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Rural Development and Rural Finance In India

SEMESTER - VI

BUSINESS ADMINISTRATION

BLOCK- 2

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BLOCK INTRODUCTION

This is the second block of the course and comprises of eight units. This block 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 second unit of this block 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 about 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 since the 1990s in different sectors such as Agriculture, Animal Husbandry, Cottage Industries etc.The twelfth unit will help you to acquire knowlege about the 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 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 Highlights of Budget 2017 for Agricultural and Allied Sector in India

8.10 Issues with Use of Technologies

8.11 Let Us Sum Up

8.12 Further Reading

8.13 Answers to check your progress

8.14 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

This is the first unit of block 2. In this unit we will discuss the role of technology in rural development.

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 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

(a) Rural Technology is …… related.

8.4 MEANING OF AGRICULTURAL 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 forms 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: Prawn.
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.

.....

.....

8.7 ROLE OF TECHNOLOGY IN RURAL DEVELOPOMENT

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 programs, 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.

.....

Q.4: What are the various information technology initiatives to enhance agricultural productivity?

.....

8.9 HIGHLIGHTS OF BUDGET 2017 FOR AGRICULTURE AND ALLIED SECTOR IN INDIA

The following are some of the important highlights of the Union Budget 2017 for the Agriculture and Allied Sector:

- The total allocation for the rural, agriculture and allied sectors in 2017-18 is Rs. 1,87,223 crore, which is 24% higher than the previous year.
- The target for agricultural credit in 2017-18 has been fixed at a record level of Rs 10 lakh crores.
- The coverage of Fasal Bima Yojana will be increased from 30% of cropped area in 2016-17 to 40% in 2017-18 and 50% in 2018-19. For 2017-18, a sum of Rs 9,000 crore have been provided.
- Government will set up new mini labs in Krishi Vigyan Kendras (KVKs) and ensure 100% coverage of all 648 KVKs in the country.
- Addition of Rs. 20,000 crore to the corpus of Long Term Irrigation Fund.
- A dedicated Micro Irrigation Fund to be set up in NABARD to achieve the goal, 'per drop more crop'. The Fund will have an initial corpus of Rs. 5,000 crore.
- The coverage of National Agricultural Market (e-NAM) will be expanded from the current 250 markets to 585 APMCs.
- A Dairy Processing and Infrastructure Development Fund would be set up in NABARD with a corpus of Rs. 8,000 crores over 3 years. Initially, the fund will start with a corpus of Rs. 2,000 crores.
- Undertake a Mission Antyodaya to bring one crore households out of poverty and to make 50,000 Gram Panchayats poverty free by 2019.
- Budget provision of Rs. 38,500 crores under MGNREGA in 2016-17 has been increased to Rs. 48,000 crores in 2017-18.
- Together with the contribution of the states, an amount of Rs. 27,000 crore will be spent on PMGSY in 2017-18.
- Stepped up the allocation for Pradhan Mantri Awaas Yojana - Gramin from Rs. 15,000 crores in BE 2016-17 to Rs. 23,000 crore in 2017-18.
- An increased allocation of Rs. 4,814 crore proposed under the Deendayal Upadhyaya Gram Jyoti Yojana in 2017-18.

- Proposed to increase the allocations for Deendayal Antyodaya Yojana - National Rural Livelihood Mission for promotion of skill development and livelihood opportunities for people in rural areas to Rs. 4,500 in 2017-18.
- Proposed to provide safe drinking water to over 28,000 arsenic and fluoride affected habitations in the next four years.

Source: Business Today

8.10 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

(a) The literacy rate in India is high/ low.



8.11 LET US SUM UP

In this unit we have discussed the following aspects:

- 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.



8.12 FURTHER READING

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



8.13 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



8.14 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 Readings

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

In this unit we will discuss agriculture and livestock insurance in India.

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.

.....

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

.....

Q 3: What do you understand by the term Livestock?

.....

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. So this scheme was introduced which would provide insurance against the likelihood of diminished crop output/ yield resulting from maximum temperature (° C) above the trigger level and/or deviation in temperature range from the normal above the trigger value and/or minimum temperature (° C) below the trigger level and/or minimum temperature below 4 ° C resulting frost and/ or rainfall in excess of the trigger levels (calculated on daily/ weekly/ monthly basis) and/or bright sunshine hour below the trigger level.

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' i.e. a total of 50 animals subsidy.

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.

.....

Q 5: What are the three components of National Crop Insurance Programme?

.....

Q 6: Discuss briefly about the Livestock Insurance Scheme.

.....



9.5 LET US SUM UP

In this unit we have discussed the following aspects:

- The various difficulties associated with agriculture and livestock in India.
- 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 do you understand by the term Livestock? Mention 5 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.

*** **** ***

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 Answers to check your progress

10.7 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.

Among the unmet financial needs are the lifecycle financial needs of farmers, investment finance and risk management products respectively. According to Census 2011, the number of farmers engaged in cultivation has declined by about 9 million during the decade 2001 to 2011 to around 110 million thereby indicating the insufficient allocation of fund required to enhance cultivation. Also as per the Census report, nearly 570 million women, 331 million youth in the age group of 15-29 years, 104 million elderly above 60 years and 244 million minorities are not being adequately served. 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 moneylenders 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.

Functions of Indigenous banker

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-

a) Darshni or Sight Hundi which is payable on demand
b) 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.

Ø **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: Rural India is mostly ……based.

.....

Q 2: State two functions of indigenous banking

.....

Q 3: State two reasons for the importance of indigenous banking.

.....

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 moneylenders have a personal knowledge about the creditworthiness of borrowers they adopt rigid or flexible attitude while lending, charging interest, and recovery of loans.
- The moneylenders 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 moneylenders 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 a 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.

.....

Q 5: Money lenders provide short-term loans. True / False

.....

Q 6: Write a short note on trader.

.....

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.

Functions of cooperative banks

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

Q 8: State two functions of cooperative banks in India.

.....

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.; (l) Direct Finance and (2) 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.

- **Ø 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 4 financing individuals or agencies engaged in the supply of production inputs and other services to agriculturists. Indirect financing includes:-
- **m** Credit for financing distribution of fertilizers, pesticides and seeds.
- **m** Loans to farmers through PACS.
- **m** Finance to hire-purchase schemes for distribution of agricultural machinery and implements.
- **m** Loans for constructing and running of storage facilities.
- **m** Loans for spraying operations.
- **m** Loans to Electricity Boards for financing their well energization programmes.
- **m** 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).

Functions

As an apex bank, it takes care of agricultural credit and as a refinance function for 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.

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.

Narasimham Committee (1991) on RRBs

According to the Narasimham Committee (1991), the problem was one of improving the viability of RRBs without sacrificing the basic objectives for which they were set up. The government should help in evolving a rural banking structure, which could combine effectively the advantages of the local character of RRBs without the financial strength and organizational and managerial skills of the commercial banks. The committee recommended that commercial banks should segregate the operations of their rural branches through the formation of one or more subsidiaries. The interest rate structure of the RRBs should be in line with those of the commercial banks. NABARD should help RRBs to earn higher level of interest income for their surplus cash balances.

Functions of RRB's

RRB's perform various functions in following heads:

- Ø Providing banking facilities to rural and semi-urban areas.
- Ø Carrying out government operations like disbursement of wages of MGNREGA workers, distribution of pensions etc.

- Ø Providing Para-Banking facilities like locker facilities, debit and credit cards.



CHECK YOUR PROGRESS

Q 9: Define a public sector bank.

.....

Q 10: NABARD means ……

Q 11: State one function of NABARD.

.....

Q 12: State one function of RRB.

.....



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 as a refinance function for 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., "Rural Development Principles, Policies and Management", Sage Publications.
2) Sreedhar. G. and Rajasekhar.D., "Rural Development in India (Strategies and Processes)"; Concept Publishing Company(P) Ltd.



10.6 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: 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 and also provide finance to the self-help groups (SHG). These are the two functions of RRBs

Ans to Q No 9: A public sector bank is a bank where majority stake is held by the government.

Ans to Q No 10: NABARD means National Bank for Agricultural and Rural Development.

Ans to Q No 11: As a refinance function for production, investment credit are the functions of NABARD.

Ans to Q No 12: Providing banking facilities to rural and semi-urban areas is a function of RRBs.



10.7 MODEL QUESTION

Q 1: What are the functions of indigenous banking?

Q 2: Discuss the importance of indigenous banker.

Q 3: How is a money lender different from an indigenous banker?

Q 4: What is a co-operative bank? Write the functions of co-operative bank.

Q 5: Discuss the sources of financial assistance provided by public sector banks to small farmers.

Q 6: Write a note on the influence of the Narasimham Committee report of Regional Rural Banks (RRB).

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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

11.4.1 Lead Bank Scheme

11.4.2 Objectives and Limitations of the Lead Bank Scheme

11.5 The Lead Bank Scheme

11.6 Analysis of Major 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 the 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 the 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 takeover 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 productively 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.

11.4.1 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 Gardgil 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 Scheme of 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.

11.4.2 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.

- Ø 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
- Ø 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.
- Ø There is a need for revamping the District-level Consultative Committees (DLCC) and it should be a result oriented.
- Ø Lead bank Scheme should be an effective instrument in bringing about full and active involvement of all member banks.



ACTIVITY 1

Q 1: Do you think that lead bank scheme is important for overall banking reforms of the country?

(a) Provide your Comments.

.....

.....



CHECK YOUR PROGRESS

Q 1: (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)

11.5 ANALYSIS OF SOME OF THE MAJOR SCHEMES

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 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.

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: (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) Financial Institutions and Market by L M Bhole, Kindle Edition
2) Monetary Economics: Institutions, Theory and Policy by Suraj B. Gupta, 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

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: Provide an analysis of major Schemes of the Government of India undertaken since 1990 in different sectors

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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 Readings

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 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 UCB's are monitored by RBI whereas their registration and management activities are managed by Registrar of Co-operative Societies (RCS). The UCB's 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:

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.

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?

.....

Q 2: What is a Co-operative Bank?

.....

Q 3: What was the main aim with which co-operative banks got started?

.....

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?

.....

Q 5: What is the meaning of separate legal entity and how does it act as an advantage for co-operative institutions?

.....

Q 6: How co-operative institutions help in rural credit?

.....

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?

.....

Q 8: How do mismanagement and manipulation act as a hindrance in the functioning of co-operative banks?

.....

Q 9: Which are the regulatory bodies on which co-operative banks are dependent on for opening up of State Co-operative Banks?

.....



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 banks provide their members with a wide range of banking and financial services.
- 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 short term credit co-operatives are further divided into 3 types - State Co-operative Banks, District Central Co-operatives Banks and Primary Agricultural Credit Societies. 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.

- 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 farmers. 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.
- 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.

*** **** ***

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, which dot the rural setting. 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 are Regional Rural Banks?

.....

Q 2: When was the initiation for the establishment of RRBs made?

.....

Q 3: What was the fund position of RRBs at the time of its initiation?

.....

Q 4: With whom does the ownership of RRBs lies?

.....

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 Bank 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.

.....

Q 6: How does Regional Rural Bank try to increase employment opportunities?

.....

13.5 EVALUATION OF PROGRESS AND ACTIVITIES OF RRBs

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

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 Assam 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

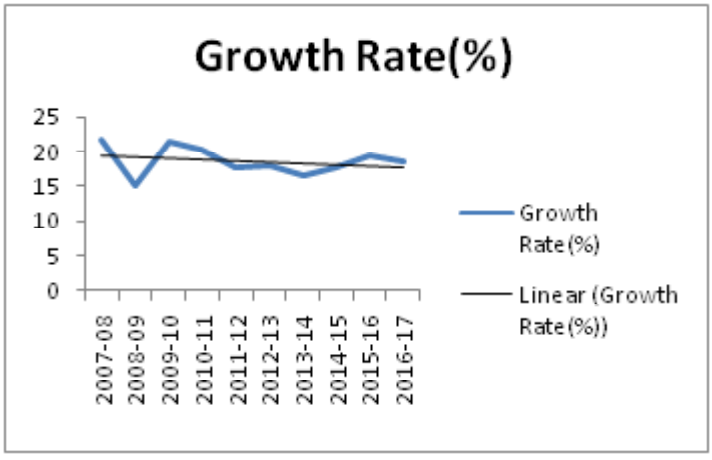


Table 3 depicts the deposit mobilisation scenario of Regional Rural Banks since 2007-08 to 2016-17. It is observed from the above that the growth rate of deposit have fluctuated over the years, but if we see the overall trend, it follows that the growth rate of deposit mobilisation has shown a downward 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.
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8) 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 RRB 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.

The functions of NABARD are as under:

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 forrefinancing 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

a) **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

b) 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.

c) 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. Following the creation of 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

i) 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:

a) 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.

b) 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.

c) 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.

d) 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.

ii) 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:

a) 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.

b) 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.

c) 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.

d) 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.

e) 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 strategiesfor 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.

f) 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: NABARD was established in the year .....

Q 2: ARDC stands for.....

Q 3: State two objectives of NABARD.

.....

Q 4: State two functions of NABARD

.....



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) Deokar, M. B. Role of NABARD in rural development.
3) 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

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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, MM; Khandker SR 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 Rural Credit?

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Q 2: What do you mean by Micro credit?

.....

Q 3: What is the full form of ECGC?

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15.4 NGOS AND SELF-HELP GROUPS

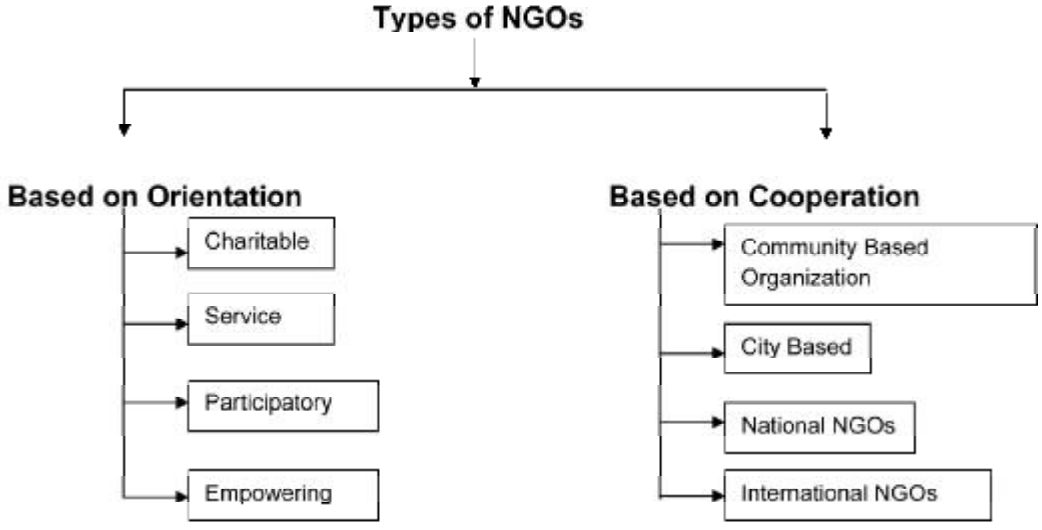
Non Governmental Organizations (NGO)

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:

1. **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.
2. **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.
3. **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:

a) 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.

b) 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.

c) 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.

d) 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:

a) Lack of linkage with the marketing agencies.

b) Lack of adequate sales promotion measures.

c) Lack of permanent market for the products of SHGs.

d) Absence of proper brand name.

e) Poor/unattractive packing system



CHECK YOUR PROGRESS

Q 4: What is an NGO?

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Q 5: State two advantages of Self Help Group (SHG).

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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.

Account opening report of Assam as on 04/09/2019

S. No	State Name	Beneficiaries at rural/ semi-urban centre bank branches	Beneficiaries at urban/metro centre bank branches	Total Beneficiaries	Balance in beneficiary accounts (in crore)	No. of RuPay cards issued to beneficiaries
1	Assam	1,18,89,413	37,38,106	1,56,27,519	3,680.47	1,21,37,503
2	Total	1,18,89,413	37,38,106	1,56,27,519	3,680.47	1,21,37,503

Source: www.pmjdy.gov.in/statewise-statistics

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:

a) Tarun: Under this scheme, loan above Rs. 5 lakhs and up to Rs. 10 lakhs will be offered.
b) Kishore: Under this scheme loan above Rs. 50000 and up to Rs. 5 lakhs will be offered.
c) Shishu: Under this scheme, loan up to Rs. 50000 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.



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

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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:

a) An economically weak person gains strength and confidence.

b) 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: What is the significance of micro credit in rural development?

Q 3: Write short notes on:

a) NGO

b) SHG

Q 4: 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: 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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