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FOUR YEAR BACHELOR'S DEGREE COURSE

(CBCS in Accordance with NEP 2020)

SEMESTER VI

RURAL DEVELOPMENT AND RURAL FINANCE IN INDIA

ECONOMICS

Surya Kumar Bhuyan School of Social Science
KRISHNA KANTA HANDIQUI STATE OPEN UNIVERSITY

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CONTENTS

		Page No
UNIT 1:	**Basic Concepts of Rural Development** Meaning and concept of rural development; Strategies of rural development; Needs of rural development; Some dilemmas of development.	**7-23**
UNIT 2:	**Rural Economy of India** Meaning, Size and structure of Indian rural economy; Role and Importance of Rural Sector in India; Characteristics of Indian Rural Economy; Causes of rural backwardness.	**24-39**
UNIT 3:	**Approaches to Rural Development** Meaning and characteristics of community development; Programmes undertaken under community development: Gandhian approach to rural development; Meaning and causes of urban development; Problems and issues related to urban employment.	**40-52**
UNIT 4:	**Cottage Industries in India** Meaning and concept of cottage industries; Role of cottage industries in Indian economy; Government policy for cottage industries.	**53-63**
UNIT 5:	**Rural Indebtedness in India** Meaning of Rural Indebtedness; Concept, nature and consequences of Rural Indebtedness; Programs initiated for removal of Rural Indebtedness.	**64-74**
UNIT 6:	**Rural Unemployment in India** Meaning, Concept of unemployment; Types of unemployment; Characteristics of rural unemployment; Some employment generation measures.	**75-85**
UNIT 7:	**Poverty in Rural India** Meaning, Concept of Poverty and Poverty line; Characteristics of Poverty in Rural India; Incidence of Rural Poverty in India; Some Poverty Eradication Measures.	**86-96**
UNIT 8 :	**ROLE OF TECHNOLOGY IN RURAL DEVELOPMENT** Meaning of Rural Technology; Meaning of Agriculture and Allied Sector;Green Revolution and its impact on modern methods of agriculture;White Revolution and Blue Revolution- A brief idea;Role of	**97-108**

Page No:

Technology in Rural Development;Importance of Rural Technology in Agriculture and Allied Sectors; Issues with Use of Technologies

UNIT 9: AGRICULTURE AND LIVESTOCK INSURANCE IN INDIA **109-121**

Role of Agriculture and Livestock Insurance in India; Different Rural Insurance Schemes in India

UNIT 10: RURAL FINANCE IN INDIA **122-133**

Non-Institutional Sources of Rural Finance in India – Indigenous Banker, Money Lenders, Landlords, Traders; Institutional Sources of Rural Finance in India – Co-Operative Banks, Public Sector Banks, Corporations and Apex Bodies (NABARD, Agricultural Finance Corporation, RRBs)

UNIT 11: ROLE OF COMMERCIAL BANKS IN RURAL FINANCE IN INDIA **134-150**

Progress of Commercial Banks; Priority Sector Lending; The Lead Bank Scheme; Analysis of Major Schemes of the Government of India implemented through commercial banks since 1990 in different sectors; Difficulties faced in Implementation of these Schemes

UNIT 12: CO-OPERATIVE BANKS **151-165**

Progress of Co-operative Banks in India; Advantages of Co-Operative Institutions; Problems faced by Co-Operative Banks in Financing Rural Development

UNIT 13: REGIONAL RURAL BANKS **166-176**

Objectives and Functions of RRBs; Evaluation of Progress and Activities of RRBs; Critical Assessment of Functions of RRBs

UNIT 14: NABARD **177-187**

Objectives and Functions of NABARD; Evaluation of Progress and Activities of NABARD; Critical Assessment of Functions of NABARD

UNIT 15: RECENT INNOVATIONS IN RURAL FINANCE **188-196**

Micro Credit, NGOs and Self-Help Groups, Rural Service Centres of Banks

COURSE INTRODUCTION

This course "**RURAL DEVELOPMENT AND RURAL FINANCE IN INDIA**" is a Major Course of B.A. programme in Economics. The course is designed keeping in mind the present changes in the rural financial system. India lives in villages and rural areas. So, it is utmost important to develop the rural economy of India. There are many issues related to rural development in India.

In the first unit we will discuss the concept of rural development, strategies and importance of rural development, difference between urban and rural development. In the **second unit** we will discuss the size and structure of Indian rural economy, role and importance of rural sector in India, characteristics of Indian rural economy and causes of rural backwardness. In the **third unit** we will discuss the concept of community development characteristics of community development, Gandhian approach of rural development. **Unit four** discuss about cottage industries of India. **Fifth unit** discuss the issues related with rural indebtedness in India. **Unit six** and **seven** discuss about two very important issues of Indian economy-rural unemployment and poverty. The **eight unit** of the course discusses the role of technology in rural development. This unit will help you acquire knowledge about the basic concepts like agriculture & allied sector, rural technology, white revolution and blue revolution.This unit discusses the impact of green revolution on modern methods of agriculture, importance of rural technology in agriculture and allied sectors and various issues associated with the use of technologies.The **ninth unit** deals with the Agriculture Insurance Company of India . Important concepts discussed in the unit include the role played by the insurance sector in the field of agriculture and livestock and the different rural insurance schemes in India relating to agriculture and livestock. The **tenth unit** will introduce you to one of the most important aspects of rural development, ie., rural finance. After going through this unit, you will be able to distinguish between institutional and non-institutional sources of rural finance and identify the institutional and non-institutional sources of rural finance in India. The **eleventh unit** explains the meaning of commercial bank and priority sector lending. Apart from these, this unit explains the concept of Lead Bank Scheme and the major schemes undertaken by the Government through commercial banks since 1990s in different sectors.The **twelfth unit** will help you to acquire knowlege about the Co-operative Movement in India.This unit explains the structure and development of Co-operative Banking in India with advantages and difficulties faced by such institutions. The **thirteenth unit** deals with regional rural banks .Thus, the important aspects like meaning, objectives and functions

of regional rural banks of India have been discussed in the unit. The **fourteenth unit** discusses the meaning, objectives, progress and activities of NABARD.This unit will also help you to discuss critically the functions of NABARD.The final unit deals with the role of micro-credit, NGOs and SHGs in rural development.This unit enables you to know about the rural service centres of banks.

While going through a unit, you will notice some along-side boxes, which have been included to help you to know some of the difficult, unseen terms. Again, we have included some relevant concepts in “LET US KNOW” along with the text. And, at the end of each section, you will get “CHECK YOUR PROGRESS” questions. These have been designed to self-check your progress of study. It will be better if you solve the problems put in these boxes immediately after you go through the sections of the units and then match your answers with “ANSWERS TO CHECK YOUR PROGRESS” given at the end of each unit.

UNIT 1 : BASIC CONCEPTS OF RURAL DEVELOPMENT

UNIT STRUCTURE

1.1 Learning Objectives

1.2 Introduction

1.3 Concept and Definition of Rural Development

1.4 Strategies of Rural Development

1.5 Why is Rural Development Important in India?

1.6 Approaches to Rural Development in India

1.7 Major Financial Institutions for Rural Development in India

1.8 Some Dilemmas of Development

- 1.8.1 Rural versus Urban Development
- 1.8.2 Agriculture Versus Industrial Development
- 1.8.3 Capital Versus Labour Dogma
- 1.8.4 Autonomous Versus Induced Development

1.9 Let Us Sum Up

1.10 Further Reading

1.11 Answer to Check Your Progress

1.12 Model Question

1.1 LEARNING OBJECTIVES

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

- explain the concept of rural development
- know the strategies of rural development
- know the needs of rural development
- explain the dilemmas of development.

1.2 INTRODUCTION

India lives in villages. Most of the Indians lives in rural areas. Hence development of rural areas of the country is the top priority.

In this Unit we will discuss some basic ideas of rural development.

1.3 CONCEPT AND DEFINITION OF RURAL DEVELOPMENT

Rural development may be defined as overall development of rural areas to improve the quality of life of the rural people. It is an integrated process, which includes social, economic, political and spiritual development of the poor sections of the society. Rural development can be defined as, helping rural people and set the priorities in their own communities through effective and democratic bodies, by providing the local capacity investment in basic infrastructure and social services, justice, equity and security, dealing with the injustices of the past and ensuring safety and security of the rural population, especially that of women. Rural development is a strategy to enable a specific group of people, (poor rural women and men), to gain for themselves, and their children more of what they want and need. It involves helping the poorest among those who seek a livelihood in the rural areas to demand and control more of the benefits of rural development.

Some of the areas which are challenging and need fresh initiatives for development in India include:

- Development of human resources.
- Land reforms.
- Development of the locality specific productive resources of each locality.
- Infrastructure development like electricity, irrigation, credit, marketing, transport facilities including construction of village roads and feeder roads to nearby highways, facilities for agriculture research and extension, and information dissemination.
- Special measures for alleviation of poverty and bringing about significant improvement in the living conditions of the weaker sections of the population emphasising access to productive employment opportunities.

As most of the people on earth live in rural areas, development in true sense cannot be expected without addressing the basic necessities of this huge population. In the era of modern science and technology, large amount of population in rural areas are still deprived of adequate nutrition, good education, proper communication, and social justice. Therefore, rural development is gaining importance in both the developed and developing countries. However, till today, there is no universally acceptable definition of rural development. As a concept, rural development is comprehensive and multidimensional. It means improving the quality of life of the people living in rural areas

through agriculture and allied activities. As a phenomenon, rural development is the result of interactions between various physical, technological, economic, socio-cultural and institutional factors. For instance, if we want to develop rural area through agricultural activities, there is a need to think of changing the attitude of farmers toward modem agriculture; introduction of High Yeilding Varieties (HYV) of crops, mechanization of farming, use of fertilizers, pesticides; formation of Self Help Groups (SHGs) for microfinance; training of farmers for building capacities in modern agriculture; improvement of roads and communication system, provision of electricity, market etc. Therefore, it calls for a holistic approach of development. As a strategy, rural poor are always targeted in rural development. As a discipline, it has close relationship with subjects like agriculture and allied sciences, social sciences, health sciences, engineering and management sciences.

Rural development can be defined as an approach towards integrated development of an area and the people through optimum development and utilisation of local resources-physical, biological and human and by bringing about necessary institutional, structural, and attitudinal changes of rural public. Development of rural area means development of the people living in rural areas through implementation of various rural developmental schemes. The objectives of development include sustained increase in per capita output and income, expansion of productive employment and greater equity in the distribution of the benefits of growth. Rural development over the years has emerged as a strategy designed to improve the economic, social and cultural life of specific group of people as well as living in rural areas. Rural development must constitute a major part of development strategy if a larger segment of those in greatest need are to benefit. So, the term development in the context of rural development can be interpreted in the following ways:

- Rural development implies development of agriculture because agriculture and allied activities are the principal economic occupation of the rural masses.
- Rural development implies economic development i.e. increase in the national and the per capita income of rural community by improving industrialisation and creating employment opportunities.
- Rural development means all round development of the rural community, which include development of agriculture and economic development along with the provision of minimum needs, poverty alleviation and eradication of unemployment. Therefore rural development means all round development of the rural community.

In modern times, rural development is not just about agricultural growth though agricultural growth is a very important dimension of rural development. Other sectors or dimensions come into play in the process of rural growth, such as health, education and economic activities outside the agricultural sector. So, rural development is multi-sectoral. It embraces a variety of different economic and social sectors. These are summarised below:

- Agriculture and natural resources – crops, livestock, fishing, forestry.
- Non-farm sector – services to agriculture (including input supply, marketing, transport, finance, agricultural processing), rural manufacturing, mining, and other rural services
- Rural infrastructure – roads, transport, energy, water etc.
- Education
- Health

1.4 STRATEGIES OF RURAL DEVELOPMENT

The strategies of rural development require the action of planning in order to achieve the development in rural areas. Some important strategies of rural development are as follows-

- Provision of support to the Farmers' Groups and Associations in order to build their capacity and supporting farmer unions.
- By adopting localized way of distributing agricultural products.
- Water management for agricultural production by the usage of sprinklers and drips.
- Use of private companies for processing & marketing.
- By proper communication and quality maintenance.
- Enhancing rural micro finance services and provision of subsidies for crops.
- Strategy for provision of technology inputs to the farmers.
- Liberalization of markets and price structures.
- All weather roads to rural habitations.
- Better economic utilization of agricultural residues, by-products & recycling of wastes by the establishment of separate plants at the village levels by the support of government.
- Enhancement of linkage to farmer groups with processors and buyers for increasing the profits to the farmers.

- Pests and disease control with the usage of improved seeds, bio fertilizers, herbicides, and bio pesticides.
- Usage of advanced equipment and machinery that constitutes the technology for the plantation and harvesting of the crops that leads to decrease the labour cost.
- Agricultural productivity enhancement.
- Research and Development for agro processing technologies.
- Establishment of farmer care centres.
- Analysis of complete agricultural trade statistics includes consumption data, diseases and disease control data, Statistics on agricultural products processing and marketing, fisheries, cropping intensity etc.
- Increasing the organic farming.

The above mentioned strategies can be organised into the following broad categories-

Agricultural Development:

Agriculture is considered as the backbone of rural households. The agricultural sector plays an important role in India's economy and is responsible for a significant share of the Gross Domestic Product(GDP). Though the contribution of agriculture to India's GDP is currently about 17% but this sector provides employment to more than 50% of the population of India. So, development of agricultural sector is very important issue in our country.Agricultural sector plays important economic role also. It is based on the development of the food industry but it also supports the development of numerous other sectors (input industry, providers of equipment, mechanisation, packaging, transport, and numerous other services). Investing in agriculture also means investing in rural development, as it is impossible to develop villages without agricultural development.

Development of Livestock Farming:

Livestock sector has been considered as a back bone of Indian agriculture. Animal husbandry is a part of livestock farming and is an art of breeding and rearing animals for the benefit of human society. Animal husbandry includes cattle, buffalo, chickens, goats, pigs, horses and sheep. Livestock farming not only supplies milk, meat, and eggs but also provides raw-materials to the animal based industries which are boosting Indian traditional art and crafts by providing feathers, hooves, horns etc. and many other things. As a result India is enriched with one of the largest diversity of animal wealth in the world.

So, animal husbandry is our inevitable culture with a great potential for changing rural India. There is no doubt that, appropriate implementation of scientifically designed interventions, future prospect will surely be a milestone in transforming India. It will need some smart approaches with broad vision and obvious compassion for our animals.

Development of Small Scale Industries:

In agro-based economy like India, small scale industries play an important role in rural development and economy of the country. The Government of India has made various initiatives to promote and strengthen the small scale industries so that these industries may keep contributing to GDP. These industries not only contribute to GDP but also provide employment to the rural youth.

Micro Finance as a Strategy for Rural Development:

Micro finance or micro credit means the extension of small loans to individuals who are poor to quality themselves for traditional bank loans, as they have no assets to be offered as guarantee. The micro finance plays an important role to speed up the rural development. Micro finance enhances choices available to the poor such as an opportunity to save, acquire productive assets, and reduce the dependency on the moneylenders. It can help the vulnerable situations for building up of assets, accumulated saving etc. Micro finance can be a powerful instrument for initiating a spiralling process of growth and development in the rural areas.

Strategy of Employment Generation for Rural Development:

For countries like India, the employment strategy has to be based on revitalizing all segments of the rural sector. The emphasis in the last few years of developing the physical infrastructure by construction of roads, extending power and telecom facilities have some impact in generating employment, including self-employment. A strategy of development has to be evolved which can take a balanced path between modernization and employment generation for only then can the nation progress.

Rural Infrastructure as a Strategy for Rural Development:

Rural infrastructure is crucial for agriculture, agro-industries and overall economic development of rural areas. It also, incidentally, provides basic amenities that improve the quality of life. Infrastructure can be divided into two categories – economic and social infrastructure. Economic infrastructure includes transport, communication, energy etc. and social infrastructure includes education, research, health, family welfare, housing, water supply, sanitation etc. Bharat Nirman is a time-bound plan for action in rural

infrastructure in India. Under Bharat Nirman, action is proposed in the areas of irrigation, rural housing, rural water supply, rural electrification and rural telecommunication connectivity for upliftment of the rural economy.

1.5 WHY IS RURAL DEVELOPMENT IMPORTANT IN INDIA?

In India majority of the population live in rural areas and major source of employment is agriculture that is why rural economy of India is sometimes called agrarian economy. Though two-third of India's population depends on agriculture but the share of agriculture to GDP is declining which is an important issue of concern. Agriculture and allied activities, like animal husbandry, dairying, forestry, as well as cottage and small scale industries offer considerable scope for labour absorption and income generation for the poverty stricken rural masses with relatively low but quick results-producing investment. Increased production in rural areas will lead to higher purchasing power in the hands of the rural people which in turn will create more effective demand both for agriculture and industrial commodities. Household and small scale industries producing consumer goods for mass consumption hold out the greatest potential for employment. The rural people are facing the problems of undulation and poverty. The people are unemployed because they lack the skills to take up opportunities in life. If the rural sector is educated and advanced, it is easier to do business and the development is high. Therefore, rural development is necessary not only because an overwhelming majority of the population lives in villages but also because the development of rural activities is essential to accelerate the pace of overall economic development of the country. Rural development has assumed greater importance in India today than in the earlier period because of the process of globalisation and the increased pace of development of the country. The needs of rural development can be summarized by the following points-

Rural development is required –

- To remove poverty among the rural people and to increase their income.
- To generate employment to the surplus labours in the agricultural field so that migration from rural to urban areas can be prevented.
- To raises the quality of life and environment in rural areas.
- To manage resources like land, water for agricultural production in an effective manner.

- To produce variety of food products through agriculture.
- To improve profits for farmers.
- To supply raw materials for the industrial sector.

1.6 APPROACHES TO RURAL DEVELOPMENT IN INDIA

The approaches to rural development in India can be divided in to the following two parts.

I. Gandhian Approach to Rural Development (Pre-Independence Approach): Gandhi's concept of rural development is uplift of the common man. He realised the need for integrated rural development. Education is knowledge of power and health is stamina of person and society. His approach to rural development is non - violent. It is self - governed, self – sufficient in regard to food, clothing, and shelter in rural areas through reducing the rural poverty. He focused his attention on agriculture and non – agriculture aspect of rural economy through all-round development of rural India. Rural development means maximum production of agriculture and allied activities in the rural areas, including development of rural industries and cottage industries. It gives employment opportunities in rural areas especially for the weaker sections of the community so as to enable them to improve their socio – economic status. Mahatma Gandhi's idea to develop the Indian society was based on his understanding of the society and hence, based on the village system. He further believed that India will have to live in villages, not in towns, in huts not in palaces. He was sure that empowering of the village people and strengthening the village economy were critical factors in the processes of development. Mahatma Gandhi and his economic ideas are ever relevant to economic process in twenty first century. His vision to create Indian villages prosperous and progressive is feasible through economic process.

The Gandhian model of rural development is based on some values and premises as follows:

a) Real India is found not in cities but in its villages.

b) The revival of villages is possible only when the exploitation of villages is stopped. Exploitation of villages by city dwellers was "violence" in Gandhi's opinion.

c) Simple living and high thinking implying voluntary reduction of materialistic wants and pursuit of moral and spiritual principles of life.

d) Dignity of labour, everyone must earn his bread by physical labour and one who labours must necessarily get his subsistence.

e) Preference should be given to the use of indigenous (Swadeshi) products, services and institutions.

The most suitable model for Indian rural development is a people centred strategy, akin to Gandhian model. Various approaches have been adopted in India by the government since Independence. Under these approaches, various programmes have also been undertaken to develop the areas of rural economy of India.

II.Modern Approaches to Rural Development (Post-Independence Approach): The various approaches of rural development since Independence can be categorised as follows-

- **Multi-purpose Approach:** Multi-purpose approach is concern with all round development of rural areas. It includes activities related to agriculture, animal husbandry, co-operation, irrigation, village and small scale industries, health, sanitation, housing, transport and communication, welfare of women and rural employment. The multi-purpose approach was a significant approach, which laid the foundation stone for the upliftment of rural India. Community Development Programme is an example of multipurpose approach.

LET US KNOW MORE

Community Development Programmes (CDP): This programme was started in 1952. It was a multi-purpose programme with the aim of overall development of rural people of India. This programme consisted of agriculture, animal husbandry, irrigation, public health, education, rural industries etc.

- **Sectoral Approach:** Sectoral approach is concerned with the intensive development of selected sectors of rural economy. Important programmes under the sectoral approach includes-

  Intensive Agriculture Development Programme (1960): In 1960, Intensive Agriculture Development Programme (IADP) and later in 1963 Intensive Agricultural Area Programme (IAAP) was launched. Both IADP and IAAP constituted landmarks in the development of agriculture, indeed of the rural sector in India. The programmes placed agriculture on a qualitatively different footing with wide ranging repercussions

on rural scenario.

- **Target Group Approach:** This approach is concerned with the growth of rural area with social justice for promotion of weaker section. The target group comprised of marginal and small farmers, landless agricultural labourers etc. Important programmes under this approach are as follows-

  Small Farmers Development Agency (SFDA): This scheme was started in 1971-72 in selected districts. It was financed by central as well as state government and a provision of subsidy was made for the farmers from 25% (non-tribal farmers) to 50% (tribal farmers). Main objectives were:

  a) To investigate and identify the problems of small farmers and ensure that various services reach to them.
  b) To ensure that the farmers secure loans from cooperative banks.
  c) To ensure that the farmers have access to other assistances such as cooperative banks, improved seeds, fertilizers and other inputs.

  Marginal Framers and Agricultural Labourers Development Agency (MAFALDA): Marginal Framers and Agricultural Labourers Development Agency (MAFALDA) was also established with SFDA to assist the marginal farmers and agricultural labourers in maximum productive use of their small holdings and skills by undertaking animal husbandry, horticulture etc.

- **Basic Needs Approach:** The basic needs approach gives primacy to the need for a minimum standard of living of the poor as a central concern of development planning. It therefore contributes to the formulation of a development strategy, which aims at reducing poverty and inequality, promoting growth of employment and distributive justice. The basic needs concept is a wider scope covering personal and social consumption and also human rights, people's participation, employment and growth with justice. Important programme under this approach is Minimum Needs Programme.
- **Minimum Needs Programme:** The Minimum Needs Programme (MNP) in India was introduced in 1974 during the first year of fifth plan period. The main components of MNP are: rural health, rural education, rural roads, rural drinking water, rural electrification, house sites for landless, environmental improvement in slums, and nutrition.
- **Employment-oriented Integrated Approach:** Main objectives of this approach are

removal of unemployment, poverty through sectoral and area integration. This approach also aims at improving the standard of living of poor in the rural area. Some important programmes under this approach are as follows-

i) **The Integrated Rural Development Programme (IRDP):** Which was introduced in 1978-79 and universalized from 2nd October, 1980, aimed at providing assistance to the rural poor in the form of subsidy and bank credit for productive employment opportunities through successive plan periods.

ii) **Training Rural Youths for Self-Employment (TRYSEM):** This scheme was launched in 1979 to provide technical skills (training) to rural youths (between 18-35 years) living below the poverty line, to enable them to seek employment in fields of agriculture, industry, services and business activities.

iii) **Jawahar Rozgar Yojana:** The Jawahar Rozgar Yojana (JRY) was started with effect from April, 1, 1989. The main objective of the yojana was to provide additional gainful employment for the unemployed and under-employed persons in rural areas. The other objective was the creation of sustained employment by strengthening rural economic infrastructure and assets in favour of rural poor for their direct and continuing benefits.

iv) **Employment Assurance Scheme:** The Employment Assurance Scheme (EAS) was introduced on 2nd October, 1993 in the rural areas of 1778 blocks of 261 districts in which the Revamped Public Distribution System (RPDS) was in operation. In March, 1995 the scheme was further extended to 256 blocks out of which 233 blocks were flood prone in the States of Uttar Pradesh, Bihar, Assam and 23 blocks were of Jammu & Kashmir in view of the special conditions prevailing there. The primary objective of the Employment Assurance Scheme is to provide gainful employment during lean agricultural season in manual work to all able bodied adults in rural areas who are in need and desirous of work, but cannot find it.

v) **Sampoorna Gramin Rozgar Yojana (SGRY):** The scheme started from 1st September, 2001. The main objective of the scheme was the generation of wage employment, creation of durable economic infrastructure in rural areas and provision of food and nutrition security for the poor.

vi) **Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) 2005:** The National Rural Employment Guarantee Act, (MNREGA) was notified

on September 7, 2005. The 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.

1.7 MAJOR FINANCIAL INSTITUTIONS FOR RURAL DEVELOPMENT IN INDIA

Rural banking institutions are playing a very important role for all-round development of rural areas of the country. These institutions play the important role in the expansion of rural institutional credit which contributes to the rural development. In order to support the rural banking sector in recent years, Regional Rural Banks (RRBs) and National Bank for Agriculture and Rural Development (NABARD) have been established in India.

Regional Rural Banks (RRBs): The Government of India set up Regional Rural Banks (RRBs) on October 2, 1975. Regional rural Banks plays a vital role in agriculture and rural development of India. The RRBs have more reached to the rural area of India, through their huge network. The success of rural credit in India largely depends on their financial strength. RRBs are key financing institution at the rural level which shoulders responsibility of meeting credit needs of different types of agriculture credit in rural areas.

National Bank for Agriculture and Rural Development (NABARD): The National Bank for Agriculture and Rural Development (NABARD) was established in July, 1982. It is an apex body to coordinate the activities of all institutions which are involved in rural finance. NABARD provides refinance facility to state co-operative banks, commercial banks and regional rural banks which in turn provide credit to the farmers. The various functions of NABARD are Credit Functions, Developmental and Promotional Functions, Supervisory Functions, Institutional and Capacity Building etc. NABARD doesn't directly deal with the rural people but it grants assistance to the co-operative banks, commercial banks and Regional Rural Banks which give credit to the rural people. NABARD has also been playing a catalytic role in micro-credit through the channel of Self-Help Groups (SHGs).

CHECK YOUR PROGRESS

Q 1: Define rural development?

.....

.....

Q 2: Write two strategies of rural development.

.....

.....

1.8 SOME DILEMMAS OF DEVELOPMENT

The study of development includes a variety of dilemmas and dogmas, such as rural versus urban development, agricultural versus industrial development, primacy of capital versus labour, and natural/autonomous versus induced/planned development. We shall discuss these dilemmas now one by one.

1.8.1 Rural versus Urban Development

On one hand, there exists in the economy a small but highly modern and developed urban subsector, which absorbs most of the material, financial, and educated and talented manpower resources. On the other hand, there is a very large but traditional and underdeveloped rural subsector, characterized by widespread poverty, unemployment and low productivity, which forms the majority of the population. In most of the developing countries, both the sub-sectors coexist.

The economic development in developed economies has been associated with the growth of urbanisation. Economists may have a tendency to consider urbanisation as the index of economic development. At the other extreme, there is another dogma rapidly emerging in many developing countries that rural development is a prerequisite for overall development and, hence, it deserves the highest priority in terms of allocation of resources. In their enthusiasm to promote the cause of rural development, the proponents of this school of thought usually tend to either disregard or underplay the linkages between the rural and the urban subsectors of the economy. What is needed is a new approach to development, which explicitly recognizes the inter-linkages and complementarity between the

rural and the urban subsectors, and provides for integrating them completely.

1.8.2 Agriculture Versus Industrial Development

Some economists raise the argument that industrialisation alone can increase agricultural productivity resulting in modernization of agriculture. Following this dogma, many developing countries have established highly capital-intensive and sophisticated industrial enterprises, similar to those in developed countries. Such efforts, however, have often led to bitter disappointment when the desired results failed to materialize. The contribution of such projects to development is negligible and sometimes even negative because they are built at the expense of enterprises and unable to meet the basic needs of people.

At the other extreme is agricultural development. In the initial stages of development when per capita incomes are low, agriculture alone can serve as an instrument of development and that increased agricultural productivity is a prerequisite to increased income and industrialization. The proponents of this dogma argue for allocation of more resources and attention to agriculture rather than to industry. They do not, however, realize that agriculture cannot develop alone and that the concomitant development of industry and supporting infrastructure is essential not only for the growth of the national economy but also for the advancement of agriculture itself. So, the establishment of small and less capital-intensive industrial enterprises in rural areas, along with introduction of new technology in agriculture is likely to establish linkages between agriculture and industry which is required for achieving economic development.

1.8.3 Capital Versus Labour Dogma

Some economists from the developed countries consider capital to be the key instrument of development. The Harrod–Domar model of growth represents a typical example of this dogma. Harrod-Domar model of growth states that capital and labour cannot be substituted for each other and that if labour is in surplus supply, capital becomes the overriding constraint on economic growth. Capital based development aims at increasing savings, redistributing income from the workers to the capitalists, granting monopoly rights to national and multinational corporations, transferring resources from the private to the public sector, increasing

dependence on foreign aid and loans, and under-pricing of capital, particularly foreign exchange for capital goods. This development may result in a number of adverse effects such as under-pricing of foreign exchange for capital goods. Excessive focus on capital disincentives development of labour-intensive technologies adapted to domestic needs and circumstances, resulting in the unemployment of labour and underutilization of other domestic resources.

Labour based development prefers to give more importance to labour rather than capital which can create more employment opportunities and due to the use labour intensive method of production which is less expensive. But to compete with developed countries an economy cannot be based fully on the labour based development. So, to attain proper development in an economy should interlink both the labour and capital based development.

1.8.4 Autonomous Versus Induced Development

Autonomous development is that development process which takes place naturally in any economy without the intervention of government. On the other hand induced development is that development which is induced by the government and it is the result of government intervention. Some development takes place naturally or autonomously over time due to activities of individuals pursuing their own interests, but its level and pace may not always be able to maintain a reasonably satisfactory standard of living of the people. Due to this situation government intervention becomes important. Development planning is one of the forms of intervention that has been adopted in many developing countries of the world. In fact, even the advanced countries have come to realize the need for some sort of planning or government intervention in the economic processes. However, we need to realize that planning can make a positive contribution only if it facilitates the achievement of development objectives more rapidly and more efficiently than if development followed the autonomous processes. It is now becoming increasingly apparent that the development effort cannot be left to the government alone. It must be shared by private, cooperative, corporate and other NGOs and agencies and above all, by the people themselves. Planning by the government should complement and supplement the efforts of individuals, NGOs and other institutions as well.

CHECK YOUR PROGRESS

Q 3: What are the dilemmas of development?

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Q 4: What do you mean by capital-labour dogma in development?

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Q 5: What is capital intensive technique of production?

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Q 6: What is labour intensive technique of production?

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1.9 LET US SUM UP

In this unit we have discuss the following :

- Rural development is a process of qualitative and quantitative changes to improve conditions in rural regions.
- Rural development is comprehensive and multidimensional.
- Rural development has close relationship with subjects like agriculture and allied sciences, social sciences, health sciences, engineering and management sciences.
- Main focus of rural development is on the rural poor.
- The development in any country has to face some dilemmas because of choice of problem with scarcity of wealth. The main dilemmas are rural versus urban development, agriculture versus industrial development, capital and labour dogma and autonomous versus induced development.

1.10 FURTHER READING

1) B.N. Ghosh and Rama Ghosh,'Concise History of Economic Thought'. Himalaya Publishing House.

2) H.L.Bhatia, 'History of Economic Thought', Vikas publication.

3) P.K.Dhar ,Indaian Economy , Kalyani Publications.

4) G. Datt and A. Mahajan, Indian Economy, S. Chand.

✓ 1.11 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Rural development may be defined as overall development of rural areas to improve the quality of life of rural people.

Ans to Q No 2: Two important strategies of rural development are -

- Provision of support to the farmers Groups, and Associations in order to build their capacity and supporting farmer unions.
- By adopting localized way of distributing agricultural products.

Ans to Q No 3: Some dilemmas of development facing by every economy are rural versus urban development, agricultural versus industrial development, primacy of capital versus labour, and natural/autonomous versus induced/planned development.

Ans to Q No 4: The capital-labour dogma means dilemma of giving more preference to any one of them for development. But in reality, both labour and capital are important for development purpose because neither labour nor capital can work alone for developing an economy.

Ans to Q No 5: Capital intensive technique is that which uses more capital comparatively in the production process.

Ans to Q No 6: Labour intensive technique is that which uses more labour comparatively in the production process.

? 1.12 MODEL QUESTIONS

Q.1 : Discuss the strategies for Rural Development in India.

Q.2 : Discuss the approaches to Rural Development in India.

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UNIT 2 : RURAL ECONOMY OF INDIA

UNIT STRUCTURE

2.1 Learning Objective

2.2 Introduction

2.3 Indian Rural Economy

2.4 Size and Structure of Indian Rural Economy

2.5 Role and Importance of Rural Sector In india

2.6 Characteristics of Indian Rural Economy

2.7 Concept of Rural Backwardness

2.8 Causes of Rural Backwardness

2.9 Let Us Sum Up

2.10 Further Reading

2.11 Answers to Check Your Progress

2.12 Model Questions

2.1 LEARNING OBJECTIVES

After going through this unit, you will able to:

- know the size and structure of Indian rural economy
- discuss the role and importance of rural sector in India
- explain the characteristics of Indian rural economy
- explain the causes of rural backwardness.

2.2 INTRODUCTION

India is predominantly a rural country with two third populations and 70% workforce residing in rural areas. Rural economy constitutes 46 per cent of national income. Despite the rise of urbanisation more than half of India s population is projected to be rural by 2050. Thus growth and development of rural economy and population is a key to overall growth and inclusive development of the country.

In this unit we wil discuss size and structure of Indian rural economy, characteristics of Indian rural economy and rural backwardness.

2.3 INDIAN RURAL ECONOMY

Traditionally, agriculture is the prime sector of rural economy and rural employment. The transition in composition of output and occupation from agriculture to more productive non-farm sectors is considered as an important source of economic growth and transformation in rural and total economy. However, no serious attempt has been made to analyse and understand the transition in India's rural economy. Economic studies on rural India have focused mainly on changes in rural employment, by gender and at broad sectoral aggregation between agriculture and non agriculture. Contrary to the common perception about predominance of agriculture in rural economy, about two third of rural income is now generated in non agricultural activities. Similarly, it looks amazing to find that more than half of the value added in manufacturing sector in India is contributed by rural areas. However, the impressive growth of non agricultural sector in rural India has not brought significant employment gains or reduction in disparity in worker productivity. This underlines the need for a new approach to direct the transition of rural economy

The Rural Economy in India is wholly agriculture based and it is of tremendous importance because it has vital supply and demand links with the other Indian industries. The fertility of the soil has augmented the success of agriculture in India. Further, rural economy in India has been playing an important role towards the overall economic growth and social growth of India. India has been predominantly an agriculture-based country and it was the only source of livelihood in ancient time. During prehistoric time when there was no currency system the India economy system followed barter system for trading i.e. the excess of agricultural produce were exchanged against other items. The agriculture produce and system in India are varied and thus offers a wide agricultural product portfolio. Today, the rural economy in India and its subsequent productivity growth is predicated to a large extent upon the development of its 700-million strong rural population. The agricultural economy of India is drafted according to the needs of rural India since majority of the population lives in about 600,000 small villages. In India, agriculture accounts for almost 19% of Indian gross domestic products (GDP). The rural section of Indian population is primarily engaged with agriculture, directly or indirectly. The Ministry of Agriculture, the Ministry of Rural Infrastructure, and the Planning Commission of India are the main governing bodies that formulate and implements the policy related to rural economy in India and its subsequent development for the overall growth of the Indian economy.

Sectoral composition of rural output and employment, their relationship and implications for growth-both, output and employment and income inequalities across the sectors of the economy are some of the major concerns of rural economy now a days.

The main agricultural products that controls the fate of the Rural Economy in India are as follows -

- **Food Grains -** Rice, Wheat, Pulses, Cereals, Corn, Maize, Rice Bran Extractions, Sorghum, Soy meal, Suji, Parmal, Lentils, Jowar, Bajra, Chick pea.
- **Fruits and Nuts -** Cashew Kernels, Cashew Nut, Cashews, Almonds, Roasted Dry Fruits, Peanuts, Groundnut, Walnut Kernels, Walnuts, Indian Peanuts, HPS Groundnuts.
- **Fruits -** Bananas, Beans, Cherry, Cucumbers, Dried Fruits, Dried Truffles, Carrots, Lemon, Mandarins, Mango steens, Meslin, Shallots, Apples, Asparagus, Grapes, Oranges, Gherkins, Turnips, Oranges, Papaya, Pineapple.
- **Vegetables –** Potatoes, Bitter gourd, Stripe Gourd, Pumpkin, cauliflower, Cabbage, Tomato, Onion, Green Pepper, Drum Sticks, Lady's finger, Banana, Papaya, Spinach, Cucumber, Mushroom, Mushroom Spawn, Radiata.
- **Seeds, Buds, Plantation and Related Products -** Basil Seed, Cumin seeds, Dill Seed, Buds, Celery Seed, Hybrid Seeds, Sesame Seeds, Sesbania Seed, Sunflower Seeds, Mustard Seeds, Oil Seeds, Plant Products, Plantation, Plants, Psyllium Seed, Fennel Seed, Fenugreek Seed, Herb Seeds, Tamarind Seed, Vegetable Seeds.
- **Spices -** Black Pepper, Chilli Powder, Chillies, Cinnamon, Cloves, Coriander Powder, Cumin, Curry Powders, Dry Ginger, Dry Red Chilly, Cardamom, Anise, Salt, Onion Powder, Pepper, Fenugreek, Clove, Ginger, Turmeric, Turmeric Powder.
- **Tea and Coffee -** Black Tea, Coffee, Coffee Beans, Darjeeling Teas, Assam Teas, Instant Coffee, Leaf Coffee, Leaf Tea, Packaged Tea, Green Tea, CTC Teas.
- **Tobacco and Tobacco Products -** Beedi, Betel nut Leaves, Betel nut, Bidi Leaves, Chewing Tobacco, Cigarettes, Arecanut, Jarda, Scented Tobacco, Smoking Tobbacco, Snuff, Opium, Pan, Chatni, Pan Masala, Gutkazarda, Zafrani Zarda.
- Cotton, Rubber, Jute etc..

2.4 SIZE AND STRUCTURE OF INDIAN RURAL ECONOMY

The contribution of the rural areas in economy of India for the period 1970-71 to 2011-12 is seen from its share in national output and employment1 (Table 2.1). The rural

areas engaged 84.1 per cent of the total workforce and produced 62.4 per cent of the total net domestic product (NDP) in 1970-71. Subsequently, rural share in the national income declined sharply till 1999-00. Rural share in total employment also witnessed a decline but its pace did not match with the changes in its share in national output or income. The declining contribution of rural areas in national output without a commensurate reduction in its share in employment implies that a major portion of the overall economic growth in the country may came from the capital-intensive sectors in urban areas without generating significant employment during the period under consideration.

Table 2.1. Share of rural areas in total NDP and workforce (In percent)

Year	Economy(NDP)	Workforce
1970-71	62.4	84.1
1980-81	58.9	80.8
1993-94	54.3	77.8
1999-00	48.1	76.1
2004-05	48.1	74.6
2011-12	46.9	70.9

Source: www.niti.gov.in

After 1999-00, growth rate of rural economy picked up the pace and reached at par with the growth rate of urban economy. This led to stabilization in rural contribution in total NDP at around 48.1 per cent. The rural share in national NDP dropped slightly during 2004-05 to 2011- 12 despite acceleration in growth rate. On the other hand, the rural share in total workforce declined steadily from 76.1 per cent in 1999-00 to 70.9 per cent in 2011-12. Due to faster reduction in the rural share in total employment than in national NDP, difference between the rural share in employment narrowed down to 24 per cent by the year 2011-12. These evidences show that urban economy overtook rural economy in terms of output but urban employment is less than half of the rural employment. This has serious implications such as wide disparity in worker productivity between rural and urban areas. Rural share in output and Employment across sectors shows significant changes in the contribution of rural areas in the national economy. Besides producing almost all agricultural produce, rural areas contributed around one third of non-farm output and 48.7 per cent of non-farm employment in the country (Table 2.2). The contribution of rural areas in different sectors of non-farm economy revealed large variation and interesting patterns.

Table 2.2. Share of rural areas in total NDP and workforce across different sectors (per cent)

Year	Agriculture		Manufacturing		Construction		Services		Non-agri.	
	NDP	Emp.	NDP	Emp.	NDP	Emp.	NDP	Emp.	NDP	Emp.
1970-71	96.2	96.8	25.8	51.5	43.2	64.6	32.8	42.1	32.4	47.3
1980-81	94.9	95.9	31.8	48.1	45.6	58.8	34.0	41.7	35.0	44.9
1993-94	93.9	95.8	29.8	51.3	45.1	57.2	33.6	42.3	34.8	46.6
1999-00	93.2	96.6	41.6	51.5	43.3	57.6	27.1	40.7	31.8	45.8
2004-05	94.1	96.1	42.5	49.6	45.5	64.4	32.7	41.9	36.7	47.2
2011-12	95.1	95.9	51.3	47.4	48.7	74.6	25.9	39.6	35.3	48.7

Note: Emp.: Employment, Non-agri. Includes manufacturing, construction, services and other sectors

Source: www.niti.gov.in

The most striking change in rural share was observed in the case of manufacturing sector. Between 1970-71 and 2011-12, the share of rural areas in output of manufacturing sector doubled and exceeded the manufacturing production in urban areas. Rural areas contributed 51.3 per cent of manufactured output in year 2011-12. However, this sharp increase in the rural share in output did not fetch any increase in rural share in employment in manufacturing sector. On the contrary, rural share in total manufacturing employment in the country declined by 4.1 percentage points during the forty years ending with 2011-12. Clearly, manufacturing sector was shifting to rural areas but without commensurate increase in the employment. In the same period, the share of rural areas in construction sector output increased by 5.5 percentage points, while employment share increased by 10.0 percentage points. In case of 5 services sector, rural areas lost to urban areas in a big way after 2004-05 and accounted for 25.9 per cent of services output in the country in the year 2011-12. These changes indicate that rural employment has risen at a much faster rate in relatively low paid construction activities.

The growth rates in output and employment show large variations across sectors and over different period, which is very useful in understanding the transition in rural economy in the country. The sector-wise growth rate in NDP and employment during three sub periods viz. 1970-71 to 1993-94 (termed as pre-reform period), 1993-94 to 2004-05 (termed as post reform period) and 2004-05 to 2011-12 (termed as period of economic acceleration) are presented in Table 3.1 and sectoral composition is presented in Table 3.2

Table 3.2. Growth rates in rural (NDP) (at 2004-05 prices) and rural employment (percent)

Period	Agriculture	Manufacturing	Construction	Services	Non-agriculture	Total
Net Domestic Product (at constant prices)						
1971-94	2.57	5.18	3.94	6.10	5.70	3.72
1994-05	1.87	8.38	7.92	8.55	7.93	5.06
2005-12	4.27	15.87	11.49	3.48	9.21	7.45
Employment (usual status)						
1973-94	1.72	3.55	4.82	4.51	4.22	2.16
1994-05	0.74	2.79	8.32	3.25	3.70	1.45
2005-12	-2.04	0.67	12.09	1.35	3.65	-0.28

Source: www.niti.gov.in

The period 1970-71 to 1993-94 witnessed 2.57 per cent annual growth in the NDP of agriculture sector as compared to 5.70 per cent annual growth in non-farm sectors (Table 3.1). As a consequence, the share of agriculture in the rural NDP declined from 72.4 per cent to 57 per cent by the year 1993-94 (Table 3.2). Among the non-farm sectors, manufacturing, construction and services sectors experienced 5.18, 3.94 and 6.10 per cent annual growth, and their share in rural NDP increased by 2, 2 and 10 percentage points during the pre-reforms period, respectively. During the post-reform period (1993-94 and 2004-05), growth in agricultural sector decelerated to 1.87 per cent, whereas growth rate in non-farm economy accelerated to 7.93 per cent. The effect of slowdown in agriculture on rural economy was offset by significantly higher growth in non-farm sectors, which accelerated growth rate in rural economy to above 5 per cent as compared to 3.72 during the pre-reforms period. These changes further reduced the share of agriculture in rural economy from 57 per cent in 1993-94 to 39 per cent in 2004- 05. Thus, rural economy became more non-agricultural than agricultural by the year 2004-05. Among the non-farm sectors, services, manufacturing and construction sectors constituted 37.3, 11.5 and 7.8 per cent share in rural output in 2004-05, respectively (Table 3.2).

Table 3.2. Sectoral share in NDP and employment in rural areas: 1970 to 2012

Year	Agriculture	Manufacturing	Construction	Services
Share in rural NDP (at current prices)				
1970-71	72.4	5.9	3.5	17.1
1980-81	64.4	9.2	4.1	20.6
1993-94	57.0	8.2	4.6	26.8
1999-00	51.4	11.1	5.6	28.6
2004-05	38.9	11.5	7.8	37.3
2011-12	39.2	18.4	10.5	27.0
Share in rural employment				
1972-73	85.5	5.3	1.4	7.3
1983	83.6	6.2	1.3	8.8
1993-94	78.4	7.0	2.4	11.4
1999-00	76.3	7.4	3.3	12.5
2004-05	72.6	8.1	4.9	13.9
2011-12	64.1	8.6	10.7	15.5

Note: Shares do not sum up to 100 due to exclusion of some minor sectors.

Source: www.niti.gov.in

It is worth pointing that the period 2004-05 to 2011-12 witnessed much higher increase in agricultural prices compared to non-agricultural prices and growth rate in agriculture and non-farm sectors at current prices was almost the same. Therefore, the share of agriculture in rural NDP at current prices did not decline further and stood at marginally higher level of 39.2 per cent in 2011-12 over the year 2004-05. Consequently,

in these seven years(i.e. 2004-05 to 2011-12) the share of services sector declined from 37.3 to 27.0 per cent whereas the share of manufacturing in rural economy increased from 11.4 to 18.4 per cent and construction sector share increased from 7.8 to 10.5 per cent. Growth pattern in various sectors reveal sizable diversification of the rural economy towards non-farm sectors. From economic development point of view, similar trend and pattern should be reflected in the employment. This was examined from employment data in successive NSS rounds corresponding to the years for which data on rural-urban distribution of national income was available. Table 3.1 shows that rural employment and output followed different growth patterns. Rural employment showed 2.16 per cent annual growth rate during the pre-reform period, which decelerated in the post-reform period to 1.45% and turned negative (-0.28%) in the period of economic acceleration. The output growth rate in the same sub-periods accelerated. Thus, employment increased at a much lower rate compared to output and it even declined in the wake of high growth in output post 2004-05. The main reason for sluggish growth followed by negative growth in rural employment is that non-farm rural sectors could not absorb the labour-force leaving agriculture. The results presented in Table 3.1 also imply that employment elasticity in rural areas declined over time and has reached the negative range after 2004-05. The employment insensitive growth raises serious concerns over the capacity of the rural economy to provide productive jobs to the rising population and workforce moving out of agriculture. Among non-farm sectors, deceleration in employment growth was experienced in manufacturing and services sector; but construction sector witnessed sharp acceleration in employment expansion with the passage of time.

2.5 ROLE AND IMPORTANCE OF RURAL SECTOR IN INDIA

1. **Contribution to National Income: :** The lessons drawn from the economic history of many advanced countries tell us that agricultural prosperity contributed considerably in fostering economic advancement. It is correctly observed that, “The leading industrialized countries of today were once predominantly agricultural while the developing economies still have the dominance of agriculture and it largely contributes to the national income. In India, still 28% of national income comes from this sector.
2. **Source of Food Supply:** Agriculture is the basic source of food supply of all the countries of the world – whether underdeveloped, developing or even developed.

Due to heavy pressure of population in underdeveloped and developing countries and its rapid increase, the demand for food is increasing at a fast rate. If agriculture fails to meet the rising demand of food products, it is found to affect adversely the growth rate of the economy. Raising supply of food by agricultural sector has, therefore, great importance for economic growth of a country.

3. **Pre-Requisite for Raw Material:** Agricultural advancement is necessary for improving the supply of raw materials for the agro-based industries especially in developing countries. The shortage of agricultural goods has its impact upon on industrial production and a consequent increase in the general price level. It will impede the growth of the country's economy. The flour mills, rice shellers, oil & dal mills, bread, meat, milk products sugar factories, wineries, jute mills, textile mills and numerous other industries are based on agricultural products.
4. **Creation of Infrastructure:** The development of agriculture requires roads, market yards, storage, transportation like railways, postal services and many others for an infrastructure creating demand for industrial products and the development of commercial sector.
5. **Relief from Shortage of Capital:** The development of agricultural sector has minimized the burden of several developed countries who were facing the shortage of foreign capital. If foreign capital is available with the 'strings' attached to it, it will create another significant problem. Agriculture sector requires less capital for its development thus it minimizes growth problem of foreign capital.
6. **Helpful to Reduce Inequality:** In a country which is predominantly agricultural and overpopulated, there is greater inequality of income between the rural and urban areas of the country. To reduce this inequality of income, it is necessary to accord higher priority to agriculture. The prosperity of agriculture would raise the income of the majority of the rural population and thus the disparity in income may be reduced to a certain extent.
7. **Based on Democratic Notions:** If the agricultural sector does not grow at a faster rate, it may result in the growing discontentment amongst the masses which is never healthy for the smooth running of democratic governments. For economic development, it is necessary to minimize political as well as social tensions. In case the majority of the people have to be kindled with the hopes of prosperity, this can be attained with the help of agricultural progress. Thus development of agriculture

sector is also relevant on political and social grounds.

8. **Create Effective Demand:** The development of agricultural sector would tend to increase the purchasing power of agriculturists which will help the growth of the non-agricultural sector of the country. It will provide a market for increased production. In underdeveloped countries, it is well known that the majority of people depend upon agriculture and it is they who must be able to afford to consume the goods produced.

   Therefore, it will be helpful in stimulating the growth of the non- agricultural sector. Similarly improvement in the productivity of cash crops may pave the way for the promotion of exchange economy which may help the growth of non-agricultural sector. Purchase of industrial products such as pesticides, farm machinery etc. also provide boost to industrial dead out.

9. **Contribution to Capital Formation:** Underdeveloped and developing countries need huge amount of capital for its economic development. In the initial stages of economic development, it is agriculture that constitutes a significant source of capital formation.

   Agriculture sector provides funds for capital formation in many ways as:

   (i) Agricultural taxation,

   (ii) Export of agricultural products,

   (iii) Collection of agricultural products at low prices by the government and selling it at higher prices. This method is adopted by Russia and China,

   (iv) Labour in disguised unemployment, largely confined to agriculture, is viewed as a source of investible surplus,

   (v) Transfer of labour and capital from farm to non-farm activities etc.

10. **Employment Opportunities for Rural People:** Agriculture provides employment opportunities for rural people on a large scale in underdeveloped and developing countries. It is an important source of livelihood. Generally, landless workers and marginal farmers are engaged in non-agricultural jobs like handicrafts, furniture, textiles, leather, metal work, processing industries, and in other service sectors. These rural units fulfill merely local demands. In India about 70.6% of total labour force depends upon agriculture.

11. **Extension of Market for Industrial Output:** As a result of agricultural progress, there will be extension of market for industrial products. Increase in agricultural

productivity leads to increase in the income of rural population which is turn leads to more demand for industrial products, thus development of industrial sector.

According to Dr. Bright Singh, “Increase in agricultural production and the rise in the per-capita income of the rural community, together with the industrialisation and urbanisation, lead to an increased demand in industrial production.” In this way, agricultural sector helps promote economic growth by securing as a supplement to industrial sector.

CHECK YOUR PROGRESS

Q 1: What is Rural Economy?

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Q 2: Mention some of the main agricultural products of Indian Rural Economy.

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Q 3: Discuss the size and structure of Indian rural economy.

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Q 4: Discuss the roles and importance of rural sector in India.

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2.6 CHARACTERISTICS OF INDIAN RURAL ECONOMY

Some of the characteristics of Indian rural economy are as follows:

i. Commercialization of Agriculture:

In the present days, a large part of rural economy has been opened up, which has made commercialization of agricul-ture possible. The extent of commercialization of agriculture in rural economy marks the stage of its development.

The major factors contributed to the com-mercialization of agriculture are as follows:

a. High production and productivity gains have turned out agriculture to be a profitable proposition.

b. Increase in production was possible due to the use of advanced technology in agricultural operations.

c. Massive expansion of road transport has reduced the distance between ru-ral and urban areas.

d. Development of regulated markets and cooperative marketing structure have helped the farmers to break away from village system of moneylend-ers and middlemen.

ii. Rural Society Under the Impact of Urbanism:

The past five decades has wit-nessed the rural society of India in getting exposed to the waves of urbanism. Most of the features of urban areas have been modified and diluted into the rural society. This has led to a new way of urbanism called rural-urbanism.

Ur-banism has induced the disintegration of traditional joint family, disappearance of neighbourhood, sophistication, emergence of individualism, etc. Urbanism also created new social institutions, which were absent in the traditional rural set up. Urbanism has also brought about modernization.

Contacts between the rural and urban areas have been increased due to the development of the means of transportation. Similarly, the means of communication such as radio, tran-sistor, television and telephones have brought the remote villages nearer to the urban towns. Increase in the contacts between the rural and urban areas has enabled a quick assimilation of rural areas with the mainstream of urban life.

Earlier, the demand of rural India to the industrial goods was limited only to the basic necessities However, the situation has changed now. Today, rural India is seen as the potential market to the industrial goods. Observing such a situation, many industries have been flourished in rural areas, which are rich in the resources needed for the setting up of industries.

Two reasons can be at-tributed to such a situation. Firstly, contacts with the urban areas have created awareness among the rural masses about consumer goods. Due to green revo-lution, the income levels of the rural people have increased, which encourages such consumption of goods possible.

Secondly, the new agricultural technol-ogy has resulted in the green revolution. It supplies the industrial goods such as fertilizers, machinery, etc. There is also an increasing demand for the repair services and workshops, which is inevitable, when there is a supply of indus-trial goods.

Thus, the above mentioned reasons have created an increasing demand for industrial manufacturers in rural India.

iii. Institutional Participation:

After independence, the state had taken the responsibility of rural reconstruction and development. It had brought about important changes in the production relations. Abolition of intermediaries, security of tenancy, ceiling on land holdings, etc., were some of the important leg-islations made, which improved the relations of production. A number of rural development programmes were taken up. These programmes also con-tributed in bringing about modernization in villages.

2.7 CONCEPT OF RURAL BACKWARDNESS

Rural backwardness refers to poverty in rural areas, including factors of rural society, rural economy, and political systems that give rise to the poverty . Rural backwardness is often discussed in conjunction with spatial inequality, which in this context refers to the inequality between urban and rural areas. Both rural backwardness and spatial inequality are global phenomena, but like poverty in general, there are higher rates of rural poverty in developing countries than in developed countries. Eradicating rural backwardness through effective policies and economic growth remains a challenge for the international community

2.8 CAUSES OF RURAL BACKWARDNESS

1. **Climatic factors:** Climatic conditions constitute an important cause of rural backwardness. The hot climate of countries like India reduces the capacity of people especially the ruralites to work for which production severely suffers. Frequent flood, famine, earthquake and cyclone cause heavy damage to agriculture. Moreover, absence of timely rain, excessive or deficient rain affect severely country's agricultural production.
2. **Demographic factors:** The following demographic factors are accountable for rural backwardness in India.
   - (i) **Rapid growth of population:** Rapid growth of population aggravates the rural backwardness of the people. The growth of population exceeds the rate of growth in national income. Population growth not only creates difficulties in

the removal of poverty but also lowers the per capita income which tends to increase poverty. The burden of this reduction in per capita income is borne heavily by the poor people. Population growth at a faster rate increases labour supply which tends to lower the wage rate.

(ii) **Size of family:** Size of the family has significant bearing on rural poverty. The larger the size of family, the lower is the per capita income, and the lower is the standard of living. The persistence of the joint family system has contributed to the health and earning capacity of the ruralites.

3. Personal causes:

(i) **Lack of motivation:** Lack of motivation is an important cause of rural backwardness. Some ruralites do not have a motive to work hard or even to earn something. This accounts for the poverty of the ruralites.

(ii) **Idleness:** Most of the rural people are lazy, dull and reluctant to work. Hence they rot in poverty.

4. Economic causes:

(i) **Low agricultural productivity:** Poverty and real income are very much interrelated. Increase in real income leads to reduction of the magnitude of poverty. So far as agricultural sector is concerned, the farmers even today are following the traditional method of cultivation. Hence there is low agricultural productivity resulting in rural poverty.

(ii) **Unequal distribution of land and other assets:** Land and other forms of assets constitute sources of income for the ruralites. But, unfortunately, there has been unequal distribution of land and other assets in our economy. The size-wise distribution of operational holdings indicates a very high degree of concentration in the hands of a few farmers leading to poverty of many in the rural sector.

(iii) **Decline of village industries:** At present consequent upon industrialization new factories and industries are being set up in rural areas. Village industries fail to compete with them in terms of quality and price. As a result they are closed down. The workers are thrown out of employment and lead a life of poverty.

(iv) **Immobility of labour:** Immobility of labour also accounts, for rural poverty. Even if higher wages are offered, labourers are not willing to leave their homes.

The joint family system makes people lethargic and stay-at-home.

The ruralites are mostly illiterate, ignorant, conservative, superstitious and fatalistic. Poverty is considered as god-given, something pre-ordained. All these factors lead to abysmal poverty in rural India.

(v) Lack of employment opportunities: Unemployment is the reflection of poverty. Because of lack of employment opportunities, people remain either unemployed or underemployed. Most of these unemployed and underemployed workers are the small and marginal farmers and the landless agricultural labourers.

5. Social causes:

(**i**) **Education:** Education is an agent of social change and egalitarianism. Poverty is also said to be closely related to the levels of schooling and these two have a circular relationship. The earning power is endowed in the individual by investment in education and training. But this investment in people takes away money and lack of human investment contributes to the low earning capacity of individuals.

In this way people are poor because they have little investment in themselves and poor people do not have the funds for human capital investment.

(ii) Caste system: Caste system in India has always been responsible for rural poverty. The subordination of the low caste people by the high caste people caused the poverty of the former. Due to rigid caste system, the low caste people could not participate in the game of economic progress.

A Shudra was not allowed to become a trader and a Vaisya could earn his bread only by trade.

Birth would decide their occupation and their economic fate. K. V. Verghese rightly observes, “Caste system acted as a spring-board for class exploitation with the result that the counterpart of the poverty of the many is the opulence of the few. The second is the cause of the first.”

(**iii**) **Joint family system:** The joint family system provides social security to its members. Some people take undue advantage of it. They live upon the income of others. They become idlers. Their normal routine of life consists in eating, sleeping and begetting children.In this way poverty gets aggravated through

joint family system.

(**iv**) **Social customs:** The ruralites spend a large percentage of annual earnings on social ceremonies like marriage, death feast etc. As a result, they remain in debt and poverty.

(v) **Growing indebtedness:** In the rural sector most of the ruralites depend on borrowings from the money-lenders and land-lords to meet even their consumption expenses. Moneylenders, however, exploit the poor by charging exorbitant rates of interest and by acquiring the mortgaged land in the event of non-payment of loans. Indebted poor farmers cannot make themselves free from the clutches of moneylenders. Their poverty is further accentuated because of indebtedness. Such indebted families continue to remain under the poverty line for generations because of this debt-trap.

2.9 LET US SUM UP

In this unit we have discuss the following :

- India is known as an agricultural country, as most of the population of villages depends on agriculture. Agriculture forms the backbone of the country's economy. The agricul-tural sector contributes most to the overall economic development of the country.
- For centuries together, the Indian village has been a self-sufficient and self-contained econ-omy. During the past forty years, rural reconstruction and development have been the major thrust of economic planning, which has caused a rapid transformation in the Indian rural economic structure.
- These changes have taken place in spheres, such as land reforms, agriculture, animal husbandry, supplies and marketing, village industries, rural leadership, village administration, etc. With the help of the rural development pro-grammes, a cultivator is able to take advantage of the modern technological facilities in his agricultural operations. These cultivators are now using modern agricultural imple-ments and high-yielding varieties of seeds and fertilizers.
- Several other welfare services were introduced, such as opening up of schools, primary healthcare centres, improving the means of transport and communication, and spread of mass media services to rural areas, etc. These welfare services

have materially affected the rural life.

- Rural backwardness refers to poverty in rural areas, including factors of rural society, rural economy, and political systems that give rise to the poverty found there
- Climatic,demographic,personal,economic and social factors are responsible for rural backwardness.

2.10 FURTHER READING

1) B.N. Ghosh and Rama Ghosh,'Concise History of Economic Thought'. Himalaya Publishing House.
2) H.L.Bhatia, 'History of Economic Thought', Vikas publication.
3) P.K.Dhar ,Indaian Economy , Kalyani Publications.
4) G. Datt and A. Mahajan, Indian Economy, S. Chand.

2.11 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Rural Economy of India is the Economy of the rural sector which mainly includes agriculture.

Ans to Q No 2: Rice, Wheat, Pulses, Cereals, Corn, Jowar, Bajra, Chick pea, Peanuts, Groundnut, Walnut Kernels, Walnuts, Indian Peanuts, HPS Groundnuts. Bananas, Beans, Cherry, Cucumbers, Oranges, Papaya, Pineapple. etc

Ans to Q No 3: Refer the size and structure of Indian Rural economy given in the unit.

Ans to Q No 4: Contribution to National Income. Source of Food Supply, Pre-Requisite for Raw Material:

2.12 MODEL QUESTIONS

Q 1: Discuss the characteristics of Indian Rural Economy.

Q 2: Discuss the causes of Rural backwardness.

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UNIT 3 : APPROACHES TO RURAL DEVELOPMENT

UNIT STRUCTURE

3.1 Learning objective

3.2 Introduction

3.3 Meaning and Characteristics of Community Development

3.4 Programmes Undertaken under Community Development

3.5 Gandhian Approach to Rural Development

3.6 Various Principles of Rural Development According to Mahatma Gandhi

3.7 Meaning of Rural Development

3.8 Issues in Rural Development

3.9 Certain Suggestions for Rural Development in India

3.10 Meaning of Urban Development

3.11 Causes of Urbanization in India

3.12 Problems and Issues Related to Urban Employment

3.13 Let Us Sum Up

3.14 Further Reading

3.15 Answers To Check Your Progress

3.16 Model Questions

3.1 LEARNING OBJECTIVES

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

- explain the meaning of community development
- state the characteristics of community development
- explain the programmes undertaken under community development
- understand the Gandhian approach to rural development
- meaning and causes of urban development
- problems and issues related to urban employment.

3.2 INTRODUCTION

As we allready discuss that rural development is utmost important in Indian context. There are various approaches of rural development such as community development,

Gandhian approach etc; which we will discuss in this unit. In this unit we will also discuss the concept of urban development and some other issues associated with it.

3.3 MEANING AND CHARACTERISTICS OF COMMUNITY DEVELOPMENT

Community development involves a continuous process where members of a community come together and take collective action in order to generate solutions to common problems. Community wellbeing can be of any form like economic, social, environmental and cultural. Community development takes into account small initiatives within a small group to large initiatives involving a large or broader community.

The basic characteristic of effective community development is that it should be a well-planned long term process which is initiated and processed by the community members and which brings development and change in the society.

Community development being a grassroots process brings a positive impact in the communities concerned. They become more responsible and as they organise and plan together they empower themselves. This in turn reduces poverty and thus creates employment opportunities and helps in achievingsocial, economic, cultural and environmental goals.

CHECK YOUR PROGRESS

Q 1: What do you mean by Community Development?

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Q 2: Mention some characteristics of community development?

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3.4 PROGRAMMES OF COMMUNITY DEVELOPMENT

The Community Development Project covers a large number of programmes to bring about the changes in the rural community.

These programmes include**:**

1. **Development of Agriculture:** Community development aims at development of

the agricultural sector. These includeproviding improved seeds to the farmers as well as better irrigation facilities. Also, various other needs of the farmers are taken care of. It is only through the improvement in the agricultural sector that the overall condition of the people in the rural society can improve.

2. **Development of Communication:** construction of new roads and improving transport and com-munication facilities is another aim of community development project. This results in improvement in the rural condition and can easily move from one place to another with the improvement in means of communication and transport in rural areas.
3. **Development of Education:** The Right to Education Act ensures free and compulsory education to all children within the age group of 6 to 14. As such various centres for imparting education have been implemented. Also, libraries and reading rooms are set up for the purpose.
4. **Development of Health Services:** Community Development Project aims at providing health services in order to improve the standard of the people living in the rural areas. Facilities of medical and health services are provided along with maternity and child welfare ser-vices
5. **Employment Facilities:** Un-employment and underemployment are a basic characteristic of the rural societies. Agriculture being the only means of livelihood is subjected to seasonal factors. Thus small scale and cottage industries are set up under community development programme so that they can be self-reliant.
6. **Housing Facilities:** Provision of better housing facilities is another aim of the community development programmes. This is because people in rural areas are not hygienic andlack basic facilities.
7. **Social Welfare Activities:** Social welfare activities which aim at providing better facilities for recreation, women's education have also been under the provision of Community Development Project.

CHECK YOUR PROGRESS

Q 3: Name some programmes under community development?

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3.5 GANDHIAN APPROACH TO RURAL DEVELOPMENT

Mahatma Gandhi mentioned that "India lives in her seven and half lakhs of villages". He had a holistic approach to India's rural development. He further believed that "If village perishes, India will perish too". Gandhi focussed on truth, non-violence, moral and spiritual values. Rural development aims at development of the rural sector by improving the rural economy specially the agriculture and allied industries and also by improving the skills by putting emphasis on cottage and small scale industries.

The main focus lies in creating employment generation in the rural economies which in turn will help them to raise their standard of living. Mahatma Gandhi had an idealistic approach towards rural economy. Gandhiji's idea of an ideal social order was the concept of 'Rama Rajya'. Rama Rajya according to Gandhi is the sovereignty of the people which depends on moral authority. Rama was not viewed as a king, and people as his subjects. 'Rama' was believed to be God or a person's own 'inner voice'according to the Gandhian approach. Gandhi believed in a social order which is democratic in nature where people are supreme and this supremacy is based on moral values.

3.6 VARIOUS PRINCIPLES OF RURAL DEVELOPMENT ACCORDING TO MAHATMA GANDHI

The Gandhian approach of rural economy was based on the principles of trusteeship, swadeshi, full employment, bread labour, self-sufficiency, decentralisation, equality, etc. Thus Gandhi's idea of an ideal village was a comprehensive one which encompasses the different dimensions such as economic, social, political and educational which helps in the creation of an ideal village.

1. **Ideal Village:** The main focus of the Gandhian ideal social order was the village. An ideal village according to Gandhi belongs to the foreign domination of the Pre-British period. Here the villages of India were part of the federation which consists of self-governing autonomous republics.

   According to Gandhiji, every village voluntarily wishes to be a part of the federation. The central authority will coordinate the work of different village republics and to supervise the various activities like education, basic industries, health, currency, banking etc will be supervised by the central authority.

The decisions of the central authority cannot be enforced on village republics. However the "republican' character of the villages were destroyed by the transport and economic structure initiated by the British.

It was observed by Gandhi that the feudal chiefs practised tyranny and oppression in ancient times. But, in the purview of the Gandhian approach an Indian village without tyranny and exploitation, the ancient 'republic', serves to act as a model unit.

2. **Decentralisation:** Gandhi firmly believed that decentralisation of social and political power was the base in building up of village republics. Here the main decision-making power is not entrusted in the state and the national capital but with the village panchayat. The representatives shall be elected and constitutes a council, called the panchayat and will continue for a five year period.

All the legislative, executive and judicial matters shall be supervised by the Panchayat. The main focus is given on education, health and sanitation of the village. The Panchayatshave the responsibility to protect and uplift the poor people particularly the 'untouchables'. Also, the various resources for managing the affairs of the villageare raised from the villages itself.

Again, the various conflicts and disputes would be resolved within the village. The panchayat has an important role to play in spreading the importance of moral and spiritual values among the rural people.Apart from supervising its own affairs, a set of volunteers will be entrusted with the duty of defending the village against any invasion in a peaceful and non-violent manner.

3. **Self-sufficiency**: Self-sufficiency at the village level is a pre-requisite so that a decentralised economy can be attained. The village should also be self-sufficient in fulfilling its basic requirements of food, clothing, and other necessities. Nevertheless, certain thing which cannot be produced in the village has to be imported.

The village should be self-sufficient in the production of food-crops and cotton.Lands should be distributed amongst cattle for grazing and for the adults and children, a common playground. Moreover, cash crops like tobacco, opium, etc. must be producedso that they can engage in the barter system of trade where goods are exchanged in place of goods.

There should be provision of providing of full employment to all the adults of the village so that no person is forced to migrate to towns.

Physical labour plays an important role in the Gandhian concept of the self-sufficient village. According to Gandhi, every person must engage in some physical labour to earn his bread. Physical labour can enhance moral discipline and sound development of the mind. Gandhi said, "If all laboured for their bread then there would be enough food and enough leisure for all."

4. **Industrialization**: Gandhiji believed that industrialization would not benefit all in general. Rather, it would help only a few and thus, will lead to concentration of economic power. Industrialization encourages competition and will lead to exploitation of the villages. Large scale production requires marketing which in turn is profit-seeking.

   Moreover, industrialization leads to the use of machines in place of manpower and hence causes unemployment. In a country like India, the villages will get ruined with industrialisation as it will increase unemployment on one hand and also the labourers will be forced to migrate to distant urban areas.

   In such a crisis, the need for the development of village and cottage industries becomes a necessity. This will create employment to meet the various needs of the villagers and thus facilitate village self-sufficiency. If machines satisfy the aims of self-sufficiency and full employment, then the villagers can use modern machines and tools to facilitate their production.

5. **Trusteeship**: Gandhiji was against the concentration and misuse of wealth. Gandhiji focussed on the principle of trusteeship which found its applicability in social and economic affairs. He propounded that all social possessions should be kept in trust. The capitalists would have accumulated wealth shall have to distribute the surplus wealth for maximising the welfare for the rest of the society.

   The capitalists shall act as benefactors for the poor workers, under trusteeship. It is through this trusteeship,Gandhi proposed that there can be increasein the welfare of the labours. Also, the clash that existed between the workers and employers can be escaped. Trusteeship proposed a continuous state of equality on this world. The rich can keep only that much which is necessary for them to maintain a good standard of living. The remaining could be used for the welfare of the society. Trusteeship will thus help in eliminating economic inequalities between the wealthy and poor people. The doctrine of trusteeship did not give any scope for bloodshed and violence.

   Gandhiji was not in favour of individual ownership of land. Land should be

used only for the welfare of the society or community as it only belongs to the community. They should act as trustees of the land and thus donate their land voluntarily.

Hence, Gandhiji's concept of development was meant for the upliftment of the common man. He emphasised on village residents and focussed on Swadeshi craft to imported technology for the economic wellbeing of the people. Stress was therefore given on cottage and small scale industries and on a decentralised economy.

Gandhji stressed on the integration of education, health and vocation which is of utmost necessity for the integration of rural development. He focussed on the importance of education and training known as 'Naitalim' (New training) which is required for rural reconstruction.

In conclusion it can be said that the Gandhian approach strives to bring integrated rural development to make the villages self-governed and self-sufficient without violence. This would bring ultimate development in the rural areas of India.

CHECK YOUR PROGRESS

Q 4: What are the various principles of rural development according to Mahatma Gandhi?

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3.7 MEANING OF RURAL DEVELOPMENT

Rural development means overall improvement of the quality of life for the rural people. It is observed that almost 70% of population of India lives in villages. Again, this backwardness of the rural sector acts as a major impediment to the overall progress of the economy. India being an agricultural country and farming is their main occupation. Rural development thus aims to bring economic wellbeing to the people living in the rural areas. It aims to bring about reduction of poverty, increasing productivity, providing basic services like health, education, drinking water, sanitation, infrastructure etc. further it aims to bring equal distribution of wealth among the masses.

3.8 ISSUES IN RURAL DEVELOPMENT

The key issues in rural development are:-

i. **Development of other alternate occupations besides agriculture**: It is observed that agricultural land is limited in rural areas. As such, focus should be on alternative occupations in the rural areas for the overall development of the rural areas.

ii. **Investment in Human Capital**: Investment must be made on human capital through various skill development courses; vocational training courses so that the rural youth can be absorbed in the development of the rural areas itself.

iii. **Roads:** People in the poor communities are isolated from the main towns and cities. This is mainly because of dilapidated roads, inadequate transport facilities etc. Thus it is difficult to bring goods to the market or send children to school. Also, various emergencies in health cannot be dealt properly in rural areas.

iv. **Electricity**: It has been found that, about 19,909 villages are yet to be electrified (Progress report of village electrification as on 31-01-2015). In addition, the power quality in the electrified villages is not up to the mark in some electrified villages.

v. **Water**: The water quality of ground water is not appropriate for consumption and other purposes. Itis estimated that around 1.5 million children die of diarrhoea alone and around 37.7 million Indians are affected by water borne diseases annually. The major portion of ground water is contaminated with iron, fluoride and arsenic. These chemicals are emerging as a major concern in many habitations especiallyin the rural India.

vi. **Education, Literacy**: There exists wide gender disparity in the literacy rate in India. The literacy rates (age 7 and above) in 2011 were 82.14% for men and 65.46% for women. Again, adult literacy rates in India was 74.04% in 2011 and Youth literacy rate for the age group 15-24 was 90.2% (2015)

vii. **Poverty**: Poverty stands to be a great hindrance in the path of development specially in rural areas.

viii. **Employment**: Unemployment is a great concern in rural India. A number of youths migrate to the urban areas in search of better employment. Moreover, the population in the rural areas have been on a rise, with the Agriculture land remaining the same.

ix. **Migration to urban**: Due to factors such as more income generating opportunities in urban areas, social as well as economic factors, better health and education

facilities, more of infrastructural advantages, there has been a continuous migration of the people from the rural to urban areas of India.

x. **Land reforms**: There exist non progressive land reforms measures for the rural farmers. For this reason, the rural poor have been exploited to a great extent by the Zamindars and the big landlords.

xi. **Sanitation and Health**: There exista number of sanitation and health issues particularly in the rural areas that stands in the path of development in the rural areas. Less number of toilets, non-awareness, and drinking water quality in rural India are certain causes of concern.

3.9 CERTAIN SUGGESTIONS FOR RURAL DEVELOPMENT IN INDIA

1. **Utilization of Local Resources**: A village is usually rich in local resources. If ways and means can be found out to extract and utilise the same, then, this will help in providing employment of the local people and also develop the village at the same time.
2. **Establishment of Rural Industries:** All the village industries come under the following broad categories
   a) Agro Based Industries(Industries of sugar, Dairy products, Oil processing from oil seeds,Pickles, Spices, Dairy etc.)
   b) Forest Based Industries(Wood and Bamboo products, Honey, etc)
   c) Mineral based industry such as Stone crushing, Cement industries, etc.
   d) Textile Industry: It includes the various steps such as Spinning, Weaving, Colouring and Bleaching.
   e) Engineering and Services: Small and medium industries which are used to produce machinery used in agriculture are included in this category, etc.
   f) Handicrafts: Bamboo/wood handicrafts, toys and other traditional decorative products can be made by the local people ofthe region.
3. **Services**: Service facilities such as agriculture machinery servicing, etc can be provided by the local youths.
4. **Startups**: A number of startups can also initiated in the rural areas so that the village can be self-sufficient to meet there own needs. Also, the products produced can be marketed in the urban areas.

5. **Encourage Rural Entrepreneurship**: Various types of entrepreneurships such as Individual, Group, Cluster or Cooperative Entrepreneurship can be initiated by the people of the local community.

CHECK YOUR PROGRESS

Q 5: What do you mean by rural development?

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Q 6: State some suggestions for rural development in India.

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3.10 MEANING OF URBAN DEVELOPMENT

Urban development refers to development in the urban areas. It comprises of various dimensions like physical, geographical, economic and social. It aims to bring about various changes and development in the society through generation of employment, bringing collection of economic and knowledge spill overs as wellas through social and cultural change. In India, more than 30% of the population live in urban areas.

3.11 CAUSES OF URBANIZATION IN INDIA

The main causes of urbanization in India are:-

1. Development and growth of the private sector
2. Rural-urban migration
3. The Industrial Revolution
4. Creation of more employment opportunities in the urban areas
5. Infrastructure facilities in the urban areas.

CHECK YOUR PROGRESS

Q 7: Define urban development?

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Q 8: State the causes of urban development?

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3.12 PROBLEMS AND ISSUES RELATED TO URBAN EMPLOYMENT

The rise in the urban population in India leads to many problems relating to the standard of living of the people, environmental degradation etc. certain problems related to urban development are given below:

1. **Urban expansion**: There has been an expansion in population in the urban areas, particularly the cities. Also the economic base is not able to deal with the increasing population. In addition, the migration of the people from the rural to the urban areas has been taking place continuously which in turn has increasing the size of the cities.
2. **Overcrowding**: Overcrowding is a situation where there are too many people filled than that is desirable. It occurs because of over-population in the urban areas.
3. **Housing**: Provision of housing facility has become very difficult. The price of houses has been on an increase and cannot be afforded by the low income groups.People reside in congested houses which are devoid of proper ventilation, lighting, water supply, sewage system, etc.
4. **Sanitation**: The sanitation system is also not proper in not so developed urban localities. Also, the drainage system is also in a bad shape. The garbage management is also a major problem in the urban areas.
5. **Environmental issues**. People are more vulnerable to risk due to the increasing man-made and natural disasters. Because of the increasing density of population there is higher risk in the urban areas.
6. **Poverty**: It is found that one third of the urban population lives below poverty line. There are disparities which exists between the people in the urban areas. There exists the problem of poverty and creating more existing conditions for the urban poor.The rate of urban inequality has been on a rise over the years.
7. **Transport**: In urban places, private vehicles are in abundance in comparison to the use of public transport. This in turn increases congestion in the roads thereby decreasing the efficiency of public transport. Also, the public transport infrastructure

in not properly maintained.

8. **Unemployment**:Urban unemployment in India is a serious problem in the urban areas. About 15 to 25 per cent of the labour force living in urban areas is unemployed.
9. **Water**: The amount of ground water has been decreasing over the years.This is going to create serious problem for the sustenance of life on earth. With the increase in the size of urban population, supply of water has started falling short of demand.

In conclusion it can be said that, urbanization in India has been on an increase over the years, especially due to the migration of people from rural to urban areas. Again, it is linked to modernization and industrialization along with the sociological process of rationalization.

3.13 LET US SUM UP

In this unit we have discussed the following points:

- Community development involves a continuous process where members of a community come together and take collective action in order to generate solutions to common problems.
- The characteristics and programmes under community development.
- The Gandhian Approach to rural Development.
- Various principles of rural development according to Mahatma Gandhi such as Ideal village, trusteeship, swadeshi, self-sufficiency, decentralisation, equality, etc.
- Rural Development and Issues in Rural Development.
- Various suggestions for Rural Development in India.
- Urban Development and Causes of urbanization in India.
- Problems and issues related to urban employment.

3.14 FURTHER READING

1) B.N. Ghosh and Rama Ghosh, ‘Concise History of Economic Thought’. Himalaya Publishing House.
2) H.L.Bhatia, ‘History of Economic Thought’, Vikas publication.
3) P.K.Dhar ,Indaian Economy, Kalyani Publications.
4) G. Datt and A. Mahajan, Indian Economy, S. Chand.

✓ 3.15 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Community development is a continuous process where members of a community come together and take collective action in order to generate solutions to common problems.

Ans to Q No 2: The basic characteristic of effetive community development is that it should be a well-planned long term process which is initiated and processed by the community members.

Ans to Q No 3: Programmes for agricultural development, Programmes for educational development.

Ans to Q No 4: Model village, Decentralization, Self-sufficiency etc.

Ans to Q No 5: Rural development means overall improvement of the quality of life for the Rural people.

Ans to Q No 6: Utilization of Local Resources, Establishent of Rural Industries.

Ans to Q No 7: Urban development refers to development in the urban areas. It comprises of various dimensions like physical, geographical, economic and social.

Ans to Q No 8: Development and growth of the private sector, Rural-urban migration.

? 3.16 MODEL QUESTIONS

Q 1: Explain the meaning of community development?

Q 2: State the characteristics of community development?

Q 3: Explain the programmes undertaken under community development?

Q 4: Give a brief description aboutGandhian Approach to rural Development?

Q 5: Explain the various principles of rural development according to Mahatma Gandhi?

Q 6: State the meaning and issues of rural development?

Q 7: Give the suggestions for Rural Development in India?

Q 8: Define urban development and state the causes of urban development?

Q 9: Explain the problems and issues related to urban employment?

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UNIT 4 : COTTAGE INDUSTRIES IN INDIA

UNIT STRUCTURE

4.1 Learning Objective

4.2 Introduction

4.3 Concept of Cottage industries

4.4 Role of Cottage Industries in Indian Economy

4.5 Various Cottage Industries of India

4.6 Government Policy for Cottage Industries

4.7 Let Us Sum Up

4.8 Further Reading

4.9 Answers to check your progress

4.10 Model Questions

4.1 LEARNING OBJECTIVES

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

- explain the concept of cottage industries
- explain the role of cottage industries in Indian economy
- know government policy for cottage industries.

4.2 INTRODUCTION

Cottage Industries support a large portion of the rural population of India acting as one of the major sources of its economy, and are responsible for having hugely preserved the cultural heritage of India. Not only do they help this country in maintaining a distinct identity of its own but also provide it with a unique platform to display its specialty whenever a tough competition is faced in the international markets. That is the only time when the indigenous goods can fairly compete with the foreign goods due to the impression of Indian culture that makes them unique.

This unit is designed to help you to understand the concept of cottage industry, its role in Indian economy, various cottage cottage industries of india and government policies for cottage industries.

4.3 CONCEPT OF COTTAGE INDUSTRIES

Cottage Industry is a concentrated form of small scale industry where the productivity of the goods takes place in the houses of the laborers and the workforce include the members of the family. The equipments used to generate products are not the hi-tech ones but generally those which are used at homes.

Cottage industries or the small scale industries (SSIs) are the terms used for small business carried on at home involving very less number of people as laborers who may or may not be the members of one family and sometimes, such a production or manufacturing of goods involves those traditional artisans and craftsmen who have inherited their work as an art form from their previous generations. Their various goods like dress fabrics such as *khadi*, leather, silk, cotton, wool, muslin, etc, many precious items like jewellery, ornaments, statues, idols, gems, stones, etc and edible items like spices, oils, honey, etc have a huge demand not only within India but also in the foreign markets.

4.4 ROLE OF COTTAGE INDUSTRY IN INDIAN ECONOMY

1. **Employment generation:** The small-scale industries provide large scope for employment. In 2001 the employment generated in this sector was 19.2 million. This is of great significance for a country like India which is a labour-surplus economy, and where labour-force is increasing at a very rapid rate. Moreover, the small-scale industries being labour-intensive they employ more labour per unit of capital for a given output compared to the large-scale industries. This is evident from the fact that the small-scale sector accounts for as much as 80% of the total employment in the industrial sector.
2. **Large Production:** The small-scale industries also contribute a sizeable amount to the industrial output of the country. Out of the total output of the manufacturing sector, as much as 40% comes from these industries. And out of the total supplies of industrial consumer goods a major part originates in the small-scale sector. Almost all the products of this sector are in the nature of consumer goods, with a significant part consisting of luxury goods. The adequate availability of consumer goods plays an important role in stabilizing and developing the economy.
3. **Contribution to Exports:** Many products of the small-scale industries like handloom

cotton fabrics, silk fabrics, handicrafts, carpets, jewellery, etc. are exported to foreign countries. Their share in the total exports is as much as 40%. In this way the small-scale sector makes a very valuable contribution to the accumulation of foreign exchange resource of the country.

4. **Use of local resources:** The small-scale industries used resources which are available locally which would otherwise have remained unused. These resources are the hoarded wealth, family-labour, artisan's skills, native entrepreneurship, etc. Being thinly spread throughout the country, these resources cannot be used by large-scale industries which need them in big amounts and at a few specified places.
5. **Promoting Welfare:** The small-scale industries are also very important for welfare reasons. People of small means can organize these industries. This in turn increases their income-levels and quality of life. As such these industries help in reducing poverty in the country. Further, these industries tend to promote equitable distribution of income. Since income gets distributed among vast number of persons throughout the country, this help in the reduction of regional economic disparities.
6. **Equitable Distribution of National Income:** The main arguments put forward in support of the small-scale and cottage industries is that they ensure a more equitable distribution of national income and wealth. This happens because of the following two considerations:
   (a) The ownership of small-scale industries is more widespread than the ownership of large- scale industries, and
   (b) They possess a much larger employment potential as compared to the large industries.

   Moreover, both labour productivity and capital productivity in small-scale sector grew at a faster rate than large-scale sector during 1980-94. Thus, the small-scale sector has proved to be more efficient.
7. **Mobilisation of Capital and Entrepreneurial Skill:**

   Small-scale industries are at a distinct advantage as far as mobilisation of capital and entrepreneurial skill is concerned. A number of entrepreneurs are spread over small towns and village industries are distributed over the entire length and breadth of the country.

   Similarly, large-scale industries cannot mobilise the savings done by people in areas far flung from the urban centres. But this task can be effectively accomplished

by getting up a network of small-scale and cottage industries. In addition, a large number of other resources spread over the country can be put to an effective use by the small-scale and cottage industries.

The rapid development of small-scale industries in the post-Independence period is a proof that given the necessary credit, power and technical knowledge a large quantity of latent resources of the economy can be mobilised for purposes of industrial development.

CHECK YOUR PROGRESS

Q 1: What do you understand by cottage industries.

.....

.....

Q 2: Mention any two roles of cottage industries in Indian Economy.

.....

.....

4.5 VARIOUS COTTAGE INDUSTRIES IN INDIA

1. Handloom

(1) Malnmal: Meerut, Mathura, Madurai, Varanasi, Ambala

(2) Chhint: Machhilipattanam

(3) Durri: Agra, Jhansi, Aligarh, Ambala

(4) Khadi: Amroha, Calicut, Pune

2. Silk Textiles

Karnataka, Andhra Pradesh, Tamil Nadu, West Bengal and Jammu and Kashmir are the silk producing states in India.

(1) Chanderi Silk Saree is manufactured from chanderi cotton and silk cotton. It is situated in Chanderi, Ashoknagar district of Madhya Pradesh. The lightweight and shimmered look Chanderi Silk Sarees are listed under Geographical Indications in India.

(2) Banarasi Saree is finest sarees in India known for gold and silver zari and made of finely woven silk. There are four different types of Banarasi saree known as Tanchoi, Organza and Katan.

(3) **Assam silk** are produced in Assam and known as Muga silk, known for its extreme durability. Muga silk of Assam are used in products like traditional Assamese dress Mekhela chador and Assam silk sarees.

(4) **Sambalpuri Silk Saree** are manufactured in Sambalpur, Bargarh, Sonepur and Berhampur and listed under the Government of India's geographical indications.

(5) **Kancheepuram Silk Saree** is listed under geographical indication by the government of India, made in the Kanchipuram region in Tamil Nadu.

(6) **Baluchari Sari** originated in Bengal made of tassar silk. The Baluchuri saree are producer from Malda district of West Bengal.

(7) **Konrad Silk Saree** is also known as Temple Saree, mostly woven for temple deities. Konrad, Mysore, Kanjeevaram Silk, Chettinad, Gadwal and Pochampally Sarees are best traditional beauties of South Indian silk sarees.

(8) **Paithani Silk Sarees** are made from very fine silk in Paithan town of Aurangabad. It is considered as one of the finest and richest saris in India.

(9) **Patola Saree** made in Patan, usually made from silk and very popular among the high class women. These double ikat Sarees are very expensive and printed with designs of elephants, flowers and parrots.

(10) **Silk Silk Saree** is produced by mulberry silk and processed into silk fabric in the Mysore district of Karnataka.

(11) **Bomkai Silk Sari** also known as Sonepuri Sari is produced in Subarnapur district. Most popular items are Sonepuri paatas, Sonepur handloom saree and Sonepu silk sarees.

(12) **Bhagalpuri Silk Sarees** are made from Tussar silk that is produced from silk worms. Raigarh Kosa Silk Saree and Jharkhand Tussar Silk Sarees are also produced from Tussar silk which is known as Kosa silk, species of moth.

3. **Woollen Textiles** is produced at Amritsar, Dhariwal, Ludhiana, Machhilipattanam, Sri Nagar, Warrangal

4. **Leather:** Kanpur

5. **Gur & Khandsari:** Meerut

4.6 GOVERNMENT POLICY FOR COTTAGE INDUSTRIES

- Different policies of Cottage Industries
  - I. Industrial Policy Resolution (IPR) 1948

II. Industrial Policy Resolution (IPR) 1956
III. Industrial Policy Resolution (IPR) 1977
IV. Industrial Policy Resolution (IPR) 1980
V. Industrial Policy Resolution (IPR) 1990
VI. New small Enterprise Policy 1991

1. Industrial Policy Resolution (IPR) 1948:

The IPR, 1948 for the first time, accepted the importance of small-scale industries in the overall industrial development of the country. It was well realized that small-scale industries are particularly suited for the utilization of local resources and for creation of employment opportunities.

However, they have to face acute problems of raw materials, capital, skilled labour, marketing, etc. since a long period of time. Therefore, emphasis was laid in the IPR, 1948 that these problems of small-scale enterprises should be solved by the Central Government with the cooperation of the State Governments. In nutshell, the main thrust of IPR 1948, as far as small-scale enterprises were concerned, was 'protection.'

2. Industrial Policy Resolution (IPR) 1956:

The main contribution of the IPR 1948 was that it set in the nature and pattern of industrial development in the country. The post-IPR 1948 period was marked by significant developments taken place in the country. For example, planning has proceeded on an organised manner and the First Five Year Plan 1951-56 had been completed. Industries (Development and Regulation) Act, 1951 was also introduced to regulate and control industries in the country.

The parliament had also accepted 'the socialist pattern of society' as the basic aim of social and economic policy during this period. It was this background that the declaration of a new industrial policy resolution seemed essential. This came in the form of IPR 1956.

The IPR 1956 provided that along with continuing policy support to the small sector, it also aimed at to ensure that decentralised sector acquires sufficient vitality to self-supporting and its development is integrated with that of large- scale industry in thecountry. To mention, some 128 items were reserved for exclusive production in the small-scale sector.

Besides, the Small-Scale Industries Board (SSIB) constituted a working group in 1959 to examine and formulate a development plan for small-scale industries during the,

Third Five Year Plan, 1961-66. In the Third Five Year Plan period, specific developmental projects like 'Rural Industries Projects' and 'Industrial Estates Projects' were started to strengthen the small-scale sector in the country. Thus, to the earlier emphasis of 'protection' was added 'development.' The IPR 1956 for small-scale industries aimed at "Protection plus Development." In a way, the IPR 1956 initiated the modem SSI in India.

3. Industrial Policy Resolution (IPR) 1977:

During the two decades after the IPR 1956, the economy witnessed lopsided industrial development skewed in favour of large and medium sector, on the one hand, and increase in unemployment, on the other. This situation led to a renewed emphasis on industrial policy. This gave emergence to IPR 1977.

The Policy Statement categorically mentioned:

"The emphasis on industrial policy so far has been mainly on large industries, neglecting cottage industries completely, relegating small industries to a minor role. The main thrust of the new industrial policy will be on effective promotion of cottage and small-scale industries widely dispersed in rural areas and small towns. It is the policy of the Government that whatever can be produced by small and cottage industries must only be so produced."

The IPR 1977 accordingly classified small sector into three broad categories:

1. Cottage and Household Industries which provide self-employment on a large scale.
2. Tiny sector incorporating investment in industrial units in plant and machinery up to Rs. 1 lakh and situated in towns with a population of less than 50,000 according to 1971 Census.
3. Small-scale industries comprising of industrial units with an investment of upto Rs. 10 lakhs and in case of ancillary units with an investment up to Rs. 15 lakhs.

The measures suggested for the promotion of small-scale and cottage industries included:

(i) Reservation of 504 items for exclusive production in small-scale sector.

(ii) Proposal to set up in each district an agency called 'District Industry Centre' (DIC) to serve as a focal point of development for small-scale and cottage industries. The scheme of DIC was introduced in May 1978. The main objective of setting up DICs was to promote under a single roof all the services and support required by small and village entrepreneurs.

What follows from above is that to the earlier thrust of protection (IPR 1948) and development (IPR 1956), the IPR 1977 added 'promotion'. As per this resolution, the

small sector was, thus, to be 'protected, developed, and promoted.'

4. Industrial Policy Resolution (IPR) 1980:

The Government of India adopted a new Industrial Policy Resolution (IPR) on July 23, 1980. The main objective of IPR 1980 was defined as facilitating an increase in industrial production through optimum utilization of installed capacity and expansion of industries. As to the small sector, the resolution envisaged:

(i) Increase in investment ceilings from Rs. 1 lakh to Rs. 2 lakhs in case of tiny units, from Rs. 10 lakhs to Rs. 20 lakhs in case of small-scale units and from Rs. 15 lakhs to Rs. 25 lakhs in case of ancillaries.

(ii) Introduction of the concept of nucleus plants to replace the earlier scheme of the District Industry Centres in each industrially backward district to promote the maximum small-scale industries there.

(iii) Promotion of village and rural industries to generate economic viability in the villages well compatible with the environment.

Thus, the IPR 1980 reimphasised the spirit of the IPR 1956. The small-scale sector still remained the best sector for generating wage and self-employment based opportunities in the country.

5. Industrial Policy Resolution (IPR) 1990:

The IPR 1990 was announced during June 1990. As to the small-scale sector, the resolution continued to give increasing importance to small-scale enterprises to serve the objective of employment generation.

The important elements included in the resolution to boost the development of small-scale sector were as follows:

(i) The investment ceiling in plant and machinery for small-scale industries (fixed in 1985) was raised from Rs. 35 lakhs to Rs. 60 lakhs and correspondingly, for ancillary units from Rs. 45 lakhs to Rs. 75 lakhs.

(ii) Investment ceiling for tiny units had been increased from Rs. 2 lakhs to Rs. 5 lakhs provided the unit is located in an area having a population of 50,000 as per 1981 Census.

(iii) As many as 836 items were reserved for exclusive manufacture in small- scale sector.

(iv) A new scheme of Central Investment Subsidy exclusively for small-scale sector in rural and backward areas capable of generating more employment at lower cost of

capital had been mooted and implemented.

(iv) With a view, to improve the competitiveness of the products manufactured in the small-scale sector; programmes of technology up gradation will be implemented under the umbrella of an apex Technology Development Centre in Small Industries Development Organisation (SIDO).

(v) To ensure both adequate and timely flow of credit facilities for the small- scale industries, a new apex bank known as 'Small Industries Development Bank of India (SIDBI)' was established in 1990.

(vi) Greater emphasis on training of women and youth under Entrepreneurship Development Programme (EDP) and to establish a special cell in SIDO for this purpose.

(vii) Implementation of delicencing of all new units with investment of Rs. 25 crores in fixed assets in non-backward areas and Rs. 75 crores in centrally notified backward areas. Similarly, delicensing shall be implemented in the case of 100% Export Oriented Units (EOU) set up in Export Processing Zones (EPZ) up to an investment ceiling of Rs. 75 lakhs

6. New Small Enterprise Policy of 1991

The Government of India, for the first time, tabled the new small enterprise policy titled 'Policy Measures for Promoting and Strengthening and Supplementing Small, Tiny and Village Enterprises' in the Parliament on August 6, 1991. The main thrust of New Small Enterprise Policy is to impart more vitality and growth impetus to the sector to enable it to contribute its mite fully to the economy, particularly in terms of growth of output, employment and exports.

The sector has been substantially delicensed. Concerted efforts would be made to deregulate and debureaucratize the sector with a view to remove all fetters on its growth potential, on the one hand, and reposing greater faith in small and new entrepreneurs, on the other.

The salient features of this new small enterprise policy areas under:

1. Increase in the investment limit in plant and machinery of tiny enterprises from Rs. 2 lakhs to Rs. 5 lakhs, irrespective of the location of the enterprise.
2. Inclusion of industry-related services and business enterprises, irrespective of their location, as small-scale industries.
3. Introduction of limited Partnership Act. This would limit the financial liability of the

new entrepreneurs to the capital invested.

4. Introduction of a scheme of Integrated Infrastructural Development (including technological back-up services) for small-scale industries.
5. Introduction of factoring services to help solve the problems of delayed payments to small sector.
6. Market promotion of small-scale industries products through cooperative / public sector institutions, other specialised professional/marketing agencies and the consortium approach.
7. Setting up a Technology Development Cell in the Small Industries Development Organisation.
8. According priority to small and tiny sector in the allocation of indigenous raw materials.
9. Setting up of an Export Development Centre in the Small Industries Development Organisation (SIDO).
10. Widening the scope of the National Equity Fund (NEF) to enlarge the single window scheme and also to associate commercial banks with provision of composite loans

4.7 LET US SUM UP

In this unit we have discuss the following:

- Cottage Industry is a concentrated form of small scale industry where the productivity of the goods takes place in the houses of the laborers and the workforce include the members of the family.
- The small-scale industries provide large scope for employment.
- Many products of the small-scale industries like handloom cotton fabrics, silk fabrics, handicrafts, carpets, jewellery, etc. are exported to foreign countries.
- The Government of India, for the first time, tabled the new small enterprise policy titled 'Policy Measures for Promoting and Strengthening and Supplementing Small, Tiny and Village Enterprises' in the Parliament on August 6, 1991.

4.8 FURTHER READING

1) B.N. Ghosh and Rama Ghosh,'Concise History of Economic Thought'. Himalaya Publishing House.
2) H.L.Bhatia, 'History of Economic Thought', Vikas publication.

3) P.K.Dhar, Indaian Economy , Kalyani Publications.

4) G. Datt and A. Mahajan, Indian Economy, S. Chand.

4.9 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Cottage Industry is a concentrated form of small scale industry where the productivity of the goods takes place in the houses of the laborers and the workforce include the members of the family. The equipments used to generate products are not the hi-tech ones but generally those which are used at homes.

Ans to Q No 2: Employment generation and Large Production.

4.10 MODEL QUESTIONS

Q 1: Discuss briefly the role of Cottage industries in Indian Economy.

Q 2: Discuss briefly the various government policies for cottage industries.

Q 3: Write a short note on various cottage industries in India.

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UNIT 5 : RURAL INDEBTEDNESS IN INDIA

UNIT STRUCTURE

5.1 Learning Objectives

5.2 Introduction

5.3 Meaning of Rural Indebtedness

5.4 Nature of Rural Indebtedness

5.5 Causes of Rural Indebtedness In India

5.6 Consequences of Rural Indebtedness

5.7 Remedial Measures to Solve Rural Indebtedness in India

5.8 Programs initiated for Removal of Rural Indebtedness

5.9 Let Us Sum Up

5.10 Further Reading

5.11 Answers to check your progress

5.12 Model Questions

5.1 LEARNING OBJECTIVES

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

- understand the concept of Rural Indebtedness
- know the nature of Rural Indebtedness
- know the consequences Rural Indebtedness
- explain the programs initiated for removal of Rural Indebtedness.

5.2 INTRODUCTION

Indebtedness in rural India is widespread. It has many causes and consequences. Despite various measures like bank nationalization, establishment of Regional Rural Banks, Lead Bank Scheme etc, India fails to eradicate indebtedness. In this unit we will discuss the concept of rural indebtedness, nature of rural indebtedness, consequences rural indebtedness and some program for removal of rural indebtedness.

5.3 MEANING OF RURAL INDEBTEDNESS

Indebtedness means an obligation to pay money to another party. In rural India the poor farmers and wage labours etc. when unable to repay a loan and accumulate it, gives rise to the problem of rural indebtedness. Rural indebtedness is an indicator of the weak financial infrastructure of our country, which includes inability of our economic system to reach to the needy farmers, landless people in the villages and the agricultural wage labourers.

The farmers borrow loan for either agricultural operations or some other uses like supporting the family in the lean season or to buy equipments. Due to lower income or wasteful expenditures when the farmers are unable to pay the loans they are unable to pay off their debts and thus accumulate the debt as well as pending interest on the amount. The weaker 'financial inclusion' in India has given the local money lenders an opportunity to exploit.

5.4 NATURE OF RURAL INDEBTEDNESS

The tragedy of this debt did not lie in its volume nor in its rate of growth. The cause for worry was the unproductive nature of this debt. As early as 1895, Nicholson had found that only 1.3% of the registered loans in Madras were due to land improvement. Darling found that only less than 5% of the debt in the Punjab was caused by land improvements.

In the United Provinces, the Provincial Banking Committee found that 70% of the then existing debt was contracted for unproductive purposes and the same was more or less true of Bengal and Bombay also. The situation had not changed for any the better when the Rural Credit Survey Committee found 56.3% of all loans as unproductive.

5.5 CAUSES OF RURAL INDEBTEDNESS

(i) **Poverty:** Indian farmers are very poor and do not have any past saving to repay their debt or to make improvement on their land. Thus, poverty forces the cultivators to multiply their debt.

(ii) **Defective Agricultural Structure:** Rural indebtedness is also resulted from defective agricultural structure which includes defective land tenure system, adoption of outdated techniques, increasing pressure on land, defective marketing, absence of

alternative sources of income etc.

(iii) **No Past Savings:** Indian farmers have a tendency to borrow fund for the improvement of their land and agricultural operation although they have no past saving.

(iv) **Unproductive Expenditure:** Indian farmers are very much accustomed to make huge expenditures for unproductive purposes such as marriage and other social ceremonies. All these have led to growing indebtedness of the farmers of the country.

(v) **Ancestral Debt:** Indian farmers inherit their father's debt.

(vi) **Unscrupulous Moneylender:** Moneylenders in India are also very much responsible for the growing rural indebtedness in the country as they encourage the Indian farmers to borrow, charge a very exorbitant rate of interest and manipulate their accounts.

(vii) **Uncertain Monsoon:** Indian agriculture is very much dependent on monsoon. About 65 per cent of the agricultural operations are rainfed. As rain is most uncertain, therefore, agricultural operation has become a gamble in monsoon.

(viii) **Illiteracy of Farmers:** Most of the Indian farmers are illiterate. Unscrupulous moneylenders or mahajans are utilizing this weakness of farmers to create a vicious circle of indebtedness.

(ix) **Fragmentation:** There is a growing trend of sub-division and fragmentation of land holdings which has been resulting in a poor level of income for Indian farmers. Such poor income forces the farmers towards growing indebtedness.

(x) **Litigation:** There is an increasing tendency of litigation among the Indian farmers which has magnified the problem of indebtedness in the country.

(xi) **Defective Marketing:** Agricultural marketing in India is very much defective. This never allows the farmers a remunerative price for their products and sometimes forces them to go for a distress sale. Such a situation is highly responsible for growing poverty and indebtedness among the Indian farmers.

(xii) **Natural Calamities:** Natural calamities like floods and droughts and backwardness of agriculture are also widely responsible for growing rural indebtedness in the country.

Thus, all these factors are responsible for growing rural indebtedness in India

5.6 CONSEQUENCES OF RURAL INDEBTEDNESS

1. **Increase in Poverty:** Most explicit result of Indebtedness is the increase in the poverty of the poor people. Poverty becomes their life-long companion. Due to indebtedness they are not in a position to save money and become poorer. Once he becomes entangled in debt, he remains poor, no matter how much he may exert himself.
2. **Slavery and Bonded Labour:** Indebtedness is resulted into slavery and bonded labour. Due to fulfillment of the social obligation, in order to repay the ancestral debt, the poor farmer falls in prey to slavery and bonded labour.
3. **Problem of Health:** Rural indebtedness leads to the poor health of the debtor. Due to poverty and indebtedness the farmer cannot have any nourishing diet and good food. They also cannot afford to have medical facilities for themselves and for their children. All these leads to lowering of their health standard.
4. **Loss of Social Prestige:** Due to indebtedness the farmer feels himself very much inferior in front of the moneylenders or sahukars. So it becomes his loss of social prestige
5. **Deterioration of Agriculture:** As a result of indebtedness, the condition of agriculture also deteriorated, because most of the farmers had to work on their moneylenders land as servants. The farmers also cannot give proper attention to the lands where they have cultivated. So it leads to the deterioration of agriculture.
6. **Psychological Problems:** The effect of indebtedness leads to frustration, depression, mental imbalance and mental conflict of the poor farmer. Due to heavy burden of loan, the farmers are neither able to repay the loan nor able to improve their economic condition. They remain in a dilemma. Sometimes they commit suicide out of extreme frustration
7. **Lowering of Economic Standard:** Due to indebtedness, farmers' purchasing power are reduced, they cannot meet their own and their family's basic need. With this, economic standard of the fanner considerably comes down and down.
8. **In-dignified Exploitation of Man by Man:** Due to ignorance and illiteracy the farmer easily falls into the prey of the money lender. The money lender tries to exploit him in many ways. Due to lower social prestige, he cannot raise his voice against the moneylender. So, indebtedness results in In-dignified exploitation of man by man.

At times even the whole family of the borrower is forced to work for the moneylender.

9. **Increase in Landless Labour:** Increase in landless labour is also because of rural indebtedness. Once a farmer is in the trap of the moneylenders, gradually the amount with Interest goes on increasing. A stage comes when the poor farmer has no other alternative but to sell his small piece of land to the moneylender and joins the ranks of landless labour.
10. **Evil Social Impact:** Growing indebtedness usually divides the society into haves and have-not's leading to a rise of class conflicts in the society. This is really dangerous. In this connection, Prof. Thomas has rightly observed, "A society that sinks into indebtedness is like a volcano. It erupts in the form of class conflict. The society is inflicted with inefficiency that hinders the pace of growth." Thus, rural indebtedness have many evil consequences. Thus, steps must be taken to remove it as early as possible.

CHECK YOUR PROGRESS

Q 1: What is rural indebtedness?

.....

.....

Q 2: Write two consequences of rural indebtedness.

.....

.....

5.7 REMEDIAL MEASURES TO SOLVE RURAL INDEBTEDNESS IN INDIA

(i) **Settlement of Old Debt:** Proper legislation to enacted to cancel or to reduce the extent of ancestral debts and non-institutional debt held by the small farmers of the country.

(ii) **Reducing Dependence on Moneylenders:** Institutional credit network comprising of co-operatives, commercial banks, regional rural banks etc. be expanded for reducing the dependency of the farmers on the money-lenders.

(iii) **Control of New Loans:** Proper steps must be taken in such a way so that farmers do not resort to borrowing for non-productive purposes. Thus unproductive loans

for the celebration of marriages and births should be completely avoided. By imparting proper education and propaganda, Government can help the farmers of the country to become conscious in this respect.

(iv) Control over Moneylenders: In order to control the growing menace of rural indebtedness, activities of the moneylenders should be controlled. In the mean time, various state governments have passed different acts to make it mandatory on the part of moneylenders to obtain licence for their money lending operations and also to maintain proper accounts and also to have a control over the rate of interest charged by them.

(v) Checking Transfer of Land: In order to have a check on the transfer of land for non-agricultural purposes as a result of non-payment of loan by the farmers the Government has already enacted various laws for protecting the farmers, interest.

(vi) Encouraging Savings: Farmers should also be encouraged to adopt saving habit on a routine manner. The co-operative credit societies can also play an important role in this regard. In the mean time proper legislation has been enacted in some states to prevent the sale of land by the farmers to the moneylenders.

5.8 PROGRAMS FOR REMOVAL OF RURAL INDEBTEDNESS

1) Deccan Agriculturists Act of 1879: It was in 1879, that the Government passed Deccan Agriculturists act, through which certain relives were granted to the farmers. The agricultural implements and the animals such as bullocks etc, of the farmers could not be sold for non repayment of loans. A farmer cold not is imprisoned for his inability to pay loans. He was given facility to repay the loans in installments. He also gets the facility to repay the loans in installment. He also gets the facility to declare himself as a bankrupt. These measures gave a good deal of relief to the farmers who were under the debt of the money lenders.

2) Punjab land Alienation Act of 1900: Registration of Document Act of 1864 and the transfer of property Act 1882 gave an opportunity to the money lenders to exploit the poor farmers with the half of the provisions of these Acts, the money lenders took away the land of thousands poor farmers. This exploitation would be created further complications and even affected adversely on the agricultural production and so Punjab land Alienation Act was passed. After this several other such Acts were passed.

According to the provisions of the Punjab Land Alienation Act the money lender could not take away the land mortgaged with think. He has to return this land after 20 years. Similar Acts were passed in 1993 in U.P and on 1904 in North Western Frontier provinces and in 1996 in the central provinces.

Apart from these Acts, several legislations were passed to regulate the business of the money lenders. These measures were passed in Punjab and other places.

3) **Law for minimising the amount of loan:** The Government had to come in between the money lenders and the debtors. As a result of legislative measures a 'Conciliation Board' was set up by law the Government minimised the amount of loan and also made provision for the realisation of the money in installments. According to these legislations, is no case would the amount of the interest to beyond the capital all these things put restrictions on the exploitation of the debtors by the money lenders.

4) **Comprehensive Crop Insurance Scheme (CCIS) 1985 :** To provide financial support to the farmers in the event of failure of crops as a result of natural calamities, a Comprehensive Crop Insurance Scheme (CCIS) was introduced in the country with effect from Kharif, 1985. The participation in the scheme was voluntary and the States were free to opt for the scheme. All farmers who availed crop loans from Commercial Banks, Regional Rural Banks and Cooperative Banks for growing wheat, paddy, millets (including maize), oilseeds and pulses were eligible for coverage under the scheme. CCIS remained under implementation till Kharif 1999.

5) **The Kisan Credit Card (KCC) :** This scheme 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 (NABARD) on the recommendations of R.V.GUPTA committee to provide term loans and agricultural needs.

Its objective is to meet the comprehensive credit requirements of the agriculture sector by giving financial support to farmers. Participating institutions include all commercial banks, Regional Rural Banks, and state co-operative banks. The scheme has short term credit limits for crops, and term loans. KCC credit holders are covered under personal accident insurance up to Rs 50,000 for death and permanent disability, and up to Rs 25,000 for other risk. The premium is borne by both the bank and borrower in a 2:1 ratio. The validity period is five years, with an option to extend for up to three more years. Kisan Credit Card (KCC) offering credit to the farmers in two types viz, 1. Cash Credit 2. Term Credit (for allied activities such as pump sets,

land development, plantation, drip irrigations).

6) **The National Agricultural Insurance Scheme (NAIS):** The National Agricultural Insurance Scheme (NAIS) was introduced from 1999-2000 replacing the erstwhile Comprehensive Crop Insurance Scheme (CCIS). The main objective of the scheme is to protect the farmers against crop losses suffered on account of natural calamities such as drought, flood, hailstorm, cyclone, fire pests and diseases.

The new scheme is now available to all the farmers—loanee and non-loanee—irrespective of their size of holding. It envisages coverage of all the food crops (cereals, millets and pulses), oilseeds and annual horticultural/commercial crops, in respect of which past yield data is available for adequate number of years.

7) **Farm Income Insurance Scheme :** The Central Government formulated the Farm Income Insurance Scheme (FIIS) during 2003-04. The two critical components of a farmer's income are yield and price. FIIS targeted these two components through a single insurance policy so that the insured farmer could get a guaranteed income.

The scheme provided income protection to the farmers by insuring production and market risks. The insured farmers were ensured minimum guaranteed income (that is, average yield multiplied by the minimum support price). If the actual income was less than the guaranteed income, the insured would be compensated to the extent of the shortfall by the Agriculture Insurance Company of India. Initially, the scheme would cover only wheat and rice and would be compulsory for farmers availing crop loans. NAIS (explained in the section below) would be withdrawn for the crops covered under FIIS, but would continue to be applicable for other crops.

8) **The National Commission on Farmers** (**NCF**) : It is an Indian commission constituted on November 18, 2004 under the chairmanship of Professor M.S. Swaminathan to address the nationwide calamity of farmers suicides in India. The Terms of Reference reflected the priorities listed in the Common Minimum Programme. The NCF submitted four reports in December 2004, August 2005, December 2005 and April 2006 respectively. The fifth and final report was submitted on October 4, 2006. The reports contain suggestions to achieve the goal of "faster and more inclusive growth" as envisaged in the Approach to 11th Five Year Plan and are collectively termed the M.S.Swaminathan report for farmers.

9) **Small Farmers Development Agency (SFDA) :** In 1969, The RBI had appointed an All-India Rural Credit Review Committee in 1969. The chairman of this commitee

recommended establishment of Small Farmers Development Agency (SFDA). The core philosophy of the SFDA was

- To investigate and identify the problem of small farmers and ensure that various services reach to them.
- To ensure that the farmers secure loans from cooperative banks.
- To ensure that the farmers have access to other assistances such as cooperative banks, improved seeds, fertilizers and other inputs.

10) **Measure for regulating the money lending:** The Government by this time realised with the bad conditions of the farmers was very much due to indebtedness. They therefore introduced measures for improving the conditions of the farmers and also for putting restriction on the loans. In 1883 land improvement loan Act was passed through which loan was advanced to the farmers for making the land more fertile and also for marking arrangements for irrigation facilities. The legislative measures to a very great extent helped the farmers.

11) **Agricultural Loans Act 1884:** This Act was passed in 1884. It provided for loans to the farmers for a short time in low rate of interest for certain thing necessary for their agriculture. Then in 1904 co operative Credit Societies Act was passed as a result of which Co operative Credit Societies were set up in various parts of the country. In 1912 this law was amended Land Mortgage Banks were also started to provided loans to the farmers for improving their agriculture and the fertility of land.

12) **Laws regarding control on moneylender:** After 1930 several states passed several Acts through which they put various restrictions on the money lenders in regard to the loans to the farmers. It was made binding for them to have a license and set themselves registered as money lenders. They were also required to keep their accounts properly. The rate of interest was also regulated and the maximum rate of interest was prescribed.

13) **Co-operative movement:** The co operative movement was launched with the object of improving the lot of the charmers. It has worked for about three quarters of a century, but it has not fulfilled the object for which it was started. As a result of co operative Marketing Societies, Multipurpose Co operative Societies etc, were set up.

5.9 LET US SUM UP

In this unit we have discuss the following –

- The problem of rural indebtedness is linked with the larger issue of rural poverty.
- Indebtedness means an obligation to pay money to another party.
- Most explicit result of Indebtedness is the increase in the poverty of the poor people.
- The effect of indebtedness leads to frustration, depression, mental imbalance and mental conflict of the poor farmer.
- Increase in landless labour is also because of rural indebtedness.

5.10 FURTHER READING

1) B.N. Ghosh and Rama Ghosh,'Concise History of Economic Thought'. Himalaya Publishing House.
2) H.L.Bhatia, 'History of Economic Thought', Vikas publication.
3) P.K.Dhar, Indaian Economy, Kalyani Publications.
4) G. Datt and A. Mahajan, Indian Economy, S. Chand.

5.11 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Indebtedness means an obligation to pay money to another party. In rural India the poor farmers and wage labours etc. when are unable to repay a loan and accumulate it, gives rise to the problem of rural indebtedness. Rural indebtedness is an indicator of the weak financial infrastructure of our country, which includes inability of our economic system to reach to the needy farmers, landless people in the villages and the agricultural wage labourers.

Ans to Q No 2: Two consequences of Rural Indebtedness are –

1. **Increase in Poverty:** Most explicit result of Indebtedness Is the Increase in the poverty of the poor people. Poverty becomes their life-long companion. Due to indebtedness they are not in a position to save money and become poorer.

   Once he becomes entangled in debt, he remains poor, no matter how much he may exert himself.

2. **Slavery and Bonded Labour:** Indebtedness is resulted into slavery and

bonded labour. Due to fulfillment of the social obligation, in order to repay the ancestral debt, the poor farmer falls in prey to slavery and bonded labour.

5.12 MODEL QUESTIONS

Q 1: Discuss the nature of Rural Indebtedness.

Q 2: Discuss briefly the consequences of Rural Indebtedness.

Q 3: Suggest some of the programmes for removal of Rural Indebtedness.

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UNIT 6 : RURAL UNEMPLOYMENT IN INDIA

UNIT STRUCTURE

6.1 Learning Objective

6.2 Introduction

6.3 Concept of Unemployment

6.4 Types of Unemployment

6.5 Characteristics of Rural Unemployment

6.6 Incidence of Rural Unemployment in India

6.7 Employment Generation Measures

6.8 Let Us Sum Up

6.9 Further Reading

6.10 Answers to Check Your Progress

6.11 Model Question

6.1 LEARNING OBJECTIVES

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

- explain the concept of unemployment
- know the types of unemployment
- know the characteristics of rural unemployment
- explain some employment generation measures.

6.2 INTRODUCTION

Unemployment has been a chronic ailment of the Indian economy. It is a sign of poverty to the individual who is unemployed, a stigma to the society, and a loss of human resource for the nation. Economic growth without proportionate growth of employment opportunities is the growth without social justice and therefore, meaningless. A nation is developed only when it achieves a high rate of participation (implying a high rate of employment) of its workforce in the process of economic growth.

In this unit we will discuss the concept of unemployment, types of unemployment, characteristics of rural unemployment, employment generation measures etc.

6.3 CONCEPT OF UNEMPLOYMENT

Unemployment problem is one of the most serious problems, which is normally found in each and every country of the world, irrespective of its economic development. According to NSSO, Unemployment is a situation in which all those who, owing to lack of work, are not working but either seek work through employment exchanges, intermediaries, friends or relatives or by making applications to prospective employers or express their willingness or availability for work under the prevailing condition of work and remunerations. In short, Unemployment refers to a situation in which people are willing and able to work at the existing wage rate, but do not get work. Unemployment is confined not only to unskilled workers, rather a sizable number of skilled workers fail to get jobs for long periods. There are a variety of ways by which an unemployed person is identified. According to some economists, "Unemployed Person is the one who is not able to get employment of even one hour in half a day".

6.4 TYPES OF UNEMPLOYMENT

1. Disguised Unemployment:

Unemployment may be classified into: (i) open, and (ii) disguised. The term "disguised unemployment" owes its origin to Mrs. Robinson, but received a meaningful interpretation and came to be extensively used in the theory of underdevelopment at the hands of Rosenstein-Roddan and Nurske.

The term "disguised unemployment" commonly refers to a situation of employment with surplus manpower, in which some workers have zero marginal productivity so that their removal will not affect the volume of total output. Suppose a given land can properly be organised and cultivated by four persons very effectively.

If however, six workers, all members of the same family, are employed on this land, the additional two workers do not contribute anything to the total output and hence, their marginal productivity will be zero. Thus, the removal of these two workers (surplus labour) will not affect the total output, even without any change in the method of production.

Hence, these two workers are said to be disguisedly unemployed. That means, unproductive employed worker in any occupation is, really speaking, unemployed, but it is not clearly visible. Hence, such unemployment is known as "disguised" or concealed employment.

2. Seasonal Unemployment:

There are some industries and occupations such as agriculture, the catering trade in holiday resorts, some agro-based industrial activities, like sugar mills and rice mills, etc., in which production activities are seasonal in nature. So, they offer employment only for a certain period of time in a year. For instance, work in sugar mills lasts for about six months. Rice mills work for only a few weeks.

Agriculture offers employment at the time of ploughing and as the unemployment of people engaged in such types of work or activities which cater to the seasonal demand. We may call it "seasonal unemployment." Even self-employed people may be seasonally unemployed, off the season.

Seasonal unemployment is found in any country, whether it is developed or underdeveloped. Seasonal unemployment implies not only an underutilisation of manpower, but also of capital stocks used in industries of a seasonal nature. This poses a serious problem of wastage of productive resources for an underdeveloped country which is already deficient in capital resources.

By making agriculture a full-time job through irrigation, fertilizers and mechanisation, the problem of seasonal unemployment of farmers can be solved. Intensive cultivation, double cropping, mixed farming, dry farming etc. can be of great help in this regard. This would not only solve the problem of unemployment but also increase national income and the welfare of the community. Promotion of small-scale industries, social overhead projects (like road-building, irrigation projects, etc.) can help in easing the problem of seasonal unemployment.

3. Voluntary Unemployment:

In every society, there are some people who are unwilling to work at the prevailing wage rate, and there are some who are lucky enough to get a continuous flow of unearned income from their unemployed status. Jobs are available for them but they do not want to accept them. Voluntary unemployment may be a national waste of human energy, butit is not a serious economic problem with any social repercussions. Voluntary unemployment is consistent with the state of full employment.

4. Frictional Unemployment:

Frictional unemployment is a temporary phenomenon. It may take place in various ways. When some workers are temporarily out of work while changing jobs, it is called "frictional unemployment." Similarly, strikes and lockouts may result in the suspension of

work, and there may exist some frictional unemployment for the time being. To some extent, frictional unemployment is also caused by the imperfect mobility of labour. Factors inhibiting the geographical or occupational movement of unemployed workers into vacant jobs, thus, cause frictional unemployment.

According to economists like Keynes and Lerner frictional unemployment is a kind of unemployment which is quite consistent with the condition of full employment in an economy. Frictional unemployment is due to difficulties in getting workers and vacancies together.

Hence the problem of frictional unemployment should be dealt with by some special devices for overcoming the mobility of labour such as spread of information about job opportunities, arrangement for jobs through employment exchanges, improvement in transport facilities etc., can help reduce the magnitude of frictional unemployment.

5. Casual Unemployment:

In industries such as building construction, catering or agriculture, where workers are employed on a day- to-day basis, there are chances of casual unemployment occurring due to short-term contracts, which are terminable at any time. Thus, when a worker's contract ends after the completion of work, he has to find a job elsewhere, which he is likely to get depending on circumstances or he may get a fresh contract with the same firm when some new work is started.

Similarly, there may be causal employment of extra workers in some places like dockyards during the rush of loading or unloading. Once the work is over, these extra workers become unemployed. Casual unemployment is also found in the film industry where junior artistes work on a casual basis. A specific solution to the problem of casual unemployment is very difficult to provide.

6. Structural Unemployment:

Due to structural changes in the economy, structural unemployment may take place. Structural unemployment is caused by a decline in demand for production in a particular industry, and consequent disinvestment and reduction in its manpower requirements.

In fact, structural unemployment is a natural concomitant of economic progress and innovation in a complex industrial economy of modem times. For instance, with the economic expansion of a town, tongas may tend to go out of date with the introduction of autorickshaws. Consequently, tonga operators may become unemployed.

They have to seek jobs in other fields. This sort of unemployment is structural unemployment, because the infrastructure of the transport system has changed altogether. In a depressed industry, structural unemployment takes place on account of change in the demand pattern. On the other hand, in its counterpart, where demand has favourably improved, structural employment is generated. Thus, the problem of structural unemployment resulting in a depressed industry can be solved by absorbing the displaced workers in the expanding industries.

Many times, on account of the locational patterns of industries, structural unemployment may have a geographical impact. In these regions, where specific depressed industries have much agglomeration, unemployment will tend to be high. Such a regional problem of structural unemployment can be solved through effective geographical mobility of labour or by establishing other industries in the depressed areas.

7. Technological Unemployment:

A kind of structural unemployment may take place in an economy as a result of technological improvement. Such unemployment may be described as technological unemployment. Due to the introduction of new machinery, improvement in methods of production, labour-saving devices etc., some workers tend to be replaced by machines. Their unemployment is termed as “technological unemployment.”

Technological unemployment is basically created by introduction of machinery. But, it is a temporary phenomenon. In the long run, the development effectuated by the use of more capital leads to diversification of activities and promotion of many allied industries which would create additional job opportunities so that the unemployed workers will be absorbed in a more remunerative way.

In developed countries, technological unemployment poses no serious problem. This is because there is a gradual technological advancement and no sudden shift in their normal technology which is already at an advanced stage.

In underdeveloped countries, however, the technological problem is of a serious nature, where primitive techniques have been recently discarded and new capital intensive techniques of the advanced countries have been adopted. In the transition period, thus, artisans suffer the most. To ease the problem, therefore, new job opportunities on a large scale must be created simultaneously in other fields.

Technological advancement in a developing country creates not only the problem of technological unemployment but also causes the scrapping of existing old capital. For

example, primitive equipment and cattle tend to be useless when there is mechanisation of agriculture.

Technological unemployment can be solved only by the creation of new job opportunities, as fast as possible. U.N.O. experts, thus, advise that "Rapid economic development is paradoxically the greatest cause of and the greatest cure of technological unemployment."

8. Cyclical Unemployment:

Capitalist-biased, advanced countries are subject to trade cycles. Trade cycles — especially recessionary and depressionary phases — cause cyclical unemployment in these countries. During the contraction phase of a trade cycle in an economy, aggregate demand falls and this leads to disinvestment, decline in production, and unemployment. Lerner calls it "deflationary unemployment." Keynes emphasised that depressionary unemployment is caused by the insufficiency of effective demand.

The solution for such cyclical unemployment lies in measures for increasing the total expenditure in the economy, thereby pushing up the level of effective demand. Easy money policy and fiscal measures like deficit financing have been advocated by Keynes in this regard. Since a cyclical phase cannot be permanent, cyclical unemployment or deflationary unemployment remains only as a short--term phenomenon.

9. Chronic Unemployment:

When unemployment tends to be a long-term feature of a country it is called "chronic unemployment." Underdeveloped countries suffer from chronic unemployment on account of the vicious circle of poverty. Lack of developed resources and their underutilisation, high population growth, backward, even primitive state of technology, low capital formation, etc. are the major causes of chronic unemployment in underdeveloped economies.

6.5 CHARACTERISTICS OF UNEMPLOYMENT

(i) Large variations in unemployment rate across groups based on age, race, experience.

(ii) High turnover is observed in the labour market.

(iii) This turnover is mostly cyclical. Layoffs and separation are high during recession and voluntarily quits are high during booms.

(iv) Some unemployment may be for a short period of time while some unemployment may be for a long period of time.

CHECK YOUR PROGRESS

Q 1: What is unemployment?

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.....

Q 2: What is disguised unemployment?

.....

.....

Q 3: Mention any two characteristics of unemployment.

.....

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6.6 INCIDENCE OF RURAL UNEMPLOYMENT IN INDIA

The incidence of unemployment is much higher in urban areas than in rural areas.

- Unemployment rates for women are higher than those for men.
- The incidence of unemployment among the educated is much higher than the overall unemployment.
- There is greater unemployment in agricultural sector than in industrial and other major sectors

  India's rural unemployment rate stood at 7.15% and the urban rate stood at 9.62%. The overall rate of unemployment rate in the country stood at 7.97%, BSE index showed.

6.7 EMPLOYMENT GENERATION MEASURES

The government of India has initiated various employment generation programmes in the country in order to create more employment opportunities. Some of those programmes are-

1. **Integrated Rural Development Programme (IRDP):** The Integrated Rural Development Programme (IRDP), which was introduced in 1978-79 and universalized from 2nd October, 1980, aimed at providing assistance to the rural poor in the form of subsidy and bank credit for productive employment opportunities through successive plan periods. On 1st April, 1999, the IRDP and allied programmes were

merged into a single programme known as Swarnajayanti Gram Swarozgar Yojana (SGSY). The SGSY emphasizes on organizing the rural poor into self-help groups, capacity-building, planning of activity clusters, infra-structure support, technology, credit and marketing linkages.

2. **Jawahar Rozgar Yojana/Jawahar Gram Samriddhi Yojana:** Under the Wage Employment Programmes, the National Rural Employment Programme (NREP) and Rural Landless Employment Guarantee Programme (RLEGP) were started in Sixth and Seventh Plans. The NREP and RLEGP were merged in April 1989 under Jawahar Rozgar Yojana (JRY). The JRY was meant to generate meaningful employment opportunities for the unemployed and underemployed in rural areas through the creation of economic infrastructure and community and social assets. The JRY was revamped from 1st April, 1999, as Jawahar Gram Samriddhi Yojana (JGSY). It now became a programme for the creation of rural economic infrastructure with employment generation as the secondary objective.
3. **Rural Housing – Indira Awaas Yojana:** The Indira Awaas Yojana (LAY) programme aims at providing free housing to Below Poverty Line (BPL) families in rural areas and main targets would be the households of SC/STs. It was first merged with the Jawahar Rozgar Yojana (JRY) in 1989 and in 1996 it broke away from JRY into a separate housing scheme for the rural poor.
4. **Food for Work Programme:** The Food for Work Programme was started in 2000-01 as a component of Employment Assurance Scheme (EAS). It was first launched in eight drought-affected states of Chhattisgarh, Gujarat, Himachal Pradesh, Madhya Pradesh, Orissa, Rajasthan, Maharashtra and Uttaranchal. It aims at enhancing food security through wage employment. Food grains are supplied to states free of cost, however, the supply of food grains from the Food Corporation of India (FCI) godowns has been slow.
5. **Sampoorna Gramin Rozgar Yojana (SGRY):** The JGSY, EAS and Food for Work Programme were revamped and merged under the new Sampoorna Gramin Rozgar Yojana (SGRY) Scheme from 1st September, 2001. The main objective of the scheme continues to be the generation of wage employment, creation of durable economic infrastructure in rural areas and provision of food and nutrition security for the poor.
6. **Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) 2005:** It was launched on February 2, 2005. The Act provides 100 days assured employment

every year to every rural household. One-third of the proposed jobs would be reserved for women. The central government will also establish National Employment Guarantee Funds. Similarly, state governments will establish State Employment Guarantee Funds for implementation of the scheme. Under the programme, if an applicant is not provided employment within 15 days s/he will be entitled to a daily unemployment allowance.

Salient features of MGNREGA are:

I. Right based framework
II. Time bound guarantee of employment
III Labour intensive work
IV. Women empowerment
V. Transparency and accountability
VI. Adequate funding by central government

7. **National Food for Work Programme:** It was launched on November 14, 2004 in 150 most backward districts of the country. The objective of the programme was to provide additional resources available under Sampoorna Grameen Rojgar Yojna. This was 100% centrally funded programme.
8. **National Rural Livelihood Mission: Ajeevika (2011) :** It is the skill and placement initiative of Ministry of Rural development. It is a part of National Rural Livelihood Mission (NRLM)–the mission for poverty reduction is called Ajeevika. It evolves out the need to diversify the needs of the rural poor and provide them jobs with regular income on monthly basis. Self Help groups are formed at the village level to help the needy.
9. **Pradhan Mantri Kaushal Vikas Yojna:** The cabinet on March 21, 2015 cleared the scheme to provide skill training to 1.4 million youth with an overall outlay of Rs. 1120 crore. This plan is implemented with the help of Ministry of Skill Development and Entrepreneurship through the National Skill Development Corporation. It will focus on fresh entrant to the labour market, especially labour market and class X and XII dropouts.
10. **National Heritage Development and Augmentation Yojna (HRIDAY):** HRIDAY scheme was launched (21 Jan. 2015) to preserve and rejuvenate the rich cultural heritage of the country. This Rs. 500 crore programme was launched by Urban Development Ministry in New Delhi. Initially it is launched in 12 cities: Amritsar,

Varanasi, Gaya, Puri, Ajmer, Mathura, Dwarka, Badami, Velankanni, Kanchipuram, Warangal and Amarvati.

These programmes are playing a very crucial role in the development of the all sections of the society so that the concept of holistic development can be ensured in the real sense.

6.8 LET US SUM UP

In this unit we have discuss the following :

- Unemployment problem is one of the most serious problems, which is normally found in each and every country of the world, irrespective of its economic development.
- Unemployment may be classified into: (i) open, and (ii) disguised.
- Seasonal unemployment is found in any country, whether it is developed or underdeveloped.
- When unemployment tends to be a long-term feature of a country it is called “chronic unemployment.”

6.9 FURTHER READING

1) B.N. Ghosh and Rama Ghosh,’Concise History of Economic Thought’. Himalaya Publishing House.
2) H.L.Bhatia, ‘History of Economic Thought’, Vikas publication.
3) P.K.Dhar ,Indaian Economy , Kalyani Publications.
4) G. Datt and A. Mahajan, Indian Economy, S. Chand.

6.10 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Unemployment refers to a situation in which people are willing and able to work at the existing wage rate, but do not get work. Unemployment is confined not only to unskilled workers, rather a sizable number of skilled workers fail to get jobs for long periods.

Ans to Q No 2: The term “disguised unemployment” commonly refers to a situation of employment with surplus manpower, in which some workers have zero marginal

productivity so that their removal will not affect the volume of total output

Ans to Q No 3: The two characteristics of Rural Unemployment are

(i) Large variations in unemployment rate across groups based on age, race, experience.

(ii) High turnover is observed in the labour market

6.11 MODEL QUESTIONS

Q 1: Discuss briefly different types of Unemloyment in India.

Q 2: Discuss the characteristics of Rural Unemployment in India.

Q 3: Discuss the various employment generation measures.

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UNIT 7 : POVERTY IN RURAL INDIA

UNIT STRUCTURE

7.1 Learning Objective

7.2 Introduction

7.3 Poverty in India

7.4 Concept of Poverty and Poverty line

7.5 Types of Poverty

7.6 Characteristics of Poverty in Rural India

7.7 Incidence of Rural Poverty in India

7.8 Poverty Eradication Measures

7.9 Let Us Sum up

7.10 Further Reading

7.11 Answers to check your progress

7.12 Model Questions

7.1 LEARNING OBJECTIVES

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

- explain the concept of poverty and poverty line
- know the types of poverty
- know the characteristics of poverty in rural India
- incidence of rural poverty in India
- explain some poverty eradication measures.

7.2 INTRODUCTION

Economic growth is meaningless if a sizeable segment of the society suffers deprivation/poverty. Growth is converted into development only when poverty is eliminated. Implying that people no longer suffer hunger, dearth or starvation; they have at least the bare minimum, viz., food, clothing, housing, education and health facilities. Despite a significant growth in GDP, poverty continues to be a major challenge in India. It persists as a social challenge and, in fact, is a stigma for a nation which has emerged as the 10th

largest industrial economy.

In this unit we will discuss the concept of poverty, types of poverty, characteristics of poverty, different poverty eradication measures etc.

7.3 POVERTY IN INDIA

One-third of the world's poor live in India, and there are more poor people in India alone than in the whole of Sub-Saharan Africa. Over 70% of the population lives in rural areas. Agriculture and related activities in rural India contribute to 33% of the Gross Domestic Product, and is responsible for the employment of over 60% of the workforce. Hence, when one talks of socio-economic progress in India, what is mostly relevant is how the lives of the rural people have changed. Overall statistics such as the national GDP could mask the reality in the rural life.

One of the great success stories of India is the nation's achievement in food production. The Bengal famine of 1943 was responsible for the deaths of over 4 million people and catapulted the Green Revolution in l967. New agricultural methods incorporating the use of genetically improved seeds, double cropping and expansion of farming land brought about national self-sufficiency in grain production. Constant innovations in farming techniques continue to increase unit output, but this remarkable success has not yet fully insulated the country from the impact of drought and declining water sources. Nor has the contribution of the rural sector to the nation's economic prosperity brought about the desired improvement in the lives of the 300 million poor who mostly live in the villages. That is a story the nation cannot hide.

The real story of rural India must be told with over 300 million characters who live in poverty with less than a dollar a day in income for a family of four, and whose social status in their communities is relegated to below the holy cow, the potent snake and the spirited monkey. It is a land where the elites of the villages - the upper class and the landlords - prey on the helpless, often in collusion with government officials who are supposed to help and protect them. It is a life where hope for a better future is as distant as the burning sun, and nothing that happens around them, including the so-called "IT revolution," brings about solace.

To deal with all these situations, considerable funds are being allocated by central and state governments, and bilateral and multilateral agencies are also making their contribution, and yet, the intended beneficiaries have realised only marginal gains in the

past seventy or so years. Even to a layman it is obvious that something is awfully wrong, and something different must be done if we are to expect the situation to improve in the next fifty years.

The hindrances faced by the poor in overcoming their deprivation are not limited to the lack of opportunity to gain a good education and to have a steady source of income. These people are the victims of what appears to be a permanent social and economic arrangement wherein the local elites—landowners, merchants, money lenders, officials—maintain a choke hold over the poor by consolidating more wealth and power through appropriation of additional land (either by purchase of through Govt. lease allocations), and by employing the poor at low wages, while enforcing "discipline" and silence through punitive measures. Urban interest also gain from market-based exploitation wherein rural products and services are kept at such low prices that without government subsidies, there is no profit to be gained.

Modern farming using precision agricultural tools is the key to increased output and profitability. Reliance on traditional methods by the small farmer is necessitated by a lack of adequate funds; hence the goal should be to teach new techniques and offer financial credits to implement them. Once again, private institutions can be appointed by the government and rewarded on the basis of crop output from those farms they oversee. It is important to ensure that the farmer receives all the subsidies and other incentives that he is entitled to, instead of the officials who administer them.

Special incentives should be provided for dry-land cultivation, and water management using drip irrigation, "fracturing" of wells, and water collection and storage. Use of solar and wind energy can be a good alternative to conventional power in most areas, as there is usually plenty of sun and wind during most of the year. Once again, lowering the cost of such technologies and long-term financial credit can pave the way for reducing the cost of farming. Vigorous competition among private companies in these product areas will assure the introduction of superior technologies and cost effective solutions.

Most small farmers lack access to non-local markets for their produce, mainly as a result of inadequate market information and transport costs. The government can assist small farmers by helping them form cooperative marketing arrangements, and by offering daily price information. Further, seasonal fixed price purchase arrangements can be negotiated by the cooperatives with buyers and processing companies. The goal here

should be to find ways to improve the collective bargaining power of small farmers, without direct involvement by government officials in the determination of prices.

Indian poverty is predominantly rural, where landless labourers and casual workers are the worst off economic group. Scheduled Castes and Tribes, women and female-headed families, old people, and female children face more deprivation than others. The rural poor are primarily those with limited ownership of assets— including land. The vast majority of the rural poor in India are engaged in agriculture (including fishery and livestock), either as agricultural wage laborers or marginal farmers.

There are several important characteristics of the rural poor. First, almost 42% of the rural poor fall into the most economically disadvantaged group of agricultural labour. Furthermore, more than half of this group consists of Scheduled Castes and Scheduled Tribes (SCs and STs). Overall, SCs and STs constitute about 25% of the rural population but account for more than 42% of the poor. This imbalance has prompted a series of affirmative action interventions in favour of SCs and STs.

Poverty is an extremely complex phenomenon, which manifests itself in a range of overlapping and interwoven economic, political and social deprivations. These include lack of assets, low income levels, hunger, poor health, insecurity, physical and psychological hardship, social exclusion, degradation and discrimination, and political powerlessness and disarticulation. Interviews with the poor have suggested that the aspirations of the poor are in fact for survival, based on stable subsistence; security, based on assets and rights; and self-respect, based on independence and choice.

Therefore, policy instruments should be designed to address not only the low income and consumption aspect of poverty, but also the complex social dimensions. The range of affirmative action undertaken by government towards SCs and STs is one attempt to address some of these social dimensions. The Tenth Plan Approach Paper argues that the benefits of growth have trickled down only to a very limited extent. At least 60% of rural households and about 20% of urban households do not have a power connection; only 60% of urban households have taps within their homes, even fewer have latrines inside the house.

Environmental degradation, which was not much of a concern until quite recently, has started to accelerate, particularly in urban areas. Deterioration in the urban environment increases in slum population, and in air, river and water pollution has vastly affected the quality of life of the urban poor. Land and forest degradation in the rural areas, and over-

exploitation of groundwater has seriously threatened sustainability of food production, traditional irrigation systems and even availability of safe drinking water.

Within the household, women are significantly more disadvantaged than men. They have poorer literacy rates (nationally, 54% against 76% for men)1 and even less control over decision-making within the family and over family assets. Secondly, overall two out of three children are moderately or severely malnourished, and the nutritional status of children from poor families is alarming. In addition, multiple deprivations linked to poverty, gender and caste is a deeply rooted reality in the countryside, and any comprehensive effort to reduce poverty must confront that reality and its consequences. The realities are visible in the segregated hamlets where many of the lower castes live on the fringes of rural villages, often distant from community services - schools, health centers, public hand pumps, and shops that distribute subsidized grains-in principle meant to assist the poor.

The urban poor are characterized by extremely poor living conditions in slums, on public lands, or often on the road itself. They are generally first generation migrants with no security of jobs or housing, and are subject to police and municipal brutalities. They are in occupations where health and safety provisions either do not exist or are widely flouted, such as hawking or rickshaw pulling (or under contractors who are violating labour and factory laws), and therefore become dehumanised and criminalised by the very processes of survival. What remains to be implemented is more social control over housing space, a ban on certain types of industrial activity in metropolitan towns, and rigorous implementation of labour laws in favour of migrant populations.

As rural people are pushed to the city because of abject rural poverty and unemployment, any effort to deal with urban poverty in isolation is likely to be unsustainable, as it would bring new migrants in search of jobs and better life. In other words, it is far more expensive to create an urban unskilled but non-polluting job with human dignity and basic conditions of living than it is in the rural areas.

A study of poverty of India is of great importance today even though so many measures have been taken by various governments and International Organizations to alleviate the global poverty be mass poverty exists in vast areas of Asia, Africa, and Latin American countries. Even the developed countries also have some pockets of mass poverty. However the problem is acute in the developing countries. The problem of poverty has its origin in the feudalistic relations of production. Poverty is a moral challenge to all

responsible persons-educationalist, politicians, planners and social workers alike. The poverty of Indian masses, particularly of those dependent on agriculture is proverbial, its removal is the cardinal goal of the programme for national socio-economic reconstruction. Poverty is a complex event in its content and scope.

The Indian economy was under the British rule for a period of nearly 200 years. It has a long story of systematic exploitation. Thus, in '1947 when India won freedom we inherited a crippled economy and a peasantry steeped in poverty.

In India, this poverty is treated as an absolute phenomenon where significant section of the society is deprived of minimum requirements of cereals, pulses, milk, vegetables, clothing, calorie intake and continues a bare subsistence level.

7.4 CONCEPT OF POVERTY AND POVERTY LINE

Poverty is a peculiar problem from which various countries of the world have been suffering. There cannot be a common definition of poverty, which can be broadly accepted everywhere. Broadly, it can be said: Poverty refers to a state in which an individual is unable to fulfill even the basic necessities of life. The minimum requirements include food, clothing, housing, education and health facilities. In a country, where a big mass of the population is deprived of even minimum amenities of life for a very long period, then such a country suffers from a vicious circle of poverty.

Poverty Line is a cut-off point on the line of distribution, which usually divides the population of the country as poor and non-poor. The concept of poverty line is used to measure the extent of poverty in a country. People having income below the poverty line are called "Poor" and people with income above poverty line are called "Non-Poor". Poverty line tries to capture the socially acceptable minimum living standards, which the society tries to fulfill.

7.5 TYPES OF POVERTY

There are two types of poverty-

1. Relative poverty
2. Absolute Poverty

Relative poverty

Meaning: Relative poverty refers to poverty of people, in comparison to other people, regions or nations.

Example: If Ram has lower income in comparison to Shyam, then we can say that Ram is relatively poor.

Importance: It helps in understanding the relative position of different segments of the population.

Limitation: It only reflects the relative position of different segments of the population in the income hierarchy. It does not consider, how pocr the poor person is or whether he is deprived of the basic minimum requirements of life or not.

Absolute Poverty

Meaning: Absolute poverty refers to the total number of people living below poverty line.

Example: According to absolute measure, around 22% of India's population is below poverty line.

Importance: The concept of absolute poverty is relevant for the less developed countries like India, where there is abundance of poverty. It helps to measure the number of poor people.

Limitation: The method of "Poverty Line" used to measure absolute poverty does not differentiate between the very poor and the other poor. Moreover it does not consider social factors that generate and are responsible for poverty, like illiteracy, ill health, lack of access to resources discrimination or lack of civil and political freedoms.

7.6 CHARACTERISTICS OF POVERTY

1. **Hunger, starvation and malnutrition:** Starvation and hunger are the basic problems of the poorest households. Malnutrition is alarmingly high among the poor.
2. **Poor Health:** They are generally physically weak due to ill health, disability or serious illness. Their children are less likely to survive or be born healthy.
3. **Limited economic opportunities:** They have very limited economic opportunities due to lack of literacy and skills. So, they face unstable employment. They are not able to negotiate their legal wages from employers and are exploited.
4. **Debt trap:** They borrow from money lenders, who charge high rates of interest, that push them into chronic indebtedness.
5. **Lack of facilities of electricity and water:** Most poor households do not have access to electricity. Their primary cooking fuel is firewood and cow dung cake. A

large section of poor people do not even have access to safe drinking water.

6. **Gender inequality:** Gender inequality prevails within the family in regard to participation of gainful employment, education and in decision-making. Poor women receive Lack of access to safe less care on their way to motherhood**.**
7. **Bigger families:** The poor families are bigger in size, sectionwhich make their economic condition worse.

CHECK YOUR PROGRESS

Q 1: What is poverty?

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Q 2: Distinguish between relative and absolute poverty.

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Q 3: What is poverty line?

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.....

7.7 INCIDENCE OF RURAL POVERTY IN INDIA

It is said that rural India is the heart of India. In reality, the life of people living in rural areas is marked with severe poverty. Inspite of all the efforts, the condition of poor villagers is far from satisfactory. The report on Socio-economic and Caste Census (2011) reveal the following facts:

- **SC, ST:** Of all the rural households, around 18.46 percent belongs to scheduled castes, and around 10.97 belongs to scheduled Tribes.
- **Major source of income:** Manual causal labour jobs and cultivation are the major sources of income for rural people. Nearly 51 percent of all households are economically engaged in manual casual labour and nearly 30 percent of them is engaged in cultivation.
- **Deprived:** Around 48.5 percent of rural households are deprived according to the census.
- **Assets:** Only 11.04 percent of families own a refrigerator while there is a vehicle

(including two-wheeler, boat, etc.) in around 29.69 percent of the rural houses.

- **Income Tax:** Only 4.58 percent of rural households pay income tax.
- **Land ownership:** Around 56 percent of village households don't own a land.
- **Size of rural houses:** The houses of around 54 percent rural families consist of either one or two-rooms. Out of them, around 13 percent lives in a one-room house

7.8 POVERTY ERADICATION MEASURES

Allevation of poverty remains a major challenge before the nation. While there has been a steady decline in poverty over the last two decades, the total number of poor people has remained constant because of growth in population. The government has specifically designed anti—poverty programmes for generation of both self-employment and wage employment.

Let us discuss the various "Self—Employment Programmes" and "Wage Employment Programmes" initiated by the government.

Self-Employment Programmes

Some of the self-employment programmes initiated by the Government are:

1. **Rural Employment Generation Programme (REGP):** This programme was started by the government to create self—employment opportunities in the rural areas and small towns.
   - It was implemented by Khadi and Village Industries Commission.
   - Under this programme, one could get financial assistance in the form of bank loans to set up small industries.
2. **Prime Minister's Rozgar Yojana (PMRY):** Under this programme, the educated unemployed from low income families in rural and urban areas were given financial help toset up any kind of enterprise that generates employnment.
   - PMRY attempted to generate employment by setting up 7 lakh micro-enterprises during the Eighth Plan (1992-97).
   - By 2003-04, 3 million people got employment under this scheme.
3. **Swamjayanti Gram Swarozgar Yojana (SGSY):** SGSY aims at promoting micro enterprises and to bring the assisted poor families (Swarozgaris) above the poverty line, by organizing them *into Self-Help Groups (SHGs).
   - People who wish to benefit from this scheme, are encouraged to form self-help groups (SHG).

- Initially they are encouraged to save some money and lend among themselves as small loans.
- Later, through banks, the government provides partial financial assistance to SHG's, which then decide, whom the loan is to be given, for self-employment activities.

4. Wage Employment Programmes: The government has launched various programmes to generate wage employment for the poor unskilled people living in rural areas. Some of them are:

a. Sarnpoorna Grameen Rozgar Yojana (SGRY): The scheme aims to provide additional and supplementary wage employment by undertaking labour intensive work, thereby Providing food security and increasing nutritional levels.

- Wages were paid as a combination of food grains and cash.
- The scheme of SGRY is open to all rural poor who need wage employment and desire to do manual and unskilled work in and around their village or habitat.

b. National Food for Work Programme (NFFWP): This programme was launched in 2004 with the objective of intensifying the generation of supplementary wage employment.

- NFFWP was initially implemented in 15O most backward districts of the country, to provide additional resources apart from the resource available under SGRY.
- The programme was implemented as a 100% Centrally Sponsored Scheme.
- This programme was incorporated in Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) in 2005
- MGNREGA aims at enhancing the livelihood security of people in rural areas by guaranteeing 100 days of wage-employment in a financial year to a rural household whose adult members volunteer to do unskilled manual work.
- All those among the poor who are ready to work at the minimum wage, can report for work in areas, where this programme is implemented.

7.9 LET US SUM UP

In this unit we have discuss the following –

- Poverty is a peculiar problem from which various countries of the world have been suffering.

- There are two types of poverty- Relative poverty and Absolute Poverty
- Poverty Line is a cut-off point on the line of distribution, which usually divides the population of the country as poor and non-poor.
- The government has specifically designed anti—poverty programmes for generation of both self-employment and wage employment.

7.10 FURTHER READING

1) B.N. Ghosh and Rama Ghosh,'Concise History of Economic Thought'. Himalaya Publishing House.
2) H.L.Bhatia, 'History of Economic Thought', Vikas publication.
3) P.K.Dhar ,Indaian Economy , Kalyani Publications.
4) G. Datt and A. Mahajan, Indian Economy, S. Chand.

7.11 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Poverty refers to a state in which an individual is unable to fulfill even the basic necessities of life.

Ans to Q No 2: Relative poverty refers to poverty of people, in comparison to other people, regions or nations whereas Absolute poverty refers to the total number of people living below poverty line.

The concept of Relative poverty helps in understanding the relative position of different segments of the population whereas concept of absolute poverty is relevant for the less developed countries like India, where there is abundance of poverty. It helps to measure the number of poor people.

Ans to Q No 3: Poverty Line is a cut-off point on the line of distribution, which usually divides the population of the country as poor and non-poor.

7.12 MODEL QUESTIONS

Q 1: Discuss briefly the characteristics of poverty in Rural India.

Q 2: Discuss the incidence of Rural poverty in India.

Q 3: Describe briefly the various poverty eradication programmes launched by the government of India.

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UNIT 8: ROLE OF TECHNOLOGY IN RURAL DEVELOPMENT

UNIT STRUCTURE

8.1 Learning Objectives

8.2 Introduction

8.3 Meaning of Rural Technology

8.4 Meaning of Agriculture and Allied Sector

8.5 Green Revolution and Its Impact on Modern Methods of Agriculture

8.6 White Revolution and Blue Revolution- A Brief Idea

8.7 Role of Technology in Rural Development

8.8 Importance of Rural Technology in Agriculture and Allied Sectors

8.9 Issues with Use of Technologies

8.10 Let Us Sum Up

8.11 Further Reading

8.12 Answers to Check Your Progress

8.13 Model Questions

8.1 LEARNING OBJECTIVES

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

- define rural technology
- explain the role of technology in rural development
- explain the importance of technology in agriculture and allied sectors
- explain the issues with use of technologies in rural economy.

8.2 INTRODUCTION

Rural development is of utmost importance as development of these areas leads to upliftment of the nation. Since agriculture forms the backbone of rural India, it is necessary to modernise the traditional methods in order to increase the productivity. The agriculture and allied sector also consists of agriculture and agriculture related activities such as livestock, forestry and logging, fishery, etc. Also the agriculture based industries

have an important role to play in regard to the development of the country. The technological development is of vital importance to increase productivity, thus optimizing the output and profits. This will help in balanced regional development, thus ultimately contributing towards the economy as a whole. In a fast changing dynamic environment, the traditional technologies no longer hold good. But the use of modern technology certainly reaps higher benefits, and improves the overall quality of the products.

8.3 MEANING OF RURAL TECHNOLOGY

The technology used for the development of agriculture, allied and other sectors in rural areas is called Rural Technology. The technology which is selected for the development of these areas should cater to the needs of the local people and should be helpful in meeting the economic, social, cultural aspirations of the people. Most importantly the targeted beneficiaries must be able to adopt the technology in a sustainable manner.

The features of rural technology typically are as follows:

- It is usually applied in the agriculture and allied sectors
- It is generally low cost
- It is usually labour intensive
- The mode of operation is simple
- Rural technology is related to local culture.

CHECK YOUR PROGRESS

Q.1: Fill in the blanks

Rural Technology is …… related.

8.4 MEANING OF AGRICULTURE AND ALLIED SECTOR

Before going into the discussion of rural technology, it is necessary to understand the meaning of agriculture and allied sector as these form the basis of rural areas. Agriculture and allied sector provides the main income of the people residing in these areas; so this acts as a developing pillar for these areas and economy at large.

In Indian economy there are three sectors namely primary, secondary and tertiary. For development of rural areas primary sector i.e. the agriculture and allied sector is of the most importance. The agricultural sector consists of the art and science of crop and

livestock production which are based on the natural resources. In a wider sense, agriculture comprises of the entire range of activities associated with the production of useful products from plants and animals, including soil cultivation, crop and livestock management, and the activities of processing and marketing. The allied sector consists of dairy farming, livestock management, fishery, poultry farming, mining, forestry, etc. The agriculture and the allied sector has a major role to play in the upliftment of the rural area, especially in a country like India.

8.5 GREEN REVOLUTION AND ITS IMPACT ON MODERN METHODS OF AGRICULTURE

The Green Revolution which started in India in the early 1960's had a positive impact on Indian agriculture. The father of Green Revolution in India is M.S. Swaminathan. It had helped to transform the poor productivity of agricultural output to higher productivity. During the early phase it had led to an increase in food grain production specially in Punjab, Haryana, and Western Uttar Pradesh but gradually it spread to many parts of the country, though not equally or at a uniform speed. The introduction of high-yielding varieties (HYV) of seeds, the increased availability of fertilizers and irrigation technique led to the increase in production to make the country self-sufficient in food grains.

Green Revolution had a major impact on the Indian economy in the following ways:

- **Increase in Agricultural Production:** Phenomenal increase in production of agricultural products could be seen due to adoption of HYV technology in the country. The production of wheat increased from 8.8 million tones in 1965-66 to 184 million tones in 1991-92. The productivity of other food grains also increased considerably. It was 71% in case of cereals, 104% for wheat and 52% for paddy over the period 1965-66 to 1989-90.The index number of productivity on agriculture (Base-1969 - 70) increased from 88.9 in 1965-66 to 156 in 1991-92 indicating an increase of about 100% in productivity over the period.
- **Employment:** The new agricultural technology facilitated employment to a large number of people in the agricultural sector as it made multi cropping possible.
- **Prosperity of Farmers:** With the increase in farm production the earnings of the rich farmers increased and they became prosperous. On the other hand, the poor farmers

could not reap much benefit as a result of which the inequality between rich and poor farmers became more prominent.

- **Reduction in import of food-grains:** One of the major advantages of Green Revolution was the increase in the production of food-grains, as a result of which there was a considerable reduction in their imports. India thus became self-sufficient and was able to export food grains to other countries too.
- **Market oriented:** The farmers became much more market oriented as there was surplus production and they needed to link to the markets in order to sell their products.
- **Capitalistic Farming:** Big farmers having land of more than 10 hectares got maximum benefit as they could invest more in the latest technologies like machineries, fertilisers, HYV seeds etc. This encouraged capitalistic farming.
- **Industrial growth:** As a result of green revolution there was a need for different kinds of machines like tractors, harvesters, threshers, combines, diesel engines, electric motors, pumping sets, etc. Besides these, the demand for chemical fertilizers, pesticides, insecticides, weedicides, etc. also increased to a great extent. So the industries took the benefits of these and manufactured on large scale basis. Different agro based industries also came up during this period.
- **Change in the Attitude of Farmers:** As a result of Green Revolution the attitude of the Indian farmer of using conventional methods of cultivation since the early times had changed. They had tried to adapt to the dynamic changes and embraced the latest technologies. Thus, this had a positive impact and led to the development of the economy.

8.6 WHITE REVOLUTION AND BLUE REVOLUTION - A BRIEF IDEA

- **White Revolution:** Verghese Kurien is known as the Father of the White Revolution in India. He was a social entrepreneur whose "billion-liter idea" Operation Flood (1970) - made India the largest producer of milk surpassing USA in the year 1998. This transformed India from a milk deficit country to a large milk producing country. This Revolution aimed at increasing the supply of Milk.
- **Blue Revolution:** Dr. Arun Krishnan is the father of Blue Revolution in India. This aimed at increase in production of fish and marine products. This started in India

during the tenure of the fifth five year plan in the year 1970 when the Central Government sponsored the Fish Farmers Development Agency (FFDA). Also, the Brakish Water Fish Farms Development Agency was set up to develop aquaculture. The Blue Revolution thus brought a revolutionised improvement in aquaculture by adopting new techniques of fish breeding, fish rearing, fish marketing, and fish export. Further there are some more "Revolutions" as mentioned below:

1. Pink Revolution: Paultry / Meat / Onion
2. Silver Revolution: Egg / Poultry Productions.
3. Round Revolution: Potato.
4. Golden Revolution: Honey, horticulture.
5. Grey Revolution: Fertilizers
6. Brown Revolution: Cocoa, leather
7. Red Revolution: Meat & tomatoes
8. Black Revolution: Petroleum productions
9. Rainbow Revolution: Fruits (considered as 2nd Green Revolution)
10. Yellow Revolution: Oil seeds, edible oil, especially mustard and sunflower.
11. Golden Fibre: Jute
12. Silver Fibre: Cotton
13. Evergreen Revolution: Overall Development of Agriculture.

CHECK YOUR PROGRESS

Q.2: Name any four Revolutions aimed at improving the agriculture and allied sector. (Answer in about 10 words)

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8.7 ROLE OF TECHNOLOGY IN RURAL DEVELOPMENT

Technology plays a pivotal role in transforming the rural economy. Infact technological advancement is the most important factor that aids in economic development. A question might come in your mind - What is technological advancement ? The answer will be - It is an improvement in the process of production, which often helps in increasing output. Technology does not only include scientific methods but some other processes too. The methods used and the processes undertaken should aim at yielding better output

at minimized cost. Proper technology includes water, quality of seeds, and most importantly the use of scientific methods and tools.

In case of rural development, proper warehousing and transportation of agricultural products have an important role to play. As proper scientific methods of storage and distribution will give a better market, these facilities are extremely necessary for economic profit.

The promotion of rural technology should also focus on the basic amenities of people residing in these areas. Rural technology is important not only for strengthening our rural economy and for making it self-dependent but also for improving the quality of living of the vast rural population of the country. Then only we would be able to achieve the desired development of the country.

8.8 IMPORTANCE OF RURAL TECHNOLOGY IN AGRICULTURE AND ALLIED SECTORS

The role of rural technology in agriculture and allied sector in generating income in Indian economy is worth mentioning. This has indeed played a big role in developing the agricultural industry. Agriculture is the main source of income for over 58% of the rural households. As per reports, agriculture, along with fisheries and forestry, is one of the largest contributors to the Gross Domestic Product (GDP) of India. As per the 2nd revised estimates by the Central Statistics Office (CSO), the share of agriculture and allied sectors (including agriculture, livestock, forestry and fishery) is expected to be 17.3 % of the Gross Value Added (GVA) during 2016-17 at 2011-12 prices.

India is the largest producer, consumer and exporter of spices and spice products. India has ranked second in the fruit producer's list in the world. It has grown faster than vegetables. The horticulture output of India is estimated to be 287.3 million tonnes in 2016-17 after the first advance estimate. In the farm and agriculture outputs, the country is in the third rank. The agricultural export, which is 10% of export commodities, constitutes the fourth-largest exported principal commodity. Also the agro industry in India is sub divided into various segments such as canned, dairy, processed, frozen food to fisheries, meat, poultry, and food grains.

The Department of Agriculture and Cooperation under the Ministry of Agriculture plays an active role and is responsible for the development of the agriculture sector in

India. It manages various other bodies, such as the National Dairy Development Board (NDDB), to develop other allied agricultural sectors.

The importance of rural technology in agriculture and allied sectors are:

- **Increased output:** With the help of different technological advancements, the production has increased to a considerable extent. Due to the use of different fertilisers, pesticides, proper irrigation facilities, superior quality seeds, the output has increased. Apart from these, emphasis have been laid on the agriculture and allied sector after various revolutions as discussed above to optimise the production capacities.
- **Economical:** The farmers with the help of technologies can cultivate with less labour, and low cost. Also less number of people can do more work in a short period of time due to the use of various technologies. The use of planters and harvesters makes the process simple. In agriculture, where time and costs are so important right from the process of production to the point of distribution, being economical both in cost and time is of vital importance.
- **Wide reach to the market:** The use of modern transportation facilities helps in making products available in markets on time. With modern transportation, consumers from distant places can get the products fresh. Modern transportation facilities help farmers easily transport fertilisers or other farm products to their farms, and it also helps to speed up the supply of agricultural products from the place of production to the place of consumption.
- **Transforming a deficit crop area to surplus crop area:** In desert areas farmers have taken help of technology to irrigate their crops. By the use of agricultural biotechnology crops can be even grown in desert areas. Most of these farmers grow rice which needs a lot of water; they manage to grow this rice using modern methods of irrigation using advanced technology. Advanced water sprinklers are being used to irrigate big farms and this helps the crops get enough water which is essential in their growth. Some farmers also mix nutrients/ fertilisers in this water, which helps to improve or increase the growth of crops in the deficit regions thus, transforming them into surplus crop areas.
- **Import substitution and Export Promotion:** Due to the use of technology, the production of agricultural produce or output has increased considerably. As a result of this increased production, the people of the country can be self-sufficient and be

dependent on their own production rather than depending upon food materials imported from other countries. Besides this, the surplus can be exported to other countries as a result of which there will be earning of income, which will eventually contribute to the national income.

- **Industrial growth:** For higher production, there will be a need of various equipment and machineries. These are to be obtained from industries. Thus this will enhance industrial growth in the regions and also ultimately lead to the development of the areas.
- **Reduction in rural poverty:** Due to promotion of modern technologies, the farmers have now changed their traditional methods and practices and embraced the dynamic changes. They have also adopted modern technologies and enhanced growth of the agricultural and allied sector. By this the per capita income has also increased. Thus the poverty level has reduced to a certain extent.
- **Sustaining the environment and future agricultural productivity:** In many parts of the country over pumping, water logging has been an acute problem and act as a hindrance to the primary activities. Through watershed management programmes, communities are involved in land planning and engages in agricultural practices that protect soils, increase water absorption and raise productivity through higher yields and crop diversification. The watershed program, allied with initiatives from agricultural research and extension, may be the most suited agricultural program for promoting new varieties of crops and improving the various farm practices.
- **Employment generation:** As a result of double cropping i.e. raising two consecutive crops on the same land within a single growing season, more persons can be engaged in the work. People can also be engaged in poultry farming, dairy farming, fishery, etc. Thus, this has been able to generate employment to a large number of people in the rural sector. There is tremendous scope of value addition and employment generation through the development of agro based industries in rural areas.
- **Impact of information technology in agriculture has played a revolutionary role:** Information Technology (IT) has a major role to play in all aspects of agriculture. Providing timely information to the appropriate person is the key to success. This helps to give timely and exact information to the farmers, for effective and efficient decision making. Productivity can also be monitored using the technology. With the

new extension of information technology initiatives like Krishivihar, i-Kisan, e-kutir, e-Sagoo, e-Chaupal, ICT models - AGROWEB, Agropedia, Agrinnovate, etc., Indian agriculture has taken a great forward leap in enhancing productivity.

The agriculture sector in India is expected to generate greater benefits in the coming years due to increased investments in agricultural infrastructure such as irrigation facilities, warehousing and cold storage, etc. Factors such as reduced transaction costs and time, improved port gate management and better fiscal incentives would definitely contribute to the growth of economic development.

CHECK YOUR PROGRESS

Q.3: Write the full form of NDDB, CSO, GDP.

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Q.4: What are the various information technology initiatives to enhance agricultural productivity ? (Answer in about 20 words)

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.....

8.9 ISSUES WITH USE OF TECHNOLOGIES

Technology use in India is not so smooth. There are several issues or challenges that act as a barrier to use of technology in agriculture and the allied sectors. These are as follows:

- Firstly, the awareness level of technology is not equal in all parts of the country. Most of the people of the rural areas are not aware of the technological advancements. So, they hesitate to adopt new technologies. Farmers of Punjab, Haryana, Maharashtra are adopting the new technologies whereas in some states the farmers are still using the age old methods and techniques.
- The literacy rate is also low in the rural areas. The lack of basic literacy as well as computer literacy also acts as a hindrance to the use of technology. As farmers remain ignorant due to the lack of literacy they fail to adapt to the new changes.
- Some farmers are also hesitant to accept the new technologies. For this attitude of the farmers, the agriculture and allied sector often remains backward.
- Due to lack of funds, the poor farmers are not able to purchase the technology. The

cost of seeds, fertilisers, animal feeds is higher. As a result, the rich farmers grows more rich and the poor ones remains poor. There is no equal development of all classes of the farmers.

- Modern technologies sometimes cannot be used properly due to several natural calamities like flood, soil erosion, earthquake, etc.
- Frequent power cuts also act as a barrier to technology adaptation. Due to shortage of electricity technology cannot be effectively used in the rural areas.
- Due to improper transportation facilities, the products sometimes do not get a wider reach to the markets. The middlemen commission in between also makes the prices rise high but the farmers are paid less.
- Lack of proper training facilities for use of the technology and an inadequate feedback system also results in failure in making profit. Also due inadequate hygiene system different diseases are caused in pigs, hens, fishes, etc. This poses a threat to the allied sector.
- No adequate exposure visits to modern poultry farm, hatchery, agricultural fields, dairy farming, fishery, etc. also limit the knowledge of the farmers resulting in low profit.
- The over use of technology also poses a threat to the environment and leads to various pollution and degrades the environment.

CHECK YOUR PROGRESS

Q.5: Choose the correct answer

The literacy rate in India is high/ low.

8.10 LET US SUM UP

- Rural technology helps in increasing the productivity of the agriculture and allied sector and thus developing the economy of the country.
- The different revolutions viz, the Green revolution, Blue revolution, White revolution, etc. have positive impacts on increasing the output of agriculture and allied sector.
- The Government's steps in the Union Budget 2017 for agriculture and allied sector has been highlighted and these will definitely help in the development of the primary sector.

- Warehousing, storage, water, methods along with various other technologies play an important role in increasing the productivity and output.
- The internet technology has brought revolutionary changes in the agricultural and allied sector.
- There are different challenges or issues like low awareness level, illiteracy, lack of proper training facilities, frequent power cuts, inadequate exposure visits, improper transportation system, etc. are inherent in the use of technology in the field of agriculture and allied sector in India.

8.11 FURTHER READING

1) Singh,K. (2009). *Rural Development Principles, Policies and Management.* New Delhi: Sage Publications.
2) Sreedhar, G. and Rajasekhar, D. (2014). *Rural Development in India (Strategies and Processes)*. New Delhi: Concept Publishing Company (P) Ltd.

8.12 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Agriculture

Ans to Q No 2: Green Revolution, Blue Revolution, White Revolution and Yellow Revolution.

Ans to Q No 3: Full forms of:

NDDB - National Dairy Development Board

CSO - Central Statistics Office

GDP - Gross Domestic Product

Ans to Q No 4: Information technology initiatives to enhance agricultural productivity are: Krishivihar, i-Kisan, e-kutir, e-Sagoo, ICT models - AGROWEB, Agropedia, AgrInnovate.

Ans to Q No 5: Low

8.13 MODEL QUESTIONS

Very Short Questions

Q 1: State the meaning of Rural Technology.

Q 2: Write the meaning of agriculture and allied sector.

Q 3: Define Blue Revolution and White Revolution.

Short Questions (Answer each question in about 150 words)

Q 1: Discuss the importance of information technology in agriculture.

Q 2: Why is there a need to modernise the traditional methods of agriculture? Explain.

Q 3: Discuss the role of technology in Rural Development.

Long Questions (Answer each question in about 300-500 words)

Q 1: Write about the Green revolution and its impact on modern methods of agriculture.

Q 2: Discuss the role of technology in agriculture and allied sector.

Q 3: Write about the issues involved in use of technology in agriculture and allied sector.

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UNIT 9 : AGRICULTURE AND LIVESTOCK INSURANCE IN INDIA

UNIT STRUCTURE

9.1 Learning Objectives

9.2 Introduction

9.3 Role of Agriculture and Livestock Insurance in India

9.4 Different Rural Insurance Schemes in India: Relating to Agriculture and Livestock

9.4.1 Agriculture Insurance Schemes

9.4.2 Livestock Insurance Schemes

9.5 Let Us Sum Up

9.6 Further Reading

9.7 Answers to Check Your Progress

9.8 Model Questions

9.1 LEARNING OBJECTIVES

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

- know about the agriculture insurance company of India
- explain the role played by the insurance sector in the field of agriculture and livestock
- know the different rural insurance schemes in India relating to agriculture and livestock.

9.2 INTRODUCTION

Agriculture and livestock both play a critical role in the development of a given economy. India is predominantly an agricultural country where millions of people, or more precisely about two-third of the population, depend upon these two sectors for their livelihood. Livestock which consists of cattle, sheep, goats etc. are domesticated animals raised to produce commodities such as meat, dairy products, leather, clothing and adornment etc. These two factors in addition to providing food and raw materials, also provide employment opportunities. Though these two are profitable sectors, they are not

risk free. As risks are associated with both agricultural produce and livestock in India, insurance policies are formulated by the insurance companies to hedge against the risks and damages associated with both sectors. Moreover the Government of India from time to time has launched various schemes for the benefit of the farmers and to resolve their various difficulties.

9.3 ROLE OF AGRICULTURE AND LIVESTOCK INSURANCE IN INDIA

Agriculture in India is frequently affected by adverse climatic situations like droughts, floods, cyclone, frost, storms, landslides, etc. which affect farm production and income and such situations are beyond the control of the farmers. Moreover, farmers also face losses due to death of their animals. Thus in order to protect the farmers against any adverse situation the mechanism of insurance was introduced.

Insurance is a financial arrangement whereby losses suffered by a few are met from the funds accumulated through small contributions made by many who are exposed to similar risks. The farmers thus by taking up insurance policy protect themselves against any misfortune in future as these policies aim at mitigating the financial losses suffered by the farmers due to damage and destruction of their crops and eventual loss of their animals due to death. Farmers who take insurance policies protect their crops, livestock, farming and harvesting practices from setbacks.

With the vision of providing financial stability and insurance to the agricultural sector in rural India, Agriculture Insurance Company of India Limited (AIC) was incorporated under the Indian Companies Act, 1956 on 20th December, 2002. AIC commenced its business from 1st April, 2003. It is a Public Sector Insurance Company. AIC is under the administrative control of the Ministry of Finance, Government of India (GOI), and under the operational supervision of the Ministry of Agriculture, GOI. AIC started with an authorised share capital of Rs.1500 crores and paid up capital of Rs. 200 crores.

The share holders of AIC are

- General Insurance Corporation of India - 35 %
- National Bank for Agriculture And Rural Development (NABARD) - 30 %
- National Insurance Company Limited - 8.75 %
- The New India Assurance Company Limited - 8.75 %
- The Oriental Insurance Company Limited - 8.75 %

- United India Insurance Company Limited - 8.75 %

AIC has been formed to provide insurance protection to the farmers in the event of failure of any of the notified crop as a result of natural calamities, destruction of crops due to pests and diseases and also provides financial assistance to farmers to adopt progressive farming practices. The insurance schemes of AIC provides comprehensive risk insurance for yield losses due to natural fire and lightning, storms, hailstorms, cyclone, typhoon, tempest, hurricane, tornado, flood, landslide, drought, dry spells, pests/diseases, etc.

In rural India most of the farmers maintain mixed farming system which consists of both agricultural produce and livestock. Thus livestock is also a source of income in rural India. As such, a mechanism of assured protection to the farmers and cattle rearers is required against eventual losses of such animals. In connection to this, the Department of Animal Husbandry, Dairying & Fisheries, under the Ministry of Agriculture, GOI launched a centrally sponsored scheme, named as Livestock Insurance Scheme which was implemented on a pilot basis during 2005-06 and 2006-07 of the 10th Five Year Plan and 2007-08 of the 11th Five Year Plan in 100 selected districts. The scheme was later implemented on a regular basis from 2008-09 in 100 newly selected districts of the country.

CHECK YOUR PROGRESS

Q 1: Write the meaning of the term Insurance. (Answer in about 20 words)

.....

.....

Q 2: When was Agriculture Insurance Company of India established?

.....

Q 3: What is meant by the term Livestock? (Answer in about 20 words)

.....

.....

9.4 DIFFERENT RURAL INSURANCE SCHEMES IN INDIA: RELATING TO AGRICULTURE AND LIVESTOCK

The different rural insurance schemes introduced to make agriculture and livestock sector of rural India a profitable and secured one are enumerated here.

9.4.1 Agriculture Insurance Schemes

To insulate farmers against risks in agriculture, both Agriculture Insurance Company and Government of India have launched several insurance schemes. These schemes have been briefly discussed below:

- **National Agriculture Insurance Scheme -** The Government introduced in 1999-2000 a new scheme titled "National Agricultural Insurance Scheme" (NAIS) or "Rashtriya Krishi Bima Yojana" (RKBY). NAIS envisages coverage of all food crops (cereals, millets & pulses), oilseeds, sugarcane, horticultural and commercial crops. This scheme extends to all States and Union Territories. All farmers including sharecroppers, tenant farmers growing the notified crops in the notified areas are eligible for coverage under the scheme.

  The objectives of the NAIS is to provide insurance coverage and financial support to the farmers in the event of failure of any of the notified crop as a result of natural calamities, pests & diseases and to encourage the farmers to adopt progressive farming practices, high value inputs and higher technology in agriculture. Under this scheme premium rates vary from 1.5 percent to 3.5 percent of sum assured for food crops. For horticultural and commercial crops, actuarial rates are charged. Small and marginal farmers are entitled to a subsidy of 50 percent of the premium charged.

- **National Crop Insurance Programme -** National Crop Insurance Programme (NCIP) launched in 2013 was formed by merging three schemes viz. Modified National Agricultural Insurance Scheme (MNAIS), Weather Based Crop Insurance Scheme (WBCIS) and Coconut Palm Insurance Scheme (CPIS). It is a farmer friendly crop insurance scheme launched by the UPA Government of India in 2013. NCIP provides coverage food crops (cereals, millets & pulses), oilseeds, and annual commercial/horticultural crops. All farmers including sharecroppers and tenant farmers growing the notified crops in the notified areas are eligible for coverage.

  The objectives of NCIP are to provide financial support to farmers for losses in their crop yield, to help in maintaining flow of agricultural credit and to encourage farmers to adopt progressive farming practices and higher technology in agriculture. Under this scheme insurance companies will work

out on actuarial premium as well as net premium rates for each notified crop. Actuarial premium rates shall be capped at 11% for Kharif season and 9% for Rabi season for food crops & oilseeds. However, in case of annual commercial/ horticultural crops, cap of 13% on actuarial rates of premium will be applicable. In case of the crops whose premium will be higher than the cap level, then their sum insured will be reduced in the proportion to cap level. These caps may be reviewed and revised after every Five Year Plan period, if felt necessary.

The three components of NCIP are:

- **MNAIS -** In case the crops fail due to natural calamity or if there is low yield in some particular season, then insurance coverage and financial support is provided under this scheme. This scheme covers food crops including cereals, millets and pulses, oil seeds and horticulture crops.
- **WBCIS -** It provides insurance coverage and financial support to the farmers in the event of failure of crops due to Adverse Weather Incidence and if the crops do not come up as expected by the farmers. The scheme covers major food crops such as cereals, millets & pulses, oilseeds and commercial/horticultural crops. State Governments notifies the crops covered under this.
- **CPIS -** This insurance scheme shall cover damages/losses to coconut palm arising out of non-preventable natural factors. The insurance coverage and claim assessment shall be on individual tree basis. The insurance is against perils like storm, hailstorm, cyclone, flood, earthquake, landslide, pests and diseases of widespread incidence.

- **Bio-Fuel Tree/ Plant Insurance -** This insurance scheme is applicable to Bio-fuel tree/plant growers and producers, whose produce/yields are likely to be affected by the specified perils. The trees/plants covered under the policy are Jatropha curcas (Jatropha), Pongamia pinnata (Karanja), Azadirachta indica (Neem), Bassia latifolia (Mahua), Callophyllum inophyllum (Polanga) & Simarouba glauca (Paradise Tree).

  The policy shall cover and indentify the insured against pecuniary loss suffered by the insured in respect of cost of inputs on account of the total loss or damage to the trees/ plants made by natural calamities like flood, cyclone,

storm, frost and pest & diseases either in isolation or concurrently. Loss due to drought can also be covered on payment of additional premium. The sum insured is equivalent to input cost, and can extend up to 125% /150% of the input cost. The period of this policy is annual; however it has a provision to go for policy of 3 or 5 years duration.

- **Cardamom Plant & Yield Insurance -** The Cardamom Plant and Yield Insurance is a policy that covers losses/damage of cardamom yield and/or cardamom plants (bushes) arising out of non-preventable natural factors. This policy is categorized under Section - I and Section - II where the insurer can go for either one Section or both. Under Section-I the insurer gets compensations against the likelihood of diminished output/yield resulting from non-preventable natural perils. Under Section -II the insurer will be compensated in the event of total loss of the individual plants in the insured plantation from 2nd year to the 12th year. The insurance coverage and claim assessment shall be on individual plant basis. This policy is available only for the farmers in Kerala, Tamil Nadu, Karnataka and Sikkim.
- **Coconut Palm Insurance Scheme -** Coconut is a perennial crop and its cultivation is subjected to risks from climatic changes, natural disasters, pests, diseases etc. So the losses suffered by farmers due to damage of this crop can be heavy and hence this crop needs to be insured. Moreover, coconut cultivation relies on rainfall for water and is susceptible to biotic and abiotic stresses. Hence, it is necessary to minimise risk faced by coconut growers, by covering coconut palms with an insurance scheme.

  This policy compensates farmers in the event of total loss of the individual palm/tree in the insured plantation from the 4 years to the 60 years for dwarf and hybrid tree and 7 years to 60 years for tall trees. Insurance may be obtained through Coconut Development Board (CDB), directly from representatives or authorized agents or nearest office of Agriculture/Horticulture Department or Coconut Producers/Growers Societies registered under Societies Act or registered with CDB.
- **Potato Crop Insurance -** Potato Crop Insurance is applicable to potato crop cultivated by the farmers in different potato growing parts of the country. This

policy secures the pecuniary loss suffered by the insured and indemnifies the insured in the event of damage of potato crop leading to reduction of plant population below a threshold limit, occasioned by natural calamities like flood, cyclone, storm, pest & diseases either in isolation or concurrently during the period of insurance.

- **Pulpwood Tree Insurance -** This is a special type of crop insurance scheme available to pulpwood tree growers and producers, whose produce/yields are likely to be affected by specified perils like cyclones, floods, earthquakes, heavy rain falls, dry spells and so on. The insured amount can be equivalent to input cost, and can extend up to 125% / 150% of the input cost at the discretion of the insurer. The policy period is annual, with a provision to go for policy of up to 5 years. Whereas in other schemes financial support is provided only in the case of total loss of the crops, but this scheme would provide support in case of partial damage also. This insurance product can directly be purchased from AIC or from authorized individual/corporate agents.
- **Rainfall Insurance Scheme-Coffee (RISC) -** AIC has designed this unique product for the coffee growers of Karnataka, Kerala and Tamil Nadu in consultation with Coffee Board, Central Coffee Research Institute and the Coffee Growers. RISC is expected to provide aid to those coffee growers who are likely to be impacted by adverse rainfall incidence. Any coffee grower, cultivating Robusta or Arabica variety of coffee in the selected states are eligible to buy the insurance.

  The insurance operates during the period starting from 1st March to the end of following February. The periods under different coverage are as follows:

Name of the Cover	Arabica Coffee	Robusta Coffee
Blossom Shower	1st March to 30th April of the current year	1st March to 15th April of the current year
Backing Shower	1st to 19th May of the current year	1st to 19th May of the current year
Monsoon Shower	1st June to 30th September of the current year	1st June to 30th September of the current year
Post Monsoon Shower	1st November of the current year to 31st January of the following year	1st December of the current year to 28th February of the following year

The premium to be paid under this policy depends on the type of coffee crop, location, the coverage sought, the past rainfall pattern in the specified geographical area and the acreage under cultivation.

- **Rubber Plantation Insurance -** Rubber is one of the important cash crops that are cultivated basically in Kerala and in the North Eastern States of the country. In order to keep the plantations of rubber insured the Rubber Plantation Insurance policy takes care of all the damages and losses that might occur due to flood, storm, fire, lightning, riots and strikes and the expenses that are to be incurred from it. The policy is also extended to cover the loss that is caused by road, rail, vehicles or wild animals. Losses due to diseases and insect-pest are excluded from the scope of cover.

  The scheme is applicable to both mature and immature plantations. The policy is issued for a period of 7 years from the last day of the month of planting for immature plants and in case of mature plantations, there is coverage of up to 25 years of insurance in the blocks of 1 year or 2 year or 3 year from the 8th year onwards.

- **Varsha Bima (Rainfall Insurance) -** Indian agriculture is heavily dependent on rainfall. So Varsha Bima, which is a rainfall based crop insurance scheme, was launched in 2005. Under this scheme compensation is paid when the actual rainfall recorded during the season falls short of specified percentage of normal rainfall of the area. Varsha Bima is voluntary for all classes of cultivators who stand to lose financially upon adverse incidence of rainfall. Initially Varsha Bima is meant for cultivators for whom National Agricultural Insurance Scheme (NAIS) is voluntary and Weather based Crop Insurance Scheme (WBCIS) is not available.

  The available Varsha Bima coverage options are

  Option - I Seasonal Rainfall Insurance: Under this scheme, rainfall insurance from the month of June till the month of September would be provided.

  Option - II Rainfall Distribution Insurance: Based on certain factors, the rainfall distribution insurance would be provided from a certain week in the month of June till a certain week in the month of September.

  Option - III Sowing Insurance: This insurance would be provided from the month of June till the month of August.

- **Rabi Weather Insurance -** AIC introduced Weather Insurance (Rabi) scheme to provide protection against adverse weather situations. Crops like wheat, mustard, gram, potato, masoor, barley and coriander are extremely vulnerable to weather factors such as excessive rainfall, frost, and fluctuation in temperature, etc.

  This scheme operates during the months from December to April. However the period is different for different parameters & crops. All farmers, be it small or marginal, owners or tenants, can buy this weather insurance. Claims are automated and when become payable, will be paid at a uniform rate to all insured growers in the area growing the insured crop.

9.4.2 Livestock Insurance Schemes

The Livestock Insurance Scheme, a centrally sponsored scheme is implemented in all the districts of the country from 2014. Under this scheme the indigenous / crossbred milch animals, pack animals (horses, donkey, mules, camels, ponies) and other livestock (goat, sheep, pigs, rabbit, yak and mithun etc.) are covered. An animal under this scheme will be insured for its current market price. The market price of the animal to be insured will be assessed jointly by the beneficiary and the insurance company preferably in the presence of the Veterinary officer or the BDO. Benefit of subsidy of this scheme is to be restricted to 5 animals per beneficiary per household for all animals except sheep, goat, pig and rabbit. In case of sheep, goat, pig and rabbit the benefit of subsidy is to be restricted based on "Cattle Unit" and one cattle unit is equal to 10 animals'.

The Department of Animal Husbandry, Dairying & Fisheries under the Government of India also implemented a centrally sponsored scheme called as National Project for Cattle and Buffalo Breeding (NPCBB) from October 2000 with the objective of bringing about genetic up-gradation of cattle and buffaloes by artificial insemination as well as acquisition of proven indigenous animals. It is implemented through State Implementing Agencies (SIAs) like State Livestock Development Boards. The states which are not implementing NPCBB or where there are no SIAs, the livestock insurance scheme will be implemented through the State Animal Husbandry Departments. Animals to be covered under the scheme are all those

female cattle/buffalo yielding at least 1500 litre of milk per lactation and can be insured for maximum of their current market value. Animals covered under any other insurance scheme/plan scheme will not be covered under this scheme. An animal will be insured for the maximum of its current market price. The market price of the animal to be insured will be assessed jointly by the beneficiary, authorized veterinary practitioner and the insurance agent.

In addition to these two livestock insurance schemes, the publicly as well as privately operated insurance companies also offer various livestock policies to the farmers for the insurance of their livestock. Some of them are Cattle Insurance, Sheep and Goat Insurance, Poultry Insurance, Aqua Culture Insurance, Sericulture (Silk Worm) Insurance, Honey Bee Insurance etc. Some of these are discussed below:

- **Cattle Insurance -** Cattle Insurance was previously governed under Market Agreement as devised by General Insurance Corporation of India. It covers indigenous cross bred and exotic cattle owned by private owners, various financial institutions, dairy farms, cooperatives, corporate dairies etc. The word cattle include milch, cows and buffalo's calves and heifers, stud bulls, bullocks and he-buffaloes and mithuns. The policy shall give indemnity only for death of cattle due to accident, diseases, surgical operation, strike, riot and civil commotion and terrorism and earthquake.
- **Sheep and Goat Insurance -** This scheme governed under Market Agreement Policy provides indemnity against death of sheep and goat due to accident (including fire, lightening, flood, cyclone, famine, strike, riot and civil commotion) and disease. Earthquake and landslide covers are also provided.
- **Pig Insurance -** All indigenous, cross-bred and exotic pigs are covered under this insurance. The coverage is against death due to accident or disease. But permanent total disablement, breeding and furrowing risks are not covered.
- **Honey Bee Insurance -** It provides insurance protection to beehives and bee colonies against loss/damage as a result of accident which includes fire, flood, inundation, storm, tempest, cyclone, hurricane and tornado. This may however be extended to cover loss/damage during transit, due to theft, specified diseases namely Thaisac and Iridovirus and also pesticide poisoning from crops foraged by.

- **Poultry/Duck Insurance -** This insurance is available to the poultry/duck farm owned by the farmers. This insurance covers all types of exotic and cross breed poultry birds and ducks against death due to accident (including fire, lightning, famine, riot and strike and civil commotion) or diseases.

CHECK YOUR PROGRESS

Q 4: Mention any three agricultural insurance scheme of AIC. (Answer in about 20 words)

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Q 5: What are the three components of National Crop Insurance Programme? (Answer in about 20 words)

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Q 6: Discuss briefly about the Livestock Insurance Scheme. (Answer in about 50 words)

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9.5 LET US SUM UP

- The importance of insurance sector in providing financial assistance and security to agriculture and livestock in India.
- The role played by Agriculture Insurance Company of India Limited has been highlighted along with the various insurance schemes available in the market to protect farmers against the existing risks in agriculture.
- National Crop Insurance Programme launched in 2013 was formed by merging three schemes viz. Modified National Agricultural Insurance Scheme, Weather Based Crop Insurance Scheme and Coconut Palm Insurance Scheme.
- Livestock Insurance Scheme, a centrally sponsored scheme provides insurance to the indigenous/crossbred milch animals, pack animals and other livestock. An animal

under this scheme will be insured for its current market price.

- National Project for Cattle and Buffalo Breeding is launched with the objective of bringing about genetic up-gradation of cattle and buffaloes by artificial insemination as well as acquisition of proven indigenous animals.

9.6 FURTHER READING

1) Raju, S.S. and Chand, Ramesh. (2009). *Agricultural Risk and Insurance in India: Problems and Prospects.* New Delhi: Academic Foundation

2) Sastry, N. S. R. (1995). *Livestock Sector of India: Regional Aspects.* Lucknow: International Book Distributing Company.

9.7 ANSWERS TO CHECK YOUR PRGRESS

Ans to Q No 1: Insurance is a financial arrangement whereby losses suffered by a few are met from the funds accumulated through small contributions made by many who are exposed to similar risks.

Ans to Q No 2: Agriculture Insurance Company of India Limited (AIC) was established on 20th December, 2002.

Ans to Q No 3: Livestock are domesticated animals raised in a rural area to produce commodities such as meat, dairy products, leather and wool.

Ans to Q No 4: Three agricultural insurance scheme of AIC are National Agricultural Insurance Scheme, National Crop Insurance Programme and Cardamom Plant and Yield Insurance.

Ans to Q No 5: The three components of National Crop Insurance Programme are Modified National Agricultural Insurance Scheme, Weather Based Crop Insurance Scheme and Coconut Palm Insurance Scheme.

Ans to Q No 6: Livestock Insurance Scheme, a centrally sponsored scheme under which the indigenous/crossbred milch animals, pack animals like horses, donkey, mules, camels, ponies and other livestock like goat, sheep, pigs, etc. are covered. An animal under this scheme will be insured for its current market price which will be assessed jointly by the beneficiary and the insurance company.

9.8 MODEL QUESTIONS

Short Questions (Answer each question in about 150 words)

Q 1: Write a short note on Agriculture Insurance Company of India Limited.

Q 2: Explain briefly about the three components of National Crop Insurance Programme.

Q 3: What is meant by the term Livestock? Mention five rural insurance schemes available for livestock in India.

Q 4: What do you know about the National Project for Cattle and Buffalo Breeding?

Long Questions (Answer each question in about 300-500 words)

Q 1: What are the various agricultural insurance schemes provided by the Agriculture Insurance Company ?

Q 2: Discuss briefly about the National Agricultural Insurance Scheme and National Crop Insurance Programme.

Q 3: Write a note on Livestock Insurance Schemes available in India.

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UNIT 10 : RURAL FINANCE IN INDIA

UNIT STRUCTURE

10.1 Learning Objectives

10.2 Introduction

10.3 Non-Institutional Sources of Rural Finance in India

- 10.3.1 Indigenous Banker
- 10.3.2 Money Lenders
- 10.3.3 Landlords
- 10.3.4 Traders

10.4 Institutional Sources of Rural Finance in India

- 10.4.1 Co-Operative Banks
- 10.4.1 Public Sector Banks
- 10.4.1 Corporations and Apex Bodies (NABARD, Agricultural Finance Corporation, RRBs)

10.5 Let Us Sum Up

10.6 Further Reading

10.7 Answers to check your progress

10.8 Model Questions

10.1 LEARNING OBJECTIVES

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

- explain the meaning of rural finance
- distinguish between non-institutional and institutional sources of rural finance
- identify the non-institutional sources of rural finance in India
- discuss the importance of institutional sources of rural finance in India.

10.2 INTRODUCTION

In this unit we will discuss different sources of rural finance in India.

The financial services which are used by the people of rural areas are known as rural finance. In a developing country like India though both non-institutional and

institutional sources of rural finance are utilised, however, the people of rural areas still prefer the non-institutional sources of credit. Even though the core areas of rural finance are credit, farmers and interest rates, yet the prime issues that need urgent attention are beyond the sight of policy makers. So are the unmet financial needs of the rural people, the underserved rural population specially the women, children and elderly.

The unmet financial needs are the lifecycle financial needs of farmers, investment finance and risk management products respectively. In this unit, we will discuss in details about non-institutional and institutional sources of rural finance with their functions and importance.

10.3 NON-INSTITUTIONAL SOURCES OF RURAL FINANCE IN INDIA

Non-institutional sources or private sources of farm credit refer to credit supplied by money lenders, landlords and traders, friends, relatives, neighbours and so on. Money lending is often combined with farming by the village money lenders as they lend to farmers for both the productive and non-productive purposes charging higher rate of interest. They enter larger than actually borrowed sums through false pretenses by obtaining promissory notes and give no receipts for repayments and often deny such repayments. They commit many other rogueries and have been responsible for many of the ills of Indian agriculture. Their main interest has been to exploit the farmers and grab their lands. In the following parts of this unit, we are discussing some of the important non-institutional sources of rural finance in India.

10.3.1 Indigenous Banker

Before the formal banking system was introduced in India, the indigenous bankers had played a significant role in the rural financial system of the country. They (indigenous bankers) are any private firms or even individuals who act as synonyms to the formal banks and therefore not only receive deposits but also provide loans. The rural people were benefitted from the existence of such a system then. Such bankers used to provide credit to not only small businessmen but also to the others who needed it. However, the advent of the British had shattered their existence as the banking system was diverted towards a much more organized

platform.

The following are the functions of the indigenous banker which has been segregated into banking and non-banking functions.

- **Accepting Deposits:** The indigenous bankers receive deposit from the public for a fixed period for which a rate of interest is pre-determined.
- **Advancing Loans:** The indigenous bankers used to provide loans against the security of land, jewellery, crops etc.
- **Discounting Hundis:** Hundis are like Bills of Exchange which are an important function of the indigenous bankers. There are two types of hundis-
  - Darshni or Sight Hundi which is payable on demand
  - Muddati or time hundi which is payable after the period mentioned on the face of the hundi.
- **Remittance Facilities:** Indigenous bankers also provide remittance facilities to its clients. This is done by writing a finance bill to their branches, if they have at other place, or to some other indigenous banker, with whom they have such arrangements.
- **Commission agents:** They act as commission agents to firms.
- **Speculative activities:** They indulge in speculation of food and non-food crops, and other articles of consumption.

Importance of Indigenous Banking

The indigenous banking has played a significant role in the rural financial scenario of India. However after the British invaded India, the indigenous banking system was disturbed considerably as the modern banking was slowly growing up. However, it did not stop the rural people to approach the indigenous bankers for availing loans even then. It is a known fact that the modern banking system, that was growing up, had lot of formalities to be completed before a person can actually avail loan facilities. As the rural people are mostly dependent on agriculture and illiterate, the new banking system was not a very friendly affair for them. They therefore still approached the indigenous bankers for availing credit either for their personal necessity or for agricultural or business needs. Also since the indigenous banking did not have any fixed timings unlike the new age banking of the Britishers, they were preferred. The indigenous bankers used

to provide loans mostly for productive purposes. By proving remittances and financial facilities to traders and small industrialists and businessmen they helped not only in financing internal trade but also in expanding it. Moreover, they also assisted the movement of the agricultural goods from the rural to the urban markets. Therefore the indigenous banking system was of immense importance in India.

CHECK YOUR PROGRESS

Q 1: Fill in the Blank

Rural India is mostly …….based.

Q 2: State two functions of indigenous banking (Answer in about 40 words)

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Q 3: State two reasons for the importance of indigenous banking. (Answer in about 40 words)

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10.3.2 Money Lenders

Money lenders are groups who offer personal loans in small amount and at a high rate of interest to people with little or no access to the banking system.

Functions of money lender

- Providing short term loans either for self consumption or other agricultural purposes.
- Since the money lenders have a personal knowledge about the creditworthiness of borrowers they adopt rigid or flexible attitude while lending, charging interest, and recovery of loans.
- The money lenders in rural areas are quite influential persons who adopt

pressure tactics in the recovery of loans, such as forcible occupation of the cultivator's land, caste disapproval, pressure from panchayats, etc.

- The money lenders also take resort to some malpractices in rural areas which are: manipulating accounts, deducting interest in advance, demanding presents, exacting free services from the borrower, demanding donations, obtaining thumb impression of borrower on blank paper, non-issue of receipts for payment of interest and principal, keeping the deed of land or house of the borrower as a security, forcing the borrower or farmer to sell his produce in advance at a price lower than the market, etc.

Importance of money lenders

Money lenders play an important role in the rural areas. Because of the insufficiency of proper banking facilities, the rural people had to face severe problems. In such a situation, they had to approach the village money lenders for financial assistance. The money lenders would provide them with the required finance in order to meet their personal consumption needs as well as for productive and other social needs. However, in doing so, they (the money lenders) would charge a high rate of interest from the poor rural people. Due to illiteracy and ignorance, the rural people had to shoulder the burden of high rate of interests as levied by the money lenders. As the money lenders are in close and constant touch with the villagers, it becomes easier for them to recover their loans on time.

10.3.3 Landlords

A landlord is a person who owns a piece of land and without putting his own labour into it survives on engaging other rural people in its cultivation. The rural people are exploited in terms of excessive land rent collected from them. People who may assist the landlord in collecting rent and whose survival depends on the exploitation of the other people by the landlords also fall under the category of landlords.

10.3.4 Traders

A trader is a person who engages in buying of goods at a lower price and sells at a higher price for profit. They provide short term loans to the farmers for productive

purposes before the harvest is ready on the condition that they (the farmers) will sell their products to them at pre-determined prices which are usually very low, compared to prevalent market prices at the time of harvest. This type of loan assumes greater significance in the case of food grains like paddy, wheat and cash crops like cotton, jute, tobacco, cardamom and sugarcane.

CHECK YOUR PROGRESS

Q 4: State two functions of money lenders. (Answer in about 20 words)

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Q 5: Choose the correct one

Money lenders provide short-term loans. (True / False)

Q 6: Write a short note on trader. (Answer in about 20 words)

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10.4 INSTITUTIONAL SOURCES OF RURAL FINANCE IN INDIA

Since independence, a multi-agency approach consisting of co-operatives, commercial banks and Regional Rural Banks (RRB's) has been adopted to provide timely, adequate and relatively cheap credit to farmers. This is known as institutional credit. The major objective of the Government of India is to provide increasingly institutional credit to small and marginal farmers to enable them to adopt modern technology and improved agricultural practices and thus increase agricultural production and productivity. In the following parts of this section, we are discussing some of the important institutional sources of rural finance in India.

10.4.1 Cooperative Banks

Rural cooperative banks play a very important role in meeting the credit requirements of the rural agricultural sector of the country. It provides credit to the rural farmers, self-employed persons and small scale industries, thereby providing much impetus towards the growth and development of India's rural

economy. For providing long term credit to the farmers, Co-operative Agricultural and Rural Development Banks were organized. The Rural Cooperative Banks of India abide by the laws that were formulated by Banking Regulations Act, 1949 and Banking Laws Act, 1965.

The following are the functions of cooperative banks in rural India:

- The Rural Cooperative Banks mainly provide loans to the rural farmers and also to the rural people who are engaged in cattle breeding and own hatcheries.
- Providing finance to the self help groups
- Boosting small scale industries of rural India.
- Development of agriculture by providing loans and incentives to famers.
- Facilitating crop insurance.
- Creating awareness about various government sponsored schemes for rural farming.
- Educating rural farmers on different modern methods of farming.

CHECK YOUR PROGRESS

Q 7: Fill in the blanks

The Banking Regulations Act and Banking Laws Act were formulated in the year …… and ……

10.4.2 Public Sector Banks

A public sector bank is a bank where majority stake is held by the government. Public sector banks first took interest in rural finance when the State Bank of India was created in 1955 to provide, among others, credit facilities for co-operative processing and marketing societies. An important argument in support of bank nationalization was that the public sector banks had kept themselves aloof from the problems of agriculture and remained indifferent to the credit needs of the farmers for agricultural operations and land improvement.

Direct financing by Public sector banks

Public sector banks were expected to vigorously support the farmers in general and small cultivators in particular. For obvious reasons the nationalized banks concentrated their attention on cultivators and other special category farmers

such as those engaged in raising high-yeilding variety of food grains.

Public Banks and Small Farmers

Public sector banks today provide financial assistance to farmers in a variety of ways. Banks have introduced a number of lending schemes for development of suitable farm organizations for taking up productive activities including supplementary and complimentary ones. Commercial banks provide two types of loans viz.;

- Direct Finance and
- Indirect Finance
- **Direct Finance:** Direct finance includes schemes through which credit is provided directly to agriculturists for financing their production and development needs. Commercial banks provide short-term credit facilities for financing seasonal agricultural operations, the important amongst them are financing for production inputs, such as improved seeds, fertilizers, insecticides and to meet the other cost of cultivation which includes labour charges and irrigation charges. Medium-term loans are granted for development of irrigation potential, repairing old wells, undertaking land improvement and programmes such as leveling, budding, terracing etc., mechanisation of farm operations through purchase of tractors, power tillers and other agricultural machinery and implements. Long-term credit is provided for development of horticulture, plantations etc. Banks have launched schemes for financing ancillary enterprise such as dairy, poultry, sericulture, apiculture to provide additional employment to farm family labour and other rural labour force. These are the facilities which are given directly to farmers. A few banks have also introduced farm graduate schemes under which financial assistance is provided to agricultural graduates to acquire land and become progressive agriculturists.
- **Indirect Finance:** Apart from direct finance by way of production loans and development loans, as enumerated above, the commercial banks are also assisting agricultural development indirectly by financing individuals or agencies engaged in the supply of production inputs and other services to agriculturists. Indirect financing includes-
  - Credit for financing distribution of fertilizers, pesticides and seeds.
  - Loans to farmers through PACS.

- Finance to hire-purchase schemes for distribution of agricultural machinery and implements.
- Loans for constructing and running of storage facilities.
- Loans for spraying operations.
- Loans to Electricity Boards for financing their well energization programmes.
- Loans to State tube well organisations, agro-industries corporations, custom service units and co-operative marketing societies.

Thus, the indirect finance also plays a vital role in the credit extension.

10.4.3 Corporations and Apex Bodies (NABARD, Agricultural Finance Corporation, RRBs)

NABARD

National Bank for Agricultural and Rural Development (NABARD) was set up as an apex bank and refinance institution for agricultural and rural credits. Its purpose was to take charge of the rural credit and also the refinance function of the Agricultural Refinance Development Corporation (ARDC).

As an apex bank, it takes care of agricultural credit and production, investment credit, SSI to promote rural development. It gives credit to Cooperative banks, RRBs. It is an integrated agency to fulfil the needs of agricultural and rural development. We will discuss about NABARD in detail in unit 14 of this course.

AGRICULATURAL FINANCE CORPORATION LIMITED:

It is a multi-disciplinary cross-functional development organisation providing consulting, advisory and implementation support for agriculture, rural development and other strategic socio-economic sectors in India.

REGIONAL RURAL BANKS (RRB's)

Following the recommendations of the Narasimham Committee, the Government passed the Regional Rural Banks Act, 1976. The main objectives of the RRBs is to provide credit and other facilities particularly to the small and marginal farmers, agricultural labours artisans and small entrepreneurs and develop agriculture, trade, commerce and industry and other productive activities in the rural areas. We will discuss about RRBs in detail in unit 13 of this course.

CHECK YOUR PROGRESS

Q 8: Define a public sector bank. (Answer in about 10 words)

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Q 9: Define NABARD.

.....

Q 10: State one function of RRBs. (Answer in about 10 words)

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10.5 LET US SUM UP

- Rural cooperative banks play a very important role in meeting the credit requirements of the rural agricultural sector of the country. It provides credit to the rural farmers, self-employed persons and small scale industries thereby providing much impetus towards the growth and development of India's rural economy.
- Indigenous bankers are any private firms or even individuals who act as synonyms to the formal banks and therefore not only receive deposits but also provide loans.
- Accepting deposits, advancing loans, discounting hundis, remittance facilities, speculative activities, commission agents etc. are some of the functions of indigenous banker.
- Money lenders are groups who offer personal loans in small amount and at a high rate of interest to people with little or no access to the banking system.
- In context to rural marketing, a landlord is a person who owns a piece of land without putting his own labour into it but survives on engaging other rural people in its cultivation.
- National Bank for Agricultural and Rural Development (NABARD) was set up as an apex bank and refinance institution for agricultural and rural credits.
- NABARD takes care of agricultural credit and production, investment credit, SSI to promote rural development. It gives credit to Cooperative banks, RRBs. It is an integrated agency to fulfil the needs of agricultural and rural development.
- According to the recommendations of the Narasimhan Committee, the Government passed the Regional Rural Banks Act, 1976.

10.6 FURTHER READING

1) Singh, K. *(2010). Rural Development Principles, Policies and Management*. Sage Publications India Pvt. Ltd.
2) Sreedhar, G. and Rajasekhar, D. (2014). *Rural Development in India (Strategies and Processes)*. Concept Publishing Company (P) Ltd.

10.7 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Rural India is mostly agriculture based.

Ans to Q No 2: Two functions of indigenous banker are:

- Accepting Deposits: The indigenous bankers receive deposit from the public for a fixed period for which a rate of interest is pre-determined.
- Advancing Loans: The indigenous bankers used to provide loans against the security of land, jewelry, crops etc.

Ans to Q No 3: Two reasons on the importance of indigenous banking are:

- Since the indigenous banking did not have any fixed timings unlike the new age banking of the Britishers, they were preferred to the later.
- The indigenous bankers used to provide loans mostly for productive purposes.

Ans to Q No 4: Money lenders are groups who offer personal loans in small amount and at a high rate of interest to people with little or no access to the banking system.

Ans to Q No 5: True

Ans to Q No 6: In context to rural marketing, a landlord is a person who owns a piece of land and, without putting his own labour into it, survives on engaging other rural people in its cultivation.

Ans to Q No 7: The Banking Regulations Act and Banking Laws Act were formulated in the year 1949 and 1965.

Ans to Q No 8: A public sector bank is a bank where majority stake is held by the government.

Ans to Q No 9: NABARD means National Bank for Agricultural and Rural Development.

Ans to Q No 10: Providing banking facilities to rural and semi-urban areas is a function of RRBs.

5.7 MODEL QUESTIONS

Short Questions (Answer each question in about 150 words)

Q 1: What are the functions of indigenous banking?

Q 2: How is a money lender different from an indigenous banker?

Q 3: What is a co-operative bank?

Long Questions (Answer each question in about 300-500 words)

Q 1: Discuss the importance of indigenous banker.

Q 2: Write the functions of co-operative bank.

Q 3: Discuss the sources of financial assistance provided by public sector banks to small farmers.

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UNIT 11: ROLE OF COMMERCIAL BANKS IN RURAL FINANCE IN INDIA

UNIT STRUCTURE

11.1 Learning Objectives

11.2 Introduction

11.3 Progress of Commercial Banks in India

11.4 Priority Sector Lending

11.5 Lead Bank Scheme

11.5.1 Objectives and Limitations of the Lead Bank Scheme

11.6 Analysis of some of the Major Schemes of the Government of India Implemented through Commercial Banks since 1990 in different sectors

11.6.1 Major Difficulties faced in Implementation of these Schemes

11.7 Let Us Sum Up

11.8 Further Reading

11.9 Answers to Check Your Progress

11.10 Model Questions

11.1 LEARNING OBJECTIVES

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

- understand the meaning and progress of commercial banks
- know the meaning of priority sector lending
- explain the concept lead bank scheme
- analyse the major schemes undertaken by the government since 1990s in different sectors such as agriculture, animal husbandry, cottage industries etc.
- identify the difficulties faced by the government in implementation of these schemes.

11.2 INTRODUCTION

In this unit we will discuss role of commercial banks in rural finance in India.

A commercial bank is a financial institution which performs the functions of

accepting deposits from the general public and giving loans with the aim of earning profit. Commercial banks generally finance trade and commerce for short-term as well as long-term.

Banking in India, in the modern sense, originated in the last quarter of the 18th Century. One of the earliest banks was the Bank of Hindustan, which was established in 1770 and liquidated in 1832. Another bank was the General Bank of India which was established in 1786 and liquidated in 1791. The Banks of Bengal, Bombay and Madras were established from 1809 to 1843. These three banks were merged in 1921 to form the Imperial Bank of India, which became the State Bank of India in 1955. The State Bank of India acted as a government bank until the establishment of the Reserve Bank of India in 1935.

Presently, the Indian commercial banks are broadly classified into scheduled and non-scheduled banks. The scheduled banks are those included under the second schedule of the Reserve Bank of India Act, 1934. The scheduled banks are further classified into: nationalized banks, the State Bank of India and its associates. Regional Rural Banks (RRBs), foreign banks, and other Indian private sector banks. The term commercial banks refer to both scheduled and non-scheduled commercial banks regulated under the Banking Regulation Act, 1949.

Priority Sector Lending is a system of providing a specified portion of the bank lending to few preferred sectors such as agriculture and allied activities, micro and small enterprises and small business and entrepreneur etc.

Lead Bank Scheme (LBS) of the commercial banks in India was introduced in 1969. This scheme was the result of the recommendations of the Gadgil Study Group to determine the priorities of bank credit among various sectors of the economy.

The commercial banks of India have undertaken various schemes particularly since 1990s in various sectors to boost the agriculture, animal husbandry and cottage industries.

11.3 PROGRESS OF COMMERCIAL BANKS IN INDIA

As mentioned in the introductory section of the chapter, the history of commercial banks in India is quite old. But in this section of the chapter, a discussion is carried about the progress of commercial banks in India since independence. Several significant

developments have taken place in commercial banking sector in India, transforming it drastically since independence. These changes are nationalization of banks, regulation of banks by the RBI, liquidation and amalgamation of banks, branch expansion, lead bank scheme, the new strategy of banking and area development, growth of deposit, changes in the composition of deposits and increase in bank staff, productivity and profits, adoption of Basel norms and so on. These developments of the commercial banks over the years have been discussed below:

- **Nationalisation of Banks:** The progressive nationalisation of banks is one of the important developments of commercial banks since independence. It enhances the role of the public sector in commercial banking. The first bank to be nationalised was the Reserve Bank of India, from 1st January 1949. Then came the take over of the Imperial Bank of India and its conversion into the State Bank of India in July 1955. Then the Government of India converted eight major state-associated banks into subsidiary banks of the SBI in the year 1959. Two such banks were merged into one from the beginning of 1963, and thus the number of the associate banks got reduced to seven. After that the government has nationalised 14 other major Indian scheduled banks in July 1969 and of 6 more in April 1980.
- **Regulation of Commercial Banks by the RBI:** The second most important development of commercial bank in India is the control of Reserve Bank of India (RBI) upon them. RBI has come to play an increasingly important role in the regulation, control, and development of banking in India. This has been made possible by the Banking Regulation Act (formerly called the Banking Companies Act), 1949 and its several amendments from time to time. Under this Act, the RBI has been provided with extensive powers of supervision and control over banks. These powers cover all important aspects of banking from the licensing of banks to their liquidation.
- **Liquidation and Amalgamation of Banks:** Another significant development was the liquidation and amalgamation of Banks. As a result, the number of commercial banks including 188 Regional Rural Banks has gone down considerably from 566 at the end of 1951 to 271 at the end of 1990. This is a result of a deliberate policy of the RBI of systematic weeding out of substandard non-viable banks through de-licensing and amalgamations and liquidations. It has been found that during World War II, there had been a mushroom growth of small and ill-managed banks. They were a source of great weakness to the whole banking system. Their frequent failures were

possibly the most important reason for the slow spread of banking habits among the public. Therefore, the strengthening of the banking system required a vigorous implementation of the scheme of amalgamation of Banks. This has not been an unmixed blessing. With the weeding out of the non-viable banking units, bank failures have now become a thing of the past. But it has created another problem as progressive replacement of small banks by large banks has denied the small borrowers the special attention they used to get more easily from a small local bank.

- **Expansion of Branches of Banks:** There was significant expansion of the bank branches of the commercial banks after nationalisation of banks. The geographical coverage of banking facilities has improved noticeably, especially after the nationalisation of 14 major banks in July 1969. It has been observed that the RBI was very cautious in giving licenses for new branches till 1956. Its major effort was devoted to the consolidation and strengthening of the banking system, and not to expansion. As a result, there was a continuous decline in the total number of banking offices, mainly due to the amalgamation of smaller banks with larger banks and closure of the offices of non-scheduled and smaller banks. From July 1962, the RBI followed a systematic programme of branch expansion, encouraging banks to open their offices in semi-urban, rural, and other unbanked areas. Under the programme, up to December 1970, the number of banking offices more than doubled from about 5,000 to about 11,000.
- **Lead Bank Scheme** (The New Strategy of Banking and Area Development)**:** The branch expansion programme of banks in the post-nationalisation phase was supposed to be interwoven with the Lead Bank Scheme of the RBI, adopted in December 1969. The Scheme was recommended by the Gadgil Group of the National Credit Council. The Group was of the view that because of the diversity of conditions all over the country, an area approach was essential for appropriate credit arrangements on the basis of local conditions.

Accordingly, the study group suggested making major scheduled banks responsible for providing integrated and all-round banking facilities under their leadership of all the districts of the country in a well-planned and phased manner. It was hoped that with the provisioning of credit, these banks would act as instrument of local development.

Under the Scheme, as adopted, all the 398 districts in the country have been distributed among major scheduled banks (in the public sector). They were supposed to

play the lead role in the expansion of banking facilities and to act as consortium leaders for coordinating the activities of co-operative, commercial banking and other financial institutions in their respective districts. Each lead bank is expected to survey the district, identify unbanked centres, and set up branches in a phased manner. The banks have to identify and study local problems, evolve an integrated credit plan for the supply of inputs and processing, storage and marketing facilities and other services, which may be locally needed.

- **The Growth of Deposit:** Another significant development of the banking system is that total bank deposits have grown rapidly after 1961, particularly after the year 1969. It has been found that growth of bank deposits in India is mainly due to growth of real income, the spread of banking facilities, the spread of banking habits, strengthening of the banking system, and the increase in the rate of interest on bank deposits.
- **Changes in the Composition of Deposits:** The relative proportions of demand and time deposits have undergone significant changes over the period covered. It has been found that the share of time deposits in total deposits has increased in recent years. The recorded shift in the composition of deposits is due to several factors, such as changes in the composition of bank depositors in favour of households in place of firms, spread of banking facilities in the country, liberalisation of withdrawal conditions in respect of savings deposits, increases in the rates of interest paid on fixed and savings accounts, ban on the payment of interest on current deposits after 1961, and change in the division of savings deposits between demand and time deposits favouring the latter since 1978.
- **Bank Staff, Productivity and Profits:** With the expansion of banking offices and banking operations, the number of bank employees has increased several-fold from 79,000 in 1958 to 10 lakh in 1990. But rapid expansion of bank branches has an impact on the productivity of the services as well as quality of customer service. There has been significant decline in the productivity of their services and the quality of customer service. This is a genuine cause for concern for the public as well as authorities. It has affected adversely, among other things, the profitability of banks per rupee of their total earnings. This decline in this profitability can also be attributed partly to rapid branch expansion.

11.4 PRIORITY SECTOR LENDING

In this section of the chapter, a discussion is carried out regarding priority sector lending. It can be defined as a mechanism to enable banks to provide loan to the desired sectors. It is an important role given by the Reserve Bank of India (RBI) to the commercial banks in India for providing a specified portion 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 weaker sections of the society. This is essentially meant for an all round development of the economy as opposed to focusing only on the financial sector.

It is generally observed that some sectors of the economy are not get timely and adequate credit in the absence of this special dispensation. The broad categories of the priority sectors for all scheduled commercial banks has been classified by the Reserve Bank of India as

- Agriculture and allied activities
- Micro, Small and Medium Enterprises
- Export Credit
- Education
- Housing
- Social Infrastructure, Renewable Energy and others
- Others

The activities covered under Agriculture have been further classified under three sub-categories viz. Farm credit, Agriculture infrastructure and Ancillary activities. The targets and sub-targets for banks under priority sectors have been discussed below:

Categories	Domestic scheduled commercial banks (Excluding Regional rural banks and small Finance Banks with 20 branches and more)	Foreign bank with less than 20 branches
Total priority sectors	40 percent of adjusted Net Bank Credit (ANBC) or Credit Equivalent amount of Off-Balance Sheet Exprosure, whichever is higher	40 percent of adjusted Net Bank Credit or Credit Equivalent amount of Off-Balance Sheet Exprosure, whichever is higher, to be achieved in a phased manner by 2020

Agriculture	18 per cent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher. Within the 18 percent target for agriculture, a target of 8 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher is prescribed for Small and Marginal Farmers.	Not applicable
Micro Enterprises	7.5 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.	Not applicable
Advances to Weaker Sections	10 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher	Not applicable

Source: Reserve Bank of India

For classification under priority sector, no limits are prescribed for bank loans sanctioned to Micro, Small and Medium Enterprises engaged in the manufacture or production of goods under any industry specified in the first schedule to the Industries (Development and Regulation) Act, 1951 and as notified by the Government from time to time. The manufacturing enterprises are defined in terms of investment in plant and machinery under MSMED Act 2006.

Bank loans to Micro, Small and Medium Enterprises engaged in providing or rendering of services and defined in terms of investment in equipment under MSMED Act, 2006, irrespective of loan limits, are eligible for classification under priority sector, w.e.f. March 1, 2018.

Bank loans up to a limit of 50 million per borrower for building social infrastructure for activities namely schools, health care facilities, drinking water facilities and sanitation facilities in Tier II to Tier VI centres are eligible for classification under priority sector.

Bank credit to Micro Finance Institutions (MFI) extended for on-lending to individuals or members of SHGs for water and sanitation facilities is also eligible for classification as priority sector loans under 'Social Infrastructure' subject to certain criteria.

Bank loans up to a limit of 150 million to borrowers for purposes like solar based

power generators, biomass based power generators, wind mills, micro-hydel plants and for non-conventional energy based public utilities viz. street lighting systems, and remote village electrification are eligible to be classified under priority sector loans under 'Renewable Energy'. For individual households, the loan limit is 1 million per borrower.

Loans to individuals for educational purposes including vocational courses up to 1 million irrespective of the sanctioned amount are eligible for classification under priority sector.

Loans to individuals up to 3.5 million in metropolitan centres (with population of ten lakh and above) and loans up to 2.5 million in other centres for purchase or construction of a dwelling unit per family, are eligible to be considered as priority sector provided the overall cost of the dwelling unit in the metropolitan centre and at other centres does not exceed 4.5 million and 3 million, respectively. Housing loans to banks' own employees are not eligible for classification under the priority sector.

11.5 LEAD BANK SCHEME

The National Credit Council was set up in the year 1967 to determine the priorities of bank credit among various sectors of the economy. The National Credit Council appointed a study group on the organizational framework for the implementation of social objectives in the month of October 1968 under the Chairmanship of Professor D R Gadgil. The study group found that the Commercial Banks were able to penetrate only 5000 villages as of June 1967. Out of the institutional credit to agriculture which was 39 percent of the total credit, the share of commercial bank was very negligible as commercial bank contributes only 1 percent of the total institutional credit. The rest of the credit was met by the co-operatives societies. It implies that the Banking needs of the rural areas in general and backward in particular were not taken care of by the Commercial Banks. Besides, the credit needs of Agriculture, Small Scale Industries and allied activities remained neglected. Therefore, the Gadgil group have advised the adoption of an area approach for bridging the spatial and structural credit gaps. Later, All India Rural Credit Review Committee 1969 endorsed the view that Commercial Bank should increasingly come forward to finance activities in rural areas.

The basic idea of lead bank scheme was to have an "area approach" for targeted and focused banking. The banker's committee, headed by S. Nariman, concluded that

districts would be the units for area approach and each district could be allotted to a particular bank which will perform the role of a Lead Bank.

Under the lead bank scheme, each district had been assigned to different banks (public and private) to act as a consortium leader to coordinate the efforts of banks in the district particularly in matters like branch expansion and credit planning. The Lead Bank was to act as a consortium leader for co-coordinating the efforts of all credit institutions in each of the allotted districts for expansion of branch banking facilities and for meeting the credit needs of the rural economy. Gradually, all the districts in the country excepting the metropolitan cities of Mumbai, Kolkata, Chennai and Union Territories of Chandigarh, Delhi and Goa were allotted among public sector banks and a few private sector banks. Later on, the Union Territories of Goa, Daman and Diu as also the rural areas of the Union Territories of Delhi and Chandigarh have been brought within the purview of Lead Bank Scheme.

The second and most important phase of the Lead Bank Scheme was formulation of District Credit Plan and their implementation. Although certain structural credit gaps were identified earlier, positive measures were introduced only after nationalization of the banks. Certain sectors which were initially neglected were given a priority status and banks were asked to provide credit to these sectors in a more concerted way.

The Government of India had constituted a High-Power Committee headed by Mrs Usha Thorat, Deputy Governor of the RBI, to suggest reforms in the Lead Bank Scheme. The task of this penal was to recommend how to revitalize the Lead Bank Scheme, given the challenges of banking sector, especially in an era of increasing privatisation and autonomy. The committee recommended enhancing the scope of the scheme and suggests a sharper focus on facilitating financial inclusion rather than a mere review of the government sponsored credit schemes. The committee said that most forums to monitor the implementation of Lead Bank Scheme are being used for routine review of the government-sponsored schemes, credit deposit ratio, and recovery performance, among others. Lending under such schemes constitute 0.4 per cent of the total priority sector lending. As such, the State Level Bankers' Committee (SLBC), District Consultative Committee (DCC) could utilise its time to discuss specific issues inhibiting and enabling financial inclusion rather than those concerning government-sponsored schemes.

The following were the recommendation of Usha Thorat Committee for improvement of Lead Bank (LBS) Scheme:

- LBS should be continued to accelerate financial inclusion in the unbanked areas of the country.
- Private sector banks should be given a greater role in LBS action plans, particularly in areas of their presence.
- Enhance the business correspondent model, making banking services available in all villages having a population of above 2,000, and relaxation in KYC (know your customer) norms for small value accounts.

11.5.1 Objectives and Limitation of the Lead Bank Scheme

The major Objectives of Lead Bank Scheme are:

- The first and foremost objective of lead bank scheme is eradication of unemployment and under employment.
- An appreciable rise in the standard of living for the poorest of the poor people.
- Another objective of lead bank scheme was to provide some of the basic needs of the people who belong to poor sections of the society.

It has been observed that the lead bank scheme was not fully able to achieve its objectives. The major shortcomings of the lead bank scheme are

- The Lead bank Scheme was not fully able to achieve its targets due to shift in policies, complexities in operations and issues related to the financial inclusion.
- Lack of coordination between district planning authorities and banking institutions operating in a district on one side and between NABARD and the Lead Bank on the other is the prominent reason which required attention. Duplication of efforts in credit plan preparation should be avoided by empowering the plan team at the district level appropriately.
- Over the period, the system of lead bank scheme and associated district-level coordination committees of bankers has apparently become inactive.
- There was an urgent need to revitalize the scheme with clear guidelines on respecting the bankers' commercial judgements even as they fulfil their sectoral targets.
- Various committees like Block Level Bankers Committee, District Coordination

Committee and District Review Committee seldom function with all seriousness.

- LBS Information System does not have any checks and balances and does not agree with several other returns relating to Priority Sector Credit.

The following suggestions can be given for proper implementation of lead bank scheme.

- There is a strong need to revamp and revitalise the Lead Bank Scheme so as to make it an effective instrument for bringing about meaningful co-ordination among banks operating in a district.
- This can bring about greater participation among banks and financial institutions in achieving full financial inclusion.
- The Operation problems are the major hurdles of the Lead bank Scheme. Obviously, financial inclusion calls for united action on the part of all banks and financial institutions operating in a district.
- An approach on the lines of area approach can be adopted and in each area or location a particular bank can be given responsibility for achieving meaningful financial inclusion
- Full computerisation and data management in all banks must be in order and the banks involved should be able to periodically prepare and review reports, yearly draft plans, and financial inclusion plans, from time to time.
- There is a need for revamping the District-level Consultative Committees (DLCC) and it should be a result oriented.
- Lead bank Scheme should be an effective instrument in bringing about full and active involvement of all member banks.

ACTIVITY 1

Do you think that lead bank scheme is important for overall banking reforms of the country? Provide your Comments.

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CHECK YOUR PROGRESS

Q 1: Choose the correct one

(a) The National Credit Council was set up in the year 1967. (True/False)

(b) The first bank to be nationalised was the Reserve Bank of India, from 1st January 1949. (Yes/No)

11.6 ANALYSIS OF SOME OF THE MAJOR SCHEMES OF THE GOVERNMENT OF INDIA IMPLEMENTED THROUGH COMMERCIAL BANKS SINCE 1990 IN DIFFERENT SECTORS

The ministries of the Government of India have taken various government schemes from time to time. These schemes could be either Central, state specific or joint collaboration between the Centre and the states. Some of the schemes of the Government of India which are implemented through commercial banks since 1990s have been discussed below:

- **National Rural Employment Guarantee Act 2005 (NREGA):** National Rural Employment Guarantee Act (NREGA) later renamed as the "Mahatma Gandhi National Rural Employment Guarantee Act, (MGNREGA), is an Indian labour law and social security measure that aims to guarantee the 'right to work'. It aims to enhance livelihood security in rural areas by providing at least 100 days of wage employment in a financial year to every household whose adult members volunteer to do unskilled manual work. The act was first proposed in 1991 by P.V. Narasimha Rao. It was finally accepted in the parliament and commenced implementation in 625 districts of India. Based on this pilot experience, NREGA was scoped up to cover all the districts of India from 1 April 2008. The statute is hailed by the government as "the largest and most ambitious social security and public works programme in the world". In its World Development Report 2014, the World Bank termed it a stellar example of rural development. The MGNREGA was initiated with the objective of "enhancing 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". Another aim of MGNREGA is to create durable assets (such as roads, canals, ponds and wells). Employment is to be provided within 5 km of an applicant's residence,

and minimum wages are to be paid. If work is not provided within 15 days of applying, applicants are entitled to an unemployment allowance. Thus, employment under MGNREGA is a legal entitlement. MGNREGA is to be implemented mainly by gram panchayats (GPs). The involvement of contractors is banned. Labour-intensive tasks like creating infrastructure for water harvesting, drought relief and flood control are preferred. Apart from providing economic security and creating rural assets, MGNREGA can help in protecting the environment, empowering rural women, reducing rural-urban migration and fostering social equity, among others. The law provides many safeguards to promote its effective management and implementation. The act explicitly mentions the principles and agencies for implementation, list of allowed works, financing pattern, monitoring and evaluation, and most importantly the detailed measures to ensure transparency and accountability.

- **Pradhan Mantri Jan Dhan Yojana (PMJDY):** To ensure comprehensive financial inclusion of all the households in the country, the Government of India introduced Pradhan Mantri Jan Dhan Yojana as the National Mission on Financial Inclusion. The main aim of this scheme is to ensure comprehensive financial inclusion of all the households in the country by providing universal access to banking facilities with at least one basic bank account to every household so that they have financial literacy, access to credit, insurance and pension facility. Under this scheme, a person not having a savings account can open an account without the requirement of any minimum balance. But they have to self-certify that they do not have any of the officially valid documents required for opening a savings account.
- **Pradhan Mantri Suraksha Bima Yojana (PMSBY):** This is another important scheme implemented through commercial bank. The Scheme is available to people in the age group 18 to 70 years with a bank account who give their consent to join and enable auto-debit on or before 31st May for the coverage period 1st June to 31st May on an annual renewal basis. Aadhar would be the primary documents require for opening these kinds of bank account. The risk coverage under the scheme is Rs. 2 lakh for accidental death and full disability and Rs. 1 lakh for partial disability. The premium of Rs.12 per annum is to be deducted from the account holder's bank account through 'auto-debit' facility in one installment.
- **Atal Pension Yojana:** It is a government-backed pension scheme in India targeted

at the unorganised sector. It is a pension program that allows people to make voluntary contributions within a certain range in order to receive matching government contributions. It was mentioned in the 2015 Budget speech by Finance Minister Arun Jaitley. It was launched by Prime Minister Narendra Modi on the 9th of May, 2015 in Kolkata. As per the available date on May 2015, only 20 percent of India's population has any kind of pension scheme. Atal Pension Scheme aims to increase the number of pensioner in unorganised sector.

- **Pradhan Mantri Jeevan Jyoti Bima Yojana:** This scheme is a government-backed Life insurance scheme in India. It was originally mentioned in the 2015 Budget speech by Finance Minister Arun Jaitley in February 2015. It was formally launched by Prime Minister Narendra Modi on 9 May in Kolkata. As of May 2015, only 20% of India's population has any kind of insurance. This scheme aims to increase the number.
- **Pradhan Mantri Mudra Yojana:** The Pradhan Mantri Mudra Yojana scheme was launched on 8th April 2015. Under the scheme a loan of upto Rs. 50,000 is given under sub-scheme 'Shishu'; between Rs. 50,000 to 5.0 Lakhs under sub-scheme 'Kishore'; and between 5 Lakhs to 10 Lakhs under sub-scheme 'Tarun'. The advantage of this scheme is that loans taken under this scheme do not require collaterals. These measures are aimed at increasing the confidence of young, educated or skilled workers who would now be able to aspire to become first generation entrepreneurs. The existing small businesses, too, will be able to expand their activities under this scheme. As on 31.03.2019, an amount of Rs. 3,21,722 crores is sanctioned. Out of this, Rs 142,345 crore, Rs 104,386 crore and Rs 74,991 crore are sanctioned under Shishu, Kishore and Tarun category respectively in the account of 5.99 crores account holders.
- **Stand up India Scheme:** To provide loans to the people, the Government of India launched the Stand Up India scheme on 5th April, 2016. The Scheme facilitates bank loans between Rs.10 lakh and Rs.1 crore to at least one Scheduled Caste or Scheduled Tribe borrower and at least one Woman borrower per bank branch for setting up greenfield enterprises. This enterprise may be in manufacturing, services or the trading sector. The scheme which is being implemented through all Scheduled Commercial Banks is to benefit at least 2.5 lakh borrowers. The scheme is operational and the loan is being extended through Scheduled Commercial Banks across the country.

11.6.1 Major Difficulties Faced in Implementation of these Schemes

Although these schemes are launched by the government to achieve various goals, but these schemes are not free from drawbacks. Some of the major difficulties faced in implementation of these Schemes are:

- Lack of Proper Data is one of the major drawback of these schemes. The implementation of any scheme requires availability of proper updated data to determine the amount of beneficiaries. But in most of the cases, updated data are not available.
- Lack of awareness among the people is considered as reason for non-implementation of these schemes. Lack of proper awareness among the people about the schemes is another limitation. Unless people are aware, they are unable to utilise the benefits of those scheme.
- Inclusions of names of the people who are not eligible for those schemes are another limitation of these schemes.
- Political interference is also considered as one of the drawback of these schemes. Politically influential leader may motivate to include names of people who are not actual targeted group. This tendency leads to improper implementation of those schemes.
- These schemes require that the each member of the targeted groups should have their bank accounts. But in many cases, it has been found that some of the beneficiaries do not have any bank account.
- Non-availability of proper monitoring agency is also considered as a reason for improper implementation of those schemes. Government should appoint independent monitoring agency to examine the progress and implementation of those schemes.

CHECK YOUR PROGRESS

Q 2: Choose the correct one

(a) Atal Pension Yojana is a pension scheme in India targeted at the unorganised sector. (True/False)

(b) Mahatma Gandhi National Rural Employment Guarantee Act, (MGNREGA) aims

to guarantee the 'right to work'. (Yes/No)

11.7 LET US SUM UP

- Commercial bank performs the functions of accepting deposits from the general public and giving loans for investment with the aim of earning profit.
- The term commercial banks refer to both scheduled and non-scheduled commercial banks regulated under the Banking Regulation Act, 1949.
- The modern Banking system in India, in the modern sense, originated in the last quarter of the 18th Century. The Indian commercial banks have been classified into scheduled and non-scheduled banks.
- The scheduled banks are further classified into different groups such as nationalized banks, State Bank of India and its associates; Regional Rural Banks (RRBs); foreign banks; and other Indian private sector banks.
- Priority Sector Lending is a method of providing a specified portion of the bank lending to few preferred sectors such as agriculture and allied activities, micro and small enterprises and small business and entrepreneur etc.
- Lead Bank Scheme (LBS) of the commercial banks in India was introduced in 1969. This scheme was the result of the recommendations of the Gadgil Study Group to determine the priorities of bank credit among various sectors of the economy.
- The commercial banks of India have undertaken various schemes particularly since the 1990s in various sectors to boost the agriculture, animal husbandry and cottage industries.

11.8 FURTHER READING

1) Bhole, L.M. (2017). *Financial Institutions and Market.* Kindle Edition
2) Gupta, S.B. (2010). *Monetary Economics: Institutions, Theory and Policy.* New Delhi: S. Chand & Company Ltd.

11.9 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: a) True b) Yes

Ans to Q No 2: a) True b) Yes

11.10 MODEL QUESTIONS

Long question (Answer each question in about 300-500 words)

Q 1: Discuss the progress of Commercial Bank In India.

Q 2: Make a critical discussion of Lead Bank Scheme of the Banking Sector in India.

Q 3: Discuss priority sector lending scheme of Commercial Banks.

Q 4: Discuss the major Schemes of the Government of India undertaken since 1990 in different sectors through commercial banks.

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UNIT 12 : CO-OPERATIVE BANKS

UNIT STRUCTURE

12.1 Learning Objectives

12.2 Introduction

12.3 Progress of Co-operative Banks in India

12.3.1 Co-operative Movement in India

12.3.2 Structure of Co-operative Banking in India

12.3.3 Development and Progress of Co-operative Banks in India

12.4 Advantages of Co-Operative Institutions

12.5 Problems faced by Co-Operative Banks in Financing Rural Development

12.6 Let Us Sum Up

12.7 Further Reading

12.8 Answers to Check Your Progress

12.9 Model Questions

12.1 LEARNING OBJECTIVES

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

- learn about the co-operative movement in India
- discuss the structure of co-operative banking in India
- explain the development and progress of co-operative banks in India
- describe the advantages of co-operative institutions
- explain the problems faced by co-operative banks in financing rural development.

12.2 INTRODUCTION

In this unit, we will discuss about co-operative banks, it's advantages and problems.

Co-operatives Banks are an integral part of the Indian Financial System having a history of almost 100 years. The term 'co-operation' is derived from the Latin word *cooperari*, where co means 'with' and operari means to 'work'. Thus the term co-operation means 'to work together'. The co-operative movement in India started with the main

motive to encourage mutual help for people who have smaller means of income. Co-operative banks are organized and managed on the principle of co-operative, self help and mutual help. These banks have contributed a lot towards employment generation, poverty elevation and food security.

12.3 PROGRESS OF CO-OPERATIVE BANKS IN INDIA

Co-operative Bank is defined as a financial entity which is formed by members who are also the customers of the bank. Co-operative banks provide their members with a wide range of banking and financial services. The members often belong to the same profession or community or people sharing common interest. Co-operative bank in India are registered under the Co-operatives Societies Act. The co-operative banks are also regulated by the Reserve Bank of India (RBI) and governed by Banking Regulations Act 1949 and banking laws (Co-operative Societies) Act, 1955.

12.3.1 Co-operative Movement in India

The co-operative movement in India is century old which started from the foreign rule but even after independence the movement continued. It started with the aim to encourage savings and promote mutual help for people with smaller means of earning such as farmers, artisans and other such people with marginal incomes. The co-operative banks came into existence with the motive to breakdown the monopoly of the money lenders who provide credit to the farmers. The unorganized system of money lending resulted in indebtedness and poverty which arouse the need for rural credit through co-operatives. Thus the co-operatives credit societies came into existence with the enactment of the Agricultural Credit Co-operatives Societies Act on 25th March, 1904. This Act was based on the recommendations of Sir Frederick Nicholson (1899) and Sir Edward Law (1901). Through this Act, credit was provided to the farmers which marked the institutionalization of co-operative banking in India. This Act was amended in 1912 as in the earlier Act only primary credit societies were permitted but non-credit and federal organization of primary co-operatives credit societies were left out. This marked the organization of central co-operatives bank throughout the country. In 1915, the Machlagan Committee highlighted the flaws in the co-operative societies due to lack of proper

education to the masses and also emphasized on central assistance by the government to support the movement. It was this committee which anticipated the three tier system of co-operative banking namely Primary Agricultural Credit Services (PACs) at the grass root level, Central Co-operative Banks at the district level and State Co-operative Banks at the State or Apex level. The Royal Commission on Agriculture in 1928 emphasized on the need of education to the members for effective implementation of the co-operative movement. In 1953, RBI established the Central Committee for Co-operative Training in order to establish Regional Training Centers.

Since 1950 the co-operative banks have come a long way to mark its significance in various sectors of the Indian economy. Initially these banks mainly concentrated on the rural areas providing institutional credit to people particularly in the agricultural sector but now they have marked their inclusion in all areas of economic activity. The role of co-operatives is immense in the socio-economic development of the rural poor. They are not only providing agricultural credit but also playing a major role in providing market support, processing, disbursing agricultural input etc.

12.3.2 Structure of Co-operative Banking in India

The Co-operatives in India are an essential part of the financial system which marked its presence since 1904 when the first legislation on co-operation was passed. The structure of Co-operative Banking in India can be divided into two major segments namely - Urban Co-operative Banks and Rural Co-operative Banks. They are briefly discussed below:

- **Urban Co-operative Banks:** The Urban Co-operative Banks (UCBs) are referred to as primary co-operatives banks which are located in the urban and semi urban areas. This banks were allowed to lend money only for non-agricultural purpose till 1996. The Urban Co-operatives are further divided into scheduled and non-scheduled. The banking activities of UCBs are monitored by RBI whereas their registration and management activities are managed by Registrar of Co-operative Societies (RCS). The UCBs have made a significant development over the years in their numbers and volume of

business. On 31st March, the total numbers of Urban Co-operative Banks were 2104 out of which 56 were scheduled banks.

- **Rural Co-operative Banks:** The rural co-operative banks have played an important role in providing rural credit to small and marginal agricultural workers. They are divided into short-term credit co-operatives and long-term credit co-operatives structure. The short term credit co-operatives are further divided into 3 types - State Co-operative Banks which operate at the apex level in states, District Central Co-operatives Banks which operate in the district level and Primary Agricultural Credit Societies which operate in the grass root level. As on 31st March, 2013 the short term credit co-operatives comprised of 92,432 primary agricultural credit cooperative societies, 370 district central cooperative banks and 31 state cooperative banks. The Long Term Co-operatives Banks are also divided into two types - State Co-operative Agriculture and Rural Development Banks (SCARDBs) which operate at the state level and Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) which operate at the district or block level.

12.3.3 Development and Progress of Co-operative Banks in India

The co-operatives have been playing a very important role in rural financing and their contribution to businesses in urban areas is also immense with the increasing number of primary co-operative banks. They are responsible for providing credit facilities, extend banking facilities in rural areas, encourage savings and supervise the use of loans etc. In rural areas they fund areas under farming, cattle, milk, personal finance, and hatchery. Whereas in urban areas they finance areas under self employment, small scale units, home finance, and consumer finance.

Co-operative Development in Planned Economy:

The five year plans made several provisions for the success and strengthening of co-operatives after independence. The First Five Year Plan emphasized on the training of personnel's and setting up of Co-operative Marketing Societies. The Second Plan proposed for extending the activities of Co-operatives into various fields and gave special attention to warehousing of co-operatives at the Central and the State. In the Third Plan the co-operative training college at

Pune along with regional centers was established to train the workers as well as co-operative societies for sugarcane, cotton, spinning, milk supply were also proposed. In the Fourth Plan consolidation of co-operative system was emphasized. It focused on making the short term and medium term structure viable. The new plan for high yielding crop was the focus for which different credit societies were organized. The Fifth Plan focused on measures for co-operative development and correcting regional imbalances. It also recommended for the establishment of Farmers Service Co-operative Societies and also emphasized on the need for professional management for co-operatives. In the Sixth Plan steps were taken to organize the Primary Agricultural Credit Societies into multipurpose units. Another viable step taken during this plan was the NABARD Act which was passed in 1981 to provide re-finance support to co-operative banks. The Seventh Plan threw light on the fact that although credit flow was progressing but recovery of loans and high amount of over dues was a matter of concern. The opening up of the economy in 1990 put pressure on central and state governments to make co-operatives at par with the private sector. The Eighth Plan emphasized on giving the co-operatives more authority in order to make the co-operatives self reliant and self managed. The plan also focused on the importance of following the Narsimham Committee Report to make Co-operative Banks stronger. In the Ninth Plan the Government declared the National Co-operative Policy for the all round development of the co-operatives so that they can become self reliant and autonomous in their functioning and contribute significantly to the national economy. In the Tenth plan the government initiated the Task Force for reviving rural credit co-operative system. In the Eleventh plan major schemes were introduced in the co-operative sector along with computerization, human resource development, and public awareness to facilitate general public as well as farmers. In the Twelfth plan action were taken to encourage savings among micro credit groups and women co-operatives. Revitalization of Primary Agricultural Credit Societies was done to make them capable of providing better support of rural credit to farmers.

Progress of Co-operatives Banks:

The co-operatives have made an enormous progress since its inception

and their role in the socio-economic development is immense. They have made their presence felt in almost all parts of rural India covering 99% of Indian villages and 71 % of rural household in the country. The contribution of co-operative share in the National Economy is given in the following table:

Table- 1: Co-operative Share in the Economy

Agricultural Credit Disbursement	18%
Fertilizer Distributed	36%
Production of Fertilizer	25%
Yarn Production	22%
Handlooms	54%
Wheat Procurement	33%
Fishermen Cooperatives	21%
Sugar Produced	50%
Storage Facilities	64%

Source: Soni, Anil & Saluja, H.P.. (2013). 'A study on Development of Cooperative Movement in Planned Economy'. International Journal of Economics, Commerce and Research (IJECR). 3. 39-48.

The co-operatives have contributed immensely for the economic progress and upliftment of the rural as well as urban population. During 2011-2012 the co-operatives have provided agricultural credit to 3.08 crore farmers compared to 2.55 crore farmers by commercial banks and only 82 lakhs by regional rural banks. Cooperative exposure to small and marginal farmers is 66 percent out of its total loan portfolio, whereas commercial banks' exposure to these categories at 55 percent. The per account loan disbursed by cooperatives was Rs 28,467 (2011-12), compared to Rs 1.15 lakh for commercial banks and Rs 66,000 for regional rural banks. The share of rural cooperatives in total institutional credit was 62% in 1992-93, 34% in 2002-03 and 53% in 2006-07. In March 2007, there were 97,224 Primary Agricultural Credit Societies in rural India against 30,393 branches of commercial banks. This significantly marked the contribution of co-operatives towards small and marginal farmers and their support in the upliftment of the weaker and neglected section of the population.

Table- 2: Growth of Co-operatives in India since Independence

Year	No of Societies (in Lakh)	Percentage (Increase/ Decrease)	Membership (in Lakh)	Percentage (Increase/ Decrease)	Working Capital (Cr.)	Percentage (Increase/ Decrease)
1950-1951	1.80	- - - -	137	- - - -	276	- - - -
1960-1961	3.32	84.00	352	156.00	1,312	375.36
1970-1971	3.20	-3.61	644	82.95	6,809	418.97
1980-1981	3.26	1.87	1176	82.60	25,119	268.90
1990-1991	3.50	7.36	1565	33.07	71,672	185.35
2000-2001	5.55	58.57	2190	39.93	4,94,102	589.39
2009-2010	6.10	9.99	2493	13.83	11,07,403	124.12

Source: Compiled from Indian Agriculture in Brief 1977-78 and Statistical Year Book of India 2016.

CHECK YOUR PROGRESS

Q 1: From where is the term co-operative derived?

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Q 2: What is a Co-operative Bank? (Answer in about 20 words)

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Q 3: What was the main aim with which co-operative banks got started?(Answer in about 30 words)

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12.4 ADVANTAGES OF CO-OPERATIVE INSTITUTIONS

Co-operative Institutions have been playing a very vital role in the overall economic development of our country since its inception. Their contribution is immense in the upliftment of the national economy and in the well being of the country. These institutions have several advantages which have helped to develop and flourish in all these years.

The following are the advantages of Co-operative Institutions:

- **Ease of formation:** The formation of co-operative institution is very easy and simple. The amount of time and money required for co-operative registration is very less as co-operative institutions can be registered with a nominal fee. The legal formalities are also very simple which makes it more convenient and trouble free.
- **Democratic Management:** The management of co-operative institution is democratic. The members have equal rights to vote irrespective of their contribution in the capital of the institution. As the principle of one member one vote is applied the members not only have equality in voting but can also take active and equivalent part in the formulation of policies of the institution. Thus in co-operative institutions all members are equally important and a single group of people cannot dominate and control the workings of the institution.
- **Limited Liability:** The liability of the members of the society is limited to the extent of their contribution to the capital. This takes away the fear of attachment of private property of the members in case of financial losses because the liability is limited to the extent of unpaid shares held by them. Therefore the risk faced by member is limited and known.
- **Open Membership:** The membership of co-operative institution is open. Any person having a common interest can become the member of the co-operative institution by purchasing its shares. The members also have the right to leave their membership as per their own wish. There is no discrimination on the basis of caste, creed, religion or political grounds.
- **Continuity and Stability:** A co-operative institution is a separate legal entity. Thus it cannot be dissolved by the death, lunacy, insolvency or permanent incapability of its members. It enjoys continuity of function until and unless all members decide to close the same.
- **Economic Operations:** The operating cost of co-operative society is very less. The cost related to middlemen and office bearers are eliminated as members themselves provide those services and as such the cost of management is very low. As members are also the customers, thus cost related to advertising and selling are reduced which adds to economy of operations.
- **Tax Exemption:** In order to promote the co-operative movement government do provide various tax exemptions. The co-operative institution is a non-profit organization

and hence the government provides various concessions to support its growth.

- **Rural Credit:** The major benefit of co-operative institution is in freeing rural people from the clutch of money lenders monopoly. The money lenders used to charge high rate of interest and the entire earning of the people was consumed in paying the interest. Co-operative institutions provided loan at cheaper rate of interest and also provided other assistance which help to breakdown the monopoly of the money lenders.
- **Role in agricultural progress:** The co-operative institutions have played a very important role in increasing agricultural production. They have contributed immensely in popularizing modern inputs like fertilizers, new implements, pesticides, improved seeds etc. They serve as a link between the government and the agriculturalists.
- **Internal Financing:** The profit of co-operative institutions is mainly transferred towards the general reserve every year as dividends cannot exceed 10%. This plouging back of profit helps in the growth and expansion as the organization does not have to depend on outsiders fund for its financial requirement.
- **Social Utility:** Co-operative institutions are non-competitive and they promote justice, liberty, and mutual co-operation for the betterment of its members. They concentrate on all round development of its members and prevent the concentration of economic powers in the hands of few.
- **State Patronage:** Co-operative institutions get special assistance from government to achieve their objectives successfully. They enjoy special privileges and exemptions. They receive various subsidies and concessions from the government for their financial stability and sustainable growth in the future.

CHECK YOUR PROGRESS

Q 4: How is limited liability an advantage for co-operative institutions? (Answer in about 30 words)

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Q 5: What is the meaning of separate legal entity and how does it act as an advantage for co-operative institutions? (Answer in about 30 words)

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Q 6: How co-operative institutions help in rural credit? (Answer in about 30 words)

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12.5: PROBLEMS FACED BY CO-OPERATIVE BANKS IN FINANCING RURAL DEVELOPMENT

The co-operative banks have existed for around 100 years with the core purpose of rural development but despite that the performance of these institutions has not been satisfactory. The co-operative banks have been facing a lot of problems which has led to their poor performance. It is important to study the difficulties and problems faced by co-operative banks as it will help to devise actions so that these banks can become more potential in financing rural development.

Some of the problems faced by co-operative banks in financing rural development are listed below:

- **Restriction in smooth flow of credit:** There has been a lot of restriction in the smooth flow of credit of the co-operatives which has appeared as the biggest hurdle in their ability to finance rural development. Some of the issues in smooth flow of credit are:
  - Limited ability to mobilize resources
  - Low level of recovery or high NPA's
  - High transaction cost
  - Administered rate of interest structure for a long time
- **Government Interference:** The government intervention in the workings of co-operative banks has made it difficult for these institutions to become self reliant. Since the beginning co-operative movement has been supported by the government and as such they are treated as an inseparable element of the government administration. There have been a lot of steps taken to make the co-operatives' self reliant, democratic and self managed institution but all these have remained in papers. Due to the interference of government in the administrative affairs of the co-operatives

the enthusiasm of general masses for the co-operative movement died.

- **Dependency on government funds:** Co-operatives banks still depend heavily on government, RBI, NABARD for their funds. Their source of finance are not self reliant and hence they are dependent on government funds. The funding and amount of funds to be released by the government are not certain and hence the co-operatives can't plan their activities in the right manner which hampers their ability to fund rural development.
- **Lack of modern banking practices:** Lack of modern banking practices like mobile banking, internet banking, ATM facilities have made co-operative bank to remain in a back foot. Now-a-days all these banking practices are important to function effectively and it is a huge demerit of co-operatives as compared to commercial banks.
- **Mismanagement and Manipulation:** The managerial issues faced by co-operative banks also act as a hindrance in its capacity to finance rural development. The successes of these banks were depended on its members but over the time this democratic idea got corrupted and wealthier people took over the management and administration of the co-operative banks.
- **Functional Weakness:** Lack of trained personnel has hampered the functioning of co-operative banks since a long time. They are not able to provide proper training to its personnel which are not suitable for modern business practices. Another reason for lack of trained personnel is the unsatisfactory working conditions of co-operatives banks for which trained and efficient personnel are not motivated to work with these institutions.
- **Lack of awareness:** The lack of awareness of the people regarding the objective with which it originated made it difficult for the co-operatives to contribute towards financing rural development. People look upto this institution as the means of receiving funds and concessions from the government and as such the pivotal role of co-operatives in rural development is ignored.
- **Lack of accountability:** The management of the co-operative bank is taken care by the management committee and hence no individual can be held responsible for the poor performance of the banks. For better performance it is very important to define the roles and responsibilities and strict compliance with the norms regarding financial issues.

- **Limited Coverage:** The areas of operation of co-operative banks are limited and restricted. Since their area of operation is limited to few villages the number of members are less and because of this their resources remains limited and as a result they can't expand their area of operation.
- **Dependency on other regulatory authorities:** The co-operative banks have to depend on the approval of RBI for opening up of new State Co-operative Banks. The proposal is submitted to RBI through NABARD whose recommendation is primarily taken into consideration. The existence of multiple regulatory authorities in the workings of co-operative banks has come up in their way of effective performance.

CHECK YOUR PROGRESS

Q 7: Why co-operative banks face the issue of smooth flow of credit? (Answer in about 20 words)

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Q 8: How do mismanagement and manipulation act as a hindrance in the functioning of co-operative banks? (Answer in about 30 words)

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Q 9: Which are the regulatory bodies on which co-operative banks are dependent on for opening up of State Co-operative Banks? (Answer in about 30 words)

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12.6 LET US SUM UP

- Co-operatives Banks are an integral part of the Indian Financial System having history of almost 100 years. Co-operative Bank is defined as a financial entity which is formed by members who are also the customers of the bank.
- Co-operative bank in India are registered under the Co-operatives Societies Act. The co-operative banks are also regulated by the Reserve Bank of India (RBI) and governed

by Banking Regulations Act 1949 and banking laws (Co-operative Societies) Act, 1955.

- The co-operative banks came into existence with the motive to breakdown the monopoly of the money lenders who provide credit to the farmers.
- The structure of Co-operative Banking in India can be divided into two major segments namely: Urban Co-operatives Banks and Rural Co-operatives Banks.
- The Urban Co-operative Banks are referred to as primary co-operatives banks which are located in the urban and semi urban areas. This banks were allowed to lend money only for non-agricultural till 1996. The Urban Co-operatives are further divided into schedules and non-scheduled.
- The rural co-operatives banks have played an important role in providing rural credit to small and marginal agricultural workers. They are divided into short-term credit co-operatives and long-term credit co-operatives structure.
- The co-operatives have contributed immensely for the economic progress and upliftment of the rural as well as urban population.
- The major advantages of co-operative institutions are - ease of formation, democratic management, limited liability, open membership, continuity and stability, low operating cost, tax exemption, low interest rural credit, internal financing through plouging back of profit, special government assistance and non-competitive organizations promoting mutual help for its members.
- The major issues of co-operative institutions are - restriction in flow of credit, government interference, dependency on government funds, lack of modern banking practices, mismanagement and manipulation, functional weakness, lack of awareness of people regarding co-operative motive, lack of accountability in the co-operative banks, limited coverage of functioning and dependency on other regulatory authorities.

12.7 FURTHER READING

(1) Basak, A . (2010). *Co-operative Banks in India: Functioning and Reforms.* New Delhi: New Century Publications.

✓ 12.8 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: The term 'co-operation' is derived from the Latin word *cooperari*, where co means 'with' and operari means to 'work'. Thus the term co-operation means 'to work together'.

Ans to Q No 2: Co-operative Bank is defined as a financial entity which is formed by members who are also the customers of the bank. Co-operative banks provide their members with a wide range of banking and financial services. The members often belong to the same profession or community or people sharing common interest. Co-operative bank in India are registered under the Co-operatives Societies Act.

Ans to Q No 3: The co-operative banks started with the aim to encourage savings and promote mutual help for people with smaller means of earning such as farmers, artisans and other such people with marginal incomes. The co-operative banks came into existence with the motive to breakdown the monopoly of the money lenders who provide credit to the farmers. The unorganized system of money lending resulted in indebtedness and poverty which arouse the need for rural credit through co-operatives.

Ans to Q No 4: The characteristics of limited liability of co-operative institutions makes the liability of the members of the society is limited to the extent of their contribution in the capital. This takes away the fear of attachment of private property of the members in case of financial losses because the liability is limited to the extent of unpaid shares held by them. Therefore the risk faced by member is limited and known.

Ans to Q No 5: Separate legal entity means the institution or organization cannot be dissolved by the death, lunacy, insolvency or permanent incapability of its members. It enjoys continuity of function until and unless all members decide to close the same. Since co-operative institution is a separate legal entity, it enjoys the advantage of continuity and stability of existence.

Ans to Q No 6: Co-operative institutions provided loan at cheaper rate of interest and also provided other assistance which help to breakdown the monopoly of the money lenders. The money lenders used to charge high rate of interest and the entire earning of the people was consumed in paying the interest.

Ans to Q No 7: The issues in smooth flow of credit are because of limited ability to mobilize resources, low level of recovery or high NPA's, high transactional cost, and administered rate of interest structure for a long time.

Ans to Q No 8: The managerial issues faced by co-operative banks act as a hindrance in its capacity to finance rural development. The successes of these banks were depended on its members but over the time this democratic idea got corrupted and wealthier people took over the management and administration of the co-operative banks.

Ans to Q No 9: The co-operative banks depend on the approval of RBI for opening up of new State Co-operative Banks. The proposal is submitted to RBI through NABARD whose recommendation is primarily taken into consideration.

12.9 MODEL QUESTIONS

Short Questions (Answer each question in about 150 words)

Q 1: Briefly state the structure of co-operative banking in India.

Q 2: Mention four advantages of co-operative Institutions.

Q 3: Briefly discuss the progress of co-operative banks in India.

Long Questions (Answer each question in about 300-500 words)

Q 1: Discuss briefly about the co-operative movement in India.

Q 2: What are the problems faced by co-operative banks in financing rural development? Explain.

Q 3: Explain the development of co-operatives in the planned economy.

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UNIT 13: REGIONAL RURAL BANKS

UNIT STRUCTURE

13.1 Learning Objectives
13.2 Introduction
13.3 Objectives of Regional Rural Banks
13.4 Functions of Regional Rural Banks
13.5 Evaluation of Progress and Activities of Regional Rural Banks
13.6 Critical Assessment of the Functions of Regional Rural Banks
13.7 Let Us Sum Up
13.8 Further Reading
13.9 Answers to check your progress
13.10 Model Questions

13.1 LEARNING OBJECTIVES

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

- state the meaning of regional rural banks
- explain the different functions and objectives of regional rural banks
- explain the progress made by the regional rural banks so far
- assess critically the functions of regional rural banks.

13.2 INTRODUCTION

In this unit, we will discuss briefly anout regional rural banks.

Bank services play a significant role in the activities of modern economy. They constitute an important part of the economic system. According to 2011 census results, 68.84% of the total population in India lives in villages. 58% of India's population earn their livelihood through agriculture. India has many agro based industries and agriculture also contributes 17.32 percent to GDP and it's gross value added is 23.82 lakh crore in the financial year 2016-17. As such, the development of rural economy is very important. Here banks and financial institutions can play a vital role.

It is a known fact that money lenders play an important role in the financial scenario

of villages. They cater to the needs of village population relating to agriculture, rural and cottage industries. The money lenders functioned in an informal set up, charging exorbitant rates of interest and also exploiting the borrowers at times. So it was extremely necessary on the part of the government to take steps to replace these money lenders with a formal set up.

With these perspectives, an ordinance was passed in 1975, on the recommendations of the Narshimham Committee Working Group to establish Regional Rural Banks. The RRB Act was also passed in 1976 to define the structure and functioning of RRBs. The initiation of establishment of RRBs was made on 2nd October 1975, with the setting up of five RRBs, with a capital of 5 crore rupees. The RRBs mobilise financial resources for rural and semi urban areas and advances loans mainly to small and marginal farmers, agricultural labourers and rural artisans. These banks have limited area of operation.

The ownership of RRB lies jointly with the central government, the concerned state government and the sponsor. Of the total fund, fifty percent will be subscribed by the central government, thirty five percent by the sponsor bank and fifteen percent by the concerned state government.

13.3 OBJECTIVES OF REGIONAL RURAL BANKS

The primary objectives of the regional rural banks are discussed below:

- To provide and facilitate credit to small and marginal farmers and landless labourers at subsidised rates. Also, to encourage rural artisans and small entrepreneurs engaged in productive activities by providing them easy and cheap credit.
- To endeavour for the development of the rural economy of the country by providing financial assistance at liberal rates to agriculture. At the same time, the RRBs strive to encourage trade and commerce, industries and other productive enterprises in rural areas by extending easy and subsidised finance.
- To inculcate among the rural people the banking habit by encouraging them to put their savings in banks, thereby contributing to capital formation and accentuating economic growth of the rural economy.
- To create employment avenues and provide employment opportunities to the rural educated youths.

- To bring down the cost of rural banking.

CHECK YOUR PROGRESS

Q 1: What is meant by Regional Rural Banks? (Answer in about 30 words)

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Q 2: When was the initiation for the establishment of RRBs made?

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Q 3: What was the fund position of RRBs at the time of its initiation?

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Q 4: With whom does the ownership of RRBs lies?

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13.4 FUNCTIONS OF REGIONAL RURAL BANKS

Going through the objectives of regional rural banks, it becomes clear that the regional rural banks are expected to play a key role in the upliftment of the rural society. This fact is also accepted by the economists and the government that the regional rural banks are crucial in facilitating the process of economic development in rural areas through an optimum utilisation of resources and utilising them in the most productive ways. Thus, the regional rural banks are one of the important institutions of rural finance. Every Regional Rural Bank has been given the status of a Scheduled Commercial Bank and has been empowered to transact and carry the business of banking. As such, it is responsible for mobilising deposits and granting loans (either to individuals or to groups).

In view of the above, we now discuss below the functions of the Regional Rural Banks. Since it is not possible to make an exhaustive list of the functions of regional rural banks, we here discuss only two broad functions - accepting deposits and granting loans.

- **Accepting Deposits:** One of the important responsibilities of the regional rural banks is mobilisation of rural credit. They are responsible for encouraging the rural public to deposit their savings in the banks. As such, the regional rural banks maintain different

types of accounts, namely, fixed account, current account and saving account. Like other commercial banks, the regional rural bank encourages depositors to put their deposits in the bank by paying handsome interest on the deposits.

- **Advancing Loans:** Another important function of the Regional Rural Banks is to advance cheap credit to the farmers. In fact, the regional rural banks were set up with the prime objective to provide the rural masses with cheap and easy credit and thereby uplift the rural economy. As such, the Regional Rural Banks provide cheap and easy credit to small and marginal farmers, agricultural labourers, artisans, small and marginal entrepreneurs as well as other financially backward and weak people of the villages. These credit facilities are provided with minimal paper works and little formalities, so that the villages do not hesitate to come and ask for loans. Moreover, the credit facilities are made easy and less formal so that the poor and innocent villagers do not fall into the clutches of the money lenders. Prior to the establishments of the Regional Rural Banks, the money lenders exploited the poor villagers a lot. At times, when the poor borrowers were not able to return the loan to the money lenders on time, they were forced to surrender their land and other assets to the money lenders. As such, the village economy became an exploitative economy, with money lenders exploiting the poor villagers. This in turn hampered the growth of the village economy. With the establishment of Regional Rural Banks, it was expected that these problems would be sorted out.

Along with the above two, the other important functions of the Regional Rural Banks are:

- The Regional Rural Banks aim to play the role of a catalyst and thereby accelerate the process of economic growth of the region.
- Another important function of the Regional Rural Banks is to inculcate among the villagers the 'banking habit' and thereby mobilise savings for the economic development of the region.
- The Regional Rural Banks also encourages trade and commerce in the region and thereby tries to increase employment opportunities for the rural youth.
- The Regional Rural Banks encourage rural artisans and entrepreneurs and also strive to develop entrepreneurial activities in the region.
- There are many areas and needs in the villages which are region specific, and cannot

be covered by the general policies of the government which are designed for the country as a whole. As such, the Regional Rural Banks caters to the special needs of the villagers which are region specific in nature.

- As all villages and region are not equal, and each village and region has specific problems, the Regional Rural Banks strive to cater to these needs and thereby remove economic disparity among the various regions of the country.

CHECK YOUR PROGRESS

Q 5: Name two primary functions of RRBs. (Answer in about 10 words)

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Q 6: How does Regional Rural Bank try to increase employment opportunities? (Answer in about 10 words)

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13.5 EVALUATION OF PROGRESS AND ACTIVITIES OF REGIONAL RURAL BANKS

The Regional Rural Banks, established in 1975, have played a crucial role in the economic development of rural areas of the country. In the multi agency approach taken by the Government of India, the Regional Rural Banks have played an important role in providing agricultural and rural credit. These banks, established with the aim of developing the rural economy by financing agriculture, industry, commerce as well as other productive activities, have been vital in uplifting the rural economy. They have been in existence in the Indian financial scenario for the last 37 years. The Regional Rural Banks, since their inception, have been fundamental in limiting the role of unscrupulous money lenders.

The number of branches of a bank and branch extension plays an important role in the growth of the banks as then they can reach out to more customers. As on 1st March, 2019, there are 53 regional rural banks in India, covering 620 districts, with Uttar Pradesh becoming the state with highest number of RRBs in India. The following table gives an idea about the growth and coverage of Regional Rural Banks in India.

TABLE-1: BRANCH AND DISTRICTS COVERED BY REGIONAL RURAL BANKS

YEAR	No. Of RRBs.	No. Of Branches	No. Of Districts covered	Deposit (Rs. In crores)	Outstanding Advances (Rs. In crores)	CD Ratio
1975	6	17	12	0.2	0.1	50%
1985	188	12606	333	1285.82	243.38	109.48%
1995	196	14509	425	11141	6291	56%
2005	196	14484	523	62143	32870	57%
2015	56	20342	648	273081	194785	66.3%

Source: RBI database/ rbi.org.in

The above table shows that the Regional Rural Banks have come a long way, from only 17 branches in 1975 to as many as 20342 branches in 2015. The number of districts covered has also increased from 12 in 1975 to 648 in 2015. However, we see a fluctuating trend in the deposit and advances, and consequently in the cash deposit ratio.

Meanwhile, state wide expansion of Regional Rural Banks also brought in welcome changes in the rural economy. The data on state wise number of branches and districts covered, as on 1st March, 2017 is given below.

Table-2: State-wise Spread of Regional Rural Banks and their Network and Coverage at The end of March- 2017

Sl.No.	Name of the State	Number of RRBs	Number of Branches	Number of Districts covered
1.	Andhra Pradesh	4	1642	23
2.	Arunachal Pradesh	1	30	8
3.	Assam	2	428	27
4.	Bihar	3	1718	38
5.	Chhattisgarh	3	555	28
6.	Gujarat	3	529	26
7.	Haryana	2	507	23

8.	Himachal Pradesh	2	188	12
9.	Jammu and Kashmir	2	323	26
10.	Jharkhand	2	442	24
11.	Karnataka	3	1460	30
12.	Kerela	2	506	15
13.	Madhya Pradesh	3	1132	50
14.	Maharashtra	2	645	33
15.	Manipur	1	28	9
16.	Meghalaya	1	76	7
17.	Mizoram	1	71	8
18.	Telengana	2	92	7
19.	Nagaland	1	10	5
20.	Orissa	2	901	30
21.	Pondicherry	1	30	2
22.	Punjab	3	311	24
23.	Rajasthan	3	1157	36
24.	Tamil Nadu	2	374	31
25.	Tripura	1	133	8
26.	Uttar Pradesh	8	3518	81
27.	Uttaranchal	1	237	13
28.	West Bengal	3	921	18
	Total	56	17856	635

Source: RBI database/ www.rbi.org.in

The coverage of Regional Rural Banks in the 28 states of India is quite commendable. As on 1st March, 2017, there are as many as 17,856 branches covering 635 districts in the country. Among the states, Uttar Pradesh has the highest number of

branches - 3518 - covering 81 districts, and Nagaland is the state with lowest number of branches - only 10 - covering only 5 districts.

Table 3: Deposit Mobilization of RRBs

Year	Advances	Growth Rate(%)
2007-08	48492.6	21.64
2008-09	58984.3	14.95
2009-10	67802.1	21.27
2010-11	98917.1	20.31
2011-12	116385	17.66
2012-13	137078	17.88
2013-14	159660	16.47
2014-15	178420	17.44
2015-16	194785	19.43
2016-17	223562	18.52

Source: www.nabard.org

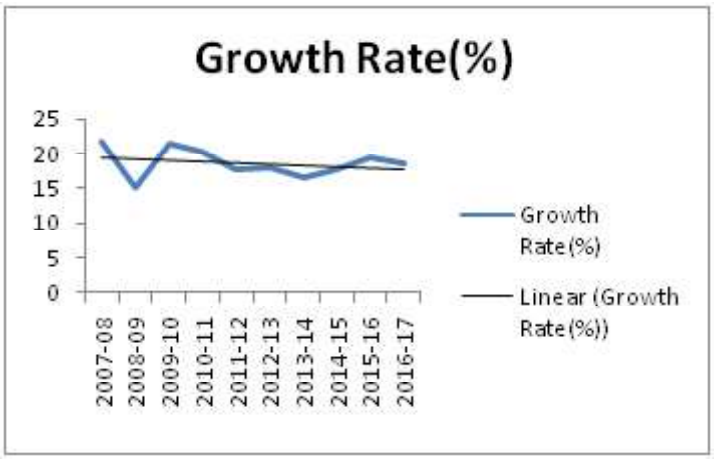


Table 3 depicts the deposit mobilisation scenario of Regional Rural Banks since 2007-08 to 2016-17. It is observed from the above that the growth rate of deposit have fluctuated over the years, but if we see the overall trend, it follows that the growth rate of deposit mobilisation has shown a downward trend in the period 2007-08 to 2016-17.

13.6 CRITICAL ASSESSMENT OF THE FUNCTIONS OF REGIONAL RURAL BANKS

The RRBs were set up in rural India with the purpose to serve the rural economy and work for its upliftment. Since its inception in 1975, it has come a long way. It thus becomes pertinent to look into their working and performance. Since two of their important functions are accepting deposits and advancing loans, let us first look at the performance of these two function in a period of 10 years - from 2007 to 2017 - and thereby analyse their profit loss scenario.

Table-4: Deposit and Advances of RRBs in India in 2007 & 2017 (Amount in Rs. Crores)

Particulars	2007	2017
Number of RRBs	96	56
Deposits	83143.55	3,71,910
Loans & Advances (outstanding)	48492.59	2,26,175
No. of RRBs earning Profit	81	49
Profit in crores (A)	926.48	2604
No. of RRBs in loss	15	7
Loss in crores (B)	301.25	387
Net Profit of RRBs (A-B)	625.23	2218

Source: Annual Report of NABARD, 2007 & 2017

It is evident from the above table that in a period of ten years, the net profit of RRBs has increased and amount of loss has decreased. However, it may be pointed out that during the same period the number of RRBs has also decreased drastically from 96 in 2007 to 56 in 2017. The decrease in the number of RRBs on one hand and amount of loss bared by RRBs on the other is not a welcome factor. This shows a gloomy sign of the position of RRBs in India.

Another achievement of regional rural banks is the extension of services to all

rural districts of the country. The aim to reach and cover all the districts have been to a large extent realised.

However, there are certain challenges in front of regional rural banks that hinders them from climbing up the ladder of success. One of the challenges is the tough competition offered by private banks. The regional rural banks cannot provide facilities like their private counterparts. Another challenge is that of non-performing assets. A majority of the borrower's fail to repay their loans. As a result, the regional rural banks suffer huge losses.

13.7 LETS SUM UP

- On the recommendations of the Narshimham Committee Working Group an ordinance was passed in 1975 to establish Regional Rural Banks.
- The RRB Act was also passed in 1976 to define the structure and functioning of RRBs.
- The initiation of establishment of RRBs was made on 2nd October 1975, with the setting up of five RRBs, with a capital of 5 crore rupees.
- The RRBs mobilise financial resources for rural and semi urban areas and advances loans mainly to small and marginal farmers, agricultural labourers and rural artisans. These banks have limited area of operation.
- The ownership of RRB lies jointly with the central government, the concerned state government and the sponsor bank.
- The primary objective of RRBs is to extend rural credit and endeavour for the development of the rural economy.
- Two main functions of RRBs is accepting deposit and advancing loans.

13.8 FURTHER READING

1) Annual Report of NABARD, various years.
2) Arora, R.C.K. (1979). *Integrated Rural Development.* New Delhi: S.Chand & Co.
3) Datt and Mahajan. (2015). *Indian Economy.* New Delhi: S. Chand & Co. Ltd.
4) Reddy, K. V. (2007). *Rural Development in India (Poverty and development).* New Delhi: Himalaya Publishing House.
5) Singh, K. (2010). *Rural Development: Principles, Policies and Management.* Sage

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6) Sisodia, Y. S. (2007). *Rural Development: Macro-Micro Realities.* New Delhi: Rawat Publications.

7) Tiwary, Bind Kumar. 'Achievement Evaluation of Regional Rural Banks in India'. Indian Journal of Applied Research. Volume 2. Issue 11. Pg: 78 to 81.

✓ 13.9 ANSWER TO CHECK YOUR PROGRESS

Ans to Q No 1: The RRBs are financial institutions that mobilise financial resources for rural and semi urban areas and advances loans mainly to small and marginal farmers, agricultural labourers and rural artisans. These banks have limited area of operation.

Ans to Q No 2: On 2nd October, 1975.

Ans to Q No 3: 5 crores.

Ans to Q No 4: The ownership of RRBs lies jointly with the central government, the concerned state government and the sponsor bank.

Ans to Q No 5: Accepting Deposits and Advancing Loans.

Ans to Q No 6: By encouraging trade and commerce.

? 13.10 MODEL QUESTIONS

Short Questions (Answer each question in about 150 words)

Q 1: Define Regional Rural Banks.

Q 2: Mention the primary objective of RRBs.

Q 3: One of the important responsibilities of the regional rural banks is mobilisation of rural credit. Explain.

Essay-type Questions (Answer each question in about 500 words)

Q 1: Discuss the objectives behind the setting up of RRBs in India.

Q 2: Discuss the functions of Regional Rural Banks.

Q 3: Make a critical assessment of the performance of RRBs in India.

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UNIT 14: NABARD

UNIT STRUCTURE

14.1 Learning Objectives

14.2 Introduction

14.3 Objectives and Functions of NABARD

14.4 Evaluation of Progress and Activities of NABARD

14.5 Critical Assessment of Functions of NABARD

14.6 Let Us Sum Up

14.7 Further Reading

14.8 Answers to Check Your Progress

14.9 Model Questions

14.1 LEARNING OBJECTIVES

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

- state the objectives and functions of NABARD
- discuss the progress and activities of NABARD
- assess critically the functions of NABARD.

14.2 INTRODUCTION

This is the fourteenth unit of the course. In this unit we will discuss about NABARD.

National Bank for Agriculture and Rural Development (NABARD) came into existence with the merger of four separate institutions by the Government of India on the 12th of July, 1982. The Agricultural Credit Development of RBI, the Agricultural Refinance and Development Corporation (ARDC), the National Agricultural Credit (Stabilisation) fund and the National Agricultural Credit (Long term operations) fund of the RBI, together came up to form the National Bank for Agriculture and Rural Development to act as a means for the promotion of rural development and also to provide all sorts of financial assistance towards the upliftment of agriculture in the rural areas.

14.3 OBJECTIVES AND FUNCTIONS OF NABARD

The objectives of NABARD are as follows:

- To give prime importance towards rural upliftment.
- To act as the locus for rural credit across the country.
- To coordinate the working of different agencies engaged in the developmental works in rural areas.
- To provide investment credit to small scale industries, for the promotion of handicrafts and to the rural artisans, craftsmen and farmers.
- To provide refinance facilities of State Land Development Banks (SLDBs), State Cooperative Banks (SCBs), Regional Rural Banks (RRBs) and other commercial banks for the developmental purposes of the rural areas.
- To monitor and inspect the developmental works in the rural areas.
- To have liaison with the Government of India, the RBI and the State Governments.

Some of the major functions of NABARD are as follows:

- **Credit Planning:** NABARD engages itself in preparation of district wise credit plans annually which indicate exploitable potential available for the development through bank credit under agriculture, allied activities, etc. It also monitors the flow of ground level credit, issuing policy and operational guidelines to the rural financial institutions (RFIs).
- **Financial Services:** NABARD is responsible for refinancing RFIs for providing loans for investment and production purposes in rural areas, loans to the State Governments for strengthening cooperatives and also developing physical and social infrastructure in rural areas. It also extends support for micro-credit innovations of the NGOs and other non-formal agencies, and for monitoring and evaluating financed projects.
- **Promotion and development:** NABARD takes initiatives for institutional development of client organizations and capacity building in partner institutions. Supporting experimentation with new developmental models and practices in credit delivery, dissemination of innovative products and ideas, supporting research and development and assisting the Government of India (GOI) and the RBI in formulation of policies relating to rural credit are also some of its functions.
- **Supervision:** On site and off site inspection of cooperative banks and Regional Rural Banks (RRBs) is also an important function of NABARD.

14.4 EVALUATION OF PROGRESS AND ACTIVITIES OF NABARD

NABARD is entrusted with the responsibility of providing and regulating the credit flow in the rural areas for the promotion and development of agriculture, small-scale industries, handloom and handicrafts, development of rural artisans with a view to promote integrated rural development. Besides providing refinance to the lending institutions in rural areas, NABARD performs different activities in diversified areas. NABARD is also an authorised channel partner of different projects undertaken by the Government of India.

- Business Operations
  - **Production credit:** During 2012-13, NABARD provided financial assistance to different Rural Financial Institutions (RFIs) in the form of short and long term refinance, developing and capacity building and supervising. It had played a crucial role in credit planning at the district as well as the state levels. The following table highlights the sanctioned credit limits to different Rural Financial Institutions (RFIs):

Table 2: Sanctioned Credit limits to RFIs

Sl. No.	Year	Amount (in Rupees Crore)
1	2012-13	66,418
2	2013-14	81,204
3	2014-15	90,620
4	2015-16	71,497
5	2016-17	76,526
6	2017-18	30,272
7	2018-19	22,746

Source: Annual reports of NABARD

  - **Investment Credit:** According to the Annual Report 2012-13, as on 31st March 2013, an amount of 16,292.26 crore was sanctioned with development of rural roads (accounted for 32 percent), irrigation (25 percent), rural bridges (13 percent), social sector (11 percent) and agriculture based projects (9 percent). While in the year 2017-18, out of the sanctioned amount of 25000 crore, 11 percent was allocated for agriculture, 35 percent for irrigation, 10 percent for rural bridges, 26 percent in rural roads and 18 percent in social sector, in the year 2018-19, out of

a sanctioned amount of Rs. 28,000 crore, 14 percent was accounted for agriculture, 51 percent in irrigation, 4 percent towards rural bridges, 18 percent in rural roads and 13 percent towards social sector respectively.

- **Rural Infrastructure Development Fund (RIDF):** Rural Infrastructure Development Fund (RIDF) in collaboration with the Government of different states is a major initiative of NABARD not only in carrying out the different sanctioned projects but also as a major source of finance for the commercial banks. Creating RIDF, NABARD has also considered development of rural infrastructure as a prime discipline. The following table highlights the year-on-year allocations of NABARD under RIDF:

Table 1: Year-on-year allocations of NABARD under RIDF

Sl. No.	Years	Amount Sanctioned (in Rupees Crore)
1	2013-14	20000
2	2014-15	25000
3	2015-16	25000
4	2016-17	25000
5	2017-18	25000
6	2018-19	28000

Source: Annual reports of NABARD

- **New Business Initiatives:** In the year 2010, as part of its initiatives to meet the needs of the changing business scenario, NABARD has developed a new department named Business Initiatives Department (BID) in order to provide direct credit support to new and viable business initiatives in order to boost the rural economy. Therefore, it has established various products under BID as discussed below:
  - **NABARD Infrastructure Development Assistance (NIDA):** NABARD has set up NIDA, a new line of credit support for funding of rural infrastructure projects. Since 2010 till the completion of the financial year 2018-19, 80 numbers of projects with an amount of Rs. 30,575 crore has been sanctioned under NIDA. Various sectors like renewable energy, power transmission and distribution, roads and bridges, warehousing, irrigation, drinking water and sanitation are covered under this scheme.
  - **Producers Organization Development Fund (PODF):** In order to empower the farming community of the country, NABARD has established Producers

Organization Development Fund (PODF) in the year 2011 with an initial amount of Rs. 50 crore. Any registered producers organization viz. Producers Company (as defined under Sec. 581 A in part IXA of Company's Act, 1956), Producers Cooperatives, registered Farmers' Federations, MACS (Mutually aided Cooperative Society), industrial cooperative societies, other registered federations, PACS, etc. set up by producers are eligible from the Fund.In its endeavour to support Producer's Organizations in a comprehensive manner, NABARD sanctioned as assistance of 55.95 crore out of Producer Organization Development Fund (PODF) to 34 PO's.

- **Direct refinance assistance to CCBs for short term multipurpose credit:** As per the recommendations of the Vaidyanathan Committee, the Central Cooperative Banks (CCBs) are eligible to borrow funds from any financial institutions approved by the Reserve Bank of India (RBI). Under this scheme, NABARD developed a 'Short Term Multipurpose Credit Product (STMCP) that would provide financial assistance to the Cooperative Banks in the year 2010.
- **NABARD Initiated Project on Core Banking Solutions (CBS) in Co-operatives:** Through Core Banking Solution (CBS), Co-operatives are being brought to a higher technology platform so as to compete with other banks for business and growth.

- **Development Initiatives:** The upliftment of agriculture has always been the prime objective of NABARD. Therefore, in order to meet this objective it has taken a number of initiatives. Some of which are as under:
  - **Watershed Development Fund (WDF):** The Watershed Development Fund (WDF) was created by NABARD under the Watershed Development Programme in the year 1999-2000 with an initial amount of Rs. 200 crore. The prime objectives are soil and water conservation, climate change adaption and mitigation, effective and sustainable uses of available water resources, enhancement of farm production, productivity and income of farmers, improved skill and employment opportunities in the area, creation of employment opportunities for small and marginal farmers and improvement of socio-economic status of farmers.
  - **Farm Innovation and Promotion Fund (FIPF) and Farmers' Technology Transfer Fund:** On 26th July, 2014, Farm Sector Promotion Fund (FSPF) was created in NABARD by the merger of two erstwhile funds, viz. Farm Innovation

and Promotion Fund (FIPF) and Farmers' Technology Transfer Fund (FTTF). The Fund focuses on promoting innovative and feasible concepts/projects and transfer of technology for enhancing production and productivity in agriculture and allied sectors and increasing farmers' income.

- **Farmers' Club:** When NABARD was established on 5th November 1982, the then Prime Minister of India had launched "Vikas Volunteer Vahini (VVV)" programme to propagate five principles of "Development through Credit". In the year 2005, the VVV programme was renamed as Farmers' Club Programme. Such clubs are organized by rural branches of banks in collaboration with NABARD for mutual benefit of both banks and farmers respectively.
- **Umbrella Programme on Natural Resource Management (UPNRM):** In order to achieve an environment friendly economic growth across rural areas of the country, Umbrella Programme on Natural Resource Management (UPNRM) was launched in the year 2008. The prime objectives of this programme are to create livelihood opportunities, increase in farm incomes and thereby enhance the agricultural value chains through investment in rural businesses and sustainable use of natural resources.
- **Tribal Development fund (TDF):** NABARD has been playing a significant role towards the upliftment of the tribal communities through the implementation of various programmes. The implementation of the comprehensive Adivasi Development Programmes (ADPs) in Gujarat since 1995 and in Maharashtra since 2000 had provided several insights for NABARD in framing strategies for holistic development of the tribal regions. With Tribal development Programme under TDF based on the successful experience of Adivasi Development Programmes, NABARD embarked upon an ambitious program of replicating the wadi (small orchard) model across the country. In this direction, NABARD set up a Tribal Development Fund (TDF) with a corpus of Rs. 50 crore in the year 2003-04.The objective of TDF is to promote sustainable participatory livelihood programmes ("Wadi" model and "beyond Wadi approach") which inter alia, aim at economic upliftment through sustainable agriculture, social empowerment, improvement in quality of life including health and women development, in tribal predominant areas of the country supported through Non-Government

Organisations (NGOs)/ Community Based Organisations (CBOs)/ KVKs etc.

- **SHG-Bank Linkage Programme:** As a major initiative to provide banking services to the weaker and deprived sections of the society in rural areas, the Self Help Group (SHG)-Bank Linkage Programme was launched in the early 1990s. NABARD was the pioneer in the programme in the year 1992. Under this programme, banks were directed to open accounts of the SHGs and also provide loans to the SHGs against group guarantee.

14.5 CRITICAL ASSESSMENT OF FUNCTIONS OF NABARD

In the year 1963, the Reserve Bank of India (RBI) with the sole motive of providing short and medium term agricultural credit to support the investment credit needs for the agricultural development had formed the Agricultural Refinance Corporation (ARC). However, this institution was renamed as Agricultural Refinance and Development Corporation (ARDC) in the year 1975 thereby further extending its role towards developmental and promotional activities besides acting as a refinancing agency. It was in the year 1982, that NABARD had taken over the functions of the Agricultural Credit Department (ACD) and Rural Planning and Credit Cell (RPCC) of RBI and Agricultural Refinance and Development Corporation (ARDC). Today, the Department of Refinance (DOR) deals with short term and long term refinance functions of NABARD.

- **Short term refinance:** NABARD provides by way of refinance loans and advances repayable on demand or on the expiry of fixed periods, not exceeding 18 months, to Cooperative Banks, Regional Rural Banks for production, marketing and procurement activities. The basic objective of short-term refinance provision is to supplement the resources of banks and improve credit flow at the ground level. These activities include:
  - Short-term refinance to State Cooperative Banks and Regional Rural Banks for seasonal agricultural operations
  - Short-term refinance to State Co-operative Banks and Regional Rural Banks for purposes other than seasonal agricultural operations
  - Short-term refinance to Scheduled Commercial Banks, State Co-operative Banks and Regional Rural Banks for lending to weavers.

NABARD regulates and provides guidelines to the Regional Rural Banks (RRBs) and Cooperative Banks. Cooperative Banks are of two types: Urban Cooperative banks

and Rural Cooperative banks.

- **Long-term/Medium-term Refinance:** NABARD provides long-term and medium-term refinance to the following institutions to supplement their resources for providing adequate credit for supporting investment activities of farmers and rural artisans etc.
  - Scheduled Commercial Banks
  - Regional Rural Banks
  - State Cooperative Banks
  - District Central Cooperative Banks
  - State Cooperative Agriculture and Development Banks
  - Primary Urban Cooperative Banks
  - Agricultural Development Finance Companies (ADFCs)
  - NABARD Financial Services Limited (NABFINS)
  - North Eastern Development Finance Corporation Ltd. (NEDFi)
  - Non-Banking Financial Companies (NBFCs)
  - Any other financial institution approved by RBI
- **Medium-term Conversion:** NABARD provides medium term credit limits for conversion of short-term crop loans advanced for financing seasonal agricultural operations (SAO) to State Co-operative Banks and Regional Rural Banks for providing relief to the farmers whose crops are damaged due to natural calamities.
- **Long-term loans to State Government:** NABARD provides long-term (LT) loans to State Governments to contribute to the share capital of cooperative credit institutions. This reimbursement-based support is intended to encourage larger lending programmes by these cooperatives to meet agricultural credit requirements.
- **Kisan Credit Card (KCC):** Government of India (GoI) introduced Kisan Credit Card Scheme during 1998-99 to meet the production credit requirements of the farmers in a timely and hassle-free manner. The scheme is under implementation in the entire country by the vast institutional credit framework involving Commercial Banks, Regional Rural Banks, and Cooperatives. RBI monitors the scheme for Commercial Banks and NABARD for Regional Rural Banks and Cooperatives. NABARD formulated the model scheme for the issue of Kisan Credit Card (KCC) to farmers on the recommendations of R.V. Gupta Committee to rapidly purchase agricultural inputs such as seeds, fertilizers, pesticides etc. and draw cash for their production.

Apart from the function of regulating and providing guidelines to the RRBs, Cooperative Banks, KCC, Self-Help Groups (SHGs), the prime function of NABARD is to provide direct finance and refinance. It is well known that whenever a bank or a financial body provides finance to a customer directly, it is called direct finance. For example, if any commercial bank, say SBI or others provides its service directly to the customers, it is a form of direct finance. But in case of refinance, suppose NABARD provides short-term finance to the RRBs and also to the Cooperative banks. Now if the RRBs and Cooperatives provide their services directly to the customers, then it can be said that NABARD provides refinance to the customers. Therefore, refinance means to deliver the products and services to the customers through a third party source. In regard to direct finance, NABARD provides credit facility to recognised marketing federations and cooperative banks. NABARD provides short or long term finance or loans for a maximum period of 15 years to SHGs, MSME and Agriculture allied areas like poultry, bee keeping, fishing, animal husbandry etc. Refinance in these areas are done by RRBs, Cooperative banks or through commercial banks.

CHECK YOUR PROGRESS

Q 1: In which year NABARD was established ?

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Q 2: What is the full form of ARDC ?

.....

Q 3: State two objectives of NABARD. (Answer in about 10 words)

.....

Q 4: State two functions of NABARD. (Answer in about 10 words)

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14.6 LET US SUM UP

- National Bank for Agricultural and Rural Development (NABARD) was set up on 12th of July, 1982.
- The Agricultural Credit Development of RBI, the Agricultural Refinance and Development Corporation (ARDC), the National Agricultural Credit (Stabilisation) fund and the National Agricultural Credit (Long term operations) fund of the RBI, together

came up to form the NABARD.

- NABARD is entrusted with rural upliftment and refinance of both short term and long term investment credit for agricultural development, farmers and local artisans.
- NABARD provides long-term and medium-term refinance to several financial institutions to supplement their resources for providing adequate credit for supporting investment activities.
- NABARD Infrastructure Development Assistance (NIDA), Producers Organization Development Fund (PODF), direct refinance assistance to CCBs for short term multipurpose credit and NABARD Initiated Project on Core Banking Solutions (CBS) in Co-operatives are some of the new business initiatives undertaken by NABARD.
- Watershed Development Fund (WDF), Farm Innovation and Promotion Fund (FIPF) and Farmers' Technology Transfer Fund , Farmers' Club, Umbrella Programme on Natural Resource Management,Tribal Development fund (TDF) and SHG-Bank Linkage Programme are a few developmental initiatives of NABARD.

14.7 FURTHER READING

1) Jain, S., & Mathur, D. (2012). 'Efficacy of NABARD in Indian rural development'. International Journal of Management Research and Reviews. 2(3), 394.
2) Soni, B. K. & Trivedi, J. C. (2015). 'An Empirical Study on Farmers Club Programme: An Innovative Initiative of National Bank for Agriculture and Rural Development (NABARD)'. Journal of Rural and Industrial Development. 3(1), 16.

14.8 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: NABARD was established in the year 1982.

Ans to Q No 2: ARDC stands for Agricultural Refinance and Developmental Corporation.

Ans to Q No 3: Two objectives of NABARD are:

- To give prime importance towards rural upliftment.
- To act as the locus for rural credit across the country.

Ans to Q No 4: Two functions of NABARD are:

- Credit Planning
- Financial Services

14.9 MODEL QUESTIONS

Short Questions (Answer each question in about 100 words)

Q 1: What are the objectives and functions of NABARD?

Q 2: What are the activities undertaken by NABARD?

Q 3: State the basic short-term refinance activities of NABARD to supplement the resources of banks.

Q 4: Write a short note on Kisan Credit Card (KCC).

Essay type questions (Answer each question in 300-500 words)

Q 1: Discuss in detail the objectives of NABARD.

Q 2: Discuss critically the functions of NABARD.

Q 3: What are the developmental activities adopted by NABARD for the upliftment of rural agricultural sector of India? Explain.

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UNIT 15: RECENT INNOVATIONS IN RURAL FINANCE

UNIT STRUCTURE

15.1 Learning Objectives
15.2 Introduction
15.3 Micro Credit
15.4 NGOs and Self-Help Groups
15.5 Rural Service Centres of Banks
15.6 Let Us Sum Up
15.7 Further Reading
15.8 Answers to Check Your Progress
15.9 Model Questions

15.1 LEARNING OBJECTIVES

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

- explain the term micro credit
- discuss about NGOs and SHGs
- know about the rural service centres of banks

15.2 INTRODUCTION

This is the last unit of the block. In this unit, we will discuss the recent innovations in rural finance.

India's rural finance revolves round three main domains, viz; credit, farmers and interest rates. Rural credit not only implies credit for agricultural development, though it is of prime importance, but also includes credit for boosting rural entrepreneurship and promotion of Self Help Groups (SHGs). Though rural finance is mostly aimed at the all round development of the farmers, till date the conditions of the farmers have remained vulnerable. This is probably because a large part of rural finance has not been properly utilised to meet the unmet needs of the rural people. It is a known fact that today most of the rural youth prefer a job in the towns and cities rather than taking up farming as their prime occupation. The Census of India, 2011 highlights that the number of cultivators (farmers) has declined by about 9 million during the period 2001 - 2011. It is also observed

that nearly about 570 million rural women are still uncovered by the different rural finance schemes (Census, 2011). Reducing the rate of interest of farmers and rural artisans on borrowed loan is another issue that need to be addressed under the domain of rural financing.

15.3 MICRO CREDIT

Micro credit is the process of lending small amounts of money to the business owners at a low rate of interest that typically lack collateral. It is mostly designed to support entrepreneurship and alleviate poverty. The genesis of modern micro credit is linked to Grameen Bank of Bangladesh as the first micro credit institution was founded in the year 1983 by the Nobel Laureate Muhammad Yunus. Micro credit today is a popular tool for economic development, with hundreds of institutions emerging throughout the third world. The impact of micro credit is a subject of debate. While proponents opine that it improves income and employment thereby reducing poverty considerably. Critics are of the view that micro credit has not led to income generation but rather it has driven poor households into debt traps. However the available evidences reveal that micro credit has facilitated the creation and growth of business and has also generated self-employment but has not played an effective role in enhancing income after interest payments. "Microcredit has been directed at women because it was believed that, compared to men, they are better clients of micro finance institutions and that women's access to micro credit has more desirable development outcomes, since women tend to spend more money on basic needs compared to men" (Pitt, M.M., Khandker, S.R. 1998, and Leach, Fiona., Shashikhala Sitiram 2002).

In India, before the nationalization of the banks in the year 1969, co-operatives banks were entrusted with the prime responsibility of dispersing small loans to the organized sector. Commercial banks then were not easily accessible to the small borrowers. Availing a loan, either large or small, without a guarantor or a mortgage of immovable property, was an impossibility. Nationalization has changed the banking scenario in India as bank branches had opened up in the remotest corner of the country. Gradually the Regional Rural Banks (RRBs), National Bank for Agricultural and Rural Development (NABARD), Export credit Guarantee Corporation (ECGC), Small Industrial Developmental Bank of India (SIDBI) etc. were formed and micro credit in India took a new shape.

Today micro credit is gaining credibility in the mainstream of the financial sector and many large financial organizations are contemplating micro credit projects as a source of future growth.

Advantages of Micro credit:

One prime advantage of Micro credit facility is that it is easily accessible. It provides significant benefit for the people with low income households and those under poverty. It is well known that banks do not extend loans to those people who are unable to provide any asset as mortgage. But through micro credit or micro finance, small loans are produced and are easily accessible. Microfinance or micro credit facility revolves round the notion that even small amount of loans can provide significant assistance to the poor and the needy thereby minimizing their level of poverty.

Moreover, through micro credit or micro finance, opportunities related to education and jobs are expanded. It is noticed that people availing micro finance are less likely to stop their children from going to school. Further, people availing micro finance start small businesses thereby becoming self-employed and thus enhancing the creation of employment opportunity for others.

Disadvantages of Micro credit:

More articulate and better-off community members may cheat poorer or less-educated neighbours. This may occur intentionally or inadvertently through loosely run organizations. As a result, many microfinance initiatives require a large amount of social capital or trust in order to work effectively. The ability of poorer people to save may also fluctuate over time as unexpected costs may take priority which could result in them being able to save little or nothing in some weeks. Rates of inflation may cause funds to lose their value, thus financially harming the saver and not benefiting the collector.

CHECK YOUR PROGRESS

Q 1: What is meant by Rural Credit ? (Answer in about 10 words)

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Q 2: What is mean by Micro credit ? (Answer in about 30 words)

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Q 3: What is the full form of ECGC ?

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15.4 NGOs AND SELF-HELP GROUPS

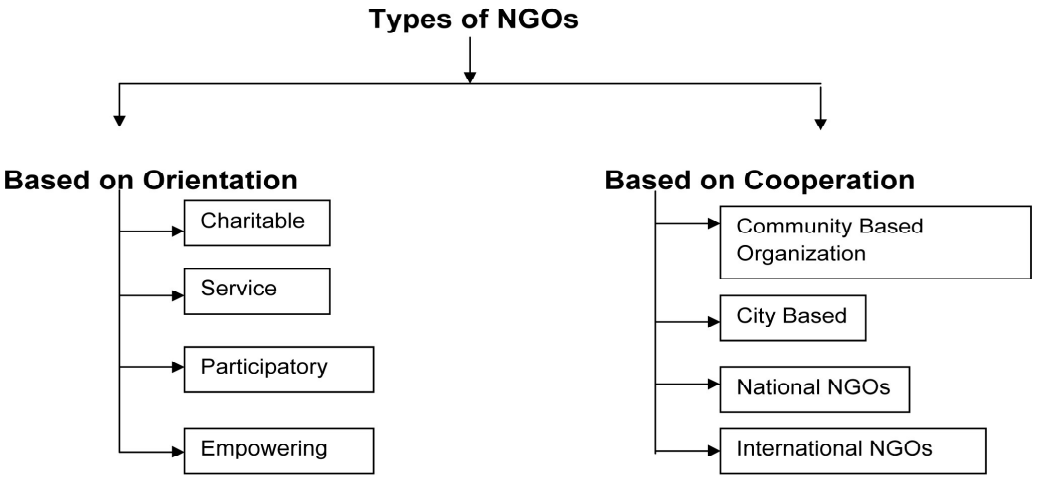
Non Governmental Organizations (NGO)

Non-governmental Organizations or NGOs, as it is normally called, are international governmental organizations and are generally non-profit organizations. The activities of an NGO are involved in diverse areas for the welfare of the society. Activities of an NGO revolve round the areas of humanitarian, educational, healthcare, public policy, social, human rights, environmental, and others. NGOs are usually funded by donations, but some avoid formal funding altogether and are run primarily by volunteers. They are highly diverse groups of organizations engaged in a wide range of activities and take different forms in different parts of the world. Some may have charitable status, while others may be registered for tax exemption based on recognition of social purposes. Others may be fronts for political, religious, or other interests.

The number of NGOs in the United States of America is estimated to be 1.5 million, in Russia 2,77,000 while in India it is estimated to be around 2 million, just over one NGO per 600 Indians.

The term "non-governmental organization" was first coined in the year 1945 when the United Nations was created. According to the United Nations, any kind of private organizations that is independent from government control can be termed as an "NGO", provided it is not-for-profit motive.

Different types of NGOs:



Some Indian NGOs:

- **Pratham:** This is India's largest NGO engaged in education programme. 'Read India' is its flagship programme. In the year 2011, 'Read India' worked with nearly 2.4 million children and trained more than 60000 teachers.
- **Azim Premji foundation:** Established in the year 2011, it works in coordination with the Government of India as well as the State governments to reform teaching and testing methods in government schools.
- **Akshya patra:** It is an NGO with one goal that is to provide children with meal in schools.

Self Help Groups (SHG):

One of the dominant approaches to rural entrepreneurship and upliftment of livelihood of women in rural areas is the formation Self-Help Groups (SHGs). A self-help group (SHG) is a village-based financial intermediary committee usually composed of ten to twenty local women or men based on common interest and affinity for socio-economic improvement of the members. A self-help group is seen as an instrument of empowering rural women, inculcating the leadership ability amongst the poor, reduction in school drop-outs (especially girls) and providing healthy diet.

The following are the advantages SHGs:

- The SHGs help the borrower to overcome the problem of lack of collateral. Providing collateral while availing loan is a major cause of concern for the people of rural areas. They therefore cannot afford to approach any commercial banks for loans. Hence, SHGs assist a borrower to overcome the problem of collaterals while availing loans.
- They can get timely loans for a variety of purposes and at a reasonable interest rate. The borrower is assured of getting loans on time without any delay and also at an affordable rate of interest which is unlikely in the case of commercial banks as commercial banks verify several documents of the borrower before sanctioning any loans.
- SHGs are the building blocks of organization of the rural poor. SHGs are the pathway towards the economic development of the rural people. The rural people are immensely benefited through the different SHGs and the easy availability of credit that enhances their livelihood.
- Not only do they help women become financially self-reliant, the regular meetings of the group provide a platform to discuss and act on a variety of social issues such as

health, nutrition, domestic violence, etc.

The following are the disadvantages of the SHGs:

- Lack of linkage with the marketing agencies.
- Lack of adequate sales promotion measures.
- Lack of permanent market for the products of SHGs.
- Absence of proper brand name.
- Poor/unattractive packing system

CHECK YOUR PROGRESS

Q 4: Define NGO. (Answer in about 30 words)

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Q 5: State two advantages of Self Help Group (SHG). (Answer in about 20 words)

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15.5 RURAL SERVICE CENTRES OF BANKS

In order to meet the unmet banking needs of the rural people, most banks have started to penetrate into the rural areas by opening up their branches. Rural banking in India has undergone a significant transformation today as compared to its past condition. Not only the public sector banks but also the private banks have taken up the rural areas as their important destination. Today we find branches of almost all leading banks in interior village areas with ATM facilities. The Pradhan Mantri Jan Dhan Yojna (PMJDY) has played a significant role in this regard. As a result of PMJDY, launched by the Government of India (GOI) on 28th of August, 2014, deposits worth Rs.36,000 crore have been received in accounts opened by rural people who otherwise had no access to banking service.

In order to provide financial help to medium and small scale enterprises, Micro Units Development and Refinance Agency (MUDRA) bank (MUDRA bank) was formally inaugurated on the 8th of April, 2015 by the Prime Minister of India at the Bigyan Bhawan, New Delhi. The prime purpose of MUDRA bank is to provide maximum loan of Rs.10

lakhs to small scale enterprises and refinancing and regulating the micro financial institutions. The small scale entrepreneurs who are unable to get loans from regular banks can go to MUDRA banks to raise funds and start their businesses. So the availability of institutional finance is only 4 percent of the total finance from regular banks to small scale enterprises. The small scale enterprises in employing around 20 million people across the country which includes small business units, taxi operators, food stalls, repair shops, machine shops, small industries, small artisans etc.

While the Pradhan Mantri Jan Dhan Yojya primarily focuses on 'bank the unbanked' which means providing bank accounts to people who do not have any bank accounts, the MUDRA bank refers to 'fund the unfunded' which means availing funds to those who want to start some business but lacks funds. In MUDRA scheme, there are three products:

- Tarun: Under this scheme, loan above Rs. 5 lakhs and up to Rs. 10 lakhs will be offered.
- Kishore: Under this scheme loan above Rs. 50,000 and up to Rs. 5 lakhs will be offered.
- Shishu: Under this scheme, loan up to Rs. 50,000 will be provided.

Initially, the MUDRA bank will work as a subsidiary for Small Industries Development Bank of India (SIDBI). The credited guarantee corpus of MUDRA bank is Rs. 3000 crores and initial corpus is Rs. 2000 crores.

MUDRA bank is a revolutionary concept to provide financial aid to those enterprises that are not included in corporate businesses. This scheme will help in the development of small and medium scale enterprises.

ACTIVITY 1

Visit a rural area and identify the bank branches functioning there. Also find out the schemes available there for rural development.

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15.6 LET US SUM UP

- India's rural finance revolves round three main domains, viz; credit, farmers and interest rates.
- The Census of India, 2011 highlights that the number of cultivators (farmers) has declined significantly by about 9 million in the period from 2001 to 2011.
- Micro credit is the process of lending small amounts of money to the business owners at a low rate of interest who typically lack collateral.
- The genesis of modern micro credit is linked to Grameen Bank of Bangladesh as the first micro credit institution was founded in the year 1983 by the Nobel Laureate, Muhammad Yunus.
- Micro credit in India had taken a new shape with the formation of the Regional Rural Banks (RRBs), National Bank for Agricultural and Rural Development (NABARD), Export credit Guarantee Corporation (ECGC), Small Industrial Developmental Bank of India (SIDBI).
- Non-governmental Organizations or NGOs as it is normally called are international governmental organizations and are generally non-profit organizations, with a common not-for-profit goal and without the intention of distributing excess revenue to its members.
- Self-Help group (SHG) is a form of NGO that is primarily aimed at eradication of poverty and is an instrument for empowering rural women.
- In order to promote financial inclusion and to extend banking services in unbanked areas, the RBI has directed all commercial banks to open up branches in every nook and corner of rural areas.

15.7 FURTHER READING

1) Pitt, M.M. Khandker, S.R. (1998). 'The impact of group-based credit programmes on poor households in Bangladesh: does the gender of participants matter?' Journal of Political Economy. 106 (5): 958-996.
2) Leach, Fiona., Shashikhala, Sitiram. (2002). 'Microfinance and Women's Empowement: A Lesson from India'. Development in Practice. 12: 575-588.
3) Bhaker, S. K. (2014). 'Role of NGOs in Rural Development in India'. Journal of Business

& Economic Policy. 1(1), 93-109.

4) Namboodiri, N. V. & Shiyani, R. L. (2001). 'Potential role of self-help groups in rural financial deepening'. Indian Journal of Agricultural Economics. 56(3), 401.

✓ 15.8 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Rural credit is the credit for boosting rural entrepreneurship and promotion of Self Help Groups (SHGs).

Ans to Q No 2: Micro credit is the process of lending small amounts of money to the business owners at a low rate of interest who typically lack collateral. It is mostly designed to support entrepreneurship and alleviate poverty.

Ans to Q No 3: ECGC stands for Export Credit Guarantee Corporation.

Ans to Q No 4: Non-governmental Organizations or NGOs as it is normally called are international governmental organizations and are generally non-profit organizations, with a common not-for-profit goal and without the intention of distributing excess revenue to its members. The activities of an NGO are involved in diverse areas for the welfare of the society.

Ans to Q No 5: Two advantages of financing through SHGs:

- An economically weak person gains strength and confidence.
- The transaction cost is reduced for both lenders and borrowers.

? 15.9 MODEL QUESTIONS

Short Questions (Answer each question in about 100 words)

Q 1: What role does rural credit play in boosting entrepreneurship in the rural areas?

Q 2: Write short notes on:

a) NGO

b) SHG

Q 3: How are the rural people benefited by the Pradhan Mantri Jan Dhan Yojna? Write briefly.

Essay type Questions (Answer each question in 300-500 words)

Q 1: Discuss the importance of Pradhan Matri Jan Dhan Yojna (PMJDY).

Q 2: Explain the role of Self Help groups (SHGs) in the development of rural women.

Q 3: Explain the significance of micro credit in rural development?

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