could also be eligible to be priority sector assets if the above requirements are met by the institution. Besides the given requirements, the NBFC-MFI also must follow the general NBFC requirements.

The regulations of NBFC relating to deposit mobilization require that only NBFCs and cooperatives may accept public deposits, while NBFCs are also subject to other stringent rules, and cooperatives may accept deposits only from registered members. A deposits limited also exists for NBFCs which is linked to the organization's Net Owned Fund (NOF). An MFI registered as an NBFC cannot accept deposits unless it obtains an investment grade rating. Theoretically, MFIs can raise capital by various means like obtaining grants and loans from subsidized lending funds, borrowing from domestic and foreign debt markets, and attracting foreign equity investment from capital markets. However, the legal structure of MFIs may not allow acquiring capital from few of these sources.

NBFCs may receive both debt and equity investments. While NBFCs are allowed to raise foreign equity investment, there is a requirement of minimum investment restriction of $500,000 and the stake in the institution cannot be over 51 per cent.

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Section 25 companies find it difficult to attract big investments in equity because they do not offer dividends. However, they are allowed to access External Commercial Borrowing (ECB) up to $5 million, even though this amount also depends on the existing equity that a company can claim to have. Owing to this limit, mostly MFIs borrow much less than the allowed $5 million.

There is another Act, the Indian Money Lenders Act, 1918. It has been implemented in various states. The aim of this Act is putting limits on the interest rates that moneylenders charge, and in turn to protect the less privileged section from being exploited by greedy moneylenders. However, a few states have also implemented the Act to Societies and Trusts so that there is a restriction on their lending capacity. For instance, in 2011, Gujarat has adapted the Money Lending Act for NBFCs. In other states as well, the Act has been adopted with certain variations, including restrictions on interest rates and making licenses mandatory for carrying out money lending business.

Microfinance Institution Self-Regulation

Microfinance institutions in India often voluntarily join an industry association, which acts as a commitment and guide for self-regulation. Microfinance industry associations have been developed to better discussion with policy makers, improve capacity building, and identify minimum standards of performance through institutional collaboration and commitment. An industry association will identify a code of conduct for its members, which will focus on fair practices with borrowers and among member organizations. This code of conduct will address lending methods, collection practices, institutional transparency, and training practices for member institutions. Often institutions will be required to develop their own code of conduct as well, which more specifically addresses how the institution will uphold the fair practices outlined by the industry association. Currently, the two biggest industry associations in India are— Microfinance Institutions Network (MFIN) and Sa-dhan. Both of these associations offer a great deal of resources, guidance, and forums for institution discussion so that the most pressing issues facing the industry are collectively addressed.

State Level Regulation

The Andhra Pradesh government enforced the Andhra Pradesh MFIs (regulation of money lending) Ordinance, in late 2010. This ordinance later became an Act and helps regulate the activities of MFIs. It restricts MFIs from claiming old loans and offering new loans until the institution is registered with the local district authorities. It also dictates that the total interest charge cannot be more than the principal amount of the loan.

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SIDBI and Microfinance

SIDBI Foundation for Micro Credit (SFMC) is a recognized and popular wholesaler for microfinance in India. It provides multifarious services, including financial and non-financial services, like grant support, loan funds, equity and institution building support to the retailing Micro Finance Institutions (MFIs). The ultimate aim is to make these MFIs financially sustainable and self-sufficient, and in turn provide affordable financial assistance to the economically disadvantaged section of the society, such as women. SFMC also facilitates the setting of appropriate policies and regulations and provides an information-exchange platform for the segment. SFMC operations are designed such that over the years, they are anticipated to make great contributions to developing of a more effective, comprehensive and sustainable microfinance sector that comes to the aid of the poor in India, while also focusing on creative solutions and innovative research.

Rating of MFIs

Initially, MFIs were run by NGOs which were registered as societies or trusts and therefore were not subject to legal supervision or regulations. This in fact, did not help their cause because it was difficult for them to get loans approved from large financial institutions which were suspicious of such entities. While this was a major constraint in itself, another big challenge was the launch of SFMC which aimed to increase the flow of microcredit with accompanying policy modifications, such as simpler procedures for assistance and easier security/collateral requirements. Eventually, CAR or Capacity Assessment Rating was introduced by SFMC. This was a tool that helped assess risk perception of an MFI. On the initiative taken by SFMC, five agencies started the rating of MFIs. Gradually, with the sector achieving maturity, most informal NGOs have grown into proper NBFCs. However, currently, a rating is mandatory if an MFI wants financial aid from a bank or a financial institution.

Code of Conduct Assessments (COCA)

SIDBI is currently developing of a Code of Conduct Assessment (COCA) tool, which will help in providing credit services, recovery of credit and collection of thrift for MFIs to assess how well they are adhering to the voluntary microfinance Code of Conduct.

Financial Assistance

The financial assistance offered by the SIDBI to microfinance institutions is discussed below:

- Microfinance: SIDBI provides financial assistance based on the needs of the MFI, usually on a per-year basis. A singular feature is that SIDBI promotes expansion of operations as well as better efficiency of the MFI/ NGO. SIDBI's offers support in the form of loans and also equity/quasi equity support, on the basis of the needs of the institution.

- Missing middle segment: SIDBI also offers financial aid to the 'missing middle' segment of the microfinance enterprises. 'Missing middle' refers to the financing gap that lies above micro-finance (loans up to ₹ 50,000) and below conventional institutional financing (generally loans starting at ₹ 10,00,000). Under this model, the support is routed through interested financial entities like NBFCs, RRBs, UCBs and MFIs.

Minimal security requirement

A borrowing institution gains its credit worthiness on the basis of rating and not on the available security/collateral requirements. Term Deposit Receipts (TDRs) are issued by Scheduled commercial banks/ SIDBI for an amount equivalent to 10/5/2.5 per cent (on the basis of operating location and span of partnership with SIDBI).

Portfolio Risk Fund (PRF)

Portfolio Risk Fund (PRF) was created by SIDBI with aid from the Government of India and has been operating since March, 2004. Usually, the bank mandates security requirement of FDRs equal to 10 per cent of the loan granted to MFIs under SFMC rule. Once PRF comes into play in a case, 75 per cent of security requirement (i.e., 7.5 per cent of the loan amount) is booked under PRF and the balance 25 per cent (i.e. 2.5 per cent of the loan amount) is to be provided by the particular MFI through FD₹

Methodology neutral

SIDBI does not limit it to any specific methodology. MFIs could be lending to self-help groups/ joint liability groups/individuals. MFIs also have the option to adopt any other means of lending so that financial assistance effectively reaches the poor clients.

Capacity building support for the sector

SFMC directs its efforts not just towards MFIs but also smaller institutions that provide microfinance help. The capacity building efforts include training, consultancy, rating and impact assessment. They also conduct seminars, workshops and orientation visits.

Responsible finance initiatives

SIDBI has been active in ensuring 'Responsible Finance' initiatives in the MFI sector. Some of those key initiatives taken by SIDBI are:

- Creation of a lenders' forum
- Setting up of India Microfinance Platform
- Setting up of credit information bureaus
- Creating awareness about clients' protection practices

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- Enabling development of a common code of conduct for the MFIs and ensuring adherence thereof through COCA exercises by accredited third party agencies.

India Microfinance Platform (IMFP)

SIDBI has an initiative 'Responsible Lending' under its World Bank line of credit. As per this initiative, SIDBI gives its support to IMFP which has been developed by MIX, to offer information (both financial and operational), on Indian MFIs. IMFP is a worldwide, web-based, microfinance information platform. The MFIs have been mandated to submit in a standard format, at regular intervals, their financial and operational data. This facilitates a high level of transparency/disclosures. The platform is meant to make the publicly available data on MFIs more comprehensive. This project already has led to improved data availability on the Indian microfinance sector and has also enabled development of granular, district-level datasets.

India Microfinance Equity Fund (IMEF)

To make the difficult liquidity situation a little easier, in the Financial Year 2012, Government of India contributed to the creation of a ₹ 100 crore fund known as IMEF. It was controlled by SIDBI and aimed to provide a boost to capitalization of smaller, socially focused MFIs, located largely in underserved states/regions. The funds allotted to IMEF were increased by ₹ 200 crore in Financial Year 2013-14. The fund is aimed to help the MFIs generate more debt funds from lending institutions and improve financial assistance to the underprivileged of the country.

Check Your Progress

9. What services do microfinance institutions (MFIs) provide?
10. List the various types of MFIs.
11. How are NBFC-MFIs governed?

6.5 BUSINESS CORRESPONDENTS AND THEIR FUNCTIONS

The concept of financial inclusion in the development discourse has gained much attention recently. Financial inclusion refers to a situation where individuals and businesses have an opportunity to use affordable financial products and services that satisfy their needs that are inclusive of variety of Banking, Financial Services and Insurance (BFSI) products and services – delivered in the most convenient and efficient ways. Financial inclusion has been the focus of the Indian government for past few decades. In recent times the government has initiated ambitious financial inclusion plans of which the Business Correspondent (BC) is a very important stakeholder.

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Business Correspondent (BC) Model also known as the third party agent model of banking, is one of several measures being used by the Reserve Bank of India (RBI) to achieve the larger goal of financial inclusion in India. The model was promoted by RBI in 2006 post recommendations of the Khan Committee report. The model permits banks to appoint third party agents to provide banking and financial services on their behalf hereby creating opportunities for a wide range of institutions and individuals to work as business correspondents on behalf of the bank. Business Correspondents work on the basis of a commission model. They receive a commission from the bank for the services rendered by them like each new account opened for customers, money transfer transaction or new loans disbursed.

The Business Correspondents perform various functions. These include:

1. Creating a profile of new customers:

(i) One of the key functions of the BCs is attracting and acquiring new customers. It is their principal function to identify the prospective customers for the bank, and generate awareness on the various financial products and services including savings, remittances, loans, insurance, etc.

(ii) Educating and advising customers on money management, debt counselling, etc.

(iii) Promoting, nurturing and monitoring of Self-Help Groups/Joint Liability Groups/Credit Groups/others.

2. Delivering all kinds of banking, financial services, and insurance products & services:

- Yet another function of BCs is to deliver all kinds of banking, financial services, and insurance products & services. While doing so, BCs make customers aware about various products they deal in, complete necessary documentation including Know Your Customer (KYC), cross-sell products and services and assist customers in opening, closure and other bank related functions.

  Disbursement and collection of loans, EMIs etc.

- The business correspondents handle the task of collection and payment of small value deposits and (cash) withdrawals, facilitate disbursing of small loans like entrepreneurial loans, agricultural loans, group loans, etc. collect payment and fees from customers and other functions related disbursement and collection.

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Check Your Progress

12. What is the Business Correspondent Model (BC Model)?
13. How do BCs help in disbursement and collection of loans, EMIs, etc.?

6.6 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Microfinance is another term for microcredit. Microfinance can be understood as a system of credit or financial services that caters to the needs of the lower-income class. On a larger scale, microfinance is an effort towards a world where low-income groups have access to affordable financial services which include savings, credit, insurance, remittances and payments.
2. Microfinance rests on the following principles:
   - Self-employment/enterprise formation is a viable means for poverty alleviation
   - Lack of access to capital assets/credit is a constraint for existing and potential microenterprises
   - The poor are able to save despite their low-level and sporadic incomes
3. The mission of microfinance to assist the weaker sections started in 1970 with the launch of Twenty Point Economic Program, where certain activities were identified and included for extending credit facilities. To make this effort more intensified and also to assist rural segment in remote areas, Regional Rural Banks (RRBs) were also started in October 1975. Subsequently, many government schemes and programmes were linked through the banking system. All the efforts and strategies in banking sector were focused on the goal of 'serving better the needs of the development of the economy in tune with the national policy of achieving growth in rural areas and assist to downtrodden.
4. Another concept, the 'service area approach' was adopted by banks to focus on their clients. Under this, rural branches were given a service area of 15-20 villages, where other banks were allowed to set up a branch after obtaining a no objection certificate.
5. The World Bank refers to South Asia as the 'cradle of microfinance.' Recent studies reveal that approximately 45 per cent of the world population who avail microfinance services reside in South Asia. In the Indian context, only a small amount of lower-income group population have access to these financial services and account for only 20 per cent of the poor households in India.

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6. Self-Help Group (SHG) can be defined as a group or association of poor people who belong preferably to the same socio-economic background. Self-help and mutual help are some of the ways by which these people come together in their difficult times to solve their common problems. SHG helps people by promoting small amount of savings among its members and these savings are kept in banks. It is formed democratically without any political affiliations. The members in this group consist of 15-20 women and/or men, but the group generally consists of women members.
7. In general, SHGs perform the following functions:
   (a) Savings and Thrift: The amount may be small, but savings have to be a regular and continuous habit with all the members. 'Savings first credit later' is the motto of every group (SHGs) member. Group members learn how to handle large amounts of cash through savings. This is useful when they use bank loans.
   (b) Internal lending: The savings are to be used as loans for members. The purpose, amount, rate of interest, etc., are decided by the group itself. Proper accounts are to be kept by the SHG. Opening savings bank account with bank enables SHG members to obtain loans from banks, and repay the same.
   (c) Discussing problems: Every meeting, the group will discuss and try to find solutions to the problems faced by the members of the group.
8. SHGs in India were formed by Mysore Resettlement and Development Agency (MYRADA), an NGO in 1985 due to the breakdown of large cooperatives organized by MYRADA. By 1986-87, there were nearly 300 SHGs in MYRADA's projects. MYRADA then approached NABARD for an action research project on self-help groups which funded the research. Within the same timeline, Asian and Pacific Regional Agricultural Credit Association (APRACA) weighed options and agreed on further action for effectively increasing credit access for the poor. In India, NABARD and a member of APRACA, carried out an elaborate study which gave useful insights into the dynamics of group organization, saving potential and repayment ethics of the poor.
9. Microfinance institutions, also known as MFIs, offer financial services to the poor and impoverished communities belonging to the rural and urban areas. An increasing number of microfinance institutions (MFIs) are seeking non-banking finance company (NBFC) status from RBI to get wide access to funding, including bank finance.
10. MFIs may be of the following five types:
    - NGO MFIs, which are NGO's offering microfinance, comprising of trusts and societies
    - Cooperatives registered under the conventional state-level cooperative

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Acts, the national level Multi-State Cooperative Societies Act (MSCA 2002), or under the new State-level Mutually Aided Cooperative Societies Act (MACS Act)

- Section 25 Companies (not-for profit)
- For-Profit NBFCs
- NBFC-MFIs

11. The Reserve Bank of India has notified guidelines for the lending operations of MFIs based on the Malegam Committee recommendations. A new class of financial organizations known as NBFC–MFIs has been created and subject to certain conditions regarding the capital to be employed, lending to SHG members, cap on interest to be charged and margin to be retained. The loans extended to these NBFC-MFIs by banks now qualifies for priority loan category. These norms were implemented from 1 July 2013 vide RBI circular.
12. Business Correspondent Model (BC Model) also known as the third party agent model of banking, is one of several measures being used by the Reserve Bank of India (RBI) to achieve the larger goal of financial inclusion in India. The model was promoted by RBI in 2006 post recommendations of the Khan Committee report.
13. The business correspondents handle the task of collection and payment of small value deposits and (cash) withdrawals, facilitate disbursing of small loans like entrepreneurial loans, agricultural loans, group loans, etc. collect payment and fees from customers and other functions related disbursement and collection.

6.7 SUMMARY

- Microfinance is another term for microcredit. Microfinance can be understood as a system of credit or financial services that caters to the needs of the lower-income class. On a larger scale, microfinance is an effort towards a world where low-income groups have access to affordable financial services which include savings, credit, insurance, remittances and payments
- Microfinance is the provision of financial intermediation through the distribution of small loans, acceptance of small savings and provision of other financial products and services to the poor.
- The mission of microfinance to assist the weaker sections started in 1970 with the launch of Twenty Point Economic Program, where certain activities were identified and included for extending credit facilities.

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- In our country, the model of microfinance sector is a combination of several approaches which are found across the world. Indian microfinance has adopted the Grameen blueprint.
- Another concept, the 'service area approach' was adopted by banks to focus on their clients. Under this, rural branches were given a service area of 15-20 villages, where other banks were allowed to set up a branch after obtaining a no objection certificate.
- The World Bank refers to South Asia as the 'cradle of microfinance.' Recent studies reveal that approximately 45 per cent of the world population who avail microfinance services reside in South Asia. In the Indian context, only a small amount of lower-income group population have access to these financial services and account for only 20 per cent of the poor households in India.
- NGOs in the microfinance sector are a link between banks and SHGs. These NGOs are also referred to as microfinance institutions. These NGOs and SHGs provide guidance and assistance which help alleviate the lower-income population from poverty.
- The microfinance industry faces numerous challenges in India. Most of the challenges are related to finance, governance and management, demand for low interest rates and management competition.
- A microfinance institution by the name of Utkarsh has been established by the International Finance Corporation (IFC). Utkarsh mainly functions in the states of Bihar and Uttar Pradesh for the development of microfinance.
- The potential of microfinance to ensure financial inclusion and thereby inclusive development is not a hidden fact and therefore the challenges mentioned earlier must be redressed on urgent basis.
- Self-Help Group (SHG) can be defined as a group or association of poor people who belong preferably to the same socio-economic background. Self-help and mutual help are some of the ways by which these people come together in their difficult times to solve their common problems.
- NABARD has been one of the pioneers in implementing and conceptualizing the concept of group initiatives and it also started the Self Help Group-Bank Linkage Programme (SBLP) in 1992.
- In India, Self Help Groups (SHGs) especially women's SHGs are playing a major role in poverty reduction and women's empowerment through financial inclusion. SHGs emerged initially as a result of financial exclusion, which is the failure of mainstream institutions to reach the poor and women.
- As Indian microfinance model was based on the existing banking infrastructure, the programme could take off without calling for any major legal hurdles and institutional restructuring.

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- Over the decades of planned development, the shift of emphasis of women's programmes from purely welfare-oriented approach to a more pragmatic and development-oriented one, has recognized women as productive workers and contributors to the economy.
- The concept of SHG originated from Grameen Bank of Bangladesh, which was founded by the economist, Prof. Mohammed Yunus of Chittagong University in the Year 1975, to provide microfinance to rural women. In Bangladesh, microfinance has been established as a most powerful instrument to tackle poverty
- The SHGs in India were formed by Mysore Resettlement and Development Agency (MYRADA), an NGO in 1985 due to the breakdown of large cooperatives organized by MYRADA. By 1986-87, there were nearly 300 SHGs in MYRADA's projects. MYRADA then approached NABARD for an action research project on self-help groups which funded the research.
- The self-help group movement became a silent revolution within a short span in the rural credit delivery system in many parts of the world. It has been documented that nearly 53 developing countries including India, have taken up this on a large scale. The Government of India is supporting the SHG movement.
- The main object of National Policy for Empowerment of Women (NPEW), 2001 is economic empowerment of women. The policy aims at enhancing supply of credit to the women through SHGs.
- Self-help Groups form with certain objectives such as to inculcate the habit of saving and banking bait among the rural women, to build up trust and confidence between the rural people and the bankers.
- The SHGs form the focal point of all the micro level activities and systematic facilitation is needed at each and every step in the formation of a sustainable SHG.
- Group initiation is the first and fundamental stage in the formation of a sustainable SHG.
- The concept of SHG moulds people as responsible citizens of the country and help them achieve social and economic status.
- In the effective implementation of financial inclusion, the Microfinance institutions (MFIs) play an important role and extend financial services to the microfinance sector in the country by raising resources from banks and other institutions and extending loans to individuals.
- The MFI is not eligible to raise resources from institutional sources at concessional rate of interest. They cannot even raise funds through public deposits. However, they can raise resources through their internal resources.
- The Reserve Bank of India has notified guidelines for the lending operations of MFIs based on the Malegam Committee recommendations. A new class

of financial organizations known as NBFC–MFIs has been created and subject to certain conditions regarding the capital to be employed, lending to SHG members, cap on interest to be charged and margin to be retained

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- Around 100 MFIs function in India as cooperatives, registered under the Cooperative Societies Act of the respective state, Central Multi-state Cooperative Act, 1984, or the new state-level MACS Act.
- Many NGO MFIs attain a formal corporate recognition and structure by registering under the Companies Act, 1956 as a Section 25 Company.
- The RBI norms divide the financial sector in India into two main categories—banks and NBFCs. The regulations imposed on banks are much more stringent, however, because they are seen to be facing constant risk as they are allowed to accept public deposits.
- It is the responsibility of the banks to ensure that institutions which receive priority sector funds are following these stipulations and have been verified by Chartered Accountant's Certificate every quarter.
- There is another Act, the Indian Money Lenders Act, 1918. It has been implemented in various states. The aim of this Act is putting limits on the interest rates that moneylenders charge, and in turn to protect the less privileged section from being exploited by greedy moneylenders
- Microfinance institutions in India often voluntarily join an industry association, which acts as a commitment and guide for self-regulation.
- The Andhra Pradesh government enforced the Andhra Pradesh MFIs (regulation of money lending) Ordinance, in late 2010. This ordinance later became an Act and helps regulate the activities of MFIs.
- SIDBI Foundation for Micro Credit (SFMC) is a recognized and popular wholesaler for microfinance in India. It provides multifarious services, including financial and non-financial services, like grant support, loan funds, equity and institution building support to the retailing Micro Finance Institutions (MFIs).
- Another big challenge was the launch of SFMC which aimed to increase the flow of microcredit with accompanying policy modifications, such as simpler procedures for assistance and easier security/collateral requirements.
- SIDBI is currently developing of a Code of Conduct Assessment (COCA) tool, which will help in providing credit services, recovery of credit and collection of thrift for MFIs to assess how well they are adhering to the voluntary microfinance Code of Conduct.
- Portfolio Risk Fund (PRF) was created by SIDBI with aid from the Government of India and has been operating since March, 2004. Usually, the bank mandates security requirement of FDRs equal to 10 per cent of the loan granted to MFIs under SFMC rule.

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- SFMC directs its efforts not just towards MFIs but also smaller institutions that provide microfinance help. The capacity building efforts include training, consultancy, rating and impact assessment.
- SIDBI has an initiative 'Responsible Lending' under its World Bank line of credit. As per this initiative, SIDBI gives its support to IMFP which has been developed by MIX, to offer information (both financial and operational), on Indian MFIs. IMFP is a worldwide, web-based, microfinance information platform.
- Financial Year 2012, Government of India contributed to the creation of a ₹ 100 crore fund known as IMEF. It was controlled by SIDBI and aimed to provide a boost to capitalization of smaller, socially focused MFIs, located largely in underserved states/regions.
- The concept of financial inclusion in the development discourse has gained much attention recently.
- Business Correspondent (BC) Model also known as the third party agent model of banking, is one of several measures being used by the Reserve Bank of India (RBI) to achieve the larger goal of financial inclusion in India.
- One of the key functions of the BCs is attracting and acquiring new customers. It is their principal function to identify the prospective customers for the bank, and generate awareness on the various financial products and services including savings, remittances, loans, insurance, etc.

6.8 KEY WORDS

- **Malegam Committee**: The Reserve Bank of India formed a sub-committee in order to study the Microfinance sector regulated by the bank.
- **SHG**: A self-help group (SHG) is a financial intermediary committee usually composed of 10 to 25 local women between the ages of 18 and 40. Most self-help groups are in India, though they can be found in other countries, especially in South Asia and Southeast Asia.
- **NBFC**: A non-banking financial company (NBFC) is a financial institution that does not have a full banking license or is not supervised by a national or international banking regulatory agency.
- **ECBs**: External commercial borrowing (ECBs) are loans in India made by non-resident lenders in foreign currency to Indian borrowers. They are used widely in India to facilitate access to foreign money by Indian corporations and PSUs (public sector undertakings).
- **Term deposit accounts**: These are used to deposit money for a fixed tenure/term, at specified rate of interest.

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- **PRF:** Portfolio Risk Fund (PRF) fund would be used for security deposit requirement of the loan amount from the MFIs/NGOs and to meet the cost of interest loss.
- **SIDBI:** Small Industries Development Bank of India (SIDBI) is the apex regulatory body in India for overall regulation and licensing of microfinance institutions in India.
- **The Business Correspondent (BC) Model**: It was initiated by the Reserve Bank of India (RBI) in 2006 to promote financial inclusion in India.
- **Business Correspondents**: They are representatives of credit institutions like bank. They help villagers to open bank accounts.

6.9 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What is the range of financial services which come under microfinance?
2. Who is credited to have developed the concept of microfinance?
3. What role do NGOs play in the microfinance sector?
4. What are the major challenges the microfinance industry faces in India today?
5. List the four important stages in the process of promotion of SHGs.
6. How can the MFIs raise the resources?
7. How are the activities of MFIs regulated?
8. Write a short note on the functioning of business correspondents.

Long-Answer Questions

1. Discuss the main differences of credit provision between the traditional banks and microfinance institutions.
2. “Microfinance has become an integral part of Indian policy.” Justify this statement.
3. What more steps are needed to enhance the functioning of microfinance institutions in India?
4. Discuss how the self-help group movement became a silent revolution within a short span in the rural credit delivery system.
5. Explain the functioning of SIDBI Foundation for Micro Credit (SFMC).

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6.10 FURTHER READINGS

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BLOCK III
ROLE OF RURAL BANKING FOR DEVELOPMENT

UNIT 7 INSTITUTIONAL SUPPORTING FOR RURAL DEVELOPMENT

Structure

7.0 INTRODUCTION

Realizing that rural development would play a key role in a nation's economy and prosperity, India embarked on setting up numerous institutions which are specifically focussed to bring in transformative changes in rural India, which, even today, is labour-intensive and agriculture-based. Post-Independence, Reserve Bank of India (RBI) has been taking a holistic approach to ensure that majority of people living in rural areas are not left out of development story and country's economic growth. As a result, in the rural areas, there is a wider network of financial agencies directly or indirectly involved in rural development. These institutions are again linked with National Bank for Agriculture and Rural Development (NABARD) for refinancing and borrowing purposes. Today, we have a multi- agency approach to rural financing engaged in rural development activities.

This unit aims at analysing the institutional support for rural development specifically focusing on the role of RBI and NABARD. Additionally, it also discusses problems and prospects of rural banking.

7.1 OBJECTIVES

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After going through this unit, you will be able to:

- Explain the role of institutions in supporting rural development
- Discuss the functioning of the Reserve Bank of India
- Analyze the role and performance of National Bank for Agriculture and Rural Development
- Analyze the problems and prospects of rural banking

7.2 ROLE OF THE RESERVE BANK OF INDIA (RBI) IN RURAL DEVELOPMENT

The Reserve Bank of India (RBI) is India's central bank and regulatory body functional under the ambit of Ministry of Finance, Government of India. Its origin dates back to 1926, with the recommendation of the royal commission on Indian currency and finance also known as the Hilton-Young Commission. The Commission's recommendation paved the way to for the creation of a central bank to separate the central of currency and credit from the government to augment banking facilities throughout the country. The 1934 Act of the Reserve Bank of India established it as the central bank which started operations in 1935.

The primary function of the Reserve Bank of India is the issue and supply of the Indian rupee and the regulation of the Indian banking system. Since the inception of the central bank, its roles and functions have undergone numerous changes and today the RBI performs the following functions. These are as follows:

- Financial supervision
- Regulator and supervisor of the financial system
- Regulator and supervisor of the payment and settlement systems
- Banker and debt manager to government
- Managing foreign exchange
- Issue of currency
- Bankers' bank
- Regulator of the banking system
- Detection of fake currency
- Custodian to foreign exchange

In addition to the above-mentioned functions, the Reserve Bank of India performs various development functions also. One of the development roles that RBI performs is that of providing finance for development projects especially those of agriculture and rural development.

The funding requirements of the rural and agricultural projects are enormous. The list of funding requirements for various projects is endless and so is the amount required. A review of the history of Central Banks around the world reveals that they showed little interest in financing rural and agriculture development. Several factors contributed to their reluctance in funding the rural and agriculture projects including the small amount of individual loans, negligible value of the securities, problems of the collaterals, higher risk, etc. The central and commercial banks around the world, therefore, did not actively participate in the provision of rural finance.

India felt the need for rural finance long time before Independence and the creation of the Reserve Bank of India focused on increasing the volume of credit available for trade, industry and agriculture and to mitigate the evils of fluctuating and high charges for the use of such credit. Today, as we can see, the Reserve Bank of India provides assistance in the area of agriculture credit, financing for rural credit programs, consultation to government and ministries, alongside the regular supervision and monitoring of banking and other financial institutions.

The Reserve Bank of India (RBI) was a pioneer in the area of rural credit. The founding legislation and several amendments of the country's central bank paved way to take over the responsibility for enlarging the availability of rural credit. The bank predominantly performs three major functions within the sphere of provision of rural credit, namely a) financing function, b) promotional advisory and coordinating function and c) regulatory functions.

Financing Functions of RBI

The major function of the RBI in relation to rural and agricultural development is to pump rural credit in the various schemes of the Government of India (GoI). Under the ambit of financing functions, the RBI creates provision of long and medium term loans for various projects. For instance the bank provides long-term loans to state governments from the National Agricultural Credit Fund with an objective of contributing towards the share capital of the cooperative credit institutions. The medium-term loans are provided to the State Commercial Banks (SCBs) to refinance the seasonal crop loans of credit cooperatives. It also grants medium-term loans to SCBs from the National Agricultural Stabilization Fund for the repayment of their short-term loans under the conditions of drought and famine. The bank also provides long, medium and short term loans to National Bank for Agriculture and Rural Development (NABARD).

Promotional, Advisory and Coordinating Function

The promotional advisory and coordinating functions of the RBI are planning and formulation of programs for cooperative credit under the Five Year Plans, review of the annual progress of various credit schemes and providing support to the central and state governments, and cooperative credit institutions in tackling their problems in implementing various credit schemes.

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Regulatory Functions

The RBI is an apex bank that is entrusted with the important responsibility of monitoring various banking and financial institutions. The regulatory functions, therefore, include devising and putting in place the operational guidelines for the institutes operational in the domain of rural credit and finance and specifically include establishment of credit limits and norms for credit cooperatives and commercial banks.

Check Your Progress

1. What led to the creation of the Reserve Bank of India?
2. List the various functions of the RBI.

7.3 NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT: ROLE AND PERFORMANCE

On the recommendation of the Shivaraman Committee, appointed by the Reserve Bank of India in March, 1979, to study the problems related to the agricultural credit, National Bank for Agriculture and Rural Development (NABARD) was established on July 12, 1982. It was established as an apex bank for the agricultural credit. This was expected to play an important role in the agricultural and rural development. This apex development bank was established for the promotion of agriculture, small scale industries, cottage and village industries and other allied economic activities in rural areas. Rural areas cover all villages, irrespective of the size of population and also towns, with a population not exceeding 10,000. NABARD took over the functions of the following departments of the Reserve Bank of India:

- Agriculture Credit Department
- Rural Planning and Credit Cell
- Agricultural Re-finance and Development Corporation

Principal activities of NABARD

NABARD focuses on the following activities:

- It plays the role of an apex institution in respect of all matters relating to policy and planning and operational aspects relating to promotion of credit for agriculture, small scale industries, cottage and village industries, handicrafts and other allied economic activities in the rural areas.
- It serves as a re-financing institution for providing long-term and short-term credit for promotion of activities in rural areas.

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Management of NABARD

The Government of India has entrusted the management of the NABARD to a Board of Directors. This Board consists of the following:

- A Chairman
- A Managing Director
- Three directors from among the directors of the RBI
- Three directors from the officials of the Government of India
- Two directors from among the experts in rural economics and rural development
- Two directors from among the officials of State Governments
- Three directors with the experience in the working of co-operative and commercial banking

Functions of NABARD

NABARD performs the following functions:

I. **Credit functions**: Following are the principal credit functions of NABARD:

1. **Re-finance facility:** NABARD offers re-finance facility (by way of short-term credit) to co-operative banks, sectoral banks and other financial institutions. By doing it, NABARD seeks to promote the following:
   (i) Marketing of agricultural produce
   (ii) Distribution of agricultural inputs to the farmers
   (iii) Production and marketing activities of cottage and small scale industries
2. **Medium-terms credit:** NABARD offers medium-term credit (for a period ranging between 1½–7 years) to the following:
   (i) State co-operative banks
   (ii) Regional rural banks
3. **Long-term credit:** NABARD offers long period credit (for a period not exceeding twenty five years) to the following:
   (i) State co-operative banks
   (ii) RRBs
   (iii) Land development banks
   (iv) Commercial banks
4. **Conversion facilities:** It offers conversion facility to state cooperative banks and RRBs for period not exceeding seven years under conditions of drought, famine or other natural calamities.

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5. **Credit to state governments:** It provides credit to state governments for periods not exceeding twenty years to enable them to subscribe directly or indirectly to the share capital of co-operative credit societies.
6. **Share capital:** NABARD subscribes to share capital or invests in securities of any institution concerned with agricultural and rural development.

II. **Regulatory functions**: Following are the principal regulatory functions of NABARD:
   (i) The Banking Regulation Act, 1949 empowers NABARD to undertake the inspection of co-operative societies other than primary co-operative societies and RRBs
   (ii) Any RRB or a co-operative society seeking permission to open a branch will have to forward its application to the Reserve Bank through NABARD
   (iii) The RRBs and the co-operative banks submitting their returns to the Reserve Bank are expected to furnish copies of such returns to NABARD
   (iv) The NABARD has been granted powers to call for any information or statement from the co-operative banks and the RRBs.

III. **Development functions**: NABARD undertakes various development functions. It formulates the following:
   (i) Credit plans
   (ii) Builds institutions
   (iii) Promotes research and technology
   (iv) Introduces innovations in credit delivery mechanisms
   (v) Focusses on skill-upgradation of beneficiaries and client banks

   NABARD co-ordinates the operations of the following:
   (i) Rural credit agencies
   (ii) Develops expertise to deal with agricultural and rural problems
   (iii) Assists government, Reserve Bank and other institutions in their rural development efforts

It provides facilities for training and research, assists the state governments to enable them to contribute to the share capital of the eligible institutions. In order to upgrade the technical skill and competence of the personnel engaged in agricultural and rural development, NABARD undertakes various training programmes as well.

Capital and resources of NABARD

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Initially, the paid-up capital of NABARD was ₹ 100 crore and authorized capital was ₹ 500 crore. The paid-up capital was initially contributed by the RBI and the Central Government. The paid-up capital of NABARD was raised from ₹ 100 crore to ₹ 500 crore. In 1999, it was raised to ₹ 2,000 crore. NABARD draws funds from the Government of India, the World Bank and other agencies, and also raises fund from the market. With these contributions the effective capital base of NABARD at the end of March 2000, rose to ₹ 6,882 crore and now stands close to ₹ 14,080 crore as of 2020.

Major resources of NABARD are as follows:

- **Share capital:** As mentioned above, the paid-up capital of NABARD has been gradually raised from ₹ 100 crore to ₹ 1000 crore and has been further enhanced to ₹ 2000 crore and now to ₹ 14,080 core in 2020.
- **National Rural Credit Fund:** This fund has been set up under Section 42 of the NABARD and is credited with the contributions made by RBI and the Government of India from time to time. The amount in this fund is applied by NABARD to provide financial assistance by way of loans and advances for various purposes.
- **National Rural Credit (Stabilization) Fund:** This fund is also credited with contributions from the RBI and the Central Government. The money credited to this fund is utilized for granting assistance to state co-operative banks, RRBs or other financial institutions when they require assistance by way of loans and advances up to seven years, due to drought, famine or other calamities, military operations or enemy action.
- **Rural Infrastructure Development Fund:** This fund was created for facilitating quicker completion of on-going rural-infrastructure projects and commercial banks, which fail to meet the target for agricultural lending under the priority sectors.
- **Borrowing from Reserve Bank:** The Reserve Bank of India provides General Lines of Credit (GLC) to NABARD to facilitate the re-finance of seasonal agricultural operations and off-farm credit.
- **Bonds and Debentures:** NABARD raises funds through market borrowings by issue of bounds and debentures.
- **Deposits:** Most of the deposits have been made by private banks on account of priority sector lending.
- **Government of India and World Bank:** As mentioned above, the NABARD draws fund from the Government of India and the World Bank and IDA.

Performance and achievements of NABARD

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One may make following observations in this regard:

- **Resource mobilization:** NABARD mobilized resources with contribution of National Rural Credit and the Rural Infrastructure Development Fund (RIDF).
- **Re-finance:** It provides re-finance facilities to state governments and regional rural banks. The disbursement can be split in two parts:
  - (i) **Purpose-wise disbursement:** The NABARD disburses credit mainly for the following purposes:
    - Minor irrigation
    - Land development
    - Farm mechanization
    - Plantation
    - Horticulture
    - Poultry farming
    - Sheep breeding
    - Fisheries
    - Dairy development
    - Storage
    - Market yards
  - (ii) **Region-wise disbursement:** NABARD has divided the country in six regions, namely, northern, north-eastern, eastern, central, western and southern.
    - **Rural Infrastructure Development Fund (RIDF):** The Rural Infrastructure Development Fund (RIDF) was initially set up with an amount of ₹ 2,000 crore in 1995–1996. Now total corpus of the fund has increased to ₹ 18,000 crore. The main objective of this fund is to help completion of various types of rural infrastructure projects (like irrigation, roads and bridges) undertaken by the state governments and state corporations. Disbursement of ₹ 13,042 crore had been made by the end of 2002. The Government of India setup a new RIDF Fund with every budget since 1995–1996.
    - **Micro finance:** This focusses on access of rural poor to formal banking services through self-help groups (SHGs). A Micro Finance Development Fund in NABARD with a start-up capital of ₹ 100 crore was first announced through Union Budget in 2000–2001.

- **Kisan Credit Card Scheme:** This scheme was introduced in 1998–1999 to facilitate short-term credit to farmers. It is popular among both the farmers and the bankers. Farmers have the flexibility of availability production credit avoiding procedural delays. For bankers, the need for repeated processing of credit application is avoided.
- **Agricultural Development Finance Companies:** The NABARD took the initiative in establishing state level agricultural development finance companies. The objective of these companies is to strengthen the flow of credit to hi-tech/high value agricultural operations and associated infrastructure. These companies are being set up in Andhra Pradesh, Tamil Nadu and Karnataka. The equity participation between public and private sectors is to be in the ratio of 45: 55.
- **Promotional and developmental measures:** NABARD also undertakes several promotional and developmental measures for qualitative improvement of lending in the non-farm sector. The promotional schemes so far introduced/supported with grant/ assistance includes training cum production centres, artisan guilds, rural entrepreneurship development programmes and other training programmes. NABARD also has a scheme to link self-help groups (SHGs) with banks with 100 per cent re-finance facility.
- **Credit Monitoring Arrangement:** NABARD (in consultation with RBI) has replaced Credit Authorization Scheme (CAS) with Credit Monitoring Arrangement (CMA). It has been done with a view to provide cooperative banks greater freedom and discretion. The idea is to create a liberalized and competitive banking environment. However, banks are required to adhere to the exposure norms. They must satisfy themselves about the technical feasibility and financial viability of the credit proposals.

Re-finance under SGSY: NABARD has engaged itself in the implementation of Swarnajayanti Gram SwarozgarYojna (SGSY). It has issued operational instructions to RBIs and Cooperative Banks. Banks have been advised to evolve suitable norms for grading SGSY groups at different stages of financing on the illustrative parameters indicated by NABARD.

Check Your Progress

3. When was National Bank for Agriculture and Rural Development established?
4. What are the principal activities of NABARD?
5. What are the development functions of NABARD?

7.4 PROBLEMS AND PROSPECTS OF RURAL BANKING

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Rural banking is referred to as banking in the rural area and for the rural communities. In context of India which is predominantly rural and agriculture-based society, a robust rural banking sector is the need of the hour.

Rural banking in India is a result of realization in the mid 1970s that me needed a more systematic and concerted efforts to channel rural credit in the country. The need for developing the rural economy grew stronger the therefore agriculture, trade, commerce and other productive activities in the rural areas required an impetus through strong financial support to small and marginal farmers, traders, artisans, small entrepreneurs, agricultural labour and women. Following the recommendations of the Working Group under the Chairmanship of M. N. Narasimhan, establishment of a new type of institution to support rural, agricultural and other productive activities was envisioned. The first five Rural Regional Banks (RRBs) were established in 1975 and promulgated since then. Since their inception the regional rural banks have provided increasing lending support to the rural communities and assisted them in their productive activities.

The rural banking structure in India follows a multi-agency pattern and consists of four sets of institutions. The four institutions are: the commercial banks (CBs) both nationalised and others, a three-tier federal cooperative banking system with the state cooperative banks (SCBs) at the state level, district cooperative central banks (DCCBs) at the district level and the primary agricultural credit societies (PACS) at the village level (in some of the smaller states, the structure is two-tier with the SCB at the state level and the PACs at the village level), the state cooperative agriculture and rural development banks (SCARDBs) with primary cooperative agriculture and rural development banks (PCARDBs) affiliated to them or supported by a network of branches at the taluka/block level and finally the regional rural banks (RRBs).

The regional rural banks (RRBs) specifically perform the following functions:

- Accepting deposits
- Advancing short, medium and long term loans for various rural development activities like crop production, buying tractors and other agriculture equipment, setting up small cottage industries, village crafts, etc.
- Providing ancillary banking services to the customers
- Supplying inputs and equipment to farmers
- Providing assistance in the marketing of their products

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Problems of Regional Rural Banks (RRBs) are as follows:

- **Inadequate Finance**: One of the major problems being faced by the RRB's is that of inadequate finance. The regional rural banks are highly dependent on National Bank for Agriculture and Rural Development (NABARD) for satisfying their financial requirements and furthering their rural credit operations. The level of savings in the rural areas is low which in turn affects the financial health of RRBs and hinder smooth operations.
- **Poor Recovery Rates**: Yet another problem faced by the regional rural banks is that of high over dues and very poor recovery of loans. The loan default is however become one of the biggest problems before the RRBs and is consistently affecting the functioning of RRBs. Poor access of granting loan, insufficient and untrained staff, unproductive or less productive use of credit, inadequate production, poor marketing facilities and improper channel of recovery system has resulted in this problem that can be seen in almost all the RRBs.
- **Regional Imbalance**: Regional Rural Banks are also characterized by the issues of regional imbalance in banking facilities. This is primarily happening because of selective operational area in districts and blocks.
- **Increasing NPAs**: Many RRBs are suffering from the problem of heavy loans because of low repaying capacity of their customer. The unpaid loans increase burden on the branch and affects its performance further.
- **Inability to Tackle Poverty Issues**: The RRBs have failed to play a significant role in poverty alleviation of the country. Though the RRBs have made sincere efforts in this regard but lack of economic infrastructure, poor marketing strategies, poor knowledge of customers, low production, low awareness about savings have created many hurdles for RRB's.
- **Improper Coordination**: Regional Rural Banks (RRBs) are also characterized with absence of proper co-ordination between them and other financial institution like commercial banks, NABARD and other co-operative banks. The lack of coordination with the other institutions dealing in rural credit has severely affected the performance of these banks.

Prospects of Rural Banking

Rural banking needs are many and the rural communities have limited facilities for the same. In the absence of rural banks the rural community members often end up settling their financial needs through local moneylenders and traders and get into the vicious circle of unending interest rates and exploitation. In order to fulfill the financial needs of the rural people, RRBs should enhance their operations and instead of providing rural credit services only for agriculture sector must also provide

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benefits to small entrepreneurs, village and cottage industries and small farmers. Better institutional coordination with financing agencies, co-operative banks, commercial banks and local participants must be undertaken to serve the untapped rural market. Rural banks need to remove the lack of transparency in their operation which leads to unequal relationship between banker and customer.

The RRBs must keep in mind the reasons for their existence and therefore must provide credit facilities to weaker sections in the villages. They should be the first priority banks for the rural poor.

The role of state government is very important in keeping the RRBs strong. A better policy and management guidelines must be developed and implemented. Appointing local staff who are well versed with the region, its culture and people might be a good strategy in the long run. Training of the staff must be undertaken regularly to upgrade their customer management skills.

Focus must be laid on cross selling other financial products like micro-insurance through the RRBs. They must also involve in making villages aware about wealth management programs.

Check Your Progress

6. Why does India needs a robust rural banking sector?
7. When were Rural Regional Banks established in India?
8. List the various functions that RRBs perform.

7.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The RBI's origin dates back to 1926, with the recommendation of the royal commission on Indian currency and finance also known as the Hilton-Young Commission. The Commission's recommendation paved the way to for the creation of a central bank to separate the central of currency and credit from the government to augment banking facilities throughout the country. The 1934 Act of the Reserve Bank of India established it as the central bank which started operations in 1935.
2. Today, the RBI performs the following functions. These are as follows:
   - Financial supervision
   - Regulator and supervisor of the financial system
   - Regulator and supervisor of the payment and settlement systems
   - Banker and debt manager to government
   - Managing foreign exchange
   - Issue of currency

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- Bankers' bank
- Regulator of the banking system
- Detection of fake currency
- Custodian to foreign exchange

3. On the recommendation of Shivaraman Committee, appointed by the Reserve Bank of India in March, 1979, to study the problems related to the agricultural credit, the National Bank for Agriculture and Rural Development (NABARD) was established on July 12, 1982. It was established as an apex bank for the agricultural credit.
4. NABARD focuses on the following activities:
   - It plays the role of an apex institution in respect of all matters relating to policy and planning and operational aspects relating to promotion of credit for agriculture, small scale industries, cottage and village industries, handicrafts and other allied economic activities in the rural areas.
   - It serves as a re-financing institution for providing long-term and short-term credit for promotion of activities in rural areas.
5. NABARD undertakes various development functions. It formulates the following:
   (i) Credit plans
   (ii) Builds institutions
   (iii) Promotes research and technology
   (iv) Introduces innovations in credit delivery mechanisms
   (vi) Focusses on skill-upgradation of beneficiaries and client banks

   NABARD co-ordinates the operations of the following:
   (i) Rural credit agencies
   (ii) Develops expertise to deal with agricultural and rural problems
   (iii) Assists government, Reserve Bank and other institutions in their rural development efforts
6. Rural banking is referred to as banking in the rural area and for the rural communities. In context of India which is predominantly rural and agriculture-based society, a robust rural banking sector is the need of the hour.
7. Following the recommendations of the Working Group under the Chairmanship of M. N. Narasimhan, establishment of a new type of institution to support rural, agricultural and other productive activities was envisioned. The first five Rural Regional Banks (RRBs) were established in 1975 and promulgated since then. Since their inception the regional rural banks have provided increasing lending support to the rural communities and assisted them in their productive activities.

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8. The regional rural banks specifically perform the following functions:
   - Accepting deposits
   - Advancing short, medium and long term loans for various rural development activities like crop production, buying tractors and other agriculture equipment, setting up small cottage industries, village crafts, etc.
   - Providing ancillary banking services to the customers
   - Supplying inputs and equipment to farmers
   - Providing assistance in the marketing of their products

7.6 SUMMARY

- The Reserve Bank of India (RBI) is India's central bank and regulatory body functional under the ambit of Ministry of Finance, Government of India. Its origin dates back to 1926, with the recommendation of the royal commission on Indian currency and finance also known as the Hilton-Young Commission.
- The primary function of the Reserve Bank of India is the issue and supply of the Indian rupee and the regulation of the Indian banking system.
- The funding requirements of the rural and agricultural projects are enormous. The list of funding requirements for various projects is endless and so is the amount required. A review of the history of Central Banks around the world reveals that they showed little interest in financing rural and agriculture development.
- The Reserve Bank of India (RBI) was a pioneer in the area of rural credit. The founding legislation and several amendments of the country's central bank paved way to take over the responsibility for enlarging the availability of rural credit.
- The major function of the RBI in relation to rural and agricultural development is to pump rural credit in the various schemes of the Government of India (GoI). Under the ambit of financing functions, the RBI creates provision of long and medium term loans for various projects.
- The promotional advisory and coordinating functions of the RBI are planning and formulation of programs for cooperative credit under the Five Year Plans, review of the annual progress of various credit schemes and providing support to the central and state governments, and cooperative credit institutions in tackling their problems in implementing various credit schemes.
- On the recommendation of Shivaraman Committee, appointed by the Reserve Bank of India in March, 1979, to study the problems related to the

agricultural credit, National Bank for Agriculture and Rural Development (NABARD) was established on July 12, 1982.

- NABARD offers re-finance facility (by way of short-term credit) to co-operative banks, sectoral banks and other financial institutions.
- Initially, the paid-up capital of NABARD was ₹ 100 crore and authorized capital was ₹ 500 crore. The paid-up capital was initially contributed by the RBI and the Central Government
- National Rural Credit (Stabilization) Fund is also credited with contributions from the RBI and the Central Government.
- NABARD mobilized resources with contribution of National Rural Credit and the Rural Infrastructure Development Fund (RIDF).
- The Rural Infrastructure Development Fund (RIDF) was initially set up with an amount of ₹ 2,000 crore in 1995–1996.
- A Micro Finance Development Fund in NABARD with a start-up capital of ₹ 100 crore was first announced through Union Budget in 2000–2001.
- Kisan Credit Card Scheme was introduced in 1998–1999 to facilitate short-term credit to farmers. It is popular among both the farmers and the bankers.
- NABARD also undertakes several promotional and developmental measures for qualitative improvement of lending in the non-farm sector.
- NABARD (in consultation with RBI) has replaced Credit Authorization Scheme (CAS) with Credit Monitoring Arrangement (CMA).
- Rural banking is referred to as banking in the rural area and for the rural communities. In context of India which is predominantly rural and agriculture-based society, a robust rural banking sector is the need of the hour.
- Following the recommendations of the Working Group under the Chairmanship of M. N. Narasimhan, establishment of a new type of institution to support rural, agricultural and other productive activities was envisioned.
- The rural banking structure in India follows a multi-agency pattern and consists of four sets of institutions.
- One of the major problems being faced by the RRB's is that of inadequate finance.
- Yet another problem faced by the regional rural banks is that of high over dues and very poor recovery of loans. The loan default is however become one of the biggest problems before the RRBs and is consistently affecting the functioning of RRBs.
- Many RRBs are suffering from the problem of heavy loans because of low repaying capacity of their customer. The unpaid loans increase burden on the branch and affects its performance further.

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- Regional Rural Banks (RRBs) are also characterized with absence of proper co-ordination between them and other financial institution like commercial banks, NABARD and other co-operative banks.
- Better institutional coordination with financing agencies, co-operative banks, commercial banks and local participants must be undertaken to serve the untapped rural market.
- The role of state government is very important in keeping the RRBs strong. A better policy and management guidelines must be developed and implemented. Appointing local staff who are well versed with the region, its culture and people might be a good strategy in the long run.

7.7 KEY WORDS

- **Sivaraman Committee**: The Committee was headed by Sivaraman, former member of Planning Commission, Government of India, to review the arrangements for institutional credit for agriculture and rural development.
- **Debenture:** A long-term security yielding a fixed rate of interest, issued by a company and secured against assets.
- **The Kisan Credit Card Scheme**: This is a credit scheme introduced in August 1998 by Indian banks. This model scheme was prepared by the National Bank for Agriculture and Rural Development.
- **Swarnajayanti Gram Swarojgar Yojana (SGSY):** SGSY has been designed to cover all aspects of self-employment such as organisation of the poor into self-help groups, training, credit, technology, infrastructure and marketing.
- **DCCB**: A District Co-operative Central Bank (DCCB) is a cooperative bank operating at the district level in various parts of India.
- **NPA**: A non-performing asset (NPA) refers to a classification for loans or advances that are in default or in arrears. A loan is in arrears when principal or interest payments are late or missed.

7.8 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. When did India feel the need for rural finance?
2. Write a short note on the financing functions of the RBI.
3. Discuss why, in the beginning, central banks across the world were reluctant in funding the rural and agriculture projects.

4. What are the principal regulatory functions of NABARD?
5. What was the objective of Agricultural Development Finance Companies?
6. What pattern does the rural banking structure in India follow?

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Long-Answer Questions

1. Discuss why the funding requirements of rural and agricultural projects is enormous.
2. Critically analyze the major functions of RBI within the sphere of provision of rural credit.
3. Discuss the performance and achievements of NABARD.
4. Analyze the problems and prospects of the RRBs in India.
5. Explain the role of state government in keeping the RRBs strong.

7.9 FURTHER READINGS

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UNIT 8 INSTITUTIONAL SUPPORT FOR RURAL DEVELOPMENT-II

Structure

8.0 INTRODUCTION

Planning, financing and executing rural development projects for the development of rural areas and communities is of grave significance for a country like India. We are aware of the fact that majority of the population in India lives in villages. Despite rapid urbanization, 65 per cent of the country's population resides in rural villages. Since independence the government of India has formulated plans for the overall economic, social, cultural and technological development of the country and rural areas have been given due priority. In order to plan, finance, execute and monitor the status of rural development programs institutional set ups have been created with specific roles and responsibilities. Several institutions like Reserve Bank of India (RBI), Small Industries Development Bank of India (SIDBI), National Bank for Agriculture and Rural Development (NABARD), District Industries Centre (DIC), District Rural Development Agency and many more are prominent institutes supporting rural development. In this unit, we will study in detail about the role and performance of SIDBI, District Industries Centre and District Rural Development Agency.

8.1 OBJECTIVES

After going through this unit, you will be able to:

- Describe the role and performance of the SIDBI
- Explain the functions of District Industries Centres and District Rural Development Agency

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8.2 SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI): ROLE AND PERFORMANCE

The Small Industries Development Bank of India or SIDBI plays an important role in the growth and development of a country as it provides required infrastructure for economic development of the country. In our country a large part of population lives in villages where infrastructural improvement is the need of the hour. With its various functions SIDBI facilitates improvements in creation of employment, infrastructure and wealth for the nation.

Set up on 2nd April 1990 under an Act of Indian Parliament, the Small Industries Development Bank of India (SIDBI), is the Principal Financial Institution for Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector as well as for co-ordination of functions of institutions engaged in similar activities. From a predominant role as a refinancing institution, today SIDBI has emerged as a major supplier of a wide range of financial services to the small-scale sector.

SIDBI performs various functions which are as follows:

- Providing Direct Finance to MSMEs and Service Sectors;
- Providing Indirect Finance to Banks, NBFCs, SFCs, and other Central Financing/Development Agencies, Development of Micro Credit Institutions;
- Facilitating Promotion of Associate Institutions like Venture Capital, Rating Agency, Credit Guarantee Fund, Asset Reconstruction Company and so on; and
- Operating as a Nodal Agency for Government of India for various MSME Schemes.

Functions and Performance of SIDBI

Since its inception in 1990, SIDBI has supported the nation's well-being in general and economy in particular through its various activities. It has assisted several entrepreneurs, institutions, government agencies and more through its schemes. SIDBI has performed steadily as shall be made clear through the data below:

Institutional Finance: The Institutional Finance during the financial year 2020 has crossed landmark figure of 1.5 lakh crore, registering a growth of 22.6%. Under the ambit of institutional finance, SIDBI offer financial assistance to Micro Finance Institutions (MFIs), Non-Banking Financial Companies (NBFCs), Direct Assistance (Inc RFS) and Refinance to Banks and Financial Institutions.

During the financial year 2020 the Refinance to Banks & FIs stood at ₹ 1,43,233 crore registering a growth of 23.2%. The Bank, through its Refinance

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operations, facilitated flow of funds to MSEs. Refinance is channelized through following schemes:

- Micro and Small Enterprises Refinance Scheme (MSERS) to Banks and Refinance to Small Finance Banks (RSFB): Under the scheme an amount of ₹ 55,457 crore was disbursed benefitting more than 8.14 lakh MSEs during the FY 2020.
- Refinance Scheme for Micro and Small Enterprises Sector (RMSE): An amount of ₹ 39,341 crore was disbursed benefitting 3.42 lakh MSEs during the FY 2020.

SIDBI has been assisting NBFCs and fund disbursement increased to ₹ 10,375 crore as on March 2020 from ₹ 9,370 crore as on March 2019, registering growth of 10.7%. The bank also disbursed ₹ 3,650 crore during FY 2020 addressing the liquidity concerns of NBFCs. During the same financial year 16 new NBFCs (including 10 New Age Fintech NBFCs) were on-boarded.

While assisting Micro Finance Institutions (MFIs) the bank disbursed 1,821 crore as on March 2020 and registered a growth of 55.4 per cent from the previous financial year wherein 1,172 crore was disbursed. It has also cumulatively benefited approximately 390 lakh disadvantaged people, most of them being women.

Direct Lending Activities: According to the data of FY 2020 the disbursements under the direct lending activities registered healthy growth of 19.7%. The number of customers in the same FY 2020 increased to 6,595 as on March 2020 from 5,201 as on March 2019, hereby registering growth of 26.8 per cent.

Fund of Funds: The Bank has been operating Fund of Funds programs. The Fund of Funds for Startups (FFS), ASPIRE Fund (AF), All India Funds, Regional Funds, MSME-RCF and India Aspiration Fund (IAF). SIDBI through such various programs assists companies at different stages of business cycles.

Promotion and Development (P&D) Activities: SIDBI also undertakes various promotion and development (P & D) activities. The activities under the P & D initiatives are guided by four themes namely, Sampark, Samwad, Suraksha and Sampreshan (4S) to tackle various nonfinancial challenges of the MSME sector.

- Sampark: It is an endeavour of the bank to connect MSMEs and entrepreneurs. Various activities like Swavalamban Info Series, Swavalamban Walls and Clubs, Swavalamban Bazar, Udyam Sangyan and State Outreach Program are part of activities under the ambit of Sampark.
- Samwad: A “dialogue” to strengthen relationship among various stakeholders of the MSME Sector.
- Suraksha: Program envisioned for creating an enabling environment for the growth of MSMEs. Swavalamban Silai Schools, Swavalamban Connect Kendras (SCKs), Swavalamban Express: An Entrepreneurial

Journey "Start your own Business", Co-Working Space, Udyam Gyanshala (MDP at IIM Lucknow), Swavalamban Role Models and Eu-Switch Asia Bamboo Project are few flagships activities encapsulated for creating an enabling environment for the growth of MSMEs under Suraksha.

- Sampreshan: It is a constructive engagement with policy makers & MSME entrepreneurs.

The bank has also completed the implementation of Poorest States Inclusive Growth (PSIG) Program Funded by UK Aid through the Department for International Development (DFID), UK since April 2012. The program aimed at enhancing the income and employment opportunities of the poor, especially women, in states with high incidence of economic poverty. The project achievements include:

- Special credit connect drive with focus on financial literacy,
- Components of gender mainstreaming showed positive shifts in institutional will and capacity to become more inclusive toward women,
- Project resulted in improved economic well-being of households and empowered women,
- Increased decision making for women became evident due to project activities,
- Increase in productive loans for business purposes and integration with banking system taking place,
- Investments made in 23 enterprises under Samridhi Fund

Check Your Progress

1. What do you mean by SIDBI?
2. Name the themes that guide the P&D activities of SIDBI to tackle nonfinancial challenges of the MSME sector.

8.3 DISTRICT INDUSTRIES CENTRE (DIC): ROLE AND PERFORMANCE

Yet another important institute supporting and facilitating the rural development is the District Industries Centre (DIC). Operating under the Directorate of Industries and Commerce, the District Industry Centre offers one stop solution to various schemes offered by the Ministry of Social Justice and Empowerment. The major focus of DIC is to create opportunities that generate employment in rural areas of India. Located at the district headquarter the DIC provides all the necessary support services to entrepreneurs to start their own Micro Small and Medium Enterprises (MSMEs). DICs also promote Registration and Development of Industrial Cooperatives.

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Launched in 1978 the District Industries Centres (DICs) provide integrated administrative framework at the district level for promotion of small scale industries in rural areas. The DIC's are visualized as a single window interacting agency providing support to small entrepreneurs under a single roof. DICs are the implementing arm of the central and state governments of the various schemes and programs. The organizational structure of DICs consists of General Manager, Functional Managers and Project Managers to provide technical services in the areas relevant to the needs of the district concerned. Management of DIC is done by the state government.

Functions and Performance of DICs

The DICs are funded by the State government concerned and the Centre jointly. Various schemes of the state and central government are available at the DICs and are promoted and implemented in accordance to the rules and regulations. The schemes may vary from state to state but in general entrepreneurship projects in almost all fields are available under District Industries Centre.

The District Industries Centre undertakes important functions discussed as below:

- Identification of Entrepreneurs: One of the important functions of DIC is that of identification of entrepreneurs in their operational area. The District Industries Centre makes concerted efforts throughout to identify potential entrepreneurs who can align with their vision of creating a strong ecosystem for entrepreneurship in the country especially rural areas.
- Identification and Dissemination of Suitable Schemes: Identification and dissemination of the relevant schemes for the interested entrepreneurs is another important function that DIC performs. Through its centre and network of other institutions, DIC disseminates information of relevant schemes to attract potential entrepreneurs.
- Arrangement of Credit for Entrepreneurs: Credit is very important for initiating any business. One of the major responsibilities of DIC is that of making arrangements of credit for entrepreneurs. Various government schemes offer subsidy based loans that are disbursed through various banks with the support of DIC.
- Preparing Feasibility and Technical Reports: The projects submitted under the various schemes require systematic preparation of feasibility and technical project reports. Without satisfactory feasibility and technical reports the financial institutes including banks will not approve the projects. The DIC assist entrepreneurs in preparing the technical and feasibility reports as per the guidelines laid by the various bodies.
- Undertaking Awareness Drive for Entrepreneurship Development: District Industries Centre (DIC) regularly undertakes awareness drive for entrepreneurship development. Awareness camps, information,

education and communication (IEC) preparation and dissemination, advertisement, etc., are common ways of spreading the awareness about entrepreneurship development and its advantages.

- Conducting Training Program for Entrepreneurship Development: District Industries Centre also on a regular basis conduct training programs for entrepreneurs seeking to initiate new venture or business. Capacity building of the new entrepreneurs with an objective of enhancing their skills on ideating, marketing, budgeting, etc., are undertaken often with the support from the state and central sponsored programs.
- Development and Expansion of Industrial Clusters: One of the key functions of DIC is to develop and expand the industrial clusters in their respective districts. Various schemes under MSMEs are focused on developing industrial clusters in districts and DIC assists in the same.

Check Your Progress

3. Who funds the DICs?
4. State the organizational structure of DICs.

8.4 DISTRICT RURAL DEVELOPMENT AGENCY (DRDA): ROLE AND PERFORMANCE

Rural development programs are planned, funded, implemented and monitored through an institutional set up at the district level. The institutional set up of, the District Rural Development Agency (DRDA) has been the main arm at the District level to initiate and undertake the implementation of different rural development programs. The structure and systems of DRDA may slightly vary from district to district but perform similar functions across the country. DRDA was institutionalized originally to implement the Integrated Rural Development Program (IRDP). Over the years its scope of work was increased to implement number of programs of both state and central governments. Subsequently, in order to strengthen the DRDAs and bring more professionalism in managing the rural development programs, a separate DRDA administration was introduced in the year 1999. The separate administration facilitated greater decentralization of rural development programs, better administration management including the budget and effective implementation at the grassroots level.

Structure of District Rural Development Agency (DRDA)

The District Rural Development Agency (DRDA) operates at the district level. The Ministry of Rural Development is the apex body that designs and facilitates funding and implementation of rural development schemes and programs. The prime responsibility of the ministry includes the release of central share of funds, policy formulation, overall guidance, monitoring and evaluation of the rural

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development programs. The Secretary of Panchayati Raj Institution (PRI) and the Commissioner Rural Development at the state level are overall in-charge of the rural development programs. At the District level the Members of Parliament (MPs), Members of Legislative Assemblies (MLAs), District level officials of Development Departments, Bankers, NGO's and representatives of weaker sections of the society are the governing members of the DRDA. The District Collector used to be (but not always at present) the Chairman of the Governing Board. The Governing body at the district level provides guidance and directions to DRDA. The body in DRDA responsible for actual implementation is headed by a competent government official.

The DRDA is a separate entity. However, it functions under the chairmanship of the Chairman of the Zilla Parishad. As an administrative unit of the district government they majorly perform a facilitating and supporting role to the Zilla Parishad, by way of providing necessary executive and technical support in rural development projects. In the absence of the Zilla Parishads, the DRDA functions under the Collector/District Magistrate/Deputy Commissioner, as the case may be.

Functions of District Rural Development Agency (DRDA)

Effective program design and implementation of rural development programs is very important. None of the rural development programs can be impactful if implemented without clarity of purpose and a commitment to the task. The need of an administratively strong organization that can spearhead the entire program is therefore a must. The DRDA plays a very crucial role in effective and efficient planning, budgeting, implementation and monitoring of rural development projects in the district. It has to be made very clear that the DRDAs are not the implementing agencies, but are always in supporting role. They ensure that the projects are provided to good organizations that can systematically plan, implement and monitor the same at the grassroots level. In this regard the DRDA acts as a supporting and a facilitating organization and plays a very effective role as a catalyst in development process.

Monitoring and evaluation of the project is very important. The onus of planning and implementing meaningful rural development projects lies on the District Rural Development Agency. It is considered to be a highly competent administrative unit with enough resources to manage projects of such nature and significance. The DRDA on a regular basis must exercise its supervision on every stage of the project from conceptualization to execution. In practice the DRDAs monitor closely the implementation through seeking of periodic monthly reports as well as frequent field visits. The field visits facilitate the implementing agencies in improving implementation process, and also ensure the high quality of implementation of program. Such efforts of the DRDA shall ensure effective and efficient utilization of resources, reduce chances of malpractices and ensure the provision of the intended benefits to all the beneficiaries under different rural development programs.

It is clear that DRDA is not an implementing agency. In order to successfully execute the programs a very strong coordination with various other agencies is required. The DRDA must in all ways possible coordinate with lead banks, banks, financial institutions, Panchayati Raj Institutions (PRIs), non-governmental organizations (NGOs), cooperatives, federations, community based organizations (CBOs), self-help groups (SHGs), universities/technical institutions, government departments and many more. They are required to secure inter-sectoral and interdepartmental coordination and cooperation for the successful implementation of schemes developed by the Rural Development Ministry towards sustainable rural development. Effective coordination of the DRDA shall result into bringing convergence of approach among different agencies for rural development.

One of the important functions of the DRDA is to share the project information to the Zilla Parishad, the State Government and the Central Government. All the periodic monthly reports including the financials must be shared hereby keeping all the offices updated about the key project indicators.

The DRDA must ensure that the project benefits reach the real target group especially SC/ST, women, children, youth, disabled and more. In no way possible dilution of the project benefits shall take place in the projects funded by them.

Awareness about the various projects and schemes launched under the ambit of DRDA must be undertaken in the best possible way. The information and awareness about the rural development initiatives must trickle down to the bottom of the pyramid and no community members shall remain unaware about it. The awareness drives are often conducted through PRIs at the panchayat and village levels. NGOs, CBOs, SHGs, etc., also create awareness in their respective areas about the various rural development programs being supported by the DRDA.

One of the other important functions of the DRDA is to maintain transparency in the project management including granting of the projects, their implementation and monitoring of different rural development programs. On a periodic basis the DRDA must publish reports and list the same on their websites, notice boards, etc., to facilitate transparent project information.

Rural development projects are investment oriented. Even the smallest of the project shall require a substantial budget. It is therefore imperative for the DRDAs to ensure financial planning and due diligence at all levels of the rural development projects. It is the prime responsibility of the DRDA to check and ensure that the accounts are properly maintained in respect of the funds allocated to banks or implementing agencies in accordance with the guidelines of different programs.

8.5 PROBLEMS AND PROSPECTS OF RURAL BANKING

We have already discussed about the problems and prospects of rural banking in Unit 7.

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Check Your Progress

5. What is the prime responsibility of the Ministry of Rural Development?
6. State the importance of field visits.

8.6 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Small Industries Development Bank of India (SIDBI), is the Principal Financial Institution for Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector as well as for co-ordination of functions of institutions engaged in similar activities.
2. The activities under the P & D initiatives are guided by four themes namely, Sampark, Samwad, Suraksha and Sampreshan (4S) to tackle various nonfinancial challenges of the MSME sector.
3. The DICs are funded by the State government concerned and the Centre jointly.
4. The organizational structure of DICs consists of General Manager, Functional Managers and Project Managers to provide technical services in the areas relevant to the needs of the district concerned.
5. The prime responsibility of the Ministry of Rural Development includes the release of central share of funds, policy formulation, overall guidance, monitoring and evaluation of the rural development programs.
6. The field visits facilitate the implementing agencies in improving implementation process, and also ensure the high quality of implementation of program.

8.7 SUMMARY

- The Small Industries Development Bank of India (SIDBI) plays an important role in the growth and development of a country as it provides required infrastructure for economic development of the country.
- SIDBI has assisted several entrepreneurs, institutions, government agencies and more through its schemes.
- Under the ambit of institutional finance, SIDBI offer financial assistance to Micro Finance Institutions (MFIs), Non-Banking Financial Companies (NBFCs), Direct Assistance (Inc RFS) and Refinance to Banks and Financial Institutions.

- Operating under the Directorate of Industries and Commerce, the District Industry Centre offers one stop solution to various schemes offered by the Ministry of Social Justice and Empowerment. The major focus of DIC is to create opportunities that generate employment in rural areas of India.
- The DICs are funded by the State government concerned and the Centre jointly. Various schemes of the state and central government are available at the DICs and are promoted and implemented in accordance to the rules and regulations.
- DRDA was institutionalized originally to implement the Integrated Rural Development Program (IRDP). Over the years its scope of work was increased to implement number of programs of both state and central governments.
- The District Rural Development Agency (DRDA) operates at the district level. The Ministry of Rural Development is the apex body that designs and facilitates funding and implementation of rural development schemes and programs. The prime responsibility of the ministry includes the release of central share of funds, policy formulation, overall guidance, monitoring and evaluation of the rural development programs.
- The DRDA plays a very crucial role in effective and efficient planning, budgeting, implementation and monitoring of rural development projects in the district. It has to be made very clear that the DRDAs are not the implementing agencies, but are always in supporting role. They ensure that the projects are provided to good organizations that can systematically plan, implement and monitor the same at the grassroots level.
- The DRDA is a separate entity. However, it functions under the chairmanship of the Chairman of the Zilla Parishad. As an administrative unit of the district government they majorly perform a facilitating and supporting role to the Zilla Parishad, by way of providing necessary executive and technical support in rural development projects.
- The onus of planning and implementing meaningful rural development projects lies on the District Rural Development Agency. It is considered to be a highly competent administrative unit with enough resources to manage projects of such nature and significance.

8.8 KEY WORDS

- **SIDBI:** Small Industries Development Bank of India is the apex regulatory agency in India for Microfinance Institutions and is under the jurisdiction of Ministry of Finance.
- **District Industries Centre:** It refers to an institution established at the district level so as to provide village and small scale enterprises to set

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up small and village industries there.

- **District Rural Development Agency:** It is the principal organ at the district level to oversee the implementation of anti-poverty programmes of the Ministry of Rural Development.
- **Zilla Parishad:** The Zilla Panchayat or District Council or Mandal Parishad or District Panchayat is the third tier of the Panchayati Raj system and functions at the district levels in all states. Zilla Parishad is an elected body.

8.9 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the functions of SIDBI?
2. Mention the schemes through which refinance is channelized.
3. Write a short note on the working and role of District Industries Centre (DIC) in implementing government schemes.
4. Mention the structure of the District Rural Development Agency (DRDA).

Long-Answer Questions

1. Describe various promotion and development (P & D) activities undertaken by SIDBI.
2. Explain the functions of District Industries Centre.
3. Discuss the functions of District Rural Development Agency (DRDA).

8.10 FURTHER READINGS

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UNIT 9 FINANCING FOR RURAL DEVELOPMENT

Structure

9.0 INTRODUCTION

Financing for rural development is an important task of the government. In a country like India where 65 per cent of its population still resides in rural areas, financing for rural development takes a front seat and becomes gigantic. Capital is required to fund rural development projects in both agricultural and non-agricultural sectors. Also development of infrastructural facilities like power, roads, transportation, communication, education, health, social security and others require heavy monetary investments. Funds for financing rural development projects in India are procured through two major sources. These are domestic sources and foreign sources. Within the domestic sources of funds there are institutional and non-institutional sources. Institutional sources within the country include the government, government organizations including public enterprises, the Reserve Bank of India (RBI), National Bank for Agriculture and Rural Development (NABARD), commercial banks, cooperative banks and Regional Rural Banks (RRBs) and private organizations. The non-institutional sources include households, moneylenders, traders and others. The foreign institutional sources include foreign governments, organizations like the World Bank, the Asian Development Bank (ADB), the International Monetary Fund (IMF), foreign banks, multi-national corporations (MNCs) and others. The non-institutional foreign sources are primarily the non-resident Indians (NRIs) and foreign nationals. In this unit, we will study in detail about the lead bank scheme and the state and district level credit committees.

9.1 OBJECTIVES

After going through this unit, you will be able to:

- Describe the meaning and functions of lead bank scheme

- Explain the roles and responsibilities of lead bank manager
- Discuss the state level and district level credit committees

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9.2 FINANCING FOR RURAL DEVELOPMENT: LEAD BANK SCHEME

The lead bank scheme is a scheme that has been launched with an aim of providing enough banking and credit services in rural areas. The scheme facilitates the banking and financial services in rural areas through service area approach, that works on one bank for one area. Envisaged in 1969, the scheme proposes an assignment of lead roles to banks either public or private for conducting all the activities in the districts assigned to them. The responsibility of the lead bank is provided to a bank with a large network of branches in the rural areas and backed with adequate financial and manpower resources. Accordingly, all the districts in the country have been allotted to various banks. The lead bank acts as a leader for coordinating the efforts of all credit institutions in the allotted districts to increase the flow of credit to agriculture, small-scale industries and other economic activities included in the priority sector in the rural and semi-urban areas, with the district being the basic unit in terms of geographical area.

The lead bank scheme traces its origin in the year 1969. The scheme was introduced for the first time by the study group of Professor D.R. Gadgil for the implementation of social objectives by the organizational framework. According to the report prepared by Dr. Gadgil and his study group the credit needs of the rural people in particular to the agriculture, small scale industries and services sectors were found to have been highly neglected by the commercials banks due to their absence in the unreached and unbanked rural locations. The study therefore proposed the adoption of "Area Approach" with certain programs and plan for the development of banking and credit facilities to the rural people. Following the study, later in November 1969, the Reserve Bank of India appointed a Committee of Bankers on Branch Expansion Programs of public sector banks under the Chairmanship of Shri F. K. F. Nariman (Nariman Committee). The objective of the Nariman Committee was to validate the findings of the report and further explore the benefits of the Service Area Approach. Subsequently it was decided that each bank should be allocated with certain districts and to be referred to as the Lead Bank of a particular district and focus on the credit services of the said district.

To fulfil the objective of greater financial inclusion, the Reserve Bank of India strategized the "lead bank scheme". Under this scheme each district was allocated a bank called the lead bank to meet the credit facilities of small borrowers, small business people and low income group rural people.

The lead bank scheme is designed to enhance the banking facilities for the rural poor and lending credits to the priority sectors. It helps in allocating credit facilities for agriculture lending for purchasing the input of fertilizers in a timely manner.

In 1989, the Service Area Approach (SAA) was adopted in which villages were identified and bank branches were allocated to those villages based on their financial needs and distance from their residences. With the help of Service Area Approach small borrowers, farmers and people belonging to low income group could approach the branches of the lead bank to satisfy their credit requirements.

Service Area Approach (SAA) is a wonderful concept that is focused on the systematic development of an identified work area which would enable the branch to have development orientation and concentrate on productive lending, thereby contributing to the development of specific areas assigned to it.

In 1989, a study proposed by the Reserve Bank of India (RBI), under the Chairmanship of Dr. P. D. Ojha was conducted to examine the operational aspects involved in the implementation of the Service Area Approach. The committee recommended to adopt a decentralized planning policy and the Service Area Approach was introduced with effect from April 1, 1989. The approach involved five distinct stages in its implementation:

- Identification of the service area for each bank branch;
- Survey of the villages in the service area for assessing the potential of lending for different activities and identification of beneficiaries for assistance;
- Preparation of credit plans on an annual basis for the service area by each branch;
- Co-ordination between credit institutions on the one hand and field level development agencies on the other on a regular basis for the effective implementation of credit plans; and
- A continuous system of monitoring the progress in the implementation of the plans and individual schemes.

Functions of Lead Bank Scheme

The lead bank scheme since its inception has improved the financial inclusion, i.e., greater access over financial and banking services to the people especially from the unbanked and unreached rural areas in the society. The unique functions of Lead Bank Scheme instructed by Reserve Bank of India are listed below:

- Examining the resources and ability for banking development in its district.
- Surveying the number of commercial, industrial units, farms and other organizations which do not have bank accounts and highly depend on the money lenders and expanding their resources through the formulation of surpluses from supplementary production financed from the banking system.

- Inspecting the marketing facilities for industrial and agricultural production, space for warehousing and storage, connecting the credit linkage with marketing in the district.
- Observing the provision given for stocking the fertilizers and other inputs of agriculture, refitting and servicing of machines and tools.
- Recruiting staff members and providing sufficient training to them to aware the small borrowers and farmers about the credit insurance schemes, to follow up and inspecting them in end to use loans.
- Promoting other important lending agencies and
- Collaborating with Government and quasi-Governmental Agencies.

Roles and Responsibilities of Lead Bank Manager

The success of the lead bank scheme rests in totality on the shoulders of the lead bank manager. The RBI has highlighted certain roles and responsibilities of the lead bank manager to achieve the successful implementation of the lead bank scheme. The roles and responsibilities of the lead bank manager are as follows:

- Coordinating with the district collector
- Supporting Zonal or Regional offices for the bank penetration in the district
- Developing the District Developmental Plan
- Preparing Annual Credit Plan for the Districts
- Monitoring Credit flow during the implementation of Annual Credit Plan
- Setting up of centers for Financial Literacy, Credit Counseling centers and Rural Self-Employment Training Institutes
- Conducting Workshops with bank and government employees with the participation by Non-Governmental Organizations (NGOs) to create awareness about the lead bank schemes and their benefits.

Check Your Progress

1. What is lead bank scheme?
2. What was the objective of the Nariman Committee?

9.3 STATE LEVEL AND DISTRICT LEVEL CREDIT COMMITTEES

In order to make the lead bank scheme successful through effective and efficient use of physical, financial and human resources, various structures have been created at the block level, district level and the State level. The various structures under the lead bank scheme facilitate co-ordination of activities of commercial banks and other financing agencies on the one hand and Government departments on the other. The structures also assist in identifying problems in implementing the credit plans and finding out solutions. They are also helpful in monitoring the progress of implementation of the credit plans. This section deals with these structures at the state, district and block levels.

State Level

Within the purview of the lead bank scheme at the State level, the State Level Bankers' Committee (SLBC), the State Level Co-ordination Committee (SLCC) and the Steering Sub-Committees were recommended.

1. State Level Bankers' Committee (SLBC)

The State Level Bankers' Committee (SLBC) is one of the most important structures under the lead bank scheme. It has proved very effective in rapidly implementing policy decisions especially under emergent situations like natural calamities. The creation of the State Level Bankers' Committees (SLBCs) has been done, in accordance with the instructions from the Government of India in April 1977. The SLBCs act as an inter-institutional forum for co-ordination and joint implementation of development programs by all financial institutions operating in a state. The SLBCs comprise the representatives of commercial banks (including RRBs), State Co-operative Banks (StCB), Land Development Banks (LDB), NABARD, RBI, etc. Representatives of various organizations from different sectors of the economy like retail traders, exporters, agricultural graduates, farmers' unions and some other organizations, who wish to protect the interest of their members, may also be invited as special invitees in SLBC meetings for discussing their specific problems. The meetings are chaired by the Chairman of the convenor bank. The forum reviews the banking developments in the State with focus on Annual Credit Plans, Government sponsored programs, flow of credit to priority sector, branch expansion, Credit Deposit ratio, etc. The SLBCs are also expected to take up for consideration, such issues as have been raised by the member banks or by the State Government authorities and questions or interbank differences of views and approaches remaining unresolved at the District Consultative Committees (DCCs). The meetings of the SLBC are to be held on a quarterly basis.

The SLBCs are expected to address the banking issues, particularly relating to the State concerned, some of the common problem areas that SLBCs face in the state are:

- Regional imbalances in availability of banking facilities
- Regional imbalances in deployment of credit
- Liaison with State Government
- Review of functioning of DCC
- Review of implementation of District Credit Plans
- Uniformity in terms and conditions of lending

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- Review of credit flow to small borrowers in the neglected sectors, pending loan applications and assistance under various Govt. sponsored programs
- Review of Credit Deposit Ratio, and
- Any other state specific issues, with the permission of the chair

The SLBC acts as a forum that provides a platform to all the members and participants raise their grievances and to arrive at a systematic solution to the operational problems. With technological changes in the banking systems including computerization it has become easier for the SLBC convenor banks to make available useful information to member banks/public in general through websites. The SLBCs have also moved ahead in the direction of having their own websites to provide information to all the stakeholders in a transparent way. The SLBCs over the years have become highly competent and efficient in their operations.

2. Steering Sub-Committee of SLBC

The SLBC also has a provision of Steering Sub-Committee of SLBC which are actually nothing but functional sub-committees of SLBC to look into specific areas like agriculture, micro, small/medium industries/enterprises, handloom finance, etc. The Steering Sub-Committee of SLBC consists of representatives from few major commercial banks/RRBs, RBI, NABARD, StCB, SLDB etc. The steering sub-committee meets more frequently than the SLBC.

3. State Level Co-ordination Committee (SLCC)

The State Level Co-ordination Committee (SLCC) became operational from mid-seventies. The committee served three major purposes. Firstly, it provided the major platform for maintaining coordination between the State Government and financial institutions. Secondly, it reviewed the performance of the banks especially in assisting credit based development programs taken up by the State Government. Thirdly, it reviewed matters relating to infrastructure and extension facilities, recovery performance including legislative and administrative support from Government, problems of banking development in the State, etc.

Meetings of the SLCC are convened by the Chief Secretary, Director of Institutional Finance, Registrar of Co-operative Societies, etc., and in general presided over by the Chief Minister/Finance Minister of the State. The members of SLCC include representatives from banks, RBI, NABARD, StCBs, SLDBs and the concerned development departments of the Government.

The periodicity of the SLCC is yearly, though, the Standing Committee of SLCC is expected to meet at quarterly intervals.

District Level

At the district level, District Consultative Committees (DCCs), District Level Review Committees (DLRCs) and Standing Committees of DCCs have been constituted under the lead bank scheme.

1. District Consultative Committee (DCC)

In order to increase the coordination between the activities of all the commercial banks and other financial institutions with the government departments, the District Consultative Committee (DCC) was conceptualized at the district level under the lead bank scheme. The DCC is considered as a common forum for bankers as well as government agencies/departments to come to a common platform to find solutions to the problems that are hindering the smooth functioning of the various developmental activities under the Scheme at the district level. All the commercial banks, co-operative banks including DCCB and SLDB, RRBs, NABARD, etc., and various State Government departments and allied agencies are the members of the DCC. The Lead District Manager (LDM) of the lead bank is the convenor of DCC. The Lead District Officer (LDO) of Reserve Bank is also a member of the DCC. The District Collector functions as the Chairman of this committee. The membership of DCC is normally restricted to 20-25 for effective and meaningful discussions in the meeting.

2. Standing Committee (SC) of the DCC

In accordance with the guidelines of the Reserve Bank issued to banks for the formulation of District Credit Plans for 1980-82, the Standing Committee (SC) of the DCC was formed, that worked under the chairmanship of District Collector, comprising representatives from DCCBs, commercial banks having large number of branches in the district and the district planning officials, to assist the credit planning team/Lead Bank Officer. As of now the membership of the Standing Committee has been enlarged to include the representatives from RBI, NABARD, DRDA, co-operative department, LDB, etc. The functions of the Standing Committee, inter alia, covered the following:

- Regular monitoring of Government Sponsored Schemes, and
- Any other important matter concerning DCC requiring urgent attention.

Block Level Bankers' Committee (BLBC)

The lead bank scheme also has a structure at the block level known as Block Level Bankers' Committee (BLBC). The Block Level Bankers' Committees have been constituted in each block, with the Lead Bank Officer as the Chairman. The forum is aimed at achieving coordination between credit institutions and field level development agencies. All the banks operating in the block including the district central co-operative banks and RRB, Block Development Officer, and other technical officers in the block, such as extension officers for agriculture, industries and co-operatives are members of the Committee. The Lead District Officer of RBI and the officer concerned from NABARD selectively attend the meetings of the BLBCs. The representatives of Panchayat Samitis are also invited to attend the meetings at half yearly intervals so as to share their knowledge and experience

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on rural development in the credit planning exercise. The main functions of the Committee are:

- To discuss the action plans of different bank branches and their aggregation into Block Credit Plan;
- To resolve operational problems in implementation of the credit programmes of banks, particularly in regard to ensuring availability of inputs and linkages;
- To review the progress in implementation of Government-sponsored schemes;
- To review the implementation of the Block Credit Plan and the provision of other inputs required so that bank credit becomes more productive;
- Allocation of service area of a new branch to be opened in the block as and when licence for new branches is issued by the Reserve Bank of India; and
- Hold meetings at least once in a quarter.

Check Your Progress

3. What is District Consultative Committee (DCC)?
4. List the functions of the Standing Committee of DCC.

9.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The Lead Bank Scheme is a scheme that has been launched with an aim of providing enough banking and credit services in rural areas.
2. The objective of the Nariman Committee was to validate the findings of the report prepared by Dr. Gadgil and his study group and further explore the benefits of the Service Area Approach.
3. The District Consultative Committee (DCC) is considered as a common forum for bankers as well as government agencies/departments to come to a common platform to find solutions to the problems that are hindering the smooth functioning of the various developmental activities under the Scheme at the district level.
4. The functions of the Standing Committee covered the following:
    - Regular monitoring of Government Sponsored Schemes
    - Any other important matter concerning DCC requiring urgent attention

9.5 SUMMARY

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- The lead bank scheme is a scheme that has been launched with an aim of providing enough banking and credit services in rural areas. The scheme facilitates the banking and financial services in rural areas through service area approach, that works on one bank for one area.
- All the districts in the country have been allotted to various banks. The lead bank acts as a leader for coordinating the efforts of all credit institutions in the allotted districts to increase the flow of credit to agriculture, small-scale industries and other economic activities included in the priority sector in the rural and semi-urban areas, with the district being the basic unit in terms of geographical area.
- The objective of the Nariman Committee was to validate the findings of the report and further explore the benefits of the Service Area Approach. Subsequently it was decided that each bank should be allocated with certain districts and to be referred to as the Lead Bank of a particular district and focus on the credit services of the said district.
- In 1989, the Service Area Approach (SAA) was adopted in which villages were identified and bank branches were allocated to those villages based on their financial needs and distance from their residences.
- Service Area Approach is a wonderful concept that is focused on the systematic development of an identified work area which would enable the branch to have development orientation and concentrate on productive lending, thereby contributing to the development of specific areas assigned to it.
- The lead bank scheme since its inception has improved the financial inclusion, i.e., greater access over financial and banking services to the people especially from the unbanked and unreached rural areas in the society.
- The success of the lead bank scheme rests in totality on the shoulders of the lead bank manager. The RBI has highlighted certain roles and responsibilities of the lead bank manager to achieve the successful implementation of the lead bank scheme.
- In order to make the lead bank scheme successful through effective and efficient use of physical, financial and human resources, various structures have been created at the block level, district level and the State level.
- Within the purview of the lead bank scheme at the State level, the State Level Bankers' Committee (SLBC), the State Level Co-ordination Committee (SLCC) and the Steering Sub-Committees were recommended.
- The State Level Bankers' Committee (SLBC) is one of the most important structures under the Lead Bank Scheme. It has proved very effective in

rapidly implementing policy decisions especially under emergent situations like natural calamities.

- The SLBCs act as an inter-institutional forum for co-ordination and joint implementation of development programs by all financial institutions operating in a State.
- The SLBC acts as a forum that provides a platform to all the members and participants raise their grievances and to arrive at a systematic solution to the operational problems. With technological changes in the banking systems including computerization it has become easier for the SLBC convenor banks to make available useful information to member banks/public in general through websites.
- The SLBC also has a provision of Steering Sub-Committee of SLBC which are actually nothing but functional sub-committees of SLBC to look into specific areas like agriculture, micro, small/medium industries/enterprises, handloom finance, etc. The Steering Sub-Committee of SLBC consists of representatives from few major commercial banks/RRBs, RBI, NABARD, StCB, SLDB etc.
- At the district level, District Consultative Committees (DCCs), District Level Review Committees (DLRCs) and Standing Committees of DCCs have been constituted under the lead bank scheme.
- The District Consultative Committee (DCC) is considered as a common forum for bankers as well as government agencies/departments to come to a common platform to find solutions to the problems that are hindering the smooth functioning of the various developmental activities under the Scheme at the district level.

9.6 KEY WORDS

- **Lead Bank Scheme:** The lead bank scheme is a scheme which aims at providing adequate banking and credit in rural areas through a 'service area approach', with one bank assigned for one area.
- **Service Area Approach:** The Service Area Approach was a scheme launched by the RBI in 1989 for an orderly development of the rural areas of the country. Under SAA plan each commercial bank / RRB branch in a rural and semi-urban area is designated to serve 15 to 25 villages for the planned and orderly development of the areas.
- **Credit committee:** A committee within a bank or other financial institution that considers applications for loans and other forms of credit or financial accommodation, such as guarantees.

9.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

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Short-Answer Question

1. What role does a lead bank play in allotted regions?
2. State the concept of Service Area Approach (SAA).
3. What do you mean by the State Level Bankers' Committee (SLBC)?
4. What is the purpose of the State Level Co-ordination Committee (SLCC)?
5. Mention the main functions of Block Level Bankers' Committee (BLBC).

Long-Answer Question

1. Describe the stages of the Service Area Approach.
2. Explain the functions of lead bank scheme instructed by the RBI.
3. Discuss the roles and responsibilities of the lead bank manager.

9.8 FURTHER READINGS

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UNIT 10 FINANCING AGRICULTURE AND ALLIED ACTIVITIES

Structure

10.0 INTRODUCTION

Agriculture is dependent on various key inputs like land, labour, seeds, fertilizers, irrigation, etc. To avail these inputs, funds play a great role in agricultural production. With a vast majority of small and marginal farmers in India, the farmers often find themselves plagued with inadequate funds. Access to agricultural finance or credits facilitate new investments and adopt new technologies for the betterment of agriculture and allied activities. Often the farmers especially the small and marginal ones get into the vicious circle of moneylenders to fulfil their funding needs in order to purchase inputs for agricultural production and end up being exploited by way of very high interest rates and confiscation of collaterals. Financing for agriculture and allied activities therefore is very significant in providing impetus to agricultural growth and development. Realizing the importance of the same the government since independence has developed and put in place a robust institutional framework for financing agricultural and allied activities. In this unit, we will study in detail about the schemes initiated by the government for financing agriculture and allied activities.

10.1 OBJECTIVES

After going through this unit, you will be able to:

- Describe the financial schemes for agriculture and allied activities
- Examine the success rate and implementation of various schemes and programmes of the government for providing financial support to farmers

10.2 FINANCING AGRICULTURE: CROP LOANS, TERM LOANS FOR IRRIGATION

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Financial needs for agricultural and allied activities can be categorized into three main types, namely, short term credit needs, medium term credit needs and long term credit needs.

Short Term Credit Needs: The short term credit requirements of the farmers are also known as seasonal credit requirements. These are typically taken for the purchase of seeds and fertilizers, paying wages and rent and other normal expenses and are also paid off from the income of the harvest that proceeds.

Medium Term Credit Needs: The medium term credit requirements of the farmers are the ones needed to purchase livestock, buying expensive equipment and to make certain improvements in the land. The medium term credit loans are normally paid off in instalments over a span of three to five years.

Long Term Credit Needs: The long term credit requirements include the purchase of more land and agricultural machinery or equipment. It may also be required to make major structural improvement on land such as drainage and irrigation. The activities for which long term loans are taken have normally low return on investments and the repayment of the same spans over longer duration. In some cases the repayment can take between 20 to 30 years.

Need for Agricultural Financing in India

The Indian economy is predominantly agricultural. Despite rapid urbanization a considerable number of people still live in villages and their mainstay is agriculture and its allied activities. Agriculture plays a significant role in the Indian economy. The sector provides employment and livelihood to a large section of the Indian population. According to an estimate by International Labour Organization (ILO) in 2018 approximately 44% of the working population in India is employed in agriculture and allied sector. Despite high percentage of population living in rural area and dependent on agriculture, the contribution of agriculture to GDP has been declining steadily. From 52% in the 1950s to 30% in the 1990s it came down below 20% from 2010 onwards as per the data from Ministry of Statistics and Programme Implementation (MoSPI). According to the Annual Report 2018-19 of Ministry of Agriculture and Farmers' Welfare (MoA&FW), the share of Agriculture & Allied Gross Value Added (GVA) in overall GVA was 16%. As per the Economic Survey 2018-19, 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 crops. Despite their higher contribution towards agricultural output (40 per cent), agricultural credit towards allied activities is only 6-7% of agricultural credit.

Indian agriculture is also characterized by small land holdings. The average landholding in the country is 1.08 hectares and the small and marginal farmers account for 85 percent of all landholdings and 47 per cent of the operated area.

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Despite their small landholdings the small and marginal farmers contribute more than 50% of the total agricultural and allied output. The challenge however remains to raise agricultural productivity and farmers' incomes. The small and marginal famers need appropriate solutions that facilitate easy access to modern agricultural inputs and remunerative economic gains. Easy access to institutional credit at affordable rates for agricultural and allied activities is the need of the hour in a country like India and has proved to be a catalytic instrument by converting many subsistence farmers into vibrant commercial farmers. It has in the past facilitated diversification of the agricultural operations by way of growing high value crops like fruits and vegetables, and engage in allied activities, like dairy, poultry, fishery, honey, beekeeping, etc.

Sources of Agricultural Financing in India

Agricultural financing in India is still characterized by the prevalence of non-institutional actors like moneylenders. The non-institutional actors though provide easy access to credit but charge high interest rates and are highly exploitative in nature. The farmers often are lured to these non-institutional actors for paperless and quick credit disbursals and pay the price for unlimited time duration. However, the Reserve Bank of India Act 1934, provided impetus to various institutional sources and reduced farmers' dependence on the non-institutional sources for availing credit services. Subsequently, commercial banks, regional rural banks, NABARD, NBFCs, cooperatives, MFIs and in some instances SHGs have been successfully supporting the credit needs of the agriculture and allied activities.

Given below are two sources prominently available and used for any kind of financial assistance by farmers:

- Non-institutional or unorganized agencies
- Institutional or organized agencies

The non-institutional or unorganized agencies are very attractive among the farmers as a means for agricultural credit. Despite known for several exploitative practices these non-institutional sources still enjoy a good market in the Indian marketplace. The various reasons that make the non-institutional or unorganized agencies like moneylenders, traders and landlords attractive are:

- Unrestricted supply of credit for any purpose.
- Easy access by farmers as money lenders maintain close relationship with rural families.
- Method of business adopted are simple and flexible.
- Timely availability of credit without much formalities.
- Knowledge of local conditions and experience of moneylender facilitate his business.
- Moneylenders do not insist upon any particular type of security for the grant of loans

The institutional or organized agencies providing access to agricultural finance include the following:

- Government
- Cooperatives
- Commercial Banks
- Regional Rural Banks
- National Bank for Agricultural and Rural Development
- NBFCs

- **Micro Finance Institutions**

Government Assistance in Financing and Allied Activities

Over the years several initiatives have been undertaken to improve the agricultural sector in the country. However, several challenges confronts Indian agriculture including reducing and deteriorating natural resources, rapidly growing population demanding more food, low and stagnating farm incomes, fragmented land holdings and unprecedented climate change, which need to be tackled for long term sustainability and viability of Indian agriculture.

Government from time to time has provided assistance through various policy thrusts to make agriculture sector self-sufficient. As of now the Indian agriculture and allied activities including dairying, fishing, poultry, etc., have made a stronghold in the export markets. Recently government implemented 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 security against natural calamities and National Agriculture Market Scheme (e-NAM) for providing better price awareness and assessment through transparent auction process. Allied activities have also been provided with utmost thrust under various schemes.

Crop Insurance Schemes in India

It is very much evident that agriculture and allied activities and incomes from both the activities are very susceptible to various factors including natural disasters such as drought, floods, cyclone, storm, landslide, earthquake, etc. This is further compounded by manmade disasters fire, price crashes, seed issues, fertilizers and pesticides and epidemics and pandemics. Both natural and manmade disasters are beyond the control of farmers and affect farmers negatively through loss in production and agricultural income. In a country like India situation becomes all the tougher for small and marginal farmers who are into agriculture with limited resources. To safeguard farmers by reducing risks associated with natural calamities and manmade disasters agricultural insurance has been planned and tested as early as 1970s.

The first ever crop insurance scheme was tried in 1972-1978. Several limited, ad hoc and scattered experiments on agricultural insurance were tried from 1972-73, with the General Insurance Corporation (GIC) introducing a Crop Insurance Scheme on H-4 Cotton and subsequently adding groundnut, wheat and potato. The Scheme was implemented in the states of Andhra Pradesh, Gujarat, Karnataka, Maharashtra, Tamil Nadu and West Bengal and continued up to 1978-79 and covered only 3,110 farmers for a premium of ₹4.54 lakh against claims of ₹37.88 lakh.

In 1979-1984, the General Insurance Corporation (GIC) launched the Pilot Crop Insurance Scheme based on the "Area Approach". The objective of the scheme was to provide insurance cover against a deficit in crop yield below the threshold level and covered cereals, millets, oilseeds, cotton, potato and chickpea. The Scheme was limited to loanee farmers of institutional sources on a voluntary basis. The PCIS 1979 was implemented in 12 states till 1984-85 and covered 6.23 lakh farmers for a premium of ₹195.01 lakh against claims of ₹155.68 lakh during the entire period.

While the first few attempts were limited and attempted at an ad-hoc basis the Comprehensive Crop Insurance Scheme (CCIS) 1985-99, became the first ever nation-wide crop insurance scheme. The earlier crop insurance schemes were pilot projects undertaken on a small scale and in a scattered manner. The CCIS was linked to short-term credit and was based on the 'homogenous area approach'. The Central Government introduced the CCIS during the year 1985-86. Till Kharif 1999, the Scheme was adopted by 15 States and 2 Union Territories (UTs). Both, PCIS and CCIS were confined only to farmers who had borrowed seasonal agricultural loans from financial institutions. The main difference between PCIS and CCIS was that PCIS was on voluntary basis while CCIS was compulsory for loanee farmers. The CCIS covered 763 lakh farmers for a premium of ₹404 crore against claims of ₹2303 crore.

The earlier schemes like PCIS and CCIS were either voluntary or only for loanee farmer. A strong need was therefore felt to design a scheme which is more comprehensive in nature and covered all farmers irrespective of loanee or non-loanee. The National Agricultural Insurance Scheme (NAIS), was launched in the year 1999 and implemented by the Agriculture Insurance Company of India Ltd. (AIC), with the aim to increase coverage of farmers, crops and risk commitment. The scheme aimed at protecting the farmers against the crop losses suffered on account of natural calamities, such as, drought, flood, hailstorm, cyclone, pests and diseases. The Scheme was available to all the farmers both loanee and non-loanee irrespective of their size of holding and included all the food crops (cereals, millets and pulses), oilseeds and annual commercial/horticultural crops. The Scheme was optional for States/Union Territories (UTs) and it had been implemented by the 25 States and 2 Union Territories in one or more seasons. Since the inception of the Scheme, 2084.78 lakh farmers for a premium of ₹8,67,121 lakh against the claim of ₹25,37,558 lakh were covered until 2012-13. The total area insured was

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3137.70 lakh hectares during the same period. Later in the year 2010-11 to make NAIS more farmer friendly, a Modified National Agricultural Insurance Scheme (MNAIS) was prepared and approved by Government of India for implementation on pilot basis in 50 districts from Rabi 2010-11 season. During the five seasons of its implementation in 17 States, the MNAIS covered 45.80 lakh farmers for a premium of ₹1,08,800 lakh against the claim of ₹86,400 lakh until Rabi 2012-13. The total area insured was 46.79 lakh hectares during the same period.

In the year 2007, a Weather Based Crop Insurance Scheme (WBCIS) was piloted with the objective to bring more farmers under the ambit of crop Insurance. The scheme was launched in 20 States in 2007. Also, some private companies have also been allowed to implement the Scheme, apart from Agriculture Insurance Company of India. The WBCIS provided insurance protection to the farmers against adverse weather incidences, such as deficit and excess rainfall, high or low temperature, humidity, etc., which are deemed to impact adversely the crop production. It has the advantage to settle the claims within shortest possible time. The WBCIS is based on actuarial rates of premium but to make the Scheme attractive, premium actually charged from farmers has been restricted at par with NAIS. The WBCIS was implemented in 18 States and 469.38 lakh farmers were covered for a premium of ₹7,51,920 lakh against the claims of ₹ 52,860 lakh under the Scheme from 2007-08 to 2012-13. The total area insured was 632.01 lakh hectares during the same period.

In order to make the crop insurance more farmer friendly, the government restructured Central Sector Scheme in the name of 'National Crop Insurance Program' (NCIP). The program was introduced in 2013-14 and the existing schemes of MNAIS, WBCIS and CPIS were merged under this program with various improvements and changes.

The Pradhan Mantri Fasal Bima Yojana (Prime Minister's Crop Insurance Scheme) was launched by Prime Minister of India Narendra Modi on 13 February 2016. The scheme envisages a uniform premium of only 2 per cent to be paid by farmers for Kharif crops, and 1.5 per cent for Rabi crops. The premium for annual commercial and horticultural crops is at 5 per cent. The PMFBY was conceived as a milestone initiative to provide a comprehensive risk solution at the lowest uniform premium across the country for farmers. Under the scheme, premium cost over and above the farmer share is equally subsidised by states and the central government. According to the Union Agriculture Ministry, claims worth ₹ 90,000 crore have so far been disbursed to farmers since the launch of the scheme in 2016. Even during the COVID-19 lockdown period, nearly 70 lakh farmers benefitted and claims worth ₹ 8,741.30 crore were transferred to the beneficiaries.

Financing Irrigation Schemes

Water is one of the most important and critical input for agricultural production and its judicious utilization is the key to sustainable agricultural production and food security. The Indian agriculture is majorly rain dependent. About 80 per cent

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of the current water use is drawn by agriculture. Irrigated area accounts for nearly 48.8 per cent of the 140 million hectare (mha) of agricultural land in India. The remaining 51.2 per cent is rainfed. According to the Indian Council of Agriculture Research (ICAR), the gap between irrigation potential created, through major and minor projects, and the actual usage is increasing and affecting the country's agricultural productivity. Also as per the ICAR, "The key challenge facing the irrigation sector in India is the growing gap between Irrigation Potential Created (IPC) and Irrigation Potential Utilised (IPU), and uneven distribution of water over the length of the canal system". The ICAR furthered the mean productivity of rainfed area (71.62 mha) which is about 1.1 ton per ha compared to 2.8 ton per hectare of irrigated area. The annual precipitation (including snowfall) in the country is almost 4,000 billion cubic metre (BCM), which results into estimated average water potential of 1,869 BCM. But its per capita availability is reducing every year. The per capita annual water availability has declined from 5,177 cubic metre (cm) in 1951 to 1,508 cm by 2014, and is likely to reduce further to 1,465 cm and 1,235 cm by 2025 and 2050, respectively. This reducing availability of water clubbed with climate change harshness would further deteriorate the condition of availability of irrigated water.

Investments in irrigation facilities both at the macro and micro level have become imperative. Small harvesting structures at the macro level and micro irrigation schemes at the individual level are important activities that are promoted by the government from time to time. The Department of Agriculture, Cooperation & Farmers Welfare (DAC&FW) has been playing a leading role since VIII Plan for the promotion of improved irrigation methods like drip and sprinkler irrigation. The centrally sponsored scheme on Micro Irrigation was launched in 2005-06 which was later renamed as National Mission on Micro Irrigation in 2010-11. During 2014-15, the scheme was subsumed as On Farm Water Management component of National Mission for Sustainable Agriculture (NMSA) and further subsumed under Per Drop More Crop Component of PMKSY.

The Pradhan Mantri Krishi Sinchayee Yojana (PMKSY) was launched on 1st July, 2015 with the objective of achieving convergence of investments in irrigation sector at field level. The scheme aims at providing solutions in irrigation supply chain, namely, water resources, distribution network, farm level applications and improving water use efficiency. PMKSY not only focuses on creating sources for assured irrigation, but also on creating protective irrigation by harnessing rainwater at micro level through 'Jal Sanchay' and 'Jal Sinchan'. Micro irrigation (MI) is an integral component of PMKSY to maximize water use efficiency at field level and ensuring 'Per Drop-More Crop' (PMKSYPDMC).

The National Bank for Agriculture and Rural Development (NABARD) plays an important role in implementing the Micro Irrigation Fund (MIF). Farmers

Producers Organizations (FPOs)/Cooperatives/Water User Associations (WUAs)/ State Level Agencies can also access the funds with State Government Guarantee. These organizations may access this fund for innovative cluster based Community Irrigation projects for Micro irrigation coverage.

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10.2.1 Financing Farm Mechanization

The agriculture and allied sector is significant to the growth of India's economy. Despite, the declining share it is still one of the largest drivers of demand generation. Over the years we have witnessed that income from agriculture has not been able to keep pace, and it has become very difficult for farmers to bear the increasing costs of agricultural inputs including labour. The case for farm mechanization has gained significant interest in recent times to reduce the dependency on the agricultural labour. Also the mechanization assists in completing several highly time-bound activities on time and reduces chance of incurring losses for the farmer.

The government under the ambit of Sub Mission on Agricultural Mechanization (SMAM) provides a suitable platform to converge all activities related to agricultural mechanization. The single window approach for implementation of the scheme is being implemented in all the states, to promote the usage of farm mechanization and increase the ratio of farm power to cultivable unit area up to 2 kW/ha.

The main objectives of SMAM are:

- To increase the reach of farm mechanization to small and marginal farmers and to the regions where availability of farm power is low;
- Promoting custom hiring centers to offset the adverse economies of scale arising due to small landholding and high cost of individual ownership;
- Creating hubs for hi-tech and high value farm equipment;
- Creating awareness among stakeholders through demonstration and capacity building activities; and,
- Ensuring performance testing and certification at designated testing centres located all over the country.

Component wise pattern of assistance under Sub Mission on Agricultural Mechanization is as under:

Component No. 1: Promotion and Strengthening of Agricultural Mechanization through Training, Testing and Demonstration

Particular	Quantum
Demonstration	100% assistance @ INR 4000 per hectare upto 100 ha per season
Training	INR 25.0 Lakh per State per year
Testing	INR 1.5 Crore per centre

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Component No. 2: Demonstration, Training and Distribution of Post-Harvest Technology and Management (PHTM)

Particular	Quantum
Financial Assistance for Post Harvest Equipment.	Up to 60% (Maximum INR 1.5 Lakh per unit)
Demonstration	100% assistance @ INR 4000 per technology upto 100 demo per season
Testing	INR 25.0 Lakh per State

Component No. 3: Financial Assistance for Procurement of Agriculture Machinery and Equipment - up to 40%.

Component No. 4: Establishment of Farm Machinery Banks for Custom Hiring - Custom Hiring Centres (CHCs)

Particular	Quantum
CHCs up to INR 10 Lakh	Up to 40%
CHCs up to INR 25 Lakh	
CHCs up to INR 40 Lakh	
CHCs up to INR 60 Lakh	

Component No. 5: Establishment of HiTech, High Productive Equipment Hub for Custom Hiring - CHCs

Particular	Quantum
CHCs up to INR 100 Lakh	Up to 40%
CHCs up to INR 150 Lakh	
CHCs up to INR 200 Lakh	
CHCs up to INR 250 Lakh	

Component No. 6: Promotion of Farm Mechanization in Selected Villages

Particular	Maximum limit	% of assistance
Financial assistance for Farm Machinery Banks with minimum 8 Farmers per Bank	Upto INR 10 Lakhs per Farm Machinery Bank	80% of the cost of Farm Machinery Bank

Component No. 7: Financial Assistance for Promotion of Mechanized Operations/ hectare Carried out Through Custom Hiring Centres

Item	Maximum limit	Details	Pattern of assistance
Hiring Charges to farmer members of Farm Machinery Banks set up under component (6)	Upto a maximum of 1 ha area per farmer per year	Tractor/power operated operation – INR 2000 Animal drawn mechanized operations – INR 1000 For manual operations – INR 750	50% of the cost of operations/ha
Field Demo by CHCs	Minimum 120 ha/ season per Custom Hiring Centre	INR 4000/ha limited to 120 ha/village	Demonstration charges fir CHCs set up under Component 4

10.2.2 Financing Godowns/Cold Storage

Understanding the importance of cold storages and warehouses the Indian government has experimented with several schemes to boost the growth of cold storages and warehouses in India. Many carefully crafted schemes have been implemented across the states with the fiscal support in the form of loans and subsidies under different departments/schemes like the National Horticulture Board (NHB), National Horticulture Mission (NHM), Agricultural and Processed Food Products Export Development Authority (APEDA), Ministry of Food Processing Industry (MoFPI), Mission for Integrated Development of Horticulture (MIDH) and more. The Department of Agriculture and Cooperation works alongside these departments/schemes to grow and boost the cold storage industry in India. The objective of various schemes for the cold storage and warehousing is to create infrastructure for effective and efficient supply chain management of agricultural produce in the country. The schemes include, in their gamut, provisions of pre-cooling, weighing, sorting, grading, waxing facilities at farm level, multi-product/ multi temperature cold storage, CA storage, packing facility, IQF, blast freezing in the distribution hub and reefer vans, mobile cooling units for facilitating distribution of horticulture, organic produce, marine, dairy, meat and poultry, etc. The schemes are implemented through partnership or proprietorship firms, companies, corporations, cooperatives, self-help groups (SHGs), farmer producer organizations (FPOs), NGOs, central and state PSUs, etc.

Apart from loans and subsidies offered under various schemes for establishment and management of cold storages and warehouses several fiscal exemptions are also granted to give thrust to the creation of better infrastructure for supply chain management of the agricultural produce.

The Income Tax Act, under section 80-IB provides some deductions in respect of all the profits earned from industrial undertakings related to the cold chain sector. For the first 5 years, these deductions stood at a 100% and then 25/ 30% for the next five years. The subsequent fiscal benefits made available for the same are:

- The Income Tax Act, 1961, under section 35-AD, has given a deduction at 150% made available for all expenditures incurred on capital investments in order to establish a cold chain facility in India.
- All cold chain projects are eligible for External Commercial Borrowings now.
- The concessional rate of customs duty is levied at 5% on imported equipment for cold chain facilities under the project import benefits.

10.2.3 Financing Allied Activities of Agriculture

Government has promoted several schemes to finance and support the allied activities supporting the agricultural output. The major schemes for developing and promoting dairy farming, poultry and fishing are National Program for Bovine Breeding and Dairy Development (NPBBDD), National Kamdhenu Breeding Centre, National Program for Bovine Breeding, National Livestock Mission, Rural Backyard Poultry Development, Sheep/Goat Development and Blue Revolution (Fishing).

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The government has launched the Kisan Credit Card scheme and linked it with the allied activities. The scheme benefits the farmers to meet the working capital requirements towards the following activities:

- Fisheries: Fresh water fish/prawn culture (including Cold water), brackish water shrimp/fish crab/ culture, fish/shrimp/prawn/crab seed rearing, capture fisheries in fresh water, rakish water and marine & any other state specific fisheries activities.
- Animal Husbandry: Milch animal rearing, poultry layer farming, poultry broiler farming, sheep rearing, goat rearing, pig rearing, rabbit rearing for wool and work animals.

The government has also launched Pradhan Mantri Mudra Yojna (PMMY) for the allied sector activities. Under the scheme the farmer can avail loan for undertaking any kind of income generating activities under allied activities. The loan can be availed for a maximum of INR 10 lac and repayment of the same can be made in 3 to 5 years.

The National Bank for Agriculture and Rural Development (NABARD) assists government in several such allied activities. The banks including RRBs, cooperative, NBFCs and MFIs also assist in promoting financially viable allied sector activities.

Check Your Progress

1. Name the categories of financial needs for agricultural and allied activities.
2. List two sources prominently available and used for any kind of financial assistance by the farmers.
3. What are the institutional or organized agencies providing access to agricultural finance?
4. What is the purpose of agricultural insurance?
5. What was the objective of the Pilot Crop Insurance Scheme based on the "Area Approach"?
6. What is the objective of various schemes for cold storage and warehousing?

10.3 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Financial needs for agricultural and allied activities can be categorized into three main types, namely, short term credit needs, medium term credit needs and long term credit needs.

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2. Given below are two sources prominently available and used for any kind of financial assistance by the farmers:
    - Non-institutional or unorganized agencies
    - Institutional or organized agencies
3. The institutional or organized agencies providing access to agricultural finance include government, cooperatives, commercial banks, Regional Rural Banks, NABARD, NBFCs and Micro Finance Institutions.
4. The purpose of agricultural insurance is to safeguard farmers by reducing risks associated with natural calamities and manmade disasters.
5. The objective of the Pilot Crop Insurance Scheme based on the "Area Approach" was to provide insurance cover against a deficit in crop yield below the threshold level and covered cereals, millets, oilseeds, cotton, potato and chickpea.
6. The objective of various schemes for cold storage and warehousing is to create infrastructure for effective and efficient supply chain management of agricultural produce in the country.

10.4 SUMMARY

- Agriculture plays a significant role in the Indian economy. The sector provides employment and livelihood to a large section of the Indian population.
- Indian agriculture is also characterized by small land holdings. The average landholding in the country is 1.08 hectares and the small and marginal farmers account for 85 percent of all landholdings and 47 per cent of the operated area.
- Agricultural financing in India is still characterized by the prevalence of non-institutional actors like moneylenders. The non-institutional actors though provide easy access to credit but charge high interest rates and are highly exploitative in nature.
- Government from time to time has provided assistance through various policy thrusts to make agriculture sector self-sufficient. As of now the Indian agriculture and allied activities including dairying, fishing, poultry, etc., have made a strong hold in the export markets.
- Recently government implemented 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 security against natural calamities and National Agriculture Market Scheme (e-NAM) for providing better price awareness and assessment through transparent auction process.

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- Both natural and manmade disasters are beyond the control of farmers and affect farmers negatively through loss in production and agricultural income. In a country like India situation becomes all the tougher for small and marginal farmers who are into agriculture with limited resources.
- The first ever crop insurance scheme was tried in 1972-1978. Several limited, ad hoc and scattered experiments on agricultural insurance were tried from 1972-73, with the General Insurance Corporation (GIC) introducing a Crop Insurance Scheme on H-4 Cotton and subsequently adding groundnut, wheat and potato.
- The National Agricultural Insurance Scheme (NAIS), was launched in the year 1999 and implemented by the Agriculture Insurance Company of India Ltd. (AIC), with the aim to increase coverage of farmers, crops and risk commitment. The scheme aimed at protecting the farmers against the crop losses suffered on account of natural calamities, such as, drought, flood, hailstorm, cyclone, pests and diseases.
- In order to make the crop insurance more farmer friendly, the government restructured Central Sector Scheme in the name of 'National Crop Insurance Program' (NCIP). The program was introduced in 2013-14 and the existing schemes of MNAIS, WBCIS and CPIS were merged under this program with various improvements and changes.
- The Pradhan Mantri Krishi Sinchayee Yojana (PMKSY) was launched on 1st July, 2015 with the objective of achieving convergence of investments in irrigation sector at field level. The scheme aims at providing solutions in irrigation supply chain, namely, water resources, distribution network, farm level applications and improving water use efficiency.
- The case for farm mechanization has gained significant interest in recent times to reduce the dependency on the agricultural labour. Also the mechanization assists in completing several highly time-bound activities on time and reduces chance of incurring losses for the farmer.
- Government has promoted several schemes to finance and support the allied activities supporting the agricultural output. The major schemes for developing and promoting dairy farming, poultry and fishing are National Program for Bovine Breeding and Dairy Development (NPBBDD), National Kamdhenu Breeding Centre, National Program for Bovine Breeding, National Livestock Mission, Rural Backyard Poultry Development, Sheep/Goat Development and Blue Revolution (Fishing).

10.5 KEY WORDS

- **Agriculture financing:** It is the study of financing and liquidity services credit provides to farm borrowers.

- **Allied activities:** These are all the small and medium scale activities that depend directly or indirectly on agriculture.
- **Crop insurance:** It is a comprehensive yield-based policy meant to compensate farmers' losses arising due to production problems. It covers pre-sowing and post-harvest losses due to cyclonic rains and rainfall deficit.
- **Farm Mechanization:** It refers to the development and use of machines that can take the place of human and animal power in agricultural processes.

10.6 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the sources of agricultural financing in India?
2. State the reasons that make non-institutional or unorganized agencies attractive to farmers.
3. Mention the challenges confronted by Indian agriculture.
4. What are the schemes and their purposes implemented by the Indian government to support and finance agriculture?
5. What are the main objectives of Sub Mission on Agricultural Mechanization (SMAM)?

Long-Answer Questions

1. Describe crop insurance schemes in India.
2. Describe the schemes and programmes of the government for financing allied activities of agriculture.

10.7 FURTHER READINGS

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UNIT 11 MSME SECTOR

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Structure

11.0 INTRODUCTION

The Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country. The primary responsibility of promotion and development of MSMEs is of the state governments. However, the Government of India, supplements the efforts of the state governments through various initiatives. The schemes/ programmes undertaken by the Ministry and its organizations seek to provide adequate flow of credit from financial institutions, support for technology upgradation and modernization, integrated infrastructural facilities, modern testing facilities and quality certification, access to modern management practices, entrepreneurship development and skill upgradation through appropriate training facilities, support for product development, design intervention and packaging, welfare of artisans and workers, assistance for better access to domestic and export markets and cluster-wise measures to promote capacity-building and empowerment of the units and their collectives.

11.1 OBJECTIVES

After going through this unit, you will be able to:

- Describe the meaning and importance of MSME sector
- Discuss the sources of financing MSMEs
- Explain the provision and objectives of the MUDRA Scheme

11.2 DEFINITION AND IMPORTANCE OF MSME SECTOR

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In India, where nearly 92 per cent of the total workforce is in the informal sector, micro enterprise is seen as a main source of livelihood for large sections of the population. The informal sector in India is comprised of traditional forms of employment and self-employment such as home-based microenterprises, street vending, etc., and also new forms of employment like temporary and part time jobs. It is being increasingly accepted that in the informal economy, a large section is made up of micro and small enterprises (MSEs) which is serviced largely by the semiformal–microfinance and informal financial sector in the economy.

In the previous two decades, the informal sector has acquired a great deal of attention from the formal financial sector mainly due to its strong network with the SHG movement in India. However, there is a need to build stringer networks across banking institutions and microfinance groups for enterprise development in the country. This would allow the informal microenterprise sector to seek the benefits of the formal economy and demonstrate a higher economic and social transformation in the economy.

Micro enterprise sector

The term, 'micro enterprises', has been defined around the world in a wide variety of ways. The term, 'small enterprises', covers a wide range of enterprises which can be separated into microenterprises as well as small and medium sized enterprises (SMEs) with the specific definition depending on the purpose or country context. The Micro, Small and Medium Enterprises Development Act, 2006 (Govt. of India) has classified manufacturing enterprises on the basis of investment in plant and machinery:

- Micro enterprise–not exceeding ₹ twenty five lakhs,
- Small enterprise–more than ₹ twenty five lakhs but not exceeding ₹ five crores
- Medium enterprise–more than ₹ five crores, not exceeding ₹ ten crores

The act has also classified services rendering enterprises on the basis of investment in equipment:

- Micro enterprise–not exceeding ₹ ten lakhs
- Small enterprise–more than ₹ ten lakhs, not exceeding ₹ two crore
- Medium enterprise–more than ₹ two crores, not exceeding ₹ five crores

These definitions were changed due to Covid-19 pandemic and lockdown-oriented business losses.

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Existing and Revised Definition of MSMEs

Existing MSME Classification			
Criteria : Investment in Plant & Machinery or Equipment			
Classification	Micro	Small	Medium
Mfg. Enterprises	Investment<Rs. 25 lac	Investment<Rs. 5 cr.	Investment <Rs. 10 cr.
Services Enterprise	Investment<Rs. 10 lac	Investment< Rs. 2 cr.	Investment<Rs. 5 cr.

Revised MSME Classification			
Composite Criteria : Investment And Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing & Services	Investment< Rs. 1 cr. and Turnover < Rs.5 cr.	Investment< Rs. 10 cr. and Turnover < Rs.50 cr.	Investment< Rs. 20 cr. and Turnover < Rs.100 cr.

Fig. 11.1 *Existing and Revised Definition of MSMEs*

Micro-entrepreneurs initiate very small scale, isolated rural and urban businesses usually with no outside support. The operating costs are kept low by working from home (using household shelter as production unit) using handmade machinery/tools and family labour. These micro entrepreneurs have virtually no access to capital beyond sources from family, relatives, friends or professional money lenders and usually have low access to business development services. Many of these enterprises could evolve into substantial enterprises, if they could access productivity resources. In India, the micro and small enterprises sector has the second largest share of employment after agriculture.

The sector includes a wide range of activities, such as small scale khadi, village and coir industries, handicrafts, handlooms, sericulture, power looms, food processing and other agro and rural industry segments. It decides the livelihoods of the weaker and unorganized sections of the society – more than half of those employed being women, disadvantaged and the marginalized. Despite the prominence of this sector for India; the micro-enterprise sector continues to struggle with difficult micro and macro business environment; lack of adequate credit; lack of training in business management and marketing, an obsolescent product design, technology use and operational conditions. Moreover, a plethora of activities under this sector is mostly piecemeal and uncoordinated.

To support microenterprise creation and expansion, key interventions at various levels are needed. These include:

- A supportive policy environment which is simple, fast, inexpensive and free from leakages
- A regulatory and legal environment which is low cost
- Easy access financial services from formal sources
- Access to efficient and market oriented affordable business development services
- Basic health and education for optimizing human capital in the sector

- Entrepreneurship development
- Easy access to domestic and international markets on an equitable basis with large enterprises and reliable infrastructure such as energy, transport, telecommunications, etc.

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Microfinance is a support for microenterprise development–enterprise development being an important factor behind initiation of microfinance as a strategic tool for poverty reduction in the developing world, particularly in India. The subsequent spread of microfinance initiatives in India has occurred to incorporate other components and issues due to the horizontal growth of access to formal financial sector. However, an important goal of a microfinance project is to create income and employment in poor sections of societies through the development of local micro enterprises and consequently improving the financial well-being of the borrowers and the fight against poverty. A microfinance industry is required to support micro enterprise development as it consists of several components of enterprise building, market orientation, project and product identification and meeting some of enterprise credit requirements. However, for micro enterprises to get established along with financial services, other non-financial (integrated)–supplementary and business development resources are also important. Many enterprises fail not because of a lack of finances but because of the lack of non-financial supportive business services initiatives at the enterprise level and the community level. By providing just financial support without the necessary non-financial services such as infrastructure, skills in education, marketing linkages and social capital, the credit becomes a financial liability rather than an asset.

The issue of establishing business linkages of micro enterprises with larger business chains has to be carefully addressed so as to reduce the vulnerability of micro-entrepreneurs by strategizing their fit into the larger production, supply and market business chains. Strengthening the training and skill improvement of a worker in the informal sector are important measures towards decent work secured and enhanced incomes. It is necessary to adopt a capabilities and entitlement's approach for entrepreneurial capacity building in order to minimize the globalization created inequalities in the Indian rural economy. The steps outlined in the subsequent paragraphs are the changes which are required in the informal economy of developing countries.

Vocational training programmes targeting employment in the informal sector will improve the skills and business start-up capabilities of people employed in the informal sector. In this line, designing appropriate planning for employment training of the people in the informal sector should be integrated in the nation's inclusive vocational training plan. Similarly, task forces need to be appointed time to time to conduct studies on the current condition of workers in the informal sector in the economy. Based on the research, study regions or localities should be identified and training programmes should be formulated. These programmes need to

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effectively respond to market demand and employment priorities in the specified regions. Moreover, based on the past experience of training, the Government needs to take integrated policy measures on employment training for the informal sector. This entails providing differentiated and specialized vocational training for the informal sector in the appreciation of specificities of those working in this sector. Both private and public run training institutes should provide differentiated and specialized training to workshop targeting enterprise laid-off employees and the unemployed of different ages in regards to their skills level, education levels and their job preference. There is also a need to adopt flexible training forms in association with the conditions of laid-off employees and the unemployed in the informal sector. Full-time, half-day training modes can be supplemented with night school vocational training for informal sector. All active efforts need to be made to secure the funding of training programmes and improving the practice of government purchasing training results. In the proposed model, Government shall pay the training institutes based upon the participants' training passing out-rate and re-employment rate in a certain time period in the economy.

In addition, there needs to be a strengthening of employment services augmented by effective training with communities where informal sector workers live acting as the base. In this background, community employment service institutions or centres need to be strengthened to fulfil the overall training needs of the community. There also needs to be more professional data collection on job openings, as well as projections and these efforts must be institutionalized. There is also a necessity to strengthen collaboration between government agencies– collaboration between labour and social security departments with the departments of education, finance, chambers of industry and commerce, taxation offices. Where conditions permit, vocational training institutes can also form alliances with business enterprises in urban areas.

There is an immediate need to enhance rural vocational training planning, which would encourage rural labour force development and employment in a comprehensive manner. As a result of this, employment for rural surplus workers should include both internal transfers within the traditional or agricultural sector and as well as transfer to non-agricultural (non-farm) sector such as non-agricultural production, trading or service activities. Well planned and structured institutional capacity of vocational training institutes is a prerequisite; this will enable a network of city, district centres or township, etc., which need to be aligned with the village-level training institutes.

Check Your Progress

1. What is the important goal of a microfinance project?
2. Why is there a requirement of microfinance industry?

11.3 FINANCING OF MSMES

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In financial economics, financial institutions act as agents providing financial services to their members or clients. Generally, some government authority regulates such financial institutions. Asset management firms, stock brokerages, credit unions, building societies, banks and other similar businesses are some of the common types of financial institutions.

A financial institution functions as an intermediary in the debt and capital markets. It transfers funds from investors to the firms that require them. The flow of funds in an economy is facilitated by it. This is done by pooling the savings so that the risk associated with providing funds for loan is mitigated. This serves as the chief means of developing revenue for depository institutions. In case the yield curve becomes inverse, additional fee-generating services such as prime brokerage and underwriting of securities are offered to these firms.

Commercial Banks

The Scheduled Commercial Banks (SCBs) in the country (300) comprise the State Bank of India (SBI) and its associated banks (8), nationalized banks (19), private sector banks (32), regional rural banks (RRBs) (196) and foreign banks (45). During 1994-95, ten more banks were given the status of SCBs and, Bank of Karad which was taken by Bank of India was excluded. As on 30 June 1999, there were 300 scheduled banks in India with a total network of 64,918 branches.

For a long period, commercial banks did not come forward to extend financial assistance to the small-scale industries because of the SSIs' weak economic base. The first lead in this regard was taken by the SBI, in consultation with the Reserve Bank of India (RBI), in March 1956 by setting up a pilot scheme for the provision of credit for small scale industries. In the beginning, the scheme was confined to nine branches of the SBI which was later extended to all branches of the SBI. The commercial banks started taking the initiative in financing SSIs in a greater way only after the nationalization of banks in July 1969. Normally, the commercial banks provide assistance for working capital requirements of SSIs. Over the years they have also started providing 'term finance as is indicated by the data compiled by the RBI that of all the advances given to SSIs by the commercial banks, the share of the term loan accounted for nearly 30 per cent. A notable feature in the financing of SSIs has been the introduction of the 'Lead Bank Scheme' by the RBI. Under this scheme, each district has been allotted to one scheduled commercial bank for intensive development of banking facilities.

The introduction of the Credit Guarantee Scheme in 1960 gave a fillip to commercial bank financing to SSIs. Initially, this scheme was introduced in 22 districts on an experimental basis. Later, it was extended all over the country. Further, RBI set up a committee under the chairmanship of Shri P.R. Nayak to look into the adequacy of institutional credit to SSIs. On the basis of the recommendations made by the committee, a special package of measures for financing SSIs was introduced by RBI and banks were advised to take care of sickness in small-sector. Availability of credit to the SSI sector improved further within the sector as the shortfall, if any, was deposited with the Small Industries Development Bank of India (SIDBI). According to the figures released by the Industrial Development Bank of India (IDBI), the outstanding gross bank credit to the industrial sector stood a ₹1,02,953 crore as on 31 March 1995 of which ₹ 27,612 crores (27 per cent of total) were given to the SSIs by the commercial banks.

Other Financial Institutions

1. State Industrial Development Corporations (SIDCs)
2. State Financial Corporations (SFCs)
3. Industrial Reconstruction Bank of India (IRBI)
4. National Small Industries Corporation (NSIC)
5. Small Industries Development Bank of India (SIDBI)
6. Unit Trust of India (UTI)
7. Life Insurance Corporation of India (LIC)
8. Industrial Development Bank of India (IDBI)
9. Industrial Credit Investment Corporation of India (ICICI)
10. Industrial Finance Corporation of India (IFCI)

Industrial Finance Corporation of India (IFCI)

The Industrial Finance Corporation of India (IFCI) was set up in July 1948 by the Government of India under the IFCI Act. Before ICICI was established in 1956, followed by IDBI in 1964, IFCI was the sole institution that implemented the industrial policies initiated by the Government. It has had a significant role to play in modernizing the Indian industry, promoting exports, substituting imports, controlling the level of pollution, conserving energy and generating commercially feasible viable and market-friendly projects. The following are some of the sectors that have enjoyed direct benefits from IFCI:

- Infrastructure (telecom services, power generation) and the intermediate and capital goods industry (miscellaneous chemicals, synthetic plastics, synthetic fibres)
- Basic industry (cement basic chemicals, fertilizers, iron and steel)
- Service industry (hospitals, hotels)
- Agro-based industry (sugar, paper, textiles)

The IFCI extends financial assistance to the industrial sector through direct subscription/underwriting to debentures/shares and guarantees, by means of rupee

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and foreign currency loans, and also offers financial services through its facilities of equipment procurement, equipment finance, buyers' and suppliers' credit, equipment leasing and finance to leasing and hire-purchase companies. The financial resources of the IFCI comprise the following three components: (i) Share capital, (ii) Bonds and debentures and (iii) Other borrowings.

The IDBI, scheduled banks, insurance companies, investment trusts and the co-operative banks are the shareholders of the IFCI. Apart from paid up capital and reserves, the major sources of IFCI are issue of bonds and debentures, borrowings from the Government, the RBI, Industrial Development Bank of India and foreign loans.

Some of the popular schemes of the IFCI are as follows:

- Interest subsidy scheme for women entrepreneurs
- Consultancy fee subsidy schemes for the provision of marketing assistance to SSIs
- Encouraging the modernization of tiny, small-scale ancillary units
- Controlling pollution in the small and medium scale industries

The IFCI has shown its growing concern in the development of backward districts. Cumulatively, financial assistance of ₹ 462 billion has been sanctioned by IFCI to 5707 concerns and ₹ 444 billion disbursed since its establishment. A central role has been played by IFCI in dispersing industries on a regional basis. Some 2172 units situated in backward regions have received roughly 47 per cent of IFCI's assistance, and been aided in catalyzing investments with a value of more than ₹ 1,206 billion. Women entrepreneurs and self-employed youth too have received assistance from IFCI under the Interest Differential Fund (IDF) and Benevolent Reserve Fund (BRF) schemes.

The following are the functions performed by IFCI for the development of industries:

- Providing assistance for institutional infrastructure development
- Conducting merchant banking operations from its Head Office in New Delhi and a bureau in Mumbai
- Helping in improving the productivity of various factors of production for the socio-economic growth of the country
- Providing technical and administration assistance
- Providing guidance in project evaluation, identification formulation, implementation operation etc.
- Undertaking research and survey for the sake of industrial development
- Advancing loans for various purposes such as underwriting of shares, guaranteeing of deferred payments for machinery

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Industrial Credit Investment Corporation of India (ICICI)

The ICICI was set up in January 1955 under the Indian Companies Act with the primary objective of developing small and medium industries in the private sector. Its issued capital has been subscribed by Indian banks, insurance companies and individuals and corporations of the United States, the British Eastern Exchange Bank and other companies and general public in India.

ICICI performs the following functions:

- It provides assistance through direct subscriptions/underwriting to debentures/shares and guarantees as well as by means of offering rupee and foreign currency loans.
- It offers a variety of financial services such as deferred credit, leasing credit, instalment sale, asset credit and venture capital.
- It guarantees loans from other private investment sources.
- It conducts techno-economic surveys for backward areas.
- It provides credit facilities to indigenous manufacturers.
- It provides merchant banking services.

The ICICI has set up ICICI Asset Management Company Limited, and has been operating ICICI Mutual Fund since 1993. It also set up two subsidiaries, ICICI Investors Services Ltd., and ICICI Banking Corporation Limited in 1994. The Second Industrial Credit Project for India provides ICICI a second loan of $10 million to replenish its foreign exchange resources. ICICI was created to assist in the development of private industry in India, to encourage local and foreign private capital participation in its financing, and to assist in the expansion of the Indian capital market.

Industrial Development Bank of India (IDBI)

Prior to 1964, there was no apex organization to coordinate the functions of various financial institutions. Then, V.V. Bhatt pointed out that the country needed a central development banking institution for providing 'dynamic leadership in the task of promoting a widely diffused and diversified and yet viable process of industrialization.' It was to fulfil this objective that the Government decided to establish the Industrial Development Bank of India (IDBI).

The IDBI was established on 1 July 1964 under an Act of Parliament as the primary financial institution in the country. Initially, it was set up as a fully owned subsidiary of RBI. In February 1976, it was made into an autonomous institution and its ownership passed from RBI to the Government of India.

IDBI provides assistance to SSIs through its scheme of refinance and, to a limited extent, through its bills rediscounting scheme. As it is not feasible for the IDBI to reach a large number of small-scale industries scattered all over the country, the flow of its assistance to this vast number has been indirect in the form of refinancing of loans granted by the banks and the State Financial Corporations (SFCs).

The IDBI has shown particular interest in the development of small scale industries. Of particular mention is the setting up of the Small Industries Development Fund (SIDF) in May 1986 to facilitate the development and extension of small-scale industries. In 1988, the IDBI also launched the National Equity Fund Scheme (NEFS) for providing support in the nature of equity to tiny and small-scale industries engaged in manufacturing, with a cost not exceeding ₹ 5 lakh. The scheme is administered by the IDBI through nationalized banks. The IDBI has also introduced the 'single window assistance scheme' for grant of term-loans and working capital assistance to new tiny and small scale enterprises. Last, the IDBI has also set up a Voluntary Executive Corporation Cell (VECC) to utilize the services of experienced professionals for counselling small units, tiny and cottage units and for providing consultancy support in specific areas.

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In order to make the IDBI's coordinating role more effective, the Narasimham Committee has suggested that the IDBI should give up its direct financing function and perform only promotional apex and refinancing role in respect of other institutions like SFCs and SIDBI, etc. The direct lending function should be entrusted to a separate finance company, especially set up for this purpose. IDBI being a financial institution is involved in funding viable projects in different sectors. It has exposure to the textile sector, which is the largest after the steel sector.

IDBI provides the following assistance for the development of industries:

- Direct assistance to industrial concerns in the form of underwriting of shares debentures
- Soft loans for modernization, renovation and replacement of existing industry
- Rediscount bills arising out of sale of indigenous machinery on deferred payment
- Financing export-oriented industries

Life Insurance Corporation of India (LIC)

The Life Insurance Corporation of India (LIC) was established under the LIC Act in 1956 as a fully owned corporation of the Indian Government when the life insurance business was nationalized in India. LIC offers a variety of insurance policies to extend social security to various segments of society. It has been deploying its funds in accordance with plan priorities. As per its investment policy, it invests 75 per cent and above of the accretion to its controlled fund in Central and state government securities including government-guaranteed marketable securities and in the socially oriented sectors. It also provides loans for various purposes like housing, water supply, rural electrification, etc. to benefit individuals and groups. LIC also provides term loans and direct subscription/underwriting to the debentures and shares of the corporate sector.

LIC provides the following financial assistance to industries:

- It liaisons with other all-India financial institutions for providing finance directly to the industries.
- It provides underwriting support to industrial concerns.

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Unit Trust of India (UTI)

Established in 1964 under an Act of Parliament, Unit Trust of India (UTI) mobilizes the savings of small investors by selling units and channelizing them into corporate investments. Over the years, UTI has introduced a variety of schemes to meet the needs of diverse sections of investors. Support is also provided by UTI to the corporate sector in the form of direct subscription/underwriting to debentures/ shares and term loans. In 1994-95, the UTI launched nine new schemes/plans aimed mainly at common investors. These, among others, included open-ended schemes like Grihlakshmi Unit Plan, Retirement Benefit Plan, Primary Equity Fund, Unit Scheme 1995 (targeted at corporate investors) and Columbus India Fund.

It provides the following assistance for the development of industries:

- It subscribes to industrial securities and also to purchase outstanding securities in the secondary market.
- It is governed by considerations of yield and security as it has an obligation to earn a reasonable rate of return for its holders in its various schemes without exposing customers to undue risk.

Small Industries Development Bank of India (SIDBI)

With a view to ensuring larger flow of non-financial and financial assistance to the small-scale sector, the Government of India set up SIDBI under a special Act of Parliament in October 1989 as a fully owned subsidiary of IDBI. The Bank commenced its operations from 2 April 1990 with its head office in Lucknow. SIDBI has taken over the outstanding portfolio of IDBI that relates to the small-scale sector worth over ₹ 4,000 crore. The authorized capital of SIDBI is ₹ 250 crore with an enabling provision to increase it to ₹ 1,000 crore.

The important functions of SIDBI are as follows:

- To initiate steps for technological upgradation and modernization of existing units
- To expand the channels for marketing the products in the SSI sector in domestic and international markets
- To promote employment oriented industries especially in semi-urban areas and to create more employment opportunities and thereby check the migration of people to urban areas
- To refinance loans and advances extended by primary lending institutions
- To discount and rediscount bills

- To extend risk capital or soft loan assistance to industries
- To extend financial support to SSIDC and NSIC

The SIDBI's financial assistance to small-scale industries is channelized through the existing credit delivery system comprising State Finance Corporations, State Industrial Development Corporations, commercial banks and regional rural banks. The SIDBI introduced two new schemes during 1992-93; Equipment Finance Scheme for providing direct finance to existing well-run small-scale units taking up technology upgradation/modernization and refinance for resettlement of voluntarily retired workers of NTC. The other new scheme launched was Venture Capital Fund exclusively for small-scale units, with an initial corpus of ₹ 10 crore. It enrolled itself as an institutional member of the OTC Exchange of India (OTCEI). SIDBI also provides financial support to National Industries Corporation for providing leasing, hire-purchase and marketing support to the industrial units in the small-scale sector.

National Small Industries Corporation (NSIC)

NSIC was set up in 1955 as a public undertaking. It was established mainly to develop small scale industries in the country.

The following are the various functions performed by NSIC for the development of small scale industries:

- Procuring government orders for small scale units to provide work to small scale industries
- Developing the small scale industries as ancillaries to large industries
- Developing and upgrading technology particularly for projects based on wastes
- Importing and distributing scarce raw materials, components and parts among actual users in the small scale industries

Industrial Reconstruction Bank of India (IRBI)

The Government of India set up Industrial Reconstruction Corporation of India (IRCI) in April 1971 under the Indian Companies Act mainly to look after the special problems of 'sick' units and provide assistance for their speedy reconstruction and rehabilitation. In August 1984, an Act was passed by the Indian Government, which converted the Industrial Reconstruction Corporation of India (IRCI) into the Industrial Reconstruction Bank of India (IRBI).

The following are the various functions performed by IRBI for the development of small scale industries:

- To function as the primary all-India reconstruction and credit agency for industrial revival, assisting and promoting industrial development and rehabilitating industrial concerns.

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- To extend assistance to sick small-scale units (formerly IRCI had extended assistance to sick closed industrial units in textiles, engineering and mining industries).
- To provide consultancy services, merchant banking, hire-purchase and equipment leasing for the rehabilitation of sick industrial units.
- To help banks and financial institutions assess intrinsic worth of sick units which are seeking assistance for revival.

State Financial Corporations (SFCs)

The State Financial Corporation was set up on 28 September 1951 under an Act of Parliament to provide financial assistance to as high a number of small-scale units as possible. The Punjab government took the initiative to set up the first SFC in India in 1953. Today, there are 18 SFCs in the country which exist almost in every State and Union Territory (UT) in India. Of these, 17 were established under the SFCs Act of 1951. The Tamil Nadu Industrial Investment Corporation was set up in 1949 under the Companies Act as the Madras Industrial Investment Corporation and it operates as a full-fledged SFC. The management of the SFC is similar to that of the IFCI. It has a board of directors, a Managing Director and an Executive Committee. A SFC can open its offices in different places within the State.

The following are the main functions performed by SFC for developing industries in the State:

- To provide long-term finance to small and medium sized industries units
- To undertake the issue of debentures, bonds, Chares and stock of industrial concerns
- To grant loans and advances to industrial concerns that are to be repaid within 20 years
- To subscribe debentures floated by the industrial concerns
- To grant financial assistance to small road transport operators, hotels, tourism-related activities, hospitals and nursing homes, etc.

State Industrial Development Corporation (SIDC)

SIDCs were incorporated under the Companies Act of 1956, in the 60s and early 70s as wholly-owned State Government Undertakings for promoting industrial development. There are 28 SIDCs in the country.

The following are the functions of SIDCs for the development of industries:

- Providing aid through direct subscription/underwriting to debentures/shares and guarantees or term-loans
- Undertaking a variety of promotional activities such as developing industrial estates, conducting entrepreneurship development programmes as well as industrial potential surveys and preparing feasibility reports

- Assisting in plant locations, coordinating with other agencies and providing guidance
- Providing mutual funds, venture capital, merchant banking and equipment leasing services

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Check Your Progress

3. Name some common types of financial institutions.
4. How does the IFCI extend financial assistance to the industrial sector?
5. State the popular schemes of the IFCI.
6. What kind of financial assistance does LIC provide to industries?

11.4 MUDRA SCHEME

Micro Units Development and Refinance Agency Ltd. [MUDRA] is an NBFC supporting development of micro enterprise sector in the country. MUDRA provides refinance support to Banks / MFIs for lending to micro units having loan requirement upto 10 lakh. MUDRA provides refinance to micro business under the Scheme of Pradhan Mantri MUDRA Yojana. The other products are for development support to the sector. The bouquet of offerings of MUDRA is depicted below. The offerings are being targeted across the spectrum of beneficiary segments.

Fiscal Incentives

To signify the stage of growth / development and funding needs of the beneficiary micro unit / entrepreneur and also provide a reference point for the next phase of graduation / growth to look forward to, MUDRA offers incentives through these interventions:

- Shishu : covering loans upto 50,000/-
- Kishor : covering loans above 50,000/- and upto 5 lakh
- Tarun : covering loans above 5 lakh and upto 10 lakh

Generally, loans upto 10 lakh issued by banks under Micro Small Enterprises is given without collaterals.

Objective of the Scheme

Mudra loan is extended for a variety of purposes which provide income generation and employment creation. The loans are extended mainly for:

- Business loan for Vendors, Traders, Shopkeepers and other Service Sector activities
- Working capital loan through MUDRA Cards
- Equipment Finance for Micro Units
- Transport Vehicle loans

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Check Your Progress

7. What is MUDRA?
8. What amount of loan is issued under the MUDRA Scheme?

11.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The important goal of a microfinance project is to create income and employment in poor sections of societies through the development of local micro enterprises and consequently improving the financial well-being of the borrowers and the fight against poverty.
2. A microfinance industry is required to support micro enterprise development as it consists of several components of enterprise building, market orientation, project and product identification and meeting some of enterprise credit requirements.
3. Asset management firms, stock brokerages, credit unions, building societies, banks and other similar businesses are some of the common types of financial institutions.
4. The IFCI extends financial assistance to the industrial sector through direct subscription/underwriting to debentures/shares and guarantees, by means of rupee and foreign currency loans, and also offers financial services through its facilities of equipment procurement, equipment finance, buyers' and suppliers' credit, equipment leasing and finance to leasing and hire-purchase companies.
5. Some of the popular schemes of the IFCI are as follows:
   - Interest subsidy scheme for women entrepreneurs
   - Consultancy fee subsidy schemes for the provision of marketing assistance to SSIs
   - Encouraging the modernization of tiny, small-scale ancillary units
   - Controlling pollution in the small and medium scale industries
6. LIC provides the following financial assistance to industries:
   - It liaisons with other all-India financial institutions for providing finance directly to the industries.
   - It provides underwriting support to industrial concerns.
7. Micro Units Development and Refinance Agency Ltd. [MUDRA] is an NBFC supporting development of micro enterprise sector in the country.

MUDRA provides refinance support to Banks / MFIs for lending to micro units having loan requirement upto 10 lakh.

8. MUDRA provides refinance support to Banks / MFIs for lending to micro units having loan requirement upto 10 lakh.

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11.6 SUMMARY

- The informal sector in India is comprised of traditional forms of employment and self-employment such as home-based microenterprises, street vending, etc., and also new forms of employment like temporary and part time jobs.
- Micro-entrepreneurs initiate very small scale, isolated rural and urban businesses usually with no outside support. The operating costs are kept low by working from home (using household shelter as production unit) using handmade machinery/tools and family labour. These micro entrepreneurs have virtually no access to capital beyond sources from family.
- The micro and small enterprises sector includes a wide range of activities, such as small scale khadi, village and coir industries, handicrafts, handlooms, sericulture, power looms, food processing and other agro and rural industry segments.
- Microfinance is a support for microenterprise development–enterprise development being an important factor behind initiation of microfinance as a strategic tool for poverty reduction in the developing world, particularly in India.
- The issue of establishing business linkages of micro enterprises with larger business chains has to be carefully addressed so as to reduce the vulnerability of micro-entrepreneurs by strategizing their fit into the larger production, supply and market business chains.
- Vocational training programmes targeting employment in the informal sector will improve the skills and business start-up capabilities of people employed in the informal sector. In this line, designing appropriate planning for employment training of the people in the informal sector should be integrated in the nation's inclusive vocational training plan.
- In financial economics, financial institutions act as agents providing financial services for their members or clients.
- A financial institution functions as an intermediary in the debt and capital markets. It transfers funds from investors to the firms that require them. The flow of funds in an economy is facilitated by it.
- The introduction of the Credit Guarantee Scheme in 1960 gave a fillip to commercial bank financing to SSIs. Initially, this scheme was introduced in 22 districts on an experimental basis. Later, it was extended all over the country.

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- IFCI has had a significant role to play in modernizing the Indian industry, promoting exports, substituting imports, controlling the level of pollution, conserving energy and generating commercially feasible viable and market-friendly projects.
- The ICICI was set up in January 1955 under the Indian Companies Act with the primary objective of developing small and medium industries in the private sector.
- IDBI provides assistance to SSIs through its scheme of refinance and, to a limited extent, through its bills rediscounting scheme.
- LIC offers a variety of insurance policies to extend social security to various segments of society. It has been deploying its funds in accordance with plan priorities.
- With a view to ensuring larger flow of non-financial and financial assistance to the small-scale sector, the Government of India set up SIDBI under a special Act of Parliament in October 1989 as a fully owned subsidiary of IDBI.
- The SIDBI's financial assistance to small-scale industries is channelized through the existing credit delivery system comprising State Finance Corporations, State Industrial Development Corporations, commercial banks and regional rural banks.
- SIDCs were incorporated under the Companies Act of 1956, in the 60s and early 70s as wholly-owned State Government Undertakings for promoting industrial development. There are 28 SIDCs in the country.
- Micro Units Development and Refinance Agency Ltd. [MUDRA] is an NBFC supporting development of micro enterprise sector in the country. MUDRA provides refinance support to Banks / MFIs for lending to micro units having loan requirement upto 10 lakh.

11.7 KEY WORDS

- **MSME:** MSME stands for Micro, Small and Medium Enterprise (MSME), introduced by Government of India in agreement with Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 are entities engaged in the production, manufacturing, processing or preservation of goods and commodities.
- **Vocational training programmes:** These are specialized programmes aimed at educating and preparing people to work as a technician or to take up employment in a skilled craft or trade as a tradesperson or artisan.
- **Financial institutions:** Financial institutions are corporations that provide services as intermediaries of financial markets.

- **MUDRA:** Micro Units Development and Refinance Agency is a public sector financial institution in India. It provides loans at low rates to micro-finance institutions and non-banking financial institutions which then provide credit to MSMEs.

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11.8 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. Mention the categories of manufacturing enterprises on the basis of investment in plant and machinery according to the Micro, Small and Medium Enterprises Development Act, 2006 (Govt. of India).
2. What do you mean by the micro and small enterprises sector?
3. State the key interventions needed at various levels to support microenterprise creation and expansion.
4. Why is there an immediate need to enhance rural vocational training planning?
5. What is the role of a financial institution in the debt and capital markets?

Long-Answer Questions

1. Describe the functions performed by IFCI for the development of industries.
2. Write an essay about the MUDRA Scheme.

11.9 FURTHER READINGS

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BLOCK IV
GOVERNMENT INITIATIVES AND SCHEMES

UNIT 12 PRIORITY SECTOR LENDING AND GOVERNMENT INITIATIVES

Structure

12.0 INTRODUCTION

Priority sector lending is to provide financial support to those sectors of the economy which may not get regular and enough credit in the absence of this special dispensation. It is an important role given by the apex bank to the banks for giving a definite part of the bank lending to few specific sectors like agriculture and allied activities, micro and small enterprises, poor people for housing, students for education and other low income groups and economically weaker sections. Priority Sector Lending is essentially meant for a holistic development of the economy as opposed to focusing only on the financial sector. Direct finance is provided to agriculture in the form of short, medium and long term loans. In this unit, we will study in detail about RBI's master circular consisting of the guidelines on lending to priority sector along with the revisions made to the existing guidelines.

12.1 OBJECTIVES

After going through this unit, you will be able to:

- Discuss the composition of the priority sector
- Explain the master circular, incorporating existing guidelines/instructions/ directives on lending to priority sectors

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12.2 PRIORITY SECTOR LENDING: COMPONENTS, LENDING NORMS AND RBI GUIDELINES

At present, the priority sector broadly comprises the following:

1. Agriculture
2. Small-scale Industries
3. Other activities/borrowers (such as small business, retail trade, small transport operators, professional and self-employed persons, housing and educational loans, micro-credit, etc.)

At a meeting of the National Credit Council held in July 1968, it was emphasized that commercial banks should increase their involvement in the financing of priority sectors. The description of the priority sectors was later formalized in 1972 on the basis of the Report submitted by the Informal Study Group on Statistics Relating to Advances to the Priority Sectors, constituted by the RBI in May 1971. On the basis of this report, the RBI prescribed a modified return for reporting priority sector advances and certain guidelines were issued in this connection indicating the scope of the items to be included under the various categories of priority sectors. Although, initially there was no specific targets fixed in respect of priority sector lending, in November 1974 the banks were advised to raise the share of these sectors in their aggregate advances to the level of 33 1/3 per cent by March 1979.

At a meeting of the Union Finance Minister with the Chief Executive Officers of the public sector banks held in March 1980, it was agreed that banks should aim at raising the proportion of their advances to priority sectors to 40 per cent by March 1985. Subsequently, on the basis of the recommendation of the working group on the modalities of implementation of Priority Sector Lending and the Twenty Point Economic Programme by banks, all commercial banks were advised to achieve the target of priority sector lending at 40 per cent of aggregate bank advances by 1985. Sub-targets were also specified for lending to agriculture and the weaker sections within the priority sector. Since then, there have been several changes in the scope of priority sector lending and the targets and sub-targets applicable to various bank groups.

To enable the banks to have current instructions at one place, a Master Circular incorporating the existing guidelines/instructions/directives on lending to priority sector has been prepared. This circular consolidates the previous instructions issued by the RBI upto 31 October 2002, to the extent they deal with the priority sector lending by commercial banks. The details of this circular are given as follows:

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SECTION I: CLASSIFICATION OF PRIORITY SECTOR ADVANCES

A detailed classification containing the list of items in different segments of priority sector advances is given below:

1. Agriculture

1.1 Direct Finance to Farmers for Agricultural Purposes

1.1.1 Short-term loans for raising crops, also known as 'crop loans'. In addition, advances upto ₹ 5 lakh to farmers against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months, where the farmers were given crop loans for raising the produce, provided the borrowers draw credit from one bank.

1.1.2 Medium and long-term loans (Provided directly to farmers for financing production and development needs).

(i) *Purchase of agricultural implements and machinery*

(a) Purchase of agricultural implements—Iron ploughs, harrows, hose, land-levellers, bundformers, hand tools, sprayers, dusters, hay-press, sugarcane crushers, thresher machines, etc.

(b) Purchase of farm machinery—Tractors, trailers, power tillers, tractor accessories viz., disc ploughs, etc.

(c) Purchase of trucks, mini-trucks, jeeps, pick-up vans, bullock carts and other transport equipment, etc. to assist the transport of agricultural inputs and farm products.

(d) Transport of agricultural inputs and farm products.

(e) Purchase of plough animals.

(ii) *Development of irrigation potential through—*

(a) Construction of shallow and deep tube wells, tanks, etc., and purchase of drilling units.

(b) Constructing, deepening clearing of surface wells, boring of wells, electrification of wells, purchase of oil engines and installation of electric motor and pumps.

(c) Purchase and installation of turbine pumps, construction of field channels (open as well as underground), etc.

(d) Construction of lift irrigation project.

(e) Installation of sprinkler irrigation system.

(f) Purchase of generator sets for energization of pumpsets used for agricultural purposes.

(iii) *Reclamation and Land Development Schemes*

Bunding of farm lands, levelling of land, terracing, conversion of dry paddy lands into wet irrigable paddy lands, wasteland development,

development of farm drainage, reclamation of soil lands and prevention of salinisation, reclamation of ravine lands, purchase of bulldozers, etc.

(iv) *Construction of farm buildings and structures, etc.*

Bullock sheds, implement sheds, tractor and truck sheds, farm stores, etc.

(v) *Construction and running of storage facilities*

Construction and running of warehouses, godowns, silos and loans granted to farmer for establishing cold storages used for storing own produce.

(vi) *Production and processing of hybrid seeds for crops.*

(vii) *Payment of irrigation charges, etc.*

Charges for hired water from wells and tube wells, canal water charges, maintenance and upkeep of oil engines and electric motors, payment of labour charges, electricity charges, marketing charges, service charges to Customs Service Units, payment of development cess, etc.

(viii) *Other types of direct finance to farmers*

(a) Short-term loans

(1) To traditional/non-traditional plantations and horticulture.

(2) For allied activities such as dairy, fishery, piggery, poultry, bee-keeping etc.

(b) Medium and long-term loans

(1) Development loans to all plantations, horticulture, forestry and wasteland.

(2) Development loans for allied activities.

(3) Development of dairying and animal husbandry in all its aspects.

(4) Development of fisheries in all its aspects from fish catching to stage of export, financing of equipment necessary for deep sea fishing, rehabilitation of tanks (fresh water fishing), fish breeding, etc.

(5) Development of poultry piggery, etc., in all its aspects including erection of poultry houses, pig houses, bee-keeping, etc.

(6) Development and maintenance of stud farms, sericulture including grainages, etc. However, breeding of race horses cannot be classified here.

(7) Bio-gas plants.

(8) Financing of small and marginal farmers for purchase of land for agricultural purposes.

(9) Financing setting up Agriclinics and Agribusiness Centres by agriculture graduates.

1.2 Indirect Finance to Agriculture

1.2.1 (i) Credit for financing the distribution of fertilizers, pesticides, seeds, etc.

(ii) Loans upto ₹ 25 lakh granted for financing distribution of inputs for the allied activities such as, cattle feed, poultry feed, etc.

1.2.2 (i) Loans to Electricity Boards for reimbursing the expenditure already incurred by them for providing low tension connection from step-down point to individual farmers for energizing their wells.

(ii) Loans to SEBs for Systems Improvement Scheme under Special Project Agriculture (SI-SPA).

1.2.3 Loans to farmers through PACS, FSS and LAMPS.

1.2.4 Deposits held by the banks in Rural Infrastructure Development Fund (RIDF) maintained with NABARD.

1.2.5 Subscription to bonds issued by Rural Electrification Corporation (REC) exclusively for financing pump set energization programme in rural and semi-urban areas and also for financing System Improvement Programme (SI-SPA).

1.2.6 Subscriptions to bonds issued by NABARD with the objective of financing exclusively agriculture/allied activities.

1.2.7 Other types of indirect finance such as—

(i) Finance for hire-purchase schemes for distribution of agricultural machinery and implements.

(ii) Loans for constructions and running of storage facilities (warehouse, market yards, godowns, silos and cold storages *) in the producing areas.

* Loans to cold storage units which are mainly used for hiring, provided—

(a) the cold storage unit is in the rural areas,

(b) the unit is used for storing mainly agricultural produce, and

(c) the unit is not registered as a small-scale industrial unit. If the cold storage unit is registered as SSI unit, the loans granted to such units may be classified under advances to SSI, provided the investment in plant and machinery is within the stipulated ceiling.

(iii) Advances to Customs Service Units managed by individuals, institutions or organizations who maintain a fleet of tractors, bulldozers, well-boring equipment, threshers, combines, etc., and undertake work from farmers on contract basis. If these advances are covered by the guarantee of DICGC, they should be classified under SSI advances.

(iv) Loans to individuals, institutions or organizations who undertake spraying operations.

(v) Loans to cooperative marketing societies, cooperative banks for re-lending to cooperative marketing societies (provided a certificate from the state cooperative bank in favour of such loans is produced) for disposing of the produce of members.

(vi) Loans to cooperative banks of producers (e.g., Aarey Milk Colony Cooperative Bank, consisting of licensed cattle owners).

(vii) Financing the farmers indirectly through the cooperative system (otherwise than by subscription to bonds and debenture issues), provided a certificate from the state cooperative bank in favour of such loans is produced.

(viii) Advances to state-sponsored corporations for onward lending to weaker sections.

(ix) Finance extended to dealers in drip irrigation/sprinkler irrigation system/agricultural machinery, subject to the following conditions:

   (a) The dealer should be located in the rural/semi-urban areas.

   (b) He should be dealing exclusively in such items or if dealing in other products, should be maintaining separate and distinct records in respect of such items.

   (c) A ceiling of up to ₹ 20 lakh per dealer should be observed.

(x) Loans to National Cooperative Development Corporation (NCDC) for on-lending to the cooperative sector for purposes coming under the priority sector.

(xi) Loans to farmers for purchase of shares in Cooperative Sugar Mills and Sugar Mills set up as Joint Stock Companies and other agro-based processing units. (Maximum six shares of ₹ 1000 each or three shares of ₹ 2000 each, i.e., ₹ 6000 per eligible borrower irrespective of their land holding).

(xii) Loans to Arthias (commission agents in rural/semi-urban areas functioning in markets/mandies) for meeting their working capital requirements on account of credit extended to farmers for supply of inputs.

(xiii) Lending to Non-Banking Financial Companies (NBFCs) for on-lending to agriculture.

2. Small-scale Industries

2.1 Small-scale and Ancillary Industries

Small-scale industrial units are those engaged in the manufacture, processing or preservation of goods and whose investment in plant and machinery (original cost) does not exceed

₹ 1 crore. These would, *inter alia*, include units engaged in mining or quarrying, servicing and repairing of machinery. In the case of ancillary units, the investment in plant and machinery (original cost) should also not exceed ₹ 1 crore to be classified under small-scale industry.

The investment limit of ₹ 1 crore for classification as SSI has been enhanced to ₹ 5 crore in respect of certain specified items under hosiery and hand tools by the Government of India.

2.2 Tiny Enterprises

The status of 'Tiny Enterprises' may be given to all small-scale units whose investment in plant and machinery is upto ₹ 25 lakh, irrespective of the location of the unit.

2.3 Small-scale Service and Business Enterprises (SSSBE's)

2.3.1 Industry related service and business enterprises with investment upto ₹ 10 lakh in fixed assets, excluding land and building will be given benefits of small-scale sector. For computation of value of fixed assets, the original price paid by the original owner will be considered irrespective of the price paid by subsequent owners.

2.3.2 An illustrative list of eligible activities as SSSBE's and the illustrative list of activities that will not qualify as SSSBE is given in Annexures 1 and II respectively.

2.4 Indirect finance in the small-scale industrial sector will include credit to:

2.4.1 Agencies involved in assisting the decentralized sector in the supply of inputs and marketing of outputs of artisans, village and cottage industries.

2.4.2 Government sponsored corporation/organizations providing funds to the weaker sections in the priority sector.

2.4.3 Advances to handloom cooperatives.

2.4.4 Term finance/loans in the form of lines of credit made available to state industrial development corporation/state financial corporations for financing SSIs.

2.4.5 Credit provided by banks to KVIC under the scheme for provision of credit to KVIC by consortium of banks for lending to viable khadi and village industrial units.

2.4.6 Funds provided by banks to SIDBI/SFCs by way of rediscounting of bills of SSI earlier discounted by the SIDBI/SFCs.

2.4.7 Subscription to bonds floated by SIDBI, SFCS, SIDCS and NSIC exclusively for financing SSI units.

2.4.8 Subscription to bonds issued by NABARD with the objective of financing exclusively non-farm sector.

2.4.9 Financing of NBFCs or other intermediaries for on-lending to the tiny sector.

2.4.10 Deposits placed with SIDBI by foreign banks in fulfilment of shortfall in attaining priority sector targets.

2.4.11 Bank finance to HUDCO either as a line of credit or by way of investment in special bonds issued by HUDCO for on-lending to artisans, handloom weavers, etc., under tiny sector may be treated as indirect lending to SSI (Tiny) sector.

2.5 Industrial Estates

Loans for setting up industrial estates.

2.6 KVI Sector

All advances to KVI sector, irrespective of their size of operations, location and investment in plant and machinery, will be covered under priority sector advances and will also be eligible for consideration under the sub-target (60 per cent) of the SSI segment within the priority sector.

2.7 Manufacture of common salt through any process including manual operation (involving solar evaporation) may be considered as an industrial activity and credit provided by banks to units engaged in the manufacture of common salt which satisfy the norms of SSI unit may be classified under advances to SSI.

2.8 Units engaged in ship breaking/dismantling are composite ones which also undertake the processing of scrap thus obtained and hence the entire activity can be covered under processing. Therefore, all small-scale industrial units with original cost of plant and machinery not exceeding ₹ 1 crore and engaged in ship breaking/dismantling activity may be considered as small-scale industrial undertaking and bank advances to such units reckoned as priority sector advances.

2.9 Bank loans to bought leaf factories manufacturing tea are to be reckoned as priority sector lending to small-scale industry, provided the investment in plant and machinery (original cost) does not exceed the prescribed limits.

2.10 Water mills (Gharat) has been recognised as an industrial activity and shall be eligible for registration as small-scale industry.

3. Other Activities/Borrowers in the Priority Sector

3.1 Small Road and Water Transport Operators (SRWTO)

3.1.2 Advances to small road and water transport operators owning a fleet of vehicles not exceeding 10 vehicles, including the one proposed to be financed.

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3.1.2 Advances to NBFCs for on-lending to truck operators and SRWTOs other than truck operators satisfying the eligibility criteria. Also, portfolio purchases (purchases of hire purchase receivables) from NBFCs made after 31 July 1998 would also qualify for inclusion under priority sector lending, provided the portfolio purchases relate to SRWTOs satisfying priority sector norms.

3.2 Retail Trade

Advances are granted to:

3.2.1 retail traders dealing in essential commodities (fair price shops) and consumer cooperative stores and

3.2.2 private retail traders with credit limits not exceeding ₹ 10 lakh.

(Retail traders in fertilisers will form part of indirect finance for agriculture and those to retail traders of mineral oils under small business).

3.3 Small Business

Small Business would include individuals and firms managing a business enterprise established mainly for the purpose of providing any service other than professional services whose original cost price of the equipment used for the purpose of business does not exceed ₹ 20 lakh. Banks are free to fix individual limits for working capital depending upon the requirements of different activities.

Advances for acquisition, construction, renovation of house-boats and other tourist accommodation will be included here. Distribution of mineral oils shall be included under 'small business.' Advances to judicial stamp vendors and lottery ticket agents may also be classified under this category.

3.4 Professional and Self-Employed Persons

3.4.1 Loans to professional and self-employed persons include loans for the purpose of purchasing equipment, repairing or renovating existing equipment and/or acquiring and repairing business premises or for purchasing tools and/or for working capital requirements to medical practitioners including dentists, chartered accountants, cost accountants, practising company secretary, lawyers or solicitors, engineers, architects, surveyors, construction contractors or management consultants or to a person trained in any other art or craft who holds either a degree or diploma from any institutions established, aided, or recognised by government or to a person who is considered by the bank as technically qualified or skilled in the field in which he is employed. The undernoted specific categories of advances will also be eligible for classification under this item:

3.4.2 Advances to accredited journalists and cameramen who are freelancers, i.e., not employed by a particular newspaper/magazine for acquisition of equipment by such borrowers for their professional use.

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3.4.3 Credits for the purpose of purchasing equipment, acquisition of premises (strictly for business) and tools to practising company secretaries who are not in the regular employment of any employer.

3.4.4 Financial assistance for running 'Health Centre' by an individual who is not a doctor, but has received some formal training about the use of various instruments of physical exercises.

3.4.5 Advances for setting up beauty parlours where the borrower holds qualification in the particular profession and undertakes the activity as the sole means of living/earning his/her livelihood.

3.4.6 Preference may be given by banks to financing professionals like doctors, etc., who are carrying on their profession in rural or semi-urban areas. The term also includes firms and joint ventures of such professional and self-employed persons. This category will include all advances granted by the bank under special schemes, if any, introduced for the purpose.

3.4.7 Only such professional and self-employed persons whose borrowings (limits) do not exceed ₹ 10 lakh of which not more than ₹ 2 lakh should be for working capital requirements, should be covered under this category. However, in the case of professionally qualified medical practitioners, setting up of practice in semi-urban and rural areas, the borrowing limits should not exceed ₹ 15 lakh with a sub-ceiling of ₹ 3 lakh for working capital requirements. Advances granted for purchase of one motor vehicle to professional and self-employed persons other than qualified medical practitioners will not be included under the priority sector.

3.4.8 Advances granted by banks to professional and self-employed persons for acquiring personal computers for their professional use, may be classified in this category, provided the ceiling of total borrowings of ₹ 10 lakh of which working capital should not be more than ₹ 2 lakh per borrower, is complied with in each case for the entire credit inclusive of credit provided for purchase of personal computer. However, home computers should not be treated on par with personal computers and excluded from priority sector lending.

3.5 State Sponsored Organizations for Scheduled Castes/Scheduled Tribes

Advances sanctioned to state sponsored organizations for Scheduled Castes/ Scheduled Tribes for the specific purpose of purchase and supply of inputs to and/or the marketing of the outputs of the beneficiaries of these organizations.

3.6 Education

Educational loans should include only loans and advances granted to individuals for educational purposes and not those granted to institutions and will include all advances granted by banks under special schemes, if any, introduced for the purpose.

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3.7 Housing

3.7.1 Direct Finance

(i) Loans upto ₹ 5 lakh in rural/semi-urban areas and upto ₹ 10 lakh in urban and metropolitan areas for construction of houses by individuals, excluding loans granted by banks to their own employees.

(ii) Loans given for repairs to the damaged houses of individuals up to ₹ 1 lakh in rural and semi-urban areas and to ₹ 2 lakh in urban areas.

(iii) Loans granted by banks up to ₹ 5 lakh to individuals desirous of acquiring or constructing new dwelling units and upto ₹ 50,000 for upgradation or major repairs to the existing units in rural areas under Special Rural Housing Scheme of NHB.

3.7.2 Indirect Finance

(i) Assistance given to any governmental agency for construction of houses or for slum clearance and rehabilitation of slum dwellers, subject to a ceiling of ₹ 5 lakh of loan amount per housing unit.

(ii) Assistance given to a non-governmental agency approved by the NHB for the purpose of refinance for reconstruction of houses or for slum clearance and rehabilitation of slum dwellers, subject to a ceiling of loan component of ₹ 5 lakh per housing unit.

(iii) All the investment in bonds issued by NHB/HUDCO exclusively for financing of housing, irrespective of the loan size per dwelling unit, will be reckoned for inclusion.

3.8 Consumption Loans

Pure consumption loans granted under the Consumption Credit Scheme should be included in this item.

3.9 Loans to Self-Help Groups (SHGs)/NGOs/MICROCREDIT

3.9.1 Loans provided by banks to SHGs/NGOs for on-lending to SHG/members of SHGs/discreet individuals or small groups which are in the process of forming into SHGs will be reckoned as priority sector lending.

3.9.2 Lending to SHGs is to be included as a part of bank's lending to weaker sections.

3.9.3 Microcredit provided by banks either directly or through any intermediary.

3.10 Food and Agro-based Processing Sector

The following items within the food and agro-based processing sector would be eligible for classification as priority sector for lending by banks:

- Fruit and vegetable processing industry
- Foodgrain milling industry
- Dairy products

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- Processing of poultry and eggs, meat products
- Fish processing
- Bread, oilseeds, meals (edible), breakfast foods, biscuits, confectionery (including cocoa processing and chocolate), malt extract, protein isolate, high protein food, weaning food and extruded/other ready to eat food products
- Aerated water/soft drinks and other processed foods
- Special packaging for food processing industries
- Technical assistance and advice to food processing industry

With regard to the size of the units within this sector, it is clarified that food and agro-based processing units of small and medium size with investment in plant and machinery up to ₹ 5 crore would be included under priority sector lending.

While loans to units satisfying SSI definition may be shown under advances to SSI, loans to other units should be shown separately in the half-yearly statements on priority sector lending.

3.11 Software Industry

Loans to software industry with credit limit up to ₹ 1 crore from the banking industry to be included under this item.

3.12 Venture Capital

Investment in Venture Capital will be eligible for inclusion in priority sector, subject to the condition that the venture capital funds/companies are registered with SEBI.

SECTION II: CERTAIN TYPES OF FUNDS DEPLOYMENT ELIGIBLE AS PRIORITY SECTOR ADVANCES

1. Investments in Special Bonds

1.1 Investments made by the banks in special bonds issued by the specified institutions could be reckoned as part of priority sector advances, subject to the following conditions:

(i) *State Financial Corporations (SFCs)/State Industrial Development Corporations (SIDCs)*

(a) Subscription to bonds exclusively floated by SFCs and SIDCs for financing SSI units will be eligible for inclusion under priority sector as indirect finance to SSI.

(b) List of institutions in various states which are notified as SIDCs.

(ii) *Rural Electrification Corporation (REC)*

Subscription to special bonds issued by REC exclusively for financing pump-set energization programme in rural and semi-urban areas and the System Improvement Programme under its Special Projects

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Agriculture (SI-SPA) will be eligible for inclusion under priority sector lending as indirect finance to agriculture.

(iii) *NABARD*

Subscription to bonds issued by NABARD with the objective of financing exclusively agriculture/allied activities and the non-farm sector will be eligible for inclusion under the priority sector as indirect finance to agriculture/SSI, as the case may be.

(iv) *Small Industries Development Bank of India (SIDBI)*

Subscriptions to bonds exclusively floated by SIDBI for financing of SSI units will be eligible for inclusion under priority sector as indirect finance to SSIs.

(v) *The National Small Industries Corporation Ltd (NSIC)*

Subscription to bonds issued by NSIC exclusively for financing of SSI units will be eligible for inclusion under priority sector as **indirect finance to SSIs**.

(vi) *National Housing Bank (NHB)*

Subscription to bonds issued by NHB exclusively for financing of housing, irrespective of the loan size per dwelling unit, will be eligible for inclusion under priority sector advances as indirect housing finance.

(vii) *Housing and Urban Development Corporation (HUDCO)*

(a) Subscription to bonds issued by HUDCO exclusively for financing of housing, irrespective of the loan size per dwelling unit, will be eligible for inclusion under priority sector advances as indirect housing finance.

(b) Investment in special bonds issued by HUDCO for on-lending to artisans, handloom weavers, etc. under tiny sector will be classified as indirect lending to SSI (Tiny) sector.

1.1.1 The issue of bonds should be accompanied by a declaration from the issuing institution that the proceeds would be utilized for financing of borrowers under the priority sector as detailed above and no refinance would be availed of against such loans to the ultimate borrowers from any other agency.

1.1.2 The rate of interest and maturity period of bonds may be settled by banks with the respective institutions.

1.13 While reporting to the RBI, the quantum of investment in bonds (as they would appear under investments in the balance sheet) should be shown separately under the appropriate sub-head in the priority sector returns.

2. Other Investments

Investment by banks in venture capital will be eligible for inclusion in priority sector lending. This is subject to the condition that venture capital funds/companies are registered with SEBI.

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3. Lines of Credit

3.1 Banks may consider on merit, proposals received from State Industrial Development Corporations (SIDCs) and State Financial Corporations (SFCs) for sanction of term finance/loans in the form of lines of credit.

3.2 Such term finance/loans to the extent granted for/to the Small Scale Industrial (SSI) units, will be treated as priority sector lending, subject to the observance of following conditions:

(i) SFC/SIDC should maintain separate and distinct accounts of fresh disbursements made to SSI units and outstanding amounts there against.

(ii) Periodical statements to be obtained from SFC/SIDC to monitor the position.

(iii) Annually, a certificate issued by SFC/SIDC statutory auditors certifying that the outstanding borrowings from banks were fully covered by the non-overdue loans outstanding in respect of fresh disbursements made to SSI units from out of term finance/lines of credit granted by banks.

(iv) The rate of interest to be charged by banks on such term finance/ loans/ lines of credit will be in conformity with the directives on interest rates issued by the Reserve Bank from time to time.

4. Bills Rediscounting

4.1 Funds provided by commercial banks to SIDBI by way of rediscounting of bills which are originally discounted by a commercial bank and rediscounted by SIDBI will be eligible for inclusion under the priority sector as indirect finance to SSI.

4.2 Funds provided by commercial banks to State Financial Corporations (SFCs) by way of rediscounting of bills of SSIs earlier discounted by the SFCs will be eligible for inclusion under the priority sector as indirect finance to SSIs.

5. Deposits in Rural Infrastructure Development Fund (RIDF)

Outstanding balances of the deposits placed by banks in Rural Infrastructure Development Fund (RIDF) will be reckoned as their indirect finance to agriculture under the priority sector.

6. Leasing and Hire Purchase

Para-banking activities such as leasing and hire purchase financing undertaken departmentally by banks will be classified as priority sector advances, provided the ultimate beneficiary satisfies the criteria laid down by RBI for treating such advances as advances to priority sector.

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SECTION III: TARGETS FOR PRIORITY SECTOR LENDING BY SCHEDULED COMMERCIAL BANKS (*EXCLUDING RRBs*)

1. Main Targets for All Scheduled Commercial Banks *excluding Foreign Banks*

1.1 The scheduled commercial banks are expected to enlarge credit to priority sector and ensure that priority sector advances constitute 40 per cent of net bank credit and that a substantial portion is directed to the weaker sections.

1.2 Within the overall main lending target of 40 per cent of net bank credit, it should be ensured that:

(i) 18 per cent of net bank credit goes to agricultural sector;

(ii) 10 per cent of net bank credit is given to the 'weaker sections and

(iii) 1 per cent of previous year's total advances is given under the Differential Rate of Interest (DRI) scheme.

2. Sub-targets for all Scheduled Commercial Banks *Excluding Foreign Banks*

2.1 Direct/Indirect Agricultural Lending

(i) Taking the fact into consideration that ultimate objective of agricultural credit whether 'direct' or 'indirect' is to help the agricultural production, the lendings under the 'direct' and 'indirect' categories of agricultural advances will be clubbed for the purpose of computing performance of banks vis-à-vis the sub-target of 18 per cent.

(ii) However, to ensure that the focus of the banks on the direct category of agricultural advances does not get diluted; the lendings under the indirect category should not exceed one-fourth of the agricultural sub-target of 18 per cent, i.e., 4.5 per cent of net bank credit.

(iii) Advances under the 'indirect' category in excess of 4.5 per cent of net bank credit would not be reckoned in computing performance under the sub-target of 18 per cent. However, all agricultural advances under the categories 'direct' and 'indirect' will be reckoned in computing performance under the overall priority sector target of 40 per cent of the net bank credit.

2.2 Small-Scale Industries

In order to ensure that credit is available to all segments of the SSI sector, banks should ensure that—

(a) 40 per cent of the total credit to small-scale industry goes to the cottage industries, khadi and village industries, artisans and tiny industries with investment in plant and machinery upto ₹ 5 lakh

(b) 20 per cent of the total credit to small-scale industry goes to SSI units with investment in plant and machinery between ₹ 5 lakh and ₹ 25 lakh and

(c) The remaining 40 per cent goes to other SSI units with investment exceeding ₹ 25 lakh.

2.3 DRI Advances

(i) It should be ensured that not less than 40 per cent of the total advances granted under DRI scheme go to scheduled caste/scheduled tribes.

(ii) At least two third i.e., 662/3 per cent of DRI advances should be granted through rural and semi-urban branches.

Under the DRI Scheme, financial assistance is provided at concessional rate of interest (4 per cent per annum) to selected low income groups, for productive endeavours.

2.4 Weaker Sections

(i) In order to ensure that more under-privileged sections in the priority sector are given proper attention in the matter of allocation of credit, it should be ensured that the advances to the weaker sections reach a level of **25 per cent** of priority sector advances or **10 per cent of net bank credit**.

(ii) The weaker sections under priority sector include the following:

(a) Small and marginal farmers with land holding of 5 acres and less and landless labourers, tenant farmers and share croppers

(b) Artisans, village and cottage industries where individual credit limits do not exceed ₹ 50,000

(c) Beneficiaries of Swarnjayanti Gram Swarojgar Yojana (SGSY)

(d) Scheduled Castes and Scheduled Tribes

(e) Beneficiaries of Differential Rate of Interest (DRI) scheme

(f) Beneficiaries under Swarna Jayanti Shahari Rojgar Yojana (SJSRY)

(g) Beneficiaries under the Scheme for Liberation and Rehabilitation of Scavengers (SLRS)

(h) Advances to Self Help Groups

3. Targets for Foreign Banks

3.1.1 With a view to reducing the disparity between the domestic banks and the foreign banks operating in India in regard to their priority sector obligations the minimum lending to priority sector by the foreign banks shall be 32 per cent of their net credit.

3.1.2 However, keeping in view that the foreign banks have no rural branch network, the composition of priority sector advances in their case will be inclusive of export credit provided by them.

3.1.3 Within the overall target of 32 per cent to be achieved by foreign banks, the advances to small-scale industries sector should not be less than 10 per cent of the net bank credit and the export credit should not be less than 12 per cent of the net bank credit.

[The net bank credit should tally with the figures reported in the fortnightly return submitted under section 42(2) of the Reserve Bank of India Act, 1934. Outstanding deposits under the FCNR(B) and NRNR Schemes are excluded from net bank credit for computation of priority sector lending target/sub-targets]

4. Deposit by Foreign Banks with SIDBI towards shortfall in priority sector lending

4.1 In the event of failure to attain the stipulated targets and sub-targets, the foreign banks will be required to make good the shortfall in the achievement of the targets/sub-targets by depositing for a period of one year, an amount equivalent to the shortfall with the Small Industries Development Bank of India (SIDBI) at the interest rate of 8 per cent per annum or as may be decided by the Reserve Bank from time to time.

4.2 The shortfall in achieving the priority sector lending target and the sub-targets should be computed as on the last reporting Friday of March every year and made good by placing a deposit with SIDBI as stated above. The deposits should be placed before the end of April of that year.

4.3 In regard to the above, it is to be clarified that in the event of failure on the part of foreign banks to achieve any of the stipulated sub-targets in respect of advances to SSI sector and export credit, even if they achieve the overall target of 32 per cent, the shortfall should be made good by placing with SIDBI a deposit of an amount equivalent to the shortfall in each of the sub-targets. Also, in the event of failure on the part of banks to achieve one of the sub-targets or both the sub-targets, and also the overall target of 32 per cent, the shortfall in achieving the sub-targets and the overall target should be made good by placing with SIDBI a deposit of an amount equivalent to either aggregate shortfall in the sub-targets or the shortfall in the overall target, whichever shortfall is higher. In case the shortfall is in achievement of the overall target only and not in the sub-target, banks should make good the shortfall in achieving the overall target.

4.4 The outstanding balances of these deposits placed with SIDBI may be reckoned as part of their priority sector advances during the currency of the deposits, as indirect finance to SSIs. The amount of deposits should, however, be shown separately in the returns on priority sector advances submitted to RBI.

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5. Contribution by banks to Rural Infrastructure Development Fund (RIDF)

5.1 Domestic scheduled commercial banks having shortfall in lending to priority sector/ agriculture are allocated amounts for contribution to the Rural Infrastructure Development Fund (RIDF) established in NABARD. Details regarding operationalisation of the RIDF such as the amounts to be deposited by banks, interest rates on deposits, period of deposits etc., are decided every year after announcement in the Union Budget about setting up of RIDF. The contributions to be made by banks are communicated to the banks concerned separately.

5.2 Shortfall in lending to priority sector/agriculture is taken into account while making allocations to banks under RIDF, which amount has to be deposited with NABARD at a certain rate of interest. In the case of RIDF-I to VI, the rate of interest on deposits placed in the Fund was uniform for all banks irrespective of the extent of their shortfall. Effective RIDF-VII, the rate of interest on RIDF deposits was linked to the banks' performance in lending to agriculture. Accordingly, banks will receive interest from NABARD on contribution to RIDF-VIII at rates of interest inversely related to the shortfall in agricultural lending, as indicated below:

Table 12.1 *Rate of Interest Received by Banks from NABARD on Contribution to RIDF-VIII*

Sr. No.	*Shortfall in lending to agriculture in terms of percentage to Net Bank Credit (i.e., Target minus achievement)*	*Rate of interest on the entire deposit to be made in RIDF VII (Per cent per annum)*
1	Less than 2 percentage points	8.0
2	2 to 4.99 percentage points	7.0
3	5 to 8.99 percentage points	6.0
4	9 percentage points and above	5.0

SECTION IV: COMMON GUIDELINES FOR

Priority Sector Advances

1. Based on the recommendations made by the working groups and high powered committees appointed by the Government of India and the Reserve Bank, a set of comprehensive guidelines to be followed for advances to all categories of borrowers in the priority sector were evolved. These guidelines are detailed in the subsequent paragraphs. Banks should follow these common guidelines prescribed by the Reserve Bank for **all categories of advances under the priority sector.**

2. Processing of Applications

2.1 Completion of Application Forms

In areas covered by special schemes such as SGSY, the concerned project authorities like DRDAs, DICs etc., should arrange for completion of application forms received from borrowers. In other areas, the bank staff should help the borrowers for this purpose.

2.2 Issue of Acknowledgement of Loan Applications

Banks should give acknowledgement for loan applications received from weaker sections. Towards this purpose, while getting fresh stocks of application forms printed, it may be ensured that these forms have perforated portion for acknowledgement to be completed and issued by the receiving branch. Each branch may affix on the main application form as well as the corresponding portion for acknowledgement, a running serial number. While using the existing stock of application forms till then, an acknowledgement (separately prepared) should be given for each application, care being taken to ensure that the serial number given on the acknowledgement is also recorded on the main application.

2.3 Disposal of Applications

All loan applications upto a credit limit of ₹ 25,000 should be disposed of within a fortnight and those for over ₹ 25,000, within 8 to 9 weeks.

2.4 Rejection of Proposals

Branch Managers may reject applications (except in respect of SC/ST) provided the cases of rejection are verified subsequently by the Divisional/ Regional Managers. In the case of proposals from SC/ST, rejection should be at a level higher than that of Branch Manager.

2.5 Register of Rejected Applications

A register should be maintained at branch wherein the date of receipt, sanction/rejection/disbursement with reasons should be recorded. The register should be made available to all inspecting agencies.

3. Mode of Disbursement of Loan

As far as possible, disbursement of loan amounts sanctioned should be made directly to the suppliers of inputs such as seeds, fertilisers, raw materials, implements, trucks, machinery, etc.

With a view to providing farmers wider choice as also eliminating undesirable practices, banks may disburse all loans for agricultural purposes in cash which will facilitate dealer choice to borrowers and foster an environment of trust. However, banks may continue the practice of obtaining receipts from borrowers.

4. Repayment Schedule

4.1 Repayment programme should be fixed taking into account the sustenance requirements, surplus generating capacity, the break-even point, the life of the asset, etc., and not in an ad hoc manner. In respect of composite loan upto ₹ 50,000/- to artisans, village and cottage industries, repayment schedule may be fixed for term loan component only (subject to SIDBI's requirements being fulfilled).

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4.2 In case of default on account of natural calamities like floods, drought, etc. crop loans may be converted into medium-term loans of three to five years and extension/re-phasement may be allowed in the case of term loans.

4.3 In the case of other borrowers affected by natural calamities, banks may convert drawings in excess of the value of security into a term loan repayable over a reasonable period of time and provide further working capital and extend/re-phase the instalments due under term loans.

5. Rates of Interest

The rates of interest on various categories of priority sector advances will be as per RBI directives issued from time to time.

6. Penal Interest

6.1.1 The issue of charging penal interests that should be levied for reasons such as default in repayment, non-submission of financial statements etc. has been left to the Board of each bank. Banks have been advised to formulate policy for charging such penal interest with the approval of their Boards, to be governed by well accepted principles of transparency, fairness, incentive to service the debt and due regard to difficulties of customers.

6.1.2 No penal interest should be charged by banks for loans under priority sector upto ₹ 25,000 as hitherto. However, banks will be free to levy penal interest for loans exceeding ₹ 25,000, in terms of the above guidelines.

7. Inspection Charges

7.1.1 No inspection charges should be levied on advances upto ₹ 5,000.

7.1.2 For advances above ₹ 5,000 but upto ₹ 25,000, inspection charges may be levied at the flat rate of ₹ 2.50 per inspection per borrower. These charges should, however, not exceed ₹ 10 per year per borrower.

7.1.3 For loans above ₹ 25,000/- reasonable inspection charges may be levied; care should, however, be taken to see that the inspection charges on advances to the weaker sections in the priority sector are lower than the rates framed for such inspection in other cases.

8. Insurance against Fire and Other Risks

8.1 Banks may waive insurance of assets financed by bank credit in the following cases:

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Table 12.2 *Cases Under which Banks may Waive Insurance of Assets Financed by Bank Credit*

No.	Category	Type of Risk	Type of Assets
(a)	All categories of priority sector advances upto and inclusive of ₹ 10,000	Fire and other risks	
(b)	Advances to SSI sector upto and inclusive of ₹ 25,000 by way of—		
	• Composite loans to artisans village and cottage industries	Fire	Equipment and current assets
	• All term loans	Fire	Equipment
	• Working capital where these are against non-hazardous goods	Fire	Current Assets

8.2 Where, however, insurance of vehicle or machinery or other equipment/ assets is compulsory under the provisions of any law or where such a requirement is stipulated in the refinance scheme of any refinancing agency or as part of a government-sponsored programmes such as, IRDP (since replaced by SGSY), insurance should not be waived even if the relative credit facility does not exceed ₹ 10,000 or ₹ 25,000, as the case may be.

9. Other Charges

Banks should not levy any other service charges except by way of reimbursement of reasonable out of pocket expenses.

10. Photographs of Borrowers

While there is no objection to taking photographs of the borrowers, for purposes of identification, banks themselves should make arrangements for the photographs and also bear the cost of photographs of borrowers falling in the category of weaker sections. It should also be ensured that the procedure does not involve any delay in loan disbursement.

11. Discretionary Powers

All branch managers of banks should be vested with discretionary powers to sanction proposals from weaker sections without reference to any higher authority. If there are difficulties in extending such discretionary powers to all the branch managers, such powers should exist at least at the district level and arrangements be ensured that credit proposals on weaker sections are cleared promptly.

12. Machinery to look into Complaints

12.1.1 There should be machinery at the regional offices to entertain complaints from the borrowers if the branches do not follow these guidelines, and to verify periodically that these guidelines are implemented by the branches in actual practice.

12.1.2 The names and addresses of the officer with whom complaints can be lodged should be displayed on the notice board of every branch.

13. Amendments

These guidelines are subject to any instructions that may be issued by the RBI from time to time.

Revision to the Guidelines

The guidelines on lending to priority sector were revised with effect from 30 April 2007 based on the report of the internal working group on Priority Sector Lending (Chairman being Mr C.S. Murthy). As observed earlier, priority sector lending broadly comprises agriculture, medium and small enterprises (MSEs), retail trade, education and housing subject to certain limits. The guidelines take into account the revised definition of MSEs as per the Micro, Small and Medium Enterprises Development Act, 2006.

The priority sector lending targets (40 per cent and 32 per cent for domestic and foreign banks, respectively) have been linked to the adjusted net bank credit (ANBC—net bank credit plus investments made by banks in non-SLR bonds held in the held-to-maturity category) or the credit equivalent amount of off-balance-sheet exposures, whichever is higher, as on March 31 of the previous year, as against the previous practice of linking targets to the ongoing net bank credit.

The formats used by banks to inform the RBI about their priority sector advances were revised with effect from September 2007. Scheduled commercial banks should furnish data on priority sector advances on a half-yearly (ad hoc) basis as on the last reporting Friday of March and September of a particular year (within 15 days from the reference date), as also on a yearly basis (final data) as on the last reporting Friday of March of a particular year (within two months from the reference date).

Regional rural banks (RRBs) were permitted to extend direct finance up to ₹ 10 lakh to the housing sector in rural and semi-urban areas as part of priority sector lending, with the prior approval of their boards. In August 2007, the limit of board-approved direct finance to housing by RRBs was raised to ₹ 20 lakh, irrespective of the area.

The RBI, in December 2007, allowed all loans granted by commercial banks/sponsor banks to RRBs for onlending to agriculture and allied activities sector to be classified as indirect finance to agriculture in the books of lenders. Consequently, the loans granted by RRBs out of the funds borrowed from commercial/sponsor banks may not be classified as their priority sector lending. RRBs should not include such advances as part of their bank credit for the purpose of computing their achievement level under priority sector lending.

Following the announcement made in the Annual Policy Statement for 2008–09 in May 2008, the RBI allowed RRBs to sell the loan assets held by them under the priority sector categories in excess of the prescribed priority sector lending target of 60 per cent.

Domestic scheduled commercial banks, both in the public and private sector, which fail to achieve the priority sector and/or agriculture lending targets, are required to deposit in the Rural Infrastructure Development Fund (RIDF) such amounts as may be allocated to them by the RBI. Domestic scheduled commercial banks are required to lend 10 per cent of their ANBC or credit equivalent amount of off-balance-sheet exposure, whichever is higher, to weaker sections. It was, however, noted that most banks were not meeting this sub-target for lending to weaker sections and hence in May 2008, the RBI advised that the shortfall in lending to weaker sections would also be taken into account for the purpose of allocating amounts to banks for contribution to the RIDF or with other financial institutions with effect from April 2009.

Check Your Progress

1. List the sectors included in the priority sector.
2. What was the recommendation of the working group on the modalities of implementation of Priority Sector Lending and the Twenty Point Economic Programme by banks?
3. Name the areas for which short-term loans are given to farmers.
4. What do you mean by small-scale industrial units?
5. What happens when domestic scheduled commercial banks, both in the public and private sector, fail to achieve the priority sector and/or agriculture lending targets?

12.3 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The priority sector broadly comprises the following:
   (i) Agriculture
   (ii) Small-scale Industries
   (iii) Other activities/borrowers (such as small business, retail trade, small transport operators, professional and self-employed persons, housing and educational loans, micro-credit, etc.)
2. The recommendation of the working group on the modalities of implementation of Priority Sector Lending and the Twenty Point Economic Programme by banks, all commercial banks were advised to achieve the target of priority sector lending at 40 per cent of aggregate bank advances by 1985.
3. Short-term loans are given:
   (i) To traditional/non-traditional plantations and horticulture.
   (ii) For allied activities such as dairy, fishery, piggery, poultry, bee-keeping etc.

4. Small-scale industrial units are those engaged in the manufacture, processing or preservation of goods and whose investment in plant and machinery (original cost) does not exceed ₹ 1 crore.
5. Domestic scheduled commercial banks, both in the public and private sector, which fail to achieve the priority sector and/or agriculture lending targets, are required to deposit in the Rural Infrastructure Development Fund (RIDF) such amounts as may be allocated to them by the RBI.

12.4 SUMMARY

- On the basis of the Report submitted by the Informal Study Group on Statistics Relating to Advances to the Priority Sectors, constituted by the RBI in May 1971, the RBI prescribed a modified return for reporting priority sector advances and certain guidelines were issued in this connection indicating the scope of the items to be included under the various categories of priority sectors.
- Direct finance to farmers for agricultural purposes is provided in the form of short-term loans for raising crops, also known as 'crop loans'. In addition, advances upto ₹ 5 lakh to farmers against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months, where the farmers were given crop loans for raising the produce, provided the borrowers draw credit from one bank is also provided.
- The status of 'Tiny Enterprises' may be given to all small-scale units whose investment in plant and machinery is upto ₹ 25 lakh, irrespective of the location of the unit.
- All advances to KVI sector, irrespective of their size of operations, location and investment in plant and machinery, will be covered under priority sector advances and will also be eligible for consideration under the sub-target (60 per cent) of the SSI segment within the priority sector.
- Educational loans should include only loans and advances granted to individuals for educational purposes and not those granted to institutions and will include all advances granted by banks under special schemes, if any, introduced for the purpose.
- While reporting to the RBI, the quantum of investment in bonds (as they would appear under investments in the balance sheet) should be shown separately under the appropriate sub-head in the priority sector returns.
- Funds provided by commercial banks to SIDBI by way of rediscounting of bills which are originally discounted by a commercial bank and rediscounted by SIDBI will be eligible for inclusion under the priority sector as indirect finance to SSI.

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- Para-banking activities such as leasing and hire purchase financing undertaken departmentally by banks will be classified as priority sector advances, provided the ultimate beneficiary satisfies the criteria laid down by RBI for treating such advances as advances to priority sector.
- In order to ensure that more under-privileged sections in the priority sector are given proper attention in the matter of allocation of credit, it should be ensured that the advances to the weaker sections reach a level of 25 per cent of priority sector advances or 10 per cent of net bank credit.
- Domestic scheduled commercial banks having shortfall in lending to priority sector/ agriculture are allocated amounts for contribution to the Rural Infrastructure Development Fund (RIDF) established in NABARD.
- As far as possible, disbursement of loan amounts sanctioned should be made directly to the suppliers of inputs such as seeds, fertilisers, raw materials, implements, trucks, machinery, etc.
- Following the announcement made in the Annual Policy Statement for 2008–09 in May 2008, the RBI allowed RRBs to sell the loan assets held by them under the priority sector categories in excess of the prescribed priority sector lending target of 60 per cent.
- Domestic scheduled commercial banks, both in the public and private sector, which fail to achieve the priority sector and/or agriculture lending targets, are required to deposit in the Rural Infrastructure Development Fund (RIDF) such amounts as may be allocated to them by the RBI. Domestic scheduled commercial banks are required to lend 10 per cent of their ANBC or credit equivalent amount of off-balance-sheet exposure, whichever is higher, to weaker sections.

12.5 KEY WORDS

- **Advance:** It is the amount of money paid before it is due or for work only partly completed.
- **Direct finance:** It is a method of financing where borrowers borrow funds directly from the financial market without using a third party service, such as a financial intermediary.
- **Lines of Credit:** A line of credit is a credit facility extended by a bank or other financial institution to a government, business or individual customer that enables the customer to draw on the facility when the customer needs funds.
- **Shortfall:** It refers to a deficit of something required or expected.

12.6 SELF ASSESSMENT QUESTIONS AND EXERCISES

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Short-Answer Questions

1. Which are the components of priority sector in relation to the banking system?
2. Outline the classification of priority sector advances.
3. Give a brief description of the targets for priority sector lending by scheduled commercial banks (excluding regional rural banks and foreign banks).
4. Mention the weaker sections included under priority sector.
5. What are the targets for foreign banks operating in India in regard to their priority sector advances?

Long-Answer Questions

1. Describe the salient features of the master circular issued by the Reserve Bank of India in relation to the guidelines/instructions/directives on priority sector lending by banks.
2. Explain the salient features of the revision to the guidelines on lending to priority sector.

12.7 FURTHER READINGS

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UNIT 13 FINANCING POOR AS BANKABLE OPPORTUNITIES

Structure

13.0 INTRODUCTION

A sizeable share of population in India continues to remain outside the formal banking system despite considerable expansion in branch network. Alternative models are being experimented with to meet the objective of financial inclusion. The SHG-Bank linkage model is the indigenous model of micro-credit evolved in India and has been widely acclaimed as a successful model. SHG-Bank linkage programme is considered a promising approach to reach the poor and has since its inception made rapid strides exhibiting considerable democratic functioning and group dynamism. The SHG-Bank linkage model was introduced in 1991-92 with a pilot project of linking 500 SHGs with banks. This figure has gone up to more than 34 lakh by the end of March 2008. Cumulatively, these SHGs have accessed credit of ₹ 22,268 crore from banks during the period. About 4.1 crore poor households have gained access to the formal banking system through the programme. The faster growth in bank loans to SHGs has led to almost a four-fold increase in the average loans per SHG. In this unit, we will study in detail about the SBLP and MFIs along with the policy initiatives taken by RBI, NABARD and SIDBI for the growth of micro finance.

13.1 OBJECTIVES

After going through this unit, you will be able to:

- Describe the models of micro-finance – SBLP and MFIs
- Discuss the policy initiatives under taken by RBI, NABARD and SIDBI for the development of micro finance

13.2 MICRO CREDIT AND SHG BANK LINKAGE PROGRAMME

There are mainly two models of micro-finance, viz., self-help-group–bank linkage programme, or SHG–bank linkage programme (SBLP) model and micro-finance institutions (MFIs) model.

SBLP Model

Self-help groups (SHGs) comprise homogenous groups of poor people who have voluntarily come together mainly with the idea of overcoming their common problems of low social and economic status. SHGs enable the poor, especially women from poor households, to collectively identify, prioritize and tackle the problems they face in their socio-economic environment. By pooling their meagre resources and using them for lending among themselves, they develop the habit of thrift and the skill of credit appraisal before getting mature enough to access a loan from banks, which is called credit linkage. Starting with small loans for consumption they soon graduate to bigger loans for setting-up of income-generating micro-enterprises.

It was in 1984 that the Fifth General Assembly of the Asia Pacific Regional Agricultural Credit Association (APRACA), held at Bangkok, advised the agricultural rural development finance institutions in the region to mobilize savings from the rural areas with the objective of providing loanable funds for agriculture and rural development. The experience in some of the countries where informal SHGs of rural people, which promoted savings among themselves and used these resources for meeting their credit demands, were considered useful innovations. In addition, the Third Consultation on the Scheme for Agricultural Credit held at Rome in 1985 exhorted active promotion of linkages between banking institutions and SHGs as a means of improving access of low income groups to banking services. The Executive Committee Session of APRACA held at Seoul in the same year approved the holding of a south-east Asian sub-regional workshop to devise ways and means of improving such linkages. The workshop held in China in May 1986 recommended national level consultation and organization of national surveys of SHGs in collaboration with APRACA and other agencies. These may be considered as the beginning of SBLP model of micro-finance delivery.

In India, the SBLP model has emerged as the dominant model of micro-finance delivery in terms of number of borrowers and loans outstanding. In terms of coverage, this model is considered to be the largest micro-finance programme in the world.

It may be noted that under the SBLP, three different sub-models have emerged, viz.:

(i) SHGs promoted, guided and financed by banks;

(ii) SHGs promoted by NGOs/Government agencies and financed by banks and

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(iii) SHGs promoted by NGOs and financed by banks using NGOs/formal agencies as financial intermediaries.

Of the three, the second sub-model has emerged as the most popular under the SBLP.

MFI Model

A micro-finance institution (MFI) is an organization that provides micro-finance services. An MFI may be broadly defined as any organization that provides financial services for the poor, as for example, commercial banks, credit unions, financial non-governmental organizations (NGOs) or credit cooperatives. Thus, an MFI may range from small non-profit organizations to large commercial banks. Commercial banks and government-owned banks which offer micro-finance services are frequently referred to as MFIs, even though only a portion of their assets may be committed to financial services to the poor and low-income groups.

Between the 1950s and 1970s, governments and donors focussed on providing subsidized credit to small and marginal farmers with a view to raising productivity and income. During the 1980s, micro-enterprise credit aimed at providing loans to poor women to invest in tiny businesses, enabling them to accumulate assets and raise household income and welfare was prevalent. These experiments resulted in the emergence of NGOs which provided financial services to the poor. During the 1990s, many of these institutions transformed themselves into formal financial institutions. MFIs tend to use new methods developed over the last three decades to deliver very small loans to unsalaried borrowers, taking little or no collateral. These methods include group lending and liability, pre-loan savings requirements, gradually increasing loan sizes, and an implicit guarantee or ready access to future loans if present loans are repaid fully and promptly. Some MFIs provide non-financial products, such as business development or health services.

Micro-Finance in Indian Context

The Sixth General Assembly of APRACA held in Nepal in 1986 considered a project proposal on 'promotion of linkages between banking institutions and SHGs in rural savings mobilization and credit delivery to the poor.' It was decided that each member country would form a Task Force to conduct a survey of SHGs and thereafter, formulate suitable national level programmes. Consequent upon this, a Task Force was set-up in India in the Ministry of Agriculture, to identify the existing NGOs, undertake a survey of the groups and draw a plan of action for channelling the flow of savings and credit between the rural poor and banks through SHGs and identify concrete projects for action research in this field. Accordingly, it was decided in February 1987 to constitute a study team led by NABARD and comprising of representatives from various financial institutions to undertake the survey. The survey was undertaken in September 1987. The survey report was discussed at the 18th Executive Committee Session and 10th Foundation

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Anniversary of APRACA held at New Delhi in November 1987. This was the beginning of the SHG–bank linkage programme (SBLP) in India launched as a pilot project in 1992 by NABARD. This programme proved very successful and has emerged as the most dominant model of micro-finance in India, although other approaches like MFIs also emerged subsequently in the country. This model (MFI model) has gained momentum in the recent past. This model is characterized by a diversity of institutional and legal forms in India. MFIs exist in a variety of forms like trusts registered under the Indian Trust Act, 1882/Public Trust Act, 1920; societies registered under the Societies Registration Act, 1860; cooperatives registered under the Mutually Aided Cooperative Societies Acts of the States and non-banking financial companies (NBFCs– MFIs registered under Section 25 of the Companies Act, 1956 or NBFCs registered with the RBI). These MFIs are scattered across the country and owing to the multiplicity of registering authorities, there is no reliable estimate of the number of MFIs. The most frequently used estimate is that their number is likely to be around 800.

Banks can use MFIs as their agent for handling credit, monitoring supervision and recovery, while the borrower is the individual. The MFI acts as an agent from first contact through final repayment. Another variation of the model is where the MFI (an NBFC) holds the individual loans in its books for some time, before securitizing them and selling them to the bank. Such refinancing, through securitization, enables the MFIs greater funding access.

In 2006, the RBI allowed banks to utilize the services of NGOs, MFIs (other than NBFCs) and other civil society organizations as intermediaries in providing banking and financial services through the use of business facilitator and business correspondents (BCs) models. The BC model allows banks to do 'cash in – cash out' transactions at a location much closer to the rural population. The BC model uses the ability of the MFIs to get close to poor clients while relying on the financial strength of the banks to safeguard the deposits. Banks were permitted to engage retired bank employees, ex-servicemen and retired government employees as BCs with effect from April 2008, in addition to entities already permitted earlier, subject to appropriate due diligence.

The pilot project referred to earlier was launched by NABARD after extensive consultations with the RBI, commercial banks and NGOs with the following objectives:

(i) to evolve supplementary credit strategies for meeting the credit needs of the poor by combining the flexibility, sensitivity and responsiveness of the informal credit system with the strength of technical and administrative capabilities and financial resources of the formal credit institutions;

(ii) to build mutual trust and confidence between banks and the rural poor and

(iii) to encourage banking activity both on the thrift and on the credit sides, in a segment of the population that the formal financial institutions usually find difficult to cover.

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The SHGs were expected to facilitate collective decision-making by the poor and provide 'doorstep banking'; the banks as wholesalers of credit, were to provide the resources, while the NGOs were to act as agencies to organize the poor, build their capacities and facilitate the process of empowering them. It was expected that the pilot project would prove advantageous to both banks and SHGs. The banks would gain by way of reduction in their transaction costs because of reduction of work relating to appraisal, supervision and monitoring of loans. Benefit would accrue to the SHGs by getting access to a larger quantum of resources, as compared to their meagre corpus generated through thrift. The banks were expected to provide credit in bulk and the SHG, in turn, would undertake on-lending to the members. The quantum of credit given to the SHG could vary from 1:1 to 1:4. It was prescribed that the purpose for which the SHG would lend to its members as also the rate of interest to be charged by the SHG to its members were left to the group to decide. By the end of March 1993, 225 SHGs were linked with the figure reaching 620 at the end of March 1994.

The programme has since come a long way from the pilot project of 500 SHGs across the country. By 2006–07, it has over 2.8 lakh SHGs and 2.9 crore households influencing the lives of over 16 crore poor population. It has proved its efficacy as a mainstream programme for banking with the poor, who mainly comprise the marginal farmers, landless labourers, artisans and craftsmen and others engaged in small businesses such as hawking and vending in the rural areas. The main advantages of the programme are timely repayment of loans to banks, reduction in transaction costs both to the poor and the banks, doorstep 'savings and credit' facility for the poor and exploitation of the untapped business potential of the rural areas. The programme, which started as an outreach programme, has not only aimed at promoting thrift and credit, but also contributed immensely towards the empowerment of the rural women.

Policy Initiatives in India

With a view to further giving fillip to the micro-finance movement in India, a number of initiatives have been taken by the RBI, NABARD and also SIDBI. These are dealt within the following paragraphs.

Policy Initiatives by the Reserve Bank

In January 1993, SHGs—both registered and unregistered—were allowed by the RBI to open savings account with banks. In addition, in order to study the potential of the micro-finance movement, the RBI constituted in 1994 a 'Working Group on NGOs and SHGs'. Based on the recommendations of the working group, banks were advised, *inter alia,* that financing of SHGs should be included by them as part of their lending to the weaker sections and that SHG lending should be reviewed at the State-level Banker's Committee (SLBC) level and by the banks at regular intervals. In 1998, the RBI advised banks that SHGs which were engaged in promoting the savings habit among their members would be eligible to open savings bank accounts and that such SHGs need not necessarily have availed of credit facilities from banks before opening savings bank accounts. Banks were also advised, in 1999–2000, that interest rates applicable to loans given by them to micro-credit organizations or by the micro-credit organizations to SHGs/member beneficiaries, would be left to their discretion.

A Task Force on Supportive Policy and Regulatory Framework for micro-finance was set-up by NABARD in 1999 of which the RBI was a member. The Task Force examined the entire gamut of issues related to micro-finance, particularly the regulatory issues. Recognising the growing importance of micro-finance, the RBI constituted a micro-credit cell in the bank in 1999 to suggest measures for mainstreaming micro-credit and accelerating flow of credit to MFIs. The special cell has since been converted into a micro-finance and financial inclusion division in the RBI.

Several NBFCs and RNBCs also started entering the micro-finance sector, gradually recognizing the potential in the sector. In order to further facilitate the process, the RBI in January 2000, advised all NBFCs and RNBCs that those NBFCs which were engaged in micro-financing activities, licensed under section 25 of the Companies Act, 1956, and which were not accepting public deposits were exempted from registration, maintenance of liquid assets and transfer of a portion of profits to reserve fund (Section 45–1 A, Section 45–1 B and Section 45–1 C of the RBI Act, 1934).

Based on the recommendations of the Task Force mentioned above, the RBI issued comprehensive guidelines to banks in February 2000. These guidelines, *inter alia,* stipulated that micro-credit extended by banks to individual borrowers directly, or through any intermediary, would then onwards be reckoned as part of their priority sector lending. Banks were given freedom to formulate their own model/s or choose any conduit/intermediary for extending micro-credit. Banks were also permitted to prescribe their own lending norms so as to provide maximum flexibility with regard to micro lending. Such credit was to cover not only consumption and production loans for various farm and non-farm activities of the poor, but also include their other credit needs. Banks were asked to delegate adequate sanctioning powers to branch managers and to keep the loan procedures and documents simple for providing prompt and hassle-free micro-credit.

The rapid development of the sector necessitated addressing the various issues associated with the sector. In October 2002, the RBI set-up four informal groups to examine issues relating to:

(i) structure and sustainability;

(ii) funding;

(iii) regulations and

(iv) capacity building of micro-finance institutions.

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The recommendations of the groups were taken into consideration and banks were advised that they should provide adequate incentives to their branches for financing the SHGs and that the group dynamics of working of the SHGs should be left to them.

Based on the recommendations of the Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System, it was announced in 2004 that in view of the need to protect the interests of depositors, MFIs would not be permitted to accept public deposits unless they complied with the extant regulatory framework of the RBI. However, as an additional channel for resource mobilization, the RBI in April 2005 enabled NGOs engaged in micro-finance activities to access the external commercial borrowings (ECBs) up to US$ 5 million during a financial year for permitted end-use, under the automatic route.

In order to examine issues relating to rural credit and micro-finance, an internal group was constituted in 2005. Based on the recommendations of the group and with the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, banks were permitted in January 2006 to use the services of NGOs/SHGs/MFIs (other than NBFCs) and other civil society organizations as intermediaries in providing financial and banking services through business facilitator and business correspondent models.

All Regional Directors of the RBI were advised in April 2006 that whenever issues relating to micro-finance were noticed in the areas under their jurisdiction, they may offer to set-up a coordination forum comprising representatives of SLBC convenor banks, NABARD, SIDBI, state government officials and representatives of MFIs (including NBFCs) and NGOs/SHGs to facilitate discussion on the issues affecting the operations in the sector and find local solutions to the local problems.

In May 2006, a joint fact-finding study was conducted by the RBI and a few major banks. During the study, it was observed that some of the MFIs financed by banks or acting as their intermediaries/partners were focusing on selectively better banked areas and trying to reach out to the same set of poor, resulting in multiple lending and overburdening of rural households. Further, many MFIs supported by banks were not engaging themselves in capacity building and empowerment of the groups to the desired level and banks did not appear to be engaging them with regard to their systems, practices and lending policies with a view to ensuring better transparency and adherence to best practices. Hence, guidelines were issued to banks in November 2006, advising them to take appropriate corrective action.

It was announced in the Union Budget for 2008–09 that banks would be encouraged to embrace the concept of total financial inclusion. The government would request all scheduled commercial banks to follow the example of some public sector banks and meet the entire credit requirements of SHG members, namely:

(i) income generation activities;

(ii) social needs such as housing, education, marriage and

(iii) debt snapping.

In April 2008, the RBI advised banks to meet the entire credit requirements of SHG members as above.

Policy Initiatives by NABARD

The pilot project launched by NABARD has already been mentioned. NABARD has been playing a crucial developmental role for the micro-finance sector in India. NABARD has been organizing/sponsoring training programmes and exposure visits for the benefit of bank officials, NGOs, SHGs and government agencies to enhance their effectiveness in the field of micro-finance. The best practices and innovations with respect to the sector are widely circulated among government agencies, banks and NGOs. NABARD also provides support for capacity building, exposure and awareness building of the SHGs and NGOs.

In March 2006, NABARD launched the 'Micro-enterprise Development Programme (MEDP) for skill development. The basic objective was to enhance the capacities of matured SHGs to take-up micro-enterprise through appropriate skill upgradation. The programme envisaged development of enterprise management skills in existing or new livelihood activities, both in farm and non-farm sectors. As at March-end 2008, 674 MEPDs had been conducted covering 16,761 participants.

In 2005–06, a pilot project for 'promotion of micro-enterprises' was launched among members of matured SHGs. This is being implemented by 14 NGOs acting as 'micro-enterprise promotion agency' (MEPA) in nine districts. The project is being implemented by each NGO in two blocks in each of the selected districts. As at March-end 2008, 2,759 micro-enterprises were established under the project involving bank credit of ₹ 238 lakh.

NABARD provides marketing support to the SHGs for exhibiting their products. In addition, NABARD provides promotional grant support to NGOs, RRBs, DCCBs, farmers clubs and individual volunteers and assists in developing capacity building of various partner agencies. NABARD launched a pilot project in December 2003 to link post offices with the SHGs with the object of examining the feasibility of utilizing the vast network of post offices for disbursement of credit to rural poor on an agency basis.

The SHG Federations are emerging as important players in nurturing SHG, increasing the bargaining power of group members and livelihood promotion. The features and functions of SHG federation models promoted in India vary, depending on the promoting agencies. Recognizing the growing role of the SHG Federations and their value addition to SHG functioning, NABARD, in 2007–08, decided to support the Federations on a model neutral basis. Support is extended to the Federations by way of grant assistance for training, capacity building and exposure visits of SHG members.

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Recognizing the role played by MFIs in extending micro-finance service in the unbanked areas, NABARD provides support to MFIs through grant and loan based assistance. NABARD has been selectively supporting MFIs for experimenting with various micro-finance models such as NGO networking (bigger NGOs supporting small ones), credit unions and SHG Federations to meet credit requirements of the unreached poor. NABARD provides loan funds in the form of revolving fund assistance (RFA) on a selective basis to MFIs to be used by them for on-lending to SHGs or individuals. This loan has to be repaid together with service charge within a period of 5-6 years.

In order to identify, classify and rate MFIs, NABARD introduced a scheme for commercial banks and RRBs to enable them to avail the services of accredited rating agencies such as CRISIL, M-CRIL, ICRA, CARE and Planet Finance for rating of MFIs and avail financial assistance by way of grant to the extent of 100 per cent of the total professional fees of the credit rating agency subject to a maximum of ₹ 1 lakh. The assistance is available for the first rating of MFIs with a minimum loan outstanding of ₹ 50 lakh and maximum loan outstanding of ₹ 500 lakh.

Recognizing the need for upscaling the micro-finance intermediation in the country, there was an announcement in the Union Budget for 2000–2001 that a 'Micro-finance Development Fund' (MFDF) would be created. The objective of the fund is to facilitate and support the orderly growth of the micro-finance sector through diverse modalities for enlarging the flow of financial services to the poor, particularly for women and vulnerable sections of society, consistent with sustainability. Consequently, MFDF was established with NABARD with a corpus of ₹ 100 crore, the RBI and NABARD contributing ₹ 40 crore each while eleven select public sector banks contributing the balance.

In 2005–06, MFDF was re-designated as 'Micro-finance Development and Equity Fund' (MFDEF) with an increased corpus of ₹ 200 crore. Management of the fund is vested in a board consisting of representatives of NABARD, commercial banks and professionals with domain knowledge. The RBI is a member of the Advisory Council of the MFDEF. The Fund is used for promotion of micro-finance through scaling-up of the SHG–Bank Linkage Programme, extending RFA and capital support to MFIs and undertaking various promotional activities.

Micro-finance Initiatives by SIDBI

SIDBI launched its micro-finance programme in 1994 on a pilot basis. The programme provided small doses of credit funds to the NGOs all across the country. NGOs acted as financial intermediaries and on-lent funds to their clients. Limited amount of capacity building grant was also provided to the NGOs.

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With a view to reducing the procedural bottlenecks, expanding the outreach, meeting the huge unmet demands of the sector and striving towards its formalization, SIDBI reoriented its policy and approach to create a sustainable micro-finance model that would significantly increase the flow of credit to the sector. To take the agenda forward, the SIDBI Foundation for Micro-credit (SFMC) was created in 1999. SFMC's mission is to create a national network of strong, viable and sustainable micro-finance institutions from the formal and informal financial sector to provide micro-finance services to the poor, especially women.

SIDBI was one of the first institutions which identified and recognized NGO/ MFI route as an effective delivery channel for reaching financial services to those segments of the population not reached by its formal banking network. As a result of bulk lending funds provided, coupled with intensive capacity building support to the entire micro-finance support, it has come to occupy a significant position in the Indian micro-finance sector. Today, SIDBI is one of the largest providers of micro-finance through MFIs.

The pilot programme launched by SIDBI in 1994 brought out one of the major shortcomings in micro-finance lending programme. It showed that collateral-based lending does not work in the field of micro-finance. NGOs/MFIs acting as financial intermediaries do not have collateral to offer as security for the loans. Doing away with collateral-based lending in micro-finance necessitated the development of a mechanism which would minimize the risks associated with lending. In order to meet this objective, SIDBI pioneered the concept of capacity assessment rating (CAR) for the MFIs. As a part of its developmental agenda, SIDBI encouraged private sector development consulting firms to develop a rating tool for the MFIs which was rolled out in 1999. At present, rating is a widely accepted tool in this sector. SIDBI has also been successful in developing a market for rating services. Two mainstream rating agencies, viz., CRISIL and CARE have also started undertaking micro-finance ratings, in addition to M-CRIL, SIDBI has also adopted the institutional capacity assessment tool (I-CAT) of access development services (ADS), a private sector consulting entity, for rating of start-up/small and mid-sized MFIs.

In 2003, SIDBI introduced a product called 'transformation loan' to enable the MFIs to transform themselves from an informal set-up to more advanced formal entities. This loan is a quasi-equity product with larger repayment period and features for conversion into equity at a later date, when the MFI decides to convert itself into a corporate entity. Consequently, a number of MFIs went ahead with the transformation and some of them have now grown significantly and are serving millions of clients across several states. Recognising the need to offer the MFIs equity capital so as to adequately capitalize them, SIDBI set-up a fund of ₹ 50 crore which was termed SIDBI Growth Fund for MFIs. The fund takes care of equity investment in large corporate MFIs, as also equity capital in star-up/ smaller institutions, along with quasi-equity support for MFIs on the verge of transformation.

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SIDBI also supports incubation of potential local community based organizations through two-tier/umbrella NGOs/MFIs. The approach not only helps SIDBI to increase its outreach through double intermediation but also enables it to channelize finance to smaller NGOs that otherwise may not meet the criteria for availing direct assistance from SIDBI. SIDBI has also been able to nurture and develop a few new intermediaries set-up by experienced professionals. Another approach in this direction involves incubation of new start-up MFIs promoted by first generation development/micro-finance professionals. The incubation support is either given through institutions specializing in capacity building and technical support services.

As at March-end 2008, SIDBI had 58 partners in the underserved states, out of the total partner base of 104. The increased thrust on development of underserved states has also resulted in the share of these states going-up from 19 per cent (₹ 38 crore) in the total outstanding micro-finance portfolio of SIDBI in the financial year 2005 to over 31 per cent (₹ 299 crore) in the financial year 2007-08.

Substantial growth of the micro-finance sector would be possible only if the capacities of all stakeholders are built-up adequately. SIDBI has taken some initiatives in this direction. One such initiative has been in the area of human resources where SIDBI has tried to address the issue both from the demand and supply side factors. On the demand side, MFIs are encouraged to hire young management/ accounting professionals from reputed institutes through campus placement and SIDBI provides partial salary support for these young professionals for a period of two years. Besides, MFIs are provided grant funds for hiring trained and experienced professional as second line managers. This helps in bringing and retaining the talent in the micro-finance sector. On the supply side, some of the management training institutes have been provided support in the form of training and exposure visits, or deputing their faculty members to reputed national and international training programmes and other MFIs across the world. Additionally, SIDBI was instrumental in bringing international experts to lend support to these institutes for developing a course on micro-finance that has been incorporated as an elective in their rural management courses.

Regulation of Micro-finance Institutions

The rapid growth of the micro-finance sector and varied number of micro-finance providers have necessitated the need for introducing regulation in the sector. As already highlighted, micro-finance in India is provided by a variety of entities such as commercial banks, RRBs, cooperative banks, primary agricultural credit societies, SHGs linked to banks and MFIs (including NBFCs), Section 25 companies, trusts and societies as well as cooperatives under MACs. At present, banks and NBFCs fall under the regulatory purview of the RBI. Other entities are covered in varying degrees of regulation under its respective state legislations. There is no single

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regulator for all the entities in this sector. In this connection, with a view to ensuring orderly growth and development of this sector, Government of India has proposed a legislation and formulated a Micro-financial Sector (Development and Regulation) Bill, 2007 which is under consideration of the Parliament. The Bill envisages NABARD to be the regulator and provides that all micro-finance entities desirous of offering thrift services may get registered with NABARD. The Bill, *inter alia,* provides for:

(i) constitution of Micro-finance Development Council;
(ii) registration of micro-finance organizations with NABARD;
(iii) settlement of disputes through micro-finance ombudsman; and
(iv) penalties relating to offences.

Check Your Progress

1. Name the two models of micro-finance.
2. What do you mean by micro-finance institutions (MFIs)?
3. What was decided at the Sixth General Assembly of APRACA held in Nepal in 1986?
4. How does the BC model help banks?
5. What was the objective of Micro-enterprise Development Programme (MEDP) for skill development launched by NABARD?
6. State the objective for setting up Micro-finance Development Fund (MFDF).

13.3 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. There are mainly two models of micro-finance, viz., self-help-group–bank linkage programme, or SHG–bank linkage programme (SBLP) model and micro-finance institutions (MFIs) model.
2. An MFI may be broadly defined as any organization that provides financial services for the poor, as for example, commercial banks, credit unions, financial non-governmental organizations (NGOs) or credit cooperatives.
3. At the Sixth General Assembly of APRACA held in Nepal in 1986, it was decided that each member country would form a Task Force to conduct a survey of SHGs and thereafter, formulate suitable national level programmes.
4. The BC model allows banks to do ‘cash in – cash out’ transactions at a location much closer to the rural population.

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5. The objective of Micro-enterprise Development Programme (MEDP) for skill development launched by NABARD was to enhance the capacities of matured SHGs to take-up micro-enterprise through appropriate skill upgradation.
6. The objective for setting up Micro-finance Development Fund (MFDF) is to facilitate and support the orderly growth of the micro-finance sector through diverse modalities for enlarging the flow of financial services to the poor, particularly for women and vulnerable sections of society, consistent with sustainability.

13.4 SUMMARY

- Self-help groups (SHGs) comprise homogenous groups of poor people who have voluntarily come together mainly with the idea of overcoming their common problems of low social and economic status.
- In India, the SBLP model has emerged as the dominant model of micro-finance delivery in terms of number of borrowers and loans outstanding. In terms of coverage, this model is considered to be the largest micro-finance programme in the world.
- A micro-finance institution (MFI) is an organization that provides micro-finance services. An MFI may be broadly defined as any organization that provides financial services for the poor, as for example, commercial banks, credit unions, financial non-governmental organizations (NGOs) or credit cooperatives.
- The Sixth General Assembly of APRACA held in Nepal in 1986 considered a project proposal on 'promotion of linkages between banking institutions and SHGs in rural savings mobilization and credit delivery to the poor.'
- The Sixth General Assembly of APRACA held in Nepal in 1986 considered a project proposal on 'promotion of linkages between banking institutions and SHGs in rural savings mobilization and credit delivery to the poor.'
- Banks can use MFIs as their agent for handling credit, monitoring supervision and recovery, while the borrower is the individual. The MFI acts as an agent from first contact through final repayment.
- In 2006, the RBI allowed banks to utilize the services of NGOs, MFIs (other than NBFCs) and other civil society organizations as intermediaries in providing banking and financial services through the use of business facilitator and business correspondents (BCs) models.
- The SHGs were expected to facilitate collective decision-making by the poor and provide 'doorstep banking'; the banks as wholesalers of credit, were to provide the resources, while the NGOs were to act as agencies to

organize the poor, build their capacities and facilitate the process of empowering them.

- In January 1993, SHGs—both registered and unregistered—were allowed by the RBI to open savings account with banks. In addition, in order to study the potential of the micro-finance movement, the RBI constituted in 1994 a 'Working Group on NGOs and SHGs'.
- A Task Force on Supportive Policy and Regulatory Framework for micro-finance was set-up by NABARD in 1999 of which the RBI was a member. The Task Force examined the entire gamut of issues related to micro-finance, particularly the regulatory issues.
- In order to examine issues relating to rural credit and micro-finance, an internal group was constituted in 2005. Based on the recommendations of the group and with the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, banks were permitted in January 2006 to use the services of NGOs/SHGs/MFIs (other than NBFCs) and other civil society organizations as intermediaries in providing financial and banking services through business facilitator and business correspondent models.
- In March 2006, NABARD launched the 'Micro-enterprise Development Programme (MEDP) for skill development. The basic objective was to enhance the capacities of matured SHGs to take-up micro-enterprise through appropriate skill upgradation.
- NABARD provides marketing support to the SHGs for exhibiting their products. In addition, NABARD provides promotional grant support to NGOs, RRBs, DCCBs, farmers clubs and individual volunteers and assists in developing capacity building of various partner agencies.
- Recognizing the role played by MFIs in extending micro-finance service in the unbanked areas, NABARD provides support to MFIs through grant and loan based assistance.
- MFDF was established with NABARD with a corpus of ₹ 100 crore, the RBI and NABARD contributing ₹ 40 crore each while eleven select public sector banks contributing the balance.
- In 2003, SIDBI introduced a product called 'transformation loan' to enable the MFIs to transform themselves from an informal set-up to more advanced formal entities. This loan is a quasi-equity product with larger repayment period and features for conversion into equity at a later date, when the MFI decides to convert itself into a corporate entity.
- SIDBI was one of the first institutions which identified and recognized NGO/MFI route as an effective delivery channel for reaching financial services to those segments of the population not reached by its formal banking network.

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- The pilot programme launched by SIDBI in 1994 brought out one of the major shortcomings in micro-finance lending programme. It showed that collateral-based lending does not work in the field of micro-finance. NGOs/MFIs acting as financial intermediaries do not have collateral to offer as security for the loans.
- SIDBI also supports incubation of potential local community based organizations through two-tier/umbrella NGOs/MFIs. The approach not only helps SIDBI to increase its outreach through double intermediation but also enables it to channelize finance to smaller NGOs that otherwise may not meet the criteria for availing direct assistance from SIDBI.

13.5 KEY WORDS

- **SHG:** It refers to the Self-Help Group which is a financial intermediary committee usually composed of 10 to 25 local women between the ages of 18 and 40.
- **Micro-finance:** It is a banking service that is provided to unemployed and low-income individuals who have no other means of gaining financial services.
- **NBFC:** Nonbank financial companies are financial institutions that offer various banking services but do not have a banking license. Generally, these institutions are not allowed to take traditional demand deposits—readily available funds, such as those in checking or savings accounts—from the public.

13.6 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What do you mean by credit linkage?
2. What were the recommendations made by the Asia Pacific Regional Agricultural Credit Association (APRACA) to the agricultural rural development finance institutions?
3. State the three different sub-models under the SBLP.

Long-Answer Questions

1. Analyze the state of micro-finance in the Indian context.
2. Explain the recommendations put forward by the task force of the RBI for the growth of micro-finance.

3. Describe the crucial developmental role of NABARD for the development of the micro-finance sector in India.

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13.7 FURTHER READINGS

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UNIT 14 GOVERNMENT INITIATIVES

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Structure

14.0 INTRODUCTION

Eradication of poverty remains a major challenge of planned economic development. Experiences of different states with economic growth and poverty reduction have been so varied that it is difficult to offer any general policy prescription. There are states that followed the path of high agricultural growth and succeeded in reducing poverty (Punjab and Haryana) and states that focused on human resource development and reduced poverty (Kerala). There have been states that implemented land reforms with vigour, empowered the panchayats, mobilised the poor and implemented poverty-alleviation programmes effectively (West Bengal) and states that brought about reduction in poverty by direct public intervention in the form of public distribution of food grains (Andhra Pradesh). The strategy for poverty alleviation is essentially two fold. Firstly, an effort is underway to provide greater opportunity for the poor to participate in the growth process by focusing on specific sectors, which offer such opportunities. Secondly, poverty alleviation and social sector programmes have been strengthened and restructured with special programmes for the weaker sections of society. Anti-poverty plans have been strengthened and restructured through special programmes for the weaker sections of the society. Swaranjayanti Gram Swarozgar Yojana SGSY, launched in April 1999, aims at bringing the assisted poor families (Swarozgaris) above the poverty line by organizing them into Self Help Groups (SHGs) through a mix of Bank credit and Government subsidy. In this unit, we will study in detail about the government initiatives taken to alleviate poverty.

14.1 OBJECTIVES

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After going through this unit, you will be able to:

- Describe poverty alleviation programmes of the Indian Government
- Examine the success of government initiatives to alleviate poverty like MGNREGA, NRLM, DDU GKY and Jan Dhan Yojana

14.2 POVERTY ALLEVIATION PROGRAMMES

Let us discuss some of the poverty alleviation programmes of the central government.

14.2.1 MGNREGS

Mahatma Gandhi National Rural Employment Guarantee Act, is the largest, in investment and coverage administered by the Government of India through the State Governments to ensure full employment scales at the rural level. This is considered the first ever comprehensive integrated rural development scheme and commenced the implementation in select 200 districts initially since 2005. Under the Act (MGNREGA), a guaranteed scheme of rural employment for every labour with a minimum of one hundred days of employment in a year, is dovetailed to be the special feature of the rural labour upliftment and social security. Under this scheme, the government provides the investment, envisaging generation of the productive assets for strengthening the agricultural economy. The practical side of the implementation evaluates that the scheme, though is unique, has been implemented exceedingly well and in a few other states, the scheme remains a non-starter.

John Maynard Keynes, the noted economist of the Great Depression times, categorically states that when the business cycle is at the trough (lowest ebb), it is only the autonomous Public Expenditure by the Government that could through geometric progressions, accelerate the economy and have multiplier effects produced on the production front to create Employment, Income and also Consumption. As assumed by Keynes, these sequences are spontaneous, not subject to any leakages emanating from sources such as corruption.

Entitlements under the Act include:

- Guaranteed employment: In the Government notified areas/villages/taluks, the scheme MGNREGA provides an entitlement of hundred days of guaranteed employment in a financial year, to an individual. More than one adult from the same household is also entitled. The focus is on the livelihood generation in rural areas and also to generate productive employment.
- Uniform fixation of wages by the respective State Governments is envisaged in the Act, to ensure transparent wage fixation and also to guarantee the

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participation by the State functionaries. According to the act, persons who work under the scheme are entitled to minimum wages determined by the state government for agricultural labourers, following the Minimum Wages Act, 1948. Further, complying with the Equal Remuneration Act, 1976, both men and women receive the same wage. The act recommends that wage is to be paid on a weekly basis. After the introduction of the 'financial inclusion' by the Government of India, the wages to these Agricultural labourers are credited under the Direct Credit to the Beneficiary Ledger (DCBL) directly to the Savings Bank Accounts opened by the individuals at the various Banks authorised to handle Hundred Day Employment funds with a Nodal Branch of the concerned Bank. Any delay in the wage payments, the 100 day workers are entitled to compensation as per the provisions of the Payment of Wages Act, 1936, which is to be borne by the state government. The act offers the option of social security to persons.

- Unemployment allowance: If an applicant for the work under MGNREGA does not get work within fifteen days from the day of application, she/he is entitled to unemployment allowance, which is to be paid by the state government.

According to the MORD (Ministry of Rural Development, Government of India):

> …the basic objective of the Act is to enhance livelihood security in rural areas by providing at least 100 days of guaranteed wage employment in a financial year to every household whose adult members volunteer to do unskilled manual work. This work guarantee can also serve other objectives: generating productive assets, protecting the environment, empowering rural women, reducing rural urban migration and fostering social equity, among others.

As given in MGNREGA operational guidelines, the scope of work covers works such as

- Water conservation and water harvesting,
- Drought proofing, including afforestation and tree plantation,
- Irrigation canals, including micro and minor irrigation works,
- Provision of irrigation facility to land owned by households belonging to the Scheduled Caste/Scheduled Tribe, or to land of the beneficiaries of land reforms, or to land of the beneficiaries under the Indira Awas Yojana,
- Renovation of traditional water bodies, including de-silting of tanks, land development, flood-control and protection works, including drainage in waterlogged areas,
- Rural connectivity to provide all-weather access. The construction of roads may include culverts where necessary, and within the village area may be taken up along with drains.

In short, the MGNREGA is not considered a complete success as the State Governments at various levels have lost their focus in implementing the scheme to

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reach the objectives. Few economists consider these investments of the Government as irreversible and unproductive. There is a basic accusation that the complete data is not available to corroborate the progress of the scheme. Given below are the shortcomings which have been pointed out in the implementation of MGNREGA:

- Lack of professionals,
- Delay in administration,
- Under-staffing,
- Inappropriate schedule of rates
- Mockery of social audit.

The Act, though enacted as a robust initiative of the Government of India, to give full employment to the rural labourers through spontaneous investment (public expenditure) programme of the Government, due to the flaws in implementation at various levels of the States with unsuccessful performance of the programme, it lost its credibility and its Electoral value. A large amount of corruption and deceit stories emerged in few centres, of the scheme implementation. All such entitlements, upon strategic implementation are bound to create credibility of the Act and also the success of the Mission of the Governments' Spontaneous investments on 100 day employment guarantee scheme. The various implementation layers including the village panchayat, Block Development Officer, District Development Commissioner etc., should be well knit with the scheme implementation and its success.

Rural Labour is a force to reckon with and there is a need of Macro level support and Macro level laid down policies that encompass their geographical and physical constraints. As agriculture needs guaranteed labour force for a good agriculture production process, the scheme anomalies should be ironed out for an effective implementation outside the carrot of Electoral Politics.

14.2.2 NRLM

Deendayal Antyodaya Yojana- National Rural Livelihoods Mission (DAY-NRLM) seeks to reach out to 8-9 crore rural poor households and organize one woman member from each household into affinity based women SHGs and federations at village level and at higher levels.

Progress:

- During 2017-18 (as on October 2017), 683 additional blocks have been covered under "Intensive" implementation strategy of DAY-NRLM bringing the cumulative total to 4330 blocks.
- During the year 2017-18 so far, over 56 lakh households have been mobilized into 4.84 lakh SHGs.
- SHGs have also been extended a capitalization support of ₹ 729.74 crore.

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- A total amount of ₹ 35410.42 lakh has been disbursed to 2.84 lakh SHGs as Revolving Fund (RF) while ₹ 53599.77 lakh has been disbursed to 1.01 lakh SHGs and their federation as Community Investment Fund (CIF) so far during 2017-18.
- The SHG-Bank Linkage programme has seen tremendous growth year on year under DAY-NRLM. During this financial year, about 14.2 lakh SHGs have accessed credit of ₹ 18000 crore up to October, 2017.
- More than 33 lakh Mahila Kisans have been covered under Mahila Kisan Sashaktikaran Pariyojana (MKSP) in 17 States, to empower women in agriculture and enhance their participation and productivity in agriculture based livelihoods.
- "Aajeevika Grameen Express Yojana (AGEY)" has been initiated as a sub scheme under DAY-NRLM to provide an alternative source of livelihoods to members of Self Help Groups (SHGs) under DAY-NRLM by facilitating them to operate public transport services in backward rural areas and to provide safe, affordable and community monitored rural transport services (e-rickshaws, 3 and 4 wheeler motorised transport vehicles) to connect remote villages with key services and amenities (including access to markets, education and health) for the overall economic development of the area by making use of the supports available within the framework of DAY-NRLM. The sub-scheme will be implemented in 250 blocks in the country on a pilot basis for a period of 3 years from 2017-18 to 2019-20. Till date, proposals from 17 States have been approved and 153 vehicles have started operating in rural areas.
- **Promotion of rural enterprises**: Start up Village Entrepreneurship Programme (SVEP) is a sub-scheme of DAY-NRLM designed to support rural youth to take up local entrepreneurship. As on date, 7800 enterprises have been promoted across 17 States. It is expected that SVEP will support an additional 25000 entrepreneurs during the year 2018-19.

14.2.3 Deen Dayal Upadhyaya Grameen Kaushalya Yojana (DDU GKY)

Centred on youth between the ages of 15 and 35 years in rural areas, DDU-GKY is a part of the National Rural Livelihood Mission (NRLM), and focuses on the dual objectives of adding diversity to the incomes of rural poor families and cater to the career aspirations of rural youth. The program is present in 28 States and UTs, across 689 districts, impacting youth from over 7,426 blocks. It currently has over 1,575 projects being implemented by over 717 partners, in more than 502 trades from 50 industry sectors. Over 9.9 Lakh candidates have been trained and over 5.3 Lakh candidates have been placed in jobs as on 1st April, 2020. From 2012, DDU-GKY has so far committed an investment of more than ₹ 5,600 Crores, impacting rural youth pan-India.

14.2.4 Jan Dhan Yojana

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The concept of financial inclusion in the development discourse has gained much attention recently. Financial inclusion refers to a situation where individuals and businesses have an opportunity to use affordable financial products and services that satisfy their needs that are inclusive of variety of Banking, Financial Services and Insurance (BFSI) products and services – delivered in the most convenient and efficient ways.

Several development organizations including the World Bank has taken a call in favour of financial inclusion and is focused on having access to a transaction account for all the people around the world. At the foundation of financial inclusion lies the transaction account that facilitates saving and storing of money and additionally allows people to send and receive payments. Around the world financial inclusion rests on having an operational transaction account that serves as a gateway to a variety of banking, financial services and insurance.

Benefits of financial inclusion are evident through facilitation of day-to-day living, and supports families and business plans for everything including long-term goals and unforeseen exigencies. Due to the focus on financial inclusion since 2011 approximately 1.2 billion adults worldwide have gotten access to an account. Today, 69 per cent of adults have an account.

Global trends have shown that in order to achieve inclusive development and growth, the expansion of financial services to all sections of society is of utmost importance. India's growth has been unprecedented in past few years. However, despite economic growth, a majority of the country's population still remains unbanked. For India, financial inclusion is a relatively new socio-economic concept. It aims to providing financial services at affordable costs to the underprivileged, having no earlier access to banking, financial services and insurance products and services.

The Following are the benefits of financial inclusion:

- Greater access of various banking and other financial services to the unbanked rural and urban masses.
- Smooth transition of government schemes that have Direct Benefit Transfer processes
- Lesser reliance on cash economy
- Facilitating saving hereby increasing capital formation in the country and giving it an economic boost
- Lesser instances of corruption through provisions of direct benefit transfers
- Better facilitation and tracking of loans for personal and business purposes

Pradhan Mantri Jan Dhan Yojana (PMJDY) is a financial inclusion program of the Government of India. The scheme aims to expand affordable access to financial services such as bank accounts, remittances, credit, insurance and pensions.

The campaign was launched by the Prime Minister of India Narendra Modi on 28 August 2014. He had announced this scheme on his first Independence Day speech on 15 August 2014.

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Managed by Department of Financial Services, Ministry of Finance, under this scheme 15 million bank accounts were opened on inauguration day that became a word record and founds its place in the Guinness Book of World Records. As per the recent government estimates a total number of 41.75 crore accounts have been opened under Pradhan Mantri Jan Dhan Yojana (PMJDY) out of which 35.96 crore accounts are operative.

The salient features of the Pradhan Mantri Jan Dhan Yojana are:

- Ru Pay debit card with every new bank account opened under the scheme that can be used to withdraw money from the account;
- Zero balance account;
- Additional free life cover of ₹ 30,000. The scheme also has a provision of an insurance policy wherein he/she will get an accidental cover of rupees one lakh;
- Provision of overdraft limit of ₹ 5,000 on the active maintenance of the account.

14.2.5 Recent Initiatives

Some of the recent government initiatives are as follow:

Swarnjayanti Gram Swarozgar Yojana (SGSY)

The objective of the Swarnjayanti Gram Swarozgar Yojana (SGSY) is to bring the assisted poor families (Swarozgaris) above the poverty line by ensuring appreciable sustained level of income over a period of time. This objective is to be achieved by inter alia organizing the rural poor into Self Help Groups (SHGs) through the process of social mobilization, their training and capacity building and provision of income generating assets. The SHG approach helps the poor to build their self-confidence through community action. Interactions in group meetings and collective decision-making enables them in identification and prioritization of their needs and resources. This process would ultimately lead to the strengthening and socio-economic empowerment of the rural poor as well as improve their collective bargaining power. The poverty line varies from state to state.

SGSY lays stress on the cluster approach. What this means is that instead of funding diverse activities, each block should concentrate on a few select activities (key activities) and attend to all aspects of these activities, so that the *Swarozgaris* can draw sustainable incomes from their investments. These key activities should preferably be taken up in clusters so that the backward and forward linkages can be effectively established. This would facilitate not only monitoring but more importantly provision of various services required by the Swarozgaris.

Selection of Key Activities

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The success of SGSY will therefore depend, to start with, on the choice of activities. The key element is that the choice of activity should be based on the local resources, the aptitude as well as the skill of the people. It is also necessary that the products have ready market.

The choice of key activities should not be an arbitrary or an ad hoc decision but should be a carefully thought out process. The Block SGSY committee has a very important role to play in it. For identifying the key activities that can be taken up, the committee should ensure that this selection takes place through a participative process. For selection of key activities, a profile of the poor families, as reflected in the BPL census should be analysed. There will be poor families with assets, such as land. Efforts should be made to see that those having a minimum extent of land are enabled to cross the poverty line by making additional investment on their lands, such as wells or other irrigation facilities, pump sets and so on. The experience over the years as well as evaluation studies have shown that investments on land-based activities have resulted in generation of income on a more sustainable basis. The Block SGSY committee should therefore, analyse the potential for farm activities on priority. Care must be taken to see that they also have access to short term credit and other inputs required in the farm sector to supplement the efforts under the scheme. The next priority may be given to those who have an inherent skill. These would primarily be the rural artisans who form a significant segment of the rural society. Under the SGSY, rural artisans should be covered in a significant manner. Another category would be the unemployed educated youth. A number of them would have been trained under the erstwhile Training Rural Youth for Self-Employment (TRYSEM) Programme. An inventory may be taken of such people to find out which activities are best suited for the area. Generally, the people who are asset-less and skill-less are poorest of poor and are left out under the programme. Such category of people may require small doses of multiple credit over a period of time coupled with emphasis on awareness creation, training and capacity building. The activities which are easier to handle and product is easily marketable could be identified for such category of people to ensure sustainable income, so that, they do not fall into debt trap.

The Block SGSY Committee may also look at the potential link plans prepared by National Bank for Agriculture and Rural Development (NABARD) as well as any other survey carried out by various banks and industrial/technical organizations. The local khadi and village industry officials as well as the district manager of District Industry Centre may also be consulted.

The Block SGSY Committee must interact with as many *sarpanches* as possible and also discuss with groups of the rural poor such as the landless labour, the educated unemployed, those rural poor with lands, the artisan groups and many others. Where self-help groups are in position, they should also be consulted. In their discussions, the Committee should explore various opportunities that are

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available (provided credit, technology, skill up gradation and marketing are assured) to enable the poor to cross the poverty line. While conducting this dialogue, the Block SGSY committee should be equipped with information relating to the performance of various activities in the village whether such activities are taken up under government programmes or otherwise. The Committee should use that knowledge to supplement the traditional knowledge of the poor households and to facilitate the identification of suitable activities. In this process, the traditional wisdom of the poor families acquires value and the Block Committee builds upon the traditional knowledge of the poor families with its knowledge base. It must be ensured that the consultation process is genuine and not perfunctory in nature.

In so far as on-farm activities are concerned, provision of irrigation facilities continues to be important. These facilities can be provided either in the form of open dug wells or bore/tube wells or through lift irrigation or check dams. In other words, the nature of source is not important for providing irrigation facilities under SGSY. Effort may be made to bring in as much of the land of the rural poor as possible under irrigation so that they can have sustainable incomes. Minor irrigation investment will include cost of well, lifting device and land development—a composite investment. Working capital requirement can also be considered but would not be eligible for subsidy.

Minor irrigation projects may be group oriented or individual oriented. It is preferable to adopt as far as possible, a project approach under minor irrigation instead of spreading the investment in a scattered manner. Minor irrigation can also be the basis for activity clusters or formation of SHGs.

As regards the non-farm activities, care must be taken to identify only those activities which result in the production of goods/services that have a ready market.

Based on this consultation process, the committee may identify about 8-10 activities, which they may rank in the order of preference. This list should then be placed before the general body of the Panchayat Samiti (Block Panchayat). The Panchayat Samiti should be asked to give its recommendations. The list of selected key activities, along with the recommendations of the Panchayat Samiti, should then be forwarded by the Block Development Officer (BDO) to the District SGSY Committee for consideration. Before sending the list to the District SGSY Committee, the Block Committee should prepare a brief project report, keeping in view the guidelines.

The District SGSY Committee will receive the block-wise proposals and will vet them. The Committee will select about ten activities per block. However, focus should be on 4-5 Key activities which are identified for training and micro-enterprise development in a cluster approach for larger number of groups. In the process, scope for other potential activities should not be excluded. In doing so, the District SGSY Committee will ensure that the infrastructure already available in the district—in terms of production, service, training facilities as well as market—are utilized and that the choice of activity does not require a new effort in all directions: production as well as marketing. In other words, at least some of the key elements of the economic chain of the selected activity should be present and it is only the missing link that needs to be provided. Second, in choosing the activities, the district level committee will also ensure that *Swarozgaris* taking up the activity can realize appreciable incremental income sustained over a period of time which will help them to effectively cross the poverty line. District Rural Development Agency's (DRDAs) may ensure that the anticipated income as stipulated in the project is realized during the project period in order to enable the *Swarozgaris* to cross the poverty line. Generally, one-time assistance/credit injection might not help the *Swarozgaris* to cross the poverty line. Therefore, multiple doses of credit would be necessary which should be ensured through continuous monitoring and follow up. The Committee will ensure that the views of line departments are taken into consideration so that the line departments have a commitment to the key activity being taken up in the respective blocks and provide required services to the *Swarozgaris*.

The District SGSY Committee should scrutinize the proposals for each key activity separately in consultation with the concerned experts including the line department officials. In fixing the unit costs for the farm sector, the costs fixed by the regional committees of NABARD should be taken into consideration. With regard to the loans for various purposes falling under ISB sector of SGSY, the responsibility of fixing the unit cost and other techno-economic parameters is of the Committee.

It must be noted that identification of activities is critical for the success of the SGSY. It is therefore necessary that it should be done in a careful manner. Care should however be taken that the market is either readily available or there is a potential for market creation for the products. This may require engaging the services of professionals in the field for market research and survey. A detailed timetable may be drawn up by each DRDA for each Block and the schedule publicized so that everyone is aware of the selection of key activities.

The District SGSY Committee is empowered to add or delete any activity in the list of selected key activities with due justification. Any of the selected activities can be replaced by a new one, if the scope of the former has been exhausted. The procedure for replacement will be the same as it is for making the original list of key activities. However, the number of selected key activities should not ordinarily exceed ten. The DRDAs shall prepare a directory of selected key activities in the district, which will be consolidated at the state level for preparation of directory of selected key activities.

Preparation of Project Reports

For each key activity, there should be a project report indicating various elements such as training, credit, technology, infrastructure and marketing. The project report should indicate how many people could be covered economically in a block under a key activity. The tendency to provide finance to a large number of similar units must be avoided so as to prevent creation of excess capacity.

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The project report should also include the balancing infrastructure that needs to be provided and the costs involved. The district level committee should ensure that it is well within the limits of the money that is likely to be available under SGSY infrastructure. Care should be taken to avoid any attempt to create infrastructure for line departments without concomitant benefit to *Swarozgaris*. The test of SGSY will be in additional incomes accrued to *Swarozgaris*, the additional infrastructure being only an enabling factor. The project report should specifically include a chapter on the levels of investment required at individual *Swarozgari's* level or by a group. The economics for group lending should be shown distinctly from that of individual lending. The project report shall be prepared for each activity and for each block separately. The project report should indicate that whether the key activity selected is for an individual or group or both. The economics should also be clearly spelt out for each of these. The economics should indicate the details of investment required, the details of returns, the repayment schedule and the net income accruable to the *Swarozgari*.

The Committee should undertake the entire exercise in a careful manner and not as a routine exercise. All expenses relating to this exercise will be borne by the DRDA from its administrative expenses, which are provided for separately under the head 'DRDA Administration'.

The line departments have an important role to play in the entire exercise, for they will be responsible for the implementation and monitoring of respective sectoral activities. SGSY would need a very close collaboration between the implementing agencies and the line departments. Presently, this is lacking or at least is not taking place in the desired extent. This collaboration must start with the identification of key activities and preparation of project reports. The line departments will be responsible for planning and creation of the infrastructure required for making the key activities successful. In addition, once the bank has sanctioned the loan, the line departments must ensure that all facilities including technical guidance are provided to the *Swarozgaris*. The line departments may also verify whether the *Swarozgaris* have the necessary skill requirement and take steps to train them. The line departments should also satisfy themselves about the quality of training that is being imparted. They should assist the DRDAs in ensuring that the *Swarozgaris* are duly trained in appropriate institutions. It shall be their responsibility to monitor the progress and whether *Swarozgaris* are able to derive the expected levels of income. In other words, the line departments must recognize that promotion of self-employment in their sector is as much their responsibility as that of DRDAs/Panchayati Raj Institution/Banks and it should be an integral part of their day-to-day functioning.

On approval by the District SGSY Committee, the list of selected key activities as well as the project report of each key activity in respect of each block should be placed before the governing body of the DRDA. Where no DRDA exists, it should be placed before the Zila Parishad. On approval, it should be circulated to the BDO and all the banks in the concerned blocks as well as the concerned line departments. All the banks in the district would be expected to follow the model set out in the respective project reports. Under any circumstances, under-financing of the key activity should not be allowed. This should be reviewed in the Block SGSY Committee constantly.

The major share of SGSY assistance will be for the key activities. A minimum of 75 per cent, both by number and funding, will be for the key activities identified in the block both as group assistance and individual assistance. However, assistance is not prohibited for other activities. There may be stray instances where a *Swarozgari* may like to take up an activity by himself/herself and where the nature of activity is such that its economic return is assured. SGSY allows such activities but subject to a limit of 25 per cent of the total number and funding of *Swarozgaris* in any given year. It must be noted that this is only an enabling provision for exceptional cases and it is expected that the funding of key activities will be the norm. Therefore, the figure of 25 per cent is only the upper limit and should not be the norm.

The Swarnajayanti Gram Swarozgar Yojana was remodelled in 2011, to launch the National Rural Livelihood Mission. And in 2015, it was again redesigned to form the current running Deendayal Antyodaya Yojana-National Urban Livelihoods Mission (DAY-NULM).

Deendayal Antyodaya Yojana-National Urban Livelihoods Mission (DAY-NULM)

The mission statement of the same as per its official website is: 'To reduce poverty and vulnerability of the urban poor households by enabling them to access gainful self-employment and skilled wage employment opportunities, resulting in an appreciable improvement in their livelihoods on a sustainable basis, through building strong grassroots level institutions of the poor. The mission would aim at providing shelters equipped with essential services to the urban homeless in a phased manner. In addition, the mission would also address livelihood concerns of the urban street vendors by facilitating access to suitable spaces, institutional credit, social security and skills to the urban street vendors for accessing emerging market opportunities.'

The major components of the DAY-NRLM are:

- Promotion of sustainable institutions of the poor
- Ensuring access to financial services
- Promote diversified livelihoods opportunities for the poor, in farm and non-farm sectors.
- Promotion of skill development and access to jobs
- Promotion of social inclusion, social development and human development

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The key achievements made under the Mission as per the 'Year Ender Review of the Ministry of Rural Development 2019' is furnished below:

(a) **Geographical Coverage**: The Mission has covered 5894 blocks spread over 646 districts across 29 States and 5 UTs under the intensive strategy up to Oct'19.

(b) **Social Mobilization/Institution Building:** More than 6.47 crore women have been mobilized into 58.7 lakh Self-Help Groups (SHGs) up to Oct'

During the year 2019-20, up to October, 19; about 67.9 lakh women have been mobilized in to 6.55 lakh SHGs against the target of mobilizing 93.66 lakh women into 8.10 lakh SHGs.

(c) **Social Capital:** Community driven approach is central to the Mission's implementation strategy. As on date, more than 2.50 lakh Community Resource Persons have been trained on multiple interventions. This includes more than 38,032 trained Krishi Sakhi and Pashu Sakhi who provide last mile livelihoods extension services.

(d) **Capitalization Support:** During FY 2019-20, capitalization support of nearly ₹743.1 crore have been provided to SHGs and its federations upto Oct, 19. Cumulatively, about ₹8334.7 crore has been provided as capitalization support under the Mission.

(e) **SHG-Bank Linkage:** More than ₹2.59 lakh crore of bank credit has been accessed by the SHGs since 2013-14. As on date, outstanding bank loans are to the tune of ₹88,345 crore against the target of ₹100986 crore for FY 2019-20.

Check Your Progress

1. What is provided under the MGNREGA?
2. State the shortcomings pointed out in the implementation of MGNREGA.
3. What is SVEP?
4. Define financial inclusion.
5. What is the objective of the Swarnjayanti Gram Swarozgar Yojana (SGSY)?
6. What do you mean by a project report?

14.3 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Under the Act (MGNREGA), a guaranteed scheme of rural employment for every labour with a minimum of one hundred days of employment in a year, is dovetailed to be the special feature of the rural labour upliftment and social security.

2. Given below are the shortcomings which have been pointed out in the implementation of MGNREGA:
   - Lack of professionals
   - Delay in administration
   - Under-staffing
   - Inappropriate schedule of rates
   - Mockery of social audit
3. The Start up Village Entrepreneurship Programme (SVEP) is a sub-scheme of DAY-NRLM designed to support rural youth to take up local entrepreneurship.
4. Financial inclusion refers to a situation where individuals and businesses have an opportunity to use affordable financial products and services that satisfy their needs that are inclusive of variety of Banking, Financial Services and Insurance (BFSI) products and services – delivered in the most convenient and efficient ways.
5. The objective of the Swarnjayanti Gram Swarozgar Yojana (SGSY) is to bring the assisted poor families (Swarozgaris) above the poverty line by ensuring appreciable sustained level of income over a period of time.
6. A project report indicates various elements such as training, credit, technology, infrastructure and marketing related to a particular key activity.

14.4 SUMMARY

- Mahatma Gandhi National Rural Employment Guarantee Act, is the largest, in investment and coverage administered by the Government of India through the State Governments to ensure full employment scales at the rural level.
- The Act, though enacted as a robust initiative of the Government of India, to give full employment to the rural labourers through spontaneous investment (public expenditure) programme of the Government, due to the flaws in implementation at various levels of the States with unsuccessful performance of the programme, it lost its credibility and its Electoral value.
- Rural Labour is a force to reckon with and there is a need of Macro level support and Macro level laid down policies that encompass their geographical and physical constraints.
- Deendayal Antyodaya Yojana- National Rural Livelihoods Mission (DAY-NRLM) seeks to reach out to 8-9 crore rural poor households and organize one woman member from each household into affinity based women SHGs and federations at village level and at higher levels.

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- "Aajeevika Grameen Express Yojana (AGEY)" has been initiated as a sub scheme under DAY-NRLM to provide an alternative source of livelihoods to members of Self Help Groups (SHGs) under DAY-NRLM by facilitating them to operate public transport services in backward rural areas and to provide safe, affordable and community monitored rural transport services.
- Centred on youth between the ages of 15 and 35 years in rural areas, DDU-GKY is a part of the National Rural Livelihood Mission (NRLM), and focuses on the dual objectives of adding diversity to the incomes of rural poor families and cater to the career aspirations of rural youth.
- SGSY lays stress on the cluster approach. What this means is that instead of funding diverse activities, each block should concentrate on a few select activities (key activities) and attend to all aspects of these activities, so that the Swarozgaris can draw sustainable incomes from their investments.
- The choice of key activities should not be an arbitrary or an ad hoc decision but should be a carefully thought out process. The Block SGSY committee has a very important role to play in it.
- Under the SGSY, rural artisans should be covered in a significant manner. Another category would be the unemployed educated youth.
- The Block SGSY Committee must interact with as many *sarpanches* as possible and also discuss with groups of the rural poor such as the landless labour, the educated unemployed, those rural poor with lands, the artisan groups and many others.
- In choosing the activities, the district level committee will also ensure that *Swarozgaris* taking up the activity can realize appreciable incremental income sustained over a period of time which will help them to effectively cross the poverty line.
- For each key activity, there should be a project report indicating various elements such as training, credit, technology, infrastructure and marketing. The project report should indicate how many people could be covered economically in a block under a key activity.
- The project report should specifically include a chapter on the levels of investment required at individual Swarozgari's level or by a group. The economics for group lending should be shown distinctly from that of individual lending. The project report shall be prepared for each activity and for each block separately.
- The Swarnajayanti Gram Swarozgar Yojana was remodelled in 2011, to launch the National Rural Livelihood Mission. And in 2015, it was again redesigned to form the current running Deendayal Antyodaya Yojana-National Urban Livelihoods Mission (DAY-NULM).
- The DAY-NRLM aims at providing shelters equipped with essential services to the urban homeless in a phased manner. In addition, the mission would

also address livelihood concerns of the urban street vendors by facilitating access to suitable spaces, institutional credit, social security and skills to the urban street vendors for accessing emerging market opportunities.

14. KEY WORDS

- **MGNREGA:** Mahatma Gandhi Employment Guarantee Act 2005, is an Indian labour law and social security measure that aims to guarantee the 'right to work'.
- **Rural labour:** A rural labourer is defined as one "who does manual work in rural areas in agricultural and/or non-agricultural occupation in return for wages in cash or kind, or partly in cash and partly in kind.
- **Financial inclusion:** It is defined as the availability and equality of opportunities to access financial services. It refers to a process by which individuals and businesses can access appropriate, affordable, and timely financial products and services. These include banking, loan, equity, and insurance products.
- **Line department**: Line departments are government departments at the state level, with mandates related to specific thematic sectors. These departments may further comprise several smaller departments depending on the size of the state and administrative convenience and can therefore vary across different states.

14.6 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What is the scope of work in MGNREGA?
2. What are the benefits of financial inclusion?
3. List the salient features of Pradhan Mantri Jan Dhan Yojana?
4. Why is identification of activities critical for the success of SGSY?
5. What are the major components of the DAY-NRLM?

Long-Answer Questions

1. Describe the entitlements included under the MGNREGA.
2. Has the MGNREGA been successful in achieving its objectives? Justify your answer.
3. How are the key activities under SGSY selected? Explain.

14.7 FURTHER READINGS

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