ALL THE VERY BEST FOR YOUR EXAMS

SHORT NOTES FOR

CAIIB – ELECTIVE PAPER

RURAL BANKING

Though we had taken enough care to go through the notes provided here, we shall not be responsible for any loss or damage, resulting from any action taken on the basis of the contents. Creation of these short notes is the efforts of so many persons. First of all we thank all of them for their valuable contribution. We request everyone to go through the Macmillan book and update yourself with the latest information through RBI website and other authenticated sources. In case you find any incorrect/doubtful information, kindly update us also (along with the source link/reference for the correct information).

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CAIIB – GENERAL INFORMATION

Consists of 4 papers :

I. Compulsory Paper

1. Advanced Bank Management
2. Bank Financial Management
3. Advanced Business & Financial Management
4. Banking Regulations and Business Laws

II. Elective Papers (Candidates to choose any one of their Choice)

1. Rural Banking
2. Human Resources Management
3. Information Technology & Digital Banking
4. Risk Management
5. Central Banking

- Only existing employees of banks who had cleared JAIIB can appear for CAIIB Exam.
- CAIIB exams are conducted in on-line mode only.
- The examination will be conducted normally twice a year in May / June and November / December on Sundays.
- The duration of the examination will be of 2 hours.
- **Examination Pattern** :
  (i) Question Paper will contain 100 objective type multiple choice questions for 100 marks including questions based on case studies/ case lets. The Institute may however vary the number of questions to be asked for a subject.
  (ii) There may be some numerical questions in some of the CAIIB subjects where, no options will be provided. These questions will not be in the MCQ pattern and the answer has to be keyed in by the candidate.
  (iii) The examination will be held in Online Mode only.
  (iv) There will be no negative marking for wrong answers.
  (v) Questions for the examination will be asked for:
    a. Knowledge testing
    b. Conceptual grasp
    c. Analytical/ logical exposition
    d. Problem solving
    e. Case analysis

- **Passing Criteria** :
  1. Minimum marks for pass in the subject is 50 out of 100.
  2. Candidates securing at least 45 marks in each subject with an aggregate of 50% marks in all subjects of examination in a single attempt will also be declared as having completed the Examination.
  3. Candidates will be allowed to retain credits for the subject they have passed in an attempt till the expiry of the time limit for passing the examination.

  Note : A candidate will be given 5 attempts for completion of exam (CAIIB) but, within a maximum period of three years, whichever is earlier, from the time he/she registers for the exam. These 5 attempts need not be consecutive.

- **"Class of Pass" Criteria :**
  - **First Class :** 60% or more marks in aggregate and pass in all the subjects in the FIRST PHYSICAL ATTEMPT.
  - **First Class with Distinction :** 70% or more marks in aggregate and 60% or more marks in each subject in the FIRST PHYSICAL ATTEMPT.
  - Candidates who have been granted exemption in the subject/s will be given **"Pass Class"** only.

- **Cut-off Date of Guidelines /Important Developments for Examinations** :
  - In respect of the exams to be conducted by the Institute for the Period from February to July of a calendar year, instructions/guidelines issued by the regulator(s) and important developments in banking and finance up to 31st December will only be considered for the purpose of inclusion in the question papers.
  - In respect of the exams to be conducted by the Institute for the period from August to January of a calendar year, instructions/guidelines issued by the regulator(s) and important developments in banking and finance up to 30th June will only be considered for the purpose of inclusion in the question papers.

- **Exam Fees**

Description	Fees*
First attempt fee	5,000
Second attempt fee	1,300
Third attempt fee	1,300
Fourth attempt fee	1,300
Fifth attempt fee	1,300

* Plus Convenience charges and Taxes as applicable.

Please Note: Candidates are required to Register for every attempt separately

SYLLABUS

The details of the prescribed syllabus which is indicative are furnished in the booklet. However, keeping in view the professional nature of examinations, all matters falling within the realm of the subject concerned will have to be studied by the candidate as questions can be asked on all relevant matters under the subject.

Candidates appearing for the examination should particularly prepare themselves for answering questions that may be asked on the latest developments taking place under the various subject/s of the said examination although those topics may not have been specifically included in the syllabus. Further, questions based on current developments in banking and finance may be asked. **Candidates are advised to refer to financial news papers / periodicals more particularly "IIBF VISION" and "BANK QUEST" published by IIBF.**

MODULE A: RURAL INDIA

Demographic Features
Population; Literacy; Sixth Economic Census; Agriculture Census; Socio Economic Development Indicators; Health; Nutrition; Education; Rural-Urban Migration

Characteristics of Rural Society
Social Stratification; Local Institutions; National Institute of Rural Development and Panchayati Raj (NIRD & PR)

Economic Features
Agriculture; Non-Farm Activities; Gross Domestic Product and Gross Value Added; Rural Money Markets – Formal and Informal Rural Money Markets; Rural Indebtedness; Rural Poverty; Different Methods of Measuring Poverty Line; Sustainable Development Goals

Infrastructure
Infrastructure in India; Transport; Markets; Rural Electrification; Other Services

Agriculture Economy
Structure and Characteristics of Indian Agriculture; Role of Agriculture in Economic Development; Agriculture-Industry Linkage; Issues in Economic Development; Resources in Agriculture; Technical Change in Agriculture; Constraints in Agricultural Development; Emerging Issues in Agriculture; National Mission for Sustainable Agriculture (NMSA)

Rural Development Policies

Rural Development Schemes; Skill Development and Entrepreneurship Initiatives; Shyama Prasad Mukherji Rurban Mission (SPMRM); Programs for Development of Backward Areas; Power Supply to Rural India Program; Development of Dryland Farming; Soil and Water Conservation; Rural Infrastructure Development Fund; Economic Reforms; Financial Sector Reforms; Impact of Reform in Rural Economy; Reforms after 1998-99

Issues Concerning Rural Areas

Components of Rural Development; Approaches to Rural Development since Independence; Sustainable Rural Development; Necessity for Rural Development; Measures for Development; Rural Development and Rural Management; Key Issues Concerning Rural Management; Marketing Management; Importance of Agricultural Prices

MODULE B: FINANCING RURAL DEVELOPMENT

Regulation of Rural Financial Services

Overall Set Up of Rural Financial Institutions (RFIs); Function and Policies of RBI in Rural Banking; Role and Functions of NABARD; Lead Bank Scheme

Rural Credit Institutions

Cooperative Credit System; Regional Rural Banks; Commercial Banks and Rural Financing; Other Financial Institutions Catering to Rural Areas; Initiatives for Augmenting Credit Flow; Role of Information and Communication Technologies in Rural Banking; Rural Development Banking – Initiatives for Inclusive Growth; Rural Insurance and Micro Insurance; Micro Finance Institutions; Concept of Business Facilitators and Business Correspondents in Rural Banking

Financing Agriculture and Allied Activities

Crop Loans – Production Credit; Features of Kisan Credit Card Scheme; Basic Features of NABARD Refinance Support to Cooperative Banks and RRBs for Crop Production activities; Bank's Role in Provision of Relief in Areas Affected by Natural Calamities; Term-Loans for Agriculture and Allied Activities; Features of Major Sectors for which Opportunities are Available for Provision of term Credit by Banks; Advance against Gold Ornaments

Financing Rural Non-Farm Sector

Rural Non-Farm Sector – Facilitative Set Up, Importance, Structure and Growth, Strength and Issues Concerning the Sector; Promotion of Traditional Industries; Raw Material Supply – Arrangements; Marketing Assistance; Institutional Finance; Technology Development and Training

SME Finance

Definition of SME; Importance of the sector to the Indian Economy; Arrangements for provision of credit to the MSME sector; Appraisal of MSME loan proposals – techniques and Requirement assessment of Projects for term loans; SIDBI's assistance to the MSME Sector and its development role; Policy prescriptions of RBI for the growth of MSME Sector; Initiatives taken by GOI for the development of MSME Sector; Problems faced by MSMEs; Delayed Payments to Micro and Small Enterprises under the Micro Small and Medium Enterprises Development (MSMED) Act, 2006; Performance and Credit Rating Scheme (PCRS); Framework for Revival and Rehabilitation of MSMEs

Concepts of Project, Aspects of Project Formulation & Appraisal & Model Bankable Projects

Aspects of Project Preparation; The Project Cycle; Minor Irrigation Schemes; Lift Irrigation; Financing Micro Irrigation Structures; Land Development Schemes; Farm Mechanization; Financing Plantation and Horticulture; Dairy Development Schemes; Poultry Farming; Sheep Breeding; Goat Rearing; Pisciculture; Bee Keeping; Financing Rural Godowns; Financing Sericulture; Financing Mushroom Cultivation

MODULE C: PRIORITY SECTOR FINANCING AND GOVT. INITIATIVES

Priority Sector Lending

Evolution of Priority Sector Lending; Guidelines on Priority Sector Lending – Categories; Non-Achievement of Priority Sector Targets; Common Guidelines for Priority Sector Loans; Priority Sector Credit Achievement

Poverty Alleviation Programs

Poverty Assessment and Way Forward; Initiatives of the Government – Features of the Schemes Implemented for Poverty Reduction; Welfare Schemes

Rural Housing and Education Loans

Rural Housing an Introduction; Pradhan Mantri Awas Yojana (Grameen); Education Loan

Initiatives of RBI under Financial Inclusion & Financial Education Programs and Implementation of Various Poverty Reduction Programs

National Strategy for Financial Inclusion; National Strategy for Financial Education; Direct Benefit Transfer; Guidelines Issued by RBI under NRLM/NULM; Relief Measures by Banks in areas Affected by Natural Calamity-RBI Guidelines to Banks; Credit Facilities to SCs/STs; Credit Facilities to Minority Communities; Poverty Alleviation/Employment Generation Programs

MODULE D: PROBLEMS AND PROSPECTS IN RURAL BANKING

Role of Banking – Emerging Trends in Rural Banking Characteristics of Rural Society
Present Scenario; Areas of Concern and Actions Pursued; Present Focus on Banking in Rural Areas; Inclusive Banking Activities

Role of Technology in Financial Inclusion and Rural Development
Transformational Role of Digital Technologies; Technology for Adoption of Improved Agricultural Practices; Scope for Using Digital Technology for Growth in Agriculture; Modern Management of Agriculture – Possible Technological Components; Benefits of Usage of Technology in Agriculture for the Society and the Nation; Common IOT Devices/Equipment in Agriculture for Agri-Solutions; Technology and Value Chain Operations; Progress of IOT in World Agriculture; Progress of IOT in Indian Agriculture; Other Initiatives for Development of Rural Areas; Financial Technology in Financial Inclusion Space

Financing Poor as Bankable Opportunities: Micro Credit and Self Help Groups
Microcredit Delivery Models; SHG-Bank Linkage Program (SBLP) Approach; Micro Finance Institutions (MFIs); Role of NABARD as Microfinance Facilitator; SIDBI & Micro Credit; Initiatives by RBI and GOI

MODULE - A: RURAL INDIA

Unit 1: Demographic Features

India's population has been increasing steadily since independence, and the yearly increase is equivalent to the total population of Australia.
It's important to know whether people have a better life now compared to when India gained independence. The Human Development Index (HDI) developed by the UNDP is a tool that helps measure this.
Due to increasing pressure on land and agriculture, people move to urban areas for better opportunities. However, this migration creates problems in urban areas.

POPULATION

- India has come a long way since the initial days of high mortality due to famines, diseases, and war.
- With better healthcare and control over diseases, life expectancy has increased significantly in India.
- India faced a Malthusian growth model, but with government interventions and birth control measures, the population responded positively.
- However, the increase in the number of women in reproductive age has led to a high number of births each year.
- India, along with China, is already part of the Billionaire club (countries with over a billion population), and is likely to overtake China by 2030.
- Currently, the world has over seven billion people.
- India is the second most populous country on earth, with over 17% of the world's population.
- India has a small geographic area, accounting for only 2.4% of the world's surface area. In contrast, the USA has a larger surface area of 7.2%, but only 4.5% of the world's population.
- Uttar Pradesh is the most populous state in India, with approximately 200 million people, which is 16% of the total population.

- India is currently in stage three of the four-stage model of demographic transition, which involves a transition from high mortality and fertility rates to low mortality and fertility rates.
- The percentage of decadal population growth has been declining in India since 1971-81.
- EAG states have seen a significant decline in population growth for the first time during the 2011 census.
- The crude birth rate (CBR) at the national level in 2018 was 20.0, with the highest rate in Bihar (26.2) and the lowest in Kerala (13.9).
- The crude death rate (CDR) for the country was 6.2 in 2018, with the highest rate in Chhattisgarh (8.0) and the lowest in Delhi (3.3).

- The infant mortality rate (IMR) has decreased from 33 in 2017 to 32 in 2018 at the national level, with the highest rate in Madhya Pradesh (48) and the lowest in Kerala (7).
- The sex ratio at birth has increased to 899 in 2016-18 from 896 in 2015-2017 at the national level, with Chhattisgarh reporting the highest sex ratio at birth (958) and Uttarakhand reporting the lowest (840).
- The total fertility rate (TFR) for the country is stable at 2.2 in 2017 and 2018, with Bihar reporting the highest TFR (3.2) and Delhi and West Bengal reporting the lowest TFR

Population Pyramids

- Population pyramids show changes in the age structure of a population.
- Developed countries have a cylindrical shape population pyramid due to high life expectancy, low fertility, and a relatively low population in the reproductive age group.
- Stable populations in developed countries have a challenge of higher dependency ratios since the working-age population is less.
- Developing countries, including India, have large proportions of children and persons in the reproductive age group.
- India's population projections for the near future are positive as it will have a large working-age population, with a considerably decreased dependency ratio, which is known as demographic dividend.
- The sex ratio of India has improved in the last two decades after an all-time low of 927 in 1991.
- As per the 2011 census, the sex ratio of India is 943, which is comparable to the best performance in the last fifty years.
- The government has taken several steps, including gender equality awareness campaigns, to stop the decline in sex ratio.
- However, the sex ratio of about 919 in the 0-6 age group is much lower and indicates the prevalence of male child preference in a large part of society.
- Haryana, Jammu & Kashmir, and Sikkim had the lowest sex ratio among the states as per census 2011.
- Daman & Diu, Dadra & Nagar Haveli, and Chandigarh had the lowest sex ratio among the
- Union Territories as per census 2011.

Issues concerning population

- Population is seen as both a resource and a burden depending on the context.
- Developing and underdeveloped nations are concerned about increasing population, while advanced nations are struggling with aging population and population decline.
- India is currently in stage three of demographic transition, with a large population size that is becoming an emerging power in the world.
- However, India also needs to tackle issues related to a burgeoning population, especially during the expansion phase.

- Malthusian concerns about increasing the means of subsistence to match the geometric population increase remain valid for a densely populated country like India.
- GDP has grown annually by more than 10.2% during 2001-10, increasing the per capita NNP two-fold.
- Annual exponential growth rate of food production is 1.15%, slightly lower than the population growth rate during 2001-11.
- Population growth since 1950-51 shows an increasing trend of urbanization, which has increased pressure on larger cities.

Literacy

- Literacy is essential for development in India as it improves people's quality of life, awareness, and skills.
- Literacy means the ability to read, write and comprehend information in order to communicate effectively.
- Literacy is empowering and fuels social and human development. Literacy is the foundation of basic education for all.
- The adult literacy rate in India is measured for people aged above 15 years, while the youth literacy rate is measured for people aged between 15-24 years.
- Literacy rate is calculated by dividing the number of literates of a given age range by the corresponding age group population and multiply the result by 100.
- According to the 2011 Census, any person aged seven and above and has the ability to read and write is considered literate.
- The average literacy rate in India is 74.04%.
- Kerala has the highest literacy rate in India at 93.91%, while Bihar has the least literacy rate in India of 63.82%.
- India's literacy rate was 74.04% in 2011, which is an improvement from 64.80% in 2001.
- There has been an increase in female literacy rate in India, from 53.7% in 2001 to 65.5% in 2011.
- Implementation of free education in rural areas has helped in improving literacy rates in India.
- Certain states and Union Territories like Mizoram, Tripura, Goa, Kerala, Puducherry, Chandigarh, Lakshadweep, Daman and Diu, National Capital Territory of Delhi, and Andaman and Nicobar Islands have shown significant improvement in literacy rates in the last decade, with a literacy rate of almost 85% according to the 2011 Census.
- The Constitution of India recognizes the importance of education for all and has provisions to ensure effective implementation of educational rights in the country.

The Constitution of India has provisions to ensure proper and effective implementation of educational rights in the country. These provisions include:

- **Education of Minorities:** Article 30 of the Indian Constitution gives all minorities the right to establish and administer institutions of their own choice.

- **Free and Compulsory Education:** The Constitution of India (u/a 41, 45 and 46 of the Directive Principles of State Policy) instructs the state to ensure that all citizens receive free education.
- **Equality of Opportunity in Educational Institutions:** The fundamental right of equality signifies that in the eyes of law, no one can be discriminated on the basis of status, caste, sex, class or creed. Equal opportunities should be provided to everyone in the country, including those related to education. Article 21 (A) of the Constitution of India was amended to provide free and compulsory education as a fundamental right to all children aged between 6 and 14 years.
- **Education of Weaker Sections:** Article 15, 17, and 46 of the Indian Constitution safeguard the educational interests of weaker sections of the society. These comprise socially, economically, and educationally backward families including those belonging to the scheduled castes (SCs) and the scheduled tribes (STs).

The Samagra Shiksha Program was launched to improve school effectiveness and provide equal opportunities for schooling and equitable learning outcomes.

Sixth Economic Census

- The Central Statistics Office, GOI has been creating databases for various sectors of the economy since its inception to aid planning at macro and micro levels.
- The Sixth Economic Census was conducted between January 2013 and April 2014 in collaboration with States/UT Governments.
- All economic activities, except crop production and plantation, public administration, defense, and compulsory social security, were covered in the census.
- The census aimed to create a reliable and robust database for planning purposes.
- The 7th Economic Census has already been taken up, but the assessment and report finalization have been delayed due to the pandemic.

Establishments in the Country

- The Sixth Economic Census conducted between January 2013 to April 2014 revealed that there are 58.50 million establishments in India engaged in economic activities other than crop production, plantation, public administration, defense and compulsory social security services.
- Out of these establishments, 34.80 million (59.48%) are in rural areas and 23.70 million (40.52%) are in urban areas.
- Uttar Pradesh, Maharashtra, West Bengal, Tamil Nadu, and Andhra Pradesh together accounted for 50% of the total establishments in the country.
- Among these establishments, 45.37 million (77.55%) were engaged in non-agricultural activities, while the rest 13.13 million (22.45%) were engaged in agricultural activities, other than crop production and plantation.
- 89% of these establishments were owned by proprietors, and among the proprietary establishments, 15.4% were owned by females.

Employment

- According to the Sixth Economic Census, there are 58.50 million establishments in India engaged in different economic activities other than crop production, plantation, public administration, defence and compulsory social security services.
- Out of these establishments, 34.80 million are in rural areas, while 23.70 million are in urban areas.
- Five states - Uttar Pradesh, Maharashtra, West Bengal, Tamil Nadu, and Andhra Pradesh - account for 50% of the total establishments in the country.
- 77.55% of the establishments are engaged in non-agricultural activities, while the remaining 22.45% are engaged in agricultural activities other than crop production and plantation.
- 89% of the establishments are owned by proprietors, and among them, 15.4% are owned by females.
- About 131.29 million people are reported to be employed in these establishments - 67.89 million in rural areas and 63.40 million in urban areas.
- The top five states with the highest employment are Maharashtra, Uttar Pradesh, West Bengal, Tamil Nadu, and Gujarat.
- Around 82.57% of the total employment is in non-agricultural establishments, and the remaining 17.42% is in agricultural establishments.
- 25.17% of the total employment is accounted for by females, with 61.90% of female employment in rural areas.

Employment in Agriculture

- Livestock sector has the highest employment in the agricultural activities, with 19.42 million workers which is 84.86% of the total employment in the agricultural sector.
- The manufacturing sector has the highest employment in non-agricultural activities, with 30.36 million workers (28%).
- The retail trade sector has the second-highest employment in non-agricultural activities, with 27.19 million workers (25.08%).
- The education sector has the third-highest employment in non-agricultural activities, with 10.60 million workers (9.77%).
- These three activities together account for about 63% of the total employment in the non-agricultural sector.

Agricultural Establishment

- Agricultural establishments, including agriculture, livestock, forestry, and fishery, are important for the Indian economy.
- According to the Central Statistics Office, their share in Gross Value Added was 16.3% in 2020-21.
- An agricultural establishment is defined as one engaged in the production of agricultural goods, services, hunting, trapping, and related activities.

- Cultivators were excluded from the census, but services incidental to crop production or plantation provided by individuals, firms, or companies were included.
- Livestock, forestry, and logging, and fishing and aquaculture establishments were also included in the census.

Agricultural establishments

- According to the Sixth Economic Census, there were 13.13 million agricultural establishments in India, which accounted for 22.45% of the total establishments in the country.
- Around 92% of these establishments (12.09 million) were located in rural areas.
- These establishments employed 22.88 million people, which constituted 17.43% of the total employment.
- Most of the employment in agricultural establishments (92%) was in rural areas, with 21.06 million people working there.
- 8.89 million females were employed in agricultural establishments, accounting for 38.85% of the total employment in these establishments.
- The census provided a distribution of agricultural establishments and employment by sector and nature of operation.
- Gujarat has the highest number of agricultural establishments in the country with 1.75 million establishments.
- These establishments constitute 13.36% of all agricultural establishments in the country.
- Tamil Nadu has the second-highest number of agricultural establishments with 13.31%. Maharashtra is third on the list with 12.1% of agricultural establishments.
- Andhra Pradesh follows with 11.13% of agricultural establishments.
- Uttar Pradesh is fifth on the list with 11.01% of agricultural establishments.

Non-Agricultural Establishments

- Non-agricultural establishments are those engaged in various activities like mining, manufacturing, electricity and gas supply, water supply, construction, wholesale and retail trade, transport and storage, accommodation and food service, information and communication, financial and insurance activities, real estate, professional and technical activities, administrative and support services, education, health and social work activities, arts, entertainment, sports and recreation, and other service activities.
- Sixth Economic Census defines non-agricultural establishments that are not engaged in agricultural production or services.
- There were 45.36 million non-agricultural establishments in India, which accounted for 77.55% of the total establishments.
- Out of these, 22.71 million were located in rural areas, and 22.65 million were in urban areas.
- About 108.41 million people worked in non-agricultural establishments, which accounted for 82.57% of the total employment.

- Female workers in non-agricultural establishments were 24.15 million, making up 22.28% of the total employment.
- Around 50.6% of female workers in non-agricultural establishments were found in rural areas.
- The 'manufacturing' sector had the maximum number of workers with 30.36 million workers (28%).
- The 'retail trade' sector had 27.19 million workers (25.08%). The 'education' sector had 10.60 million workers (9.77%).
- These three sectors combined accounted for about 63% of total employment in non-agricultural establishments.
- In rural areas, the highest percentages of employment were in 'manufacturing' (29.13%), followed by 'retail trade' (23.91%) and 'education' (14.14%).
- In urban areas, 'manufacturing' employed the most people (27.15%), followed by 'retail trade' (25.98%) and 'education' (6.45%).

Handicraft/Handloom Establishments

- The Economic Census included a count of handicraft and handloom establishments in India to identify their clusters and assess their contribution to the economy.
- The total number of handicraft/handloom establishments in India was 18.73 lakh, with 59.6% located in rural areas.
- The top five states with the most handicraft/handloom establishments were West Bengal, Uttar Pradesh, Odisha, Andhra Pradesh, and Tamil Nadu.
- Around 42 lakh persons were employed in the handicraft and handloom sector, with 52.67% of them working in rural establishments.

Women Entrepreneurs

- Women's equal access and control over economic and financial resources is important for achieving gender equality and sustainable economic growth.
- In India, 11.5% of households in rural areas and 12.4% in urban areas are headed by women. The female literacy rate is 65.46% and the work force participation rate for women is 25.51%.
- Women have started playing important roles in decision-making at all levels.
- Data on women entrepreneurship at the national level is scarce, so questions related to women entrepreneurship were added to the Sixth Economic Census.
- It was observed that 8.05 million establishments in India, which is around 13.76% of the total number of establishments, were run by women entrepreneurs.
- Out of these, 65% were in rural areas, and a total of 13.48 million workers were engaged in these establishments.
- Tamil Nadu, Kerala, Andhra Pradesh, West Bengal, and Maharashtra had a high number of women-owned establishments.

Agriculture Census

- Agriculture is an important sector in the Indian economy and provides livelihood for a majority of the population.
- Collection and maintenance of agricultural statistics is important, especially in relation to land-holdings.
- India has a sound system of land records, including village maps, which are used for agricultural planning and development.
- Since 1970-71, the Department of Agriculture, Cooperation & Farmers' Welfare has been implementing Agriculture Census Scheme quinquennially to collect and compile data on operational holdings in the country.
- The operational holding is the basic unit of data collection in Agriculture Census, and the census provides information on land use, cropping pattern, irrigation status and tenancy particulars.
- The information collected is tabulated by different size classes and social groups, which is needed for development planning, socio-economic policy formulation and establishment of national priorities.
- The Agriculture Census provides the basis for development of a comprehensive integrated national system of agricultural statistics and has links with various components of national statistical system.
- The Agriculture Census Scheme was started in 1970-71 to collect data on operational holdings in India.
- The objective of the scheme is to gather information on land use, cropping patterns, irrigation, and tenancy particulars.

Socio Economic Development Indicators

Human Development Index (HDI)

The Human Development Index (HDI) emphasizes that people and their capabilities should be the ultimate criteria for assessing the development of a country, not economic growth alone.

- The HDI is a summary measure of average achievement in key dimensions of human development- a long and healthy life, being knowledgeable, and having a decent standard of living.
- The HDI is the geometric mean of normalized indices for each of the three dimensions.
- The health dimension is assessed by life expectancy at birth, and the education dimension is measured by mean of years of schooling for adults aged 25 years and more and expected years of schooling for children of school entering age.
- The standard of living dimension is measured by gross national income per capita.
- The HDI was developed by Mahbub ul Haq and was further used to measure a country's development by the United Nations Development Program (UNDP)'s Human Development Report Office (HDRO).

- The HDI can be used to question national policy choices and stimulate debate about government policy priorities.

Gender Development Index (GDI)

- The Gender Development Index (GDI) measures gender gaps in human development achievements between men and women in three dimensions: health, knowledge, and living standards.
- The GDI is calculated by comparing the HDI separately for males and females, using the same methodology as the HDI.
- The GDI is a direct measure of the gender gap, showing the female HDI as a percentage of the male HDI.
- Countries are grouped into five categories based on the absolute deviation from gender parity in HDI values, considering gender gaps favoring males and females equally.
- The GDI helps understand how much women lag behind men and how much they need to catch up in each dimension of human development.
- The GDI is useful for designing policy tools to close the gender gap in human development achievements.
- India ranked 112th among 153 countries in the Global Gender Gap Index 2020

HEALTH

- Health and longevity are important for economic performance.
- Health is seen as a driver of economic growth, not just a consequence of it.
- A healthier workforce is more productive, and healthy children tend to stay in school longer and have better cognitive function.
- Healthy populations have higher savings rates and attract foreign investment.
- Studies show that healthier countries experience faster growth in average income, and a 10-year gain in life expectancy can lead to an additional one percentage point of annual growth in income per capita.
- Health is crucial in alleviating poverty, as the value of labor is determined by a person's health.

- The Rashtriya Kishor Swasthya Karyakram is a program focused on adolescent health, with a key principle of promoting adolescent participation and leadership, equity, gender equity, and partnerships with other sectors and stakeholders. It aims to enable adolescents in India to make informed and responsible decisions about their health and well-being and access the services and support they need.
- The Janani Shishu Suraksha Karyakaram is an initiative to encourage institutional deliveries by providing benefits to pregnant women who give birth at government facilities.
- The government has launched various programs to aid against communicable and non-communicable diseases, which are leading causes of death in India. Approximately 5.8 million

people die each year due to diabetes, heart attack, cancer, and other non-communicable diseases.

- The National AIDS Control Organization works towards ensuring that every person living with HIV has access to quality care and is treated with dignity. It collaborates with NGOs, women's self-help groups, faith-based organizations, and communities to improve access to services and accountability.
- The National TB Control Program is a state-run initiative that provides free tuberculosis diagnosis and treatment services through the government health system, with the aim of achieving a TB-free India.
- The National Leprosy Eradication Program aims to detect leprosy early and provide medical care for rehabilitation and ulcer treatment.
- Mission Indra Dhanush aims to improve immunization coverage in the country and achieve at least 90% coverage by December 2018 for unvaccinated and partially vaccinated children in rural and urban areas.
- The National Mental Health Program was launched to provide minimum mental healthcare for all and address the shortage of qualified professionals in the field of mental health.
- Pulse Polio is an immunization campaign to eliminate polio in India by vaccinating all children under the age of five against the polio virus.
- The Pradhan Mantri Swasthya Suraksha Yojana (PMSSY) aims to correct regional imbalances in the availability of affordable/reliable tertiary healthcare services and upgrade government medical college institutions by setting up various institutions like AIIMS.
- Rashtriya Arogya Nidhi provides financial assistance to patients below poverty line suffering from life-threatening diseases to receive medical treatment at government-run super specialty hospitals/institutions.
- National Tobacco Control Program was launched to increase awareness about the harmful effects of tobacco use and to facilitate the effective implementation of tobacco control laws.
- Integrated Child Development Service was launched to improve the nutrition and health status of children aged 0-6 years, promote their psychological, physical, and social development, and enhance the capability of mothers to look after their children's health and nutrition needs.
- Rashtriya Swasthya Bima Yojana is a government-run health insurance program that provides health insurance coverage to below poverty line unrecognized sector workers and their family members.

Nutrition

- India is a major producer of milk, pulses, rice, wheat, sugarcane, groundnut, vegetables, fruits, and cotton.
- Despite this, 14% of India's population is undernourished, according to a 2020 report on food security and nutrition.

- The report states that 189.2 million people in India are undernourished, and 34.7% of children under five years old in India are stunted.
- Additionally, 20% of India's children under five years old are wasted, meaning they have low weight for their height.
- Malnutrition affects a significant portion of children under the age of five in India, with the highest numbers found in Bihar, Uttar Pradesh, Jharkhand, Meghalaya, and Madhya Pradesh.
- Madhya Pradesh and Bihar have the highest percentage of malnourished children under five, while Kerala, Goa, Meghalaya, Tamil Nadu, and Mizoram have relatively lower numbers.
- According to the Global Hunger Index 2019, India ranks 102 out of 117 countries assessed, indicating a serious problem with hunger in the country.
- Neighboring countries like Nepal, Bangladesh, and Pakistan have higher rankings than India in the Global Hunger Index.
- The Indian government has launched several programs to address malnutrition, such as the Special Nutrition Program, Integrated Child Development Service Scheme, and Mid-day meal programs.
- While these programs have brought some positive results, their large-scale implementation remains a challenge for the nation.

Education

- The 86th constitutional amendment made elementary education a fundamental right for children aged 6 to 14 in India.
- The University Grants Commission (UGC) was established in 1953 to regulate and improve the standard of higher education in India.
- The education system in India includes primary, secondary, senior secondary, and higher education.
- India has several educational institutes, such as IITs, IIMs, IIS, National Law Schools, and
- Jawaharlal Nehru University, that can compete with the best in the world.
- Since independence, the number of universities and colleges in India has significantly increased, with over 1000 universities and university-level institutions in 2020.
- Some states have tweaked the percentages to factor in local demographics. Minority groups can also set up their own educational institutes.
- Distance learning courses and Open University system contribute to the democratization of higher education.
- National drop-out rate at primary level has reduced to 1.28% in 2016. Drop-out rate at secondary level is around 17%.
- 47 million students dropped out of school by 10th standard in 2016.
- States with high drop-out rates include Jharkhand, Arunachal Pradesh, Nagaland, Bihar.

Rural-Urban Migration

- The national drop-out rate at the primary level has decreased thanks to more schools, better facilities and enrollment, but the drop-out rate at the secondary level remains around 17%.
- 47 million young men and women dropped out of school by the 10th standard, with high percentages of drop-outs in states like Jharkhand, Arunachal Pradesh, Nagaland, Bihar, and Mizoram.
- Secondary education should be universalized because it yields social and economic benefits. Less than 40% of Indian adolescents attend secondary schools.
- The curriculum and teaching practices need to be upgraded to impart relevant skills like critical thinking and learning-to-learn.
- Marriage is a significant social factor for migration, with many girls moving to their in-laws' place after marriage.
- People migrate in search of employment from rural to urban areas, as agriculture and small-scale industries in rural areas often fail to provide enough employment.
- People migrate to urban areas to pursue education, as rural areas lack educational facilities, particularly for higher education.
- People migrate from rural to urban areas for various reasons, including better job opportunities, education, and modern facilities.
- Lack of security in their hometowns due to political disturbances and inter-ethnic conflicts can also drive people to migrate to other areas.
- The majority of migrants in India are from rural areas, but the share of rural population in total migrant population has declined significantly over the years.
- Cities offer better living conditions and pull people from other areas, while push factors such as unemployment, hunger, and starvation can push people out of their home villages.
- Urban areas provide a "pull factor" for migrants with vast employment opportunities, modern facilities, and better living conditions.
- Unemployment, hunger, and starvation can be "push factors" for people to migrate from rural areas to urban areas.
- More than two-thirds of migrants in 2011 were from rural areas, while only about a fifth were from urban areas.
- The share of the rural component has come down to 62 per cent for migrants who have changed location within the last 10 years.
- Marriage was the main reason for migration in 2011, accounting for almost 50% of migrants.
- Other factors such as business, employment, and education accounted for a very small percentage of migration in 2011.
- Among migrants who moved more than 10 years ago, employment was a minor reason for migration, but its importance increased for those who moved in the last 10 years.

Unit 2: Characteristics of Rural Society

- Rural areas have different types of banks, and bankers need to understand the rural society to interact with Panchayats and implement development programs.
- Therefore, understanding the Panchayati raj system is important for bankers to contribute to rural development

Social Stratification

- The social stratification of Indian villages is influenced by interactions between villages, such as markets, fairs, and religious activities.
- The rural structure is made up of family, kinship, caste, stratification, power, and religion, with a division of labor and traditional mechanisms for conflict resolution.
- Villages are recognized as units of development, with formal and statutory institutions, political parties, and shared resources.
- Each village has multiple Jati segments with separate ties, but also neighborhood ties and personal/family friendships and animosities.
- Three aspects of inter-jati relationships are marriage, commensality (sharing of food), and economic exchanges
- Interpersonal relations and interdependence of Jatis through exchange of occupational services are important in villages, as is the functioning of village and Jati panchayats.
- The Jajmani system involves payment for traditional services in kind or cash.
- Villages seek Jajmani relations with neighboring villages if they lack certain services.
- Kinship ties extend beyond individual villages to nearby towns and regions.
- Some regions have inter-village Jati panchayats that address important Jati issues and disputes, but their structure is breaking down in many areas.
- There was also a tradition of inter-village panchayats, but they now have an ad-hoc character and meet only occasionally

Traditional Panchayats

- Earlier, villages had two types of panchayats – Jati panchayat and village panchayat.
- Jati panchayats dealt with property and family disputes within the Jati, while village panchayats dealt with disputes between Jatis or serious matters affecting the village's reputation.
- The village panchayat consisted of elders from almost all Jatis, and the headman was either hereditary or elected by consensus.
- After independence, statutory panchayats were added, and some states had judicial panchayats called Nyaya Panchayats to provide quick and affordable justice in minor cases.
- The traditional panchayats are not as strong as before, and conflicts have occurred between traditional and statutory panchayats

Factionalism

- Factionalism is not a part of the social structure of a village.
- It represents power alignments between individuals and families and can be antagonistic or cooperative.
- Each faction is built around one or more dominant individuals and has support from their family and kinship group.
- A kin group can be divided in its loyalty to different factions.
- Different Jatis with conflicting interests provide support to each faction.
- A village may have two or three major factions that continue through generations.
- Factions use muscle power and provide true or false witnesses in court cases to support their loyal members.
- Factions extend their power play to family disputes, inter-Jati conflicts, inter-village quarrels, and influence decisions of panchayats.
- The newly set up bodies for development and state and national elections have provided additional arenas of action for factions

Dominance

- In some regions, certain Jatis (castes) became dominant landowners.
- A small section of these dominant Jatis held most of the land, leading to collective economic power and political clout.
- The richer elements of these dominant Jatis became exploiters and oppressors of the poor and weak, including those from their own Jati.
- People differentiate between rural and urban lifestyles, with villagers being considered simple and urban people distrusted as sharp and undependable.
- Despite stereotypes, there are regular economic, ritual, political, and social transactions between village people and urban people.
- Jajmani relations and Jati panchayats follow similar patterns in small towns as in the village, although Jati panchayats are weaker in towns

Various Influences

- Migration of effective working population has changed the rural structure by altering the strong bonds of family, kinship, and castes, causing changes in fortunes and values. Rural society is not a fixed entity but changing depending on the interventions made by the state and various social and political movements.
- Villages have families belonging to 20 or more castes, and patterns of settlement, governance, and customs vary from region to region.
- Traditional panchayats and headmen have lost influence and power due to infrastructure development, the presence of high-level officials, and access to education and media.
- The growth of the rural economy has affected caste dominance, with lower caste peasant cultivators taking over from the land-owning upper caste. Rich peasants with political

influence have led to increased offenses against agricultural laborers and share-croppers in some areas.

- Caste patterns vary from state to state, but generally fall into Brahmins, Non-Brahmins, Scheduled Castes, and Tribes, with relative status defined by social intercourse. Brahmins make up roughly 7% of the population and Non-Brahmins and Scheduled Castes/Tribes make up the rest
- Migration of working population has brought changes in the rural structure affecting family, kinship, and castes. Political changes and spread of education have influenced rural society.
- Villages have families belonging to 20 or more castes with unique customs, ceremonies, dress, food, and language.
- Traditional panchayats and headmen have lost power due to expansion of infrastructure, higher officials, satellite TV, and education.
- Growth of rural economy has affected caste dominance, with lower caste peasant cultivators taking over from land-owning upper caste. Rich peasants with political influence have contributed to offences against agricultural labourers and share-croppers. € Castes fall into Brahmins, Non-Brahmins, Scheduled castes and tribes, with the high-caste forming the land-owning class and the low-caste comprising the bulk of landless families. The village panchayat is generally dominated by the high caste and affluent sections of the population

Local Institutions

- The major local institutions in rural areas are the gram panchayat and primary agricultural credit societies.
- Panchayati Raj is a three-tier structure of the Indian administration for rural development, aimed at developing local self-governments in districts, zones, and villages.
- The Panchayati Raj system has been established in all states of India except Nagaland, Meghalaya, and Mizoram, in all Union Territories except Delhi, and certain other areas.
- The village panchayat has been a dominant political institution in rural India for centuries.
- The Constitution of India has given importance to the organization of village panchayats and empowering them with powers and authority for self-governance.

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Several committees were appointed by the government of India to study the implementation of self-government at the rural level and recommend steps to achieve this goal

- Balwant Rai Mehta Committee (1957) recommended a three-tier Panchayati Raj system: Gram Panchayat, Panchayat Samiti and Zila Parishad. Directly elected representatives to constitute the gram panchayat and indirectly elected representatives to constitute the Panchayat Samiti and Zila Parishad. Planning and development are the primary objectives of the Panchayati Raj system. Panchayat Samiti should be the executive body and Zila Parishad will act as the advisory and supervisory body. District Collector to be made the chairman of the Zila Parishad. It also requested for provisioning resources so as to help them discharge their duties and responsibilities.
- Ashok Mehta Committee (1977) recommended replacing the three-tier system with a two-tier system: Zila Parishad (district level) and the Mandal Panchayat (a group of villages). District level as the first level of supervision after the state level. Zila Parishad should be the executive body and responsible for planning at the district level. The institutions (Zila Parishad and the Mandal Panchayat) to have compulsory taxation powers to mobilize their own financial resources
- The GVK Rao Committee suggested that the Zila Parishad should be the most important body in democratic decentralization and manage developmental programs at the district level. The committee also recommended the creation of the post of District Development Commissioner as the chief executive officer of the Zila Parishad. Regular elections to the Panchayati Raj systems were also recommended.
- The L M Singhvi Committee recommended that the Panchayati Raj systems should be constitutionally recognized and provisions should be made for free and fair elections. The committee suggested the reorganization of villages to make the gram panchayat more effective and efficient. It also recommended that village panchayats should have more finances for their activities. The committee proposed setting up judicial tribunals in each state to handle matters relating to the functioning and elections of Panchayati Raj institutions

Constitutional Amendment Act of 1992

- The Constitutional Amendment Act of 1992 added Part IX to the Constitution, “The Panchayats” and the Eleventh Schedule, which consists of the 29 functional items of the Panchayats.
- Part IX of the Constitution contains Article 243 to Article 243 O.
- The Amendment Act gave shape to Article 40 of the Constitution, which directs the state to organize village Panchayats and provide them powers and authority to function as self-government.
- With the Act, Panchayati Raj systems come under the purview of the justiciable part of the Constitution and mandates states to adopt the system.
- The election process in the Panchayati Raj institutions will be held independent of the state government’s will.

- The Act has two parts – compulsory and voluntary. Compulsory provisions must be added to state laws, including the creation of new Panchayati Raj systems. Voluntary provisions are at the discretion of the state government.
- The Act is a significant step in creating democratic institutions at the grassroots level in the country.
- The Act has transformed representative democracy into participatory democracy

Salient Features of the Act

- Gram Sabha is the primary body of the Panchayati Raj system, consisting of all registered voters in the area of the panchayat.
- The Act provides for the establishment of a three-tier system of Panchayati Raj in states – village, intermediate, and district level. States with less than 20 lakh population may not constitute the intermediate level.
- Members and chairpersons are directly elected at all levels of Panchayati Raj, except at the village level where the chairperson is elected as determined by the state government.
- Reservation of seats for SC/ST is provided at all three tiers, in accordance with their population percentage. Not less than one-third of seats and offices of chairperson at all levels are reserved for women. State legislatures can also decide on reservations for backward classes.
- The term of office for all levels of panchayat is five years, and the panchayat can be dissolved before completion of its term. Fresh elections must be completed before the expiry of its five-year duration, in case of dissolution

Disqualification

- Here are the salient features of disqualification, state election commission, and powers and functions of the Panchayats:
- A person cannot be chosen or remain a member of the panchayat if disqualified under any law for elections to the state legislature or any law made by the state legislature.
- A person who is at least 21 years old cannot be disqualified on the grounds of age.
- Questions about disqualification will be referred to an authority determined by the state legislatures.

State Election Commission

- The commission is responsible for supervising and controlling the preparation of electoral rolls and conducting elections for the panchayat.
- The state legislature may make provisions related to all matters concerning panchayat elections.

Powers and Functions

- The state legislature can give the Panchayats the powers and authority necessary for them to function as self-governing institutions.
- Such a scheme can include provisions for the Gram Panchayat to:
- Prepare plans for economic development and social justice.
- Implement schemes related to economic development and social justice, including those related to the 29 matters listed in the Eleventh Schedule

Panchayats (Extension to Scheduled Areas) Act 1996 – PESA Act

- Part IX of the Constitution does not apply to Fifth Schedule areas.
- The Panchayats (Extension to Scheduled Areas) Act, also known as PESA Act, was enacted to extend Part IX provisions to scheduled areas.
- PESA Act aims to provide self-rule and participatory democracy to tribal population, while preserving their traditions and customs.
- PESA Act empowers panchayats with powers conducive to tribal requirements and prevents higher-level panchayats from assuming authority of lower-level panchayats.
- These constitutional steps have led to multi-level federalism and widened the democratic base of Indian polity.
- The local governance system challenges age-old practices of hierarchy and discrimination against women in rural areas.
- Addressing issues such as human rights will further improve the local governance system

Duties of Gram Panchayat

- The main task of Gram Panchayat is to develop and maintain village infrastructure like water supply, health and lighting arrangements.
- It is responsible for supervising primary schools, promoting welfare of backward classes, and collecting and maintaining statistics.
- Gram Panchayat acts as an agent of panchayat samiti to execute development schemes and activities.

Panchayat Samiti – Intermediate Tier

- The intermediate tier in the Panchayat Raj system is known as Panchayat Samiti in several states.
- The jurisdiction of Panchayat Samiti is co-extensive with the block or taluka depending on the state.
- Panchayat Samiti generally comprises of Sarpanchs
- Panchayat Samiti is the intermediate tier in the Panchayat Raj system.
- In several states, it is known as Panchayat Samiti, and its jurisdiction is co-extensive with the block or taluka.

- It comprises ex-officio members, local MPs, MLAs, and MLCs, members representing women, scheduled castes and tribes, municipalities, co-operatives, and other organizations.
- Panchayat Samiti operates through its statutory committees dealing with various subjects such as production programs, social welfare, education, health, sanitation, and finance.
- Panchayat Samitis do not have their own resources and rely on a share in land or local cess and duty, community development grants, and funds allotted by the state government to Zila Parishad for specific schemes

- Zila Parishad is the top tier of the Panchayat Raj system and is made up of presidents of Panchayat Samitis, local MPs, MLAs, MLCs, women and scheduled caste and tribe representatives, and representatives of co-operative societies and municipalities.
- The ex-officio component provides a link between the three tiers of Panchayati Raj and the state and central level policy-making bodies.
- The Zila Parishad coordinates all developmental activities of the Panchayats, such as minor irrigation works, vocational and industrial schools, village industries, sanitation, public health, etc.
  - It gives advice to Gram Panchayats and Block Samitis and assists in their functioning.
  - It acts as a connecting link between state government and bodies at the lower level.
  - It overlooks the implementation of the Five-year plans.
  - It has the power to do all acts necessary for or incidental to the carrying out of the functions entrusted or delegated to it.
  - It may delegate some of its powers to the Chief Executive Officer or any officer.
  - It has the power to impose a penalty on anyone who disobeys a general order passed by it.
  - It has the power to acquire, hold, and dispose of property and to enter into contracts required for the development projects assigned to it by the government

Finance

- Panchayat Raj bodies receive funds from state Government in the form of grants.
- They can earn money by imposing taxes, tolls and fees on the commodities under their jurisdiction.
- The state Finance Commission reviews the financial position of panchayats every five years.
- The Commission recommends principles governing distribution of taxes and grants-in-aid to Panchayat Raj bodies.
- The state legislature makes laws for maintenance of accounts by the panchayats and audit of such accounts
- Rashtriya Gram Swaraj Abhiyan (RGSA) is a scheme launched in 2016-17 to strengthen the capacities of Panchayati Raj Institutions (PRIs) for rural local governance.
- It aims to make PRIs more responsive towards local development needs, prepare participatory plans, and leverage technology for sustainable solutions to local problems linked to Sustainable Development Goals (SDGs).

National Institute of Rural Development and Panchayati Raj (NIRD & PR)

- National Institute of Rural Development and Panchayati Raj (NIRD&PR) is an autonomous organization under the Ministry of Rural Development, GOI.
- It is a premier national centre of excellence in rural development and Panchayati Raj.
- NIRD&PR addresses the training and capacity development needs of a large clientele to address the varied challenges faced in the development of rural poor across the country.
- The National Institute of Rural Development and Panchayati Raj (NIRD & PR) is an autonomous organization under the Ministry of Rural Development, GOI.
- It is a national centre of excellence in rural development and Panchayati Raj, mandated to facilitate the development of rural poor and enhance their quality of life.
- NIRD & PR addresses the training and capacity development needs of a large clientele, acting as a “think-tank” of the Ministry of Rural Development, GOI and undertaking training and research programs.
- The institute builds the capacities of development functionaries, elected representatives, and other stakeholders through inter-related activities of training, research and consultancy.
- It was originally established as the National Institute of Community Development in 1958 and shifted to its Hyderabad Campus in 1965, later renamed as NIRD in 1977, and as NIRD & PR in 2013.

Functions of NIRD & PR

- The core functions of the institute include organizing training programs, conferences, seminars, and workshops for senior level development managers, elected representatives, bankers, NGOs, and other stakeholders.
- The institute undertakes, aids, promotes, and coordinates research, studies the functioning of Panchayati Raj Institutions and rural development programs across the states, analyzes and proposes solutions to problems in planning and implementation of programs for rural development, and develops content and disseminates information through periodicals, reports, e-modules, and other publications.
- The Institute has been organizing training programs, workshops, seminars, etc., on themes relating to rural development and Panchayati Raj
- Rural bankers should be aware of the characteristics of the rural society they serve. The Gram Panchayat and Primary Agriculture Credit Society are important local institutions in rural areas.

Unit 3: Economic Features

- Rural people rely on agriculture and allied activities such as dairy, poultry, and fisheries for their livelihood.
- Many people also work in cottage and village industries in rural areas.
- The rural money market has both formal and informal sources of credit.
- In recent years, formal credit institutions have expanded their reach in rural areas thanks to government and central bank initiatives to promote financial inclusion.
- However, informal sources of credit still play an important role in rural society.
- Despite efforts to improve rural economic life, rural debt has increased and many people are struggling with indebtedness.
- This situation is a concern and needs to be addressed to improve the financial well-being of rural communities.

Agriculture

- Gross Value Added (GVA) is a measure of economic productivity that shows how much a sector contributes to the economy.
- The agriculture and allied activities sector saw a growth of 3.0% in 2020-21, despite the COVID-19 pandemic.
- This sector also achieved a record production of food grains.
- As a result of this growth, the share of agriculture in overall GVA increased from 14.8% in 2019-20 to 16.3% in 2020-21, which is a significant increase of 1.5 percentage points.
- The share of agriculture and allied sectors in GVA (Gross Value Added) at current prices was 17.8% in 2019-20.
- In 2020-21, total food-grain production was 3033.4 lakh tons, which was 2.0% higher than in 2019-20.
- Horticulture crop production in 2020-21 was a record at 3266 lakh tons, which was 1.8% higher than the final estimate of 2019-20.
- The record production in horticulture crops was due to an increase in the area under cultivation by 2.7% in 2020-21 over 2009-10.
- A decade ago, in 2010-11, the food grain production of the country was at 2410 lakh tons.

Non-Farm Activities

- The non-agricultural activities in rural areas are referred to as Rural non-farm sector (RNFS).
- RNFS includes various activities such as mining, manufacturing, processing, repairs, construction, trade, transport, and other services.
- These activities are carried out in villages and rural towns with a population of up to 50,000 people.
- Enterprises of various sizes ranging from household-level enterprises to factories are involved in RNFS.

- RNFS is an effective strategy for providing employment opportunities in rural areas.
- Rural non-farm sector (RNFS) includes all non-agricultural activities in villages and rural towns, from household enterprises to factories.
- RNFS activities provide supplementary employment to small and marginal farm households, reduce income inequalities and rural-urban migration.
- Income from non-farm activities contributes between 25 and 35 per cent of the total income of rural households.
- Services create 60 per cent of RNFS jobs, followed by manufacturing, construction, and mining.
- Important activities under RNFS include cotton textile, woolen textile, pottery, food, tobacco, metal products, repairs & construction, retail trade, education, public administration, personal services, land transport, miscellaneous services, restaurants, hotels, and medical services.
- Growth in agriculture sector provides more raw materials for processing and trading in the RNFS and creates greater demand for inputs and services produced in RNFS.

Gross Domestic Product and Gross Value Added

- Major reforms like the introduction of GST, IBC, monetary policy framework, and liberalization of FDI have aided the Indian economy in achieving its growth trajectory.
- However, there are downside risks to growth in inflation, fiscal deficit, banking sector reforms, and external sector.
- The GDP growth rate at constant prices was 5.2% in 2011-12 and reached a peak of 8.2% in 2017-18.
- The growth rate declined for the third consecutive year after 2017-18, and in 2019-20 it remained at 4.2% due to global economic slowdown and certain domestic factors.
- The Covid-19 pandemic further declined growth prospects in the last quarter of fiscal 2019-20.
- Industry and services sectors recorded lower year-on-year GVA growth rates during 2019-20, mainly due to a slowdown in domestic demand, stress in the non-banking financial sector, and a decline in credit growth.
- Agriculture sector has been relatively stable.
- Indian economy has been resilient in the recent past and is the fastest growing major economy in the world. Major reforms have aided the Indian economy to achieve its growth trajectory.

- The growth rate in Gross Domestic Product (GDP) has fluctuated over the years, reaching a peak of 8.2% in 2017-18 and declining to 4.2% in 2019-20 due to global economic slowdown and domestic factors.
- Agriculture and allied activities have shown continued resilience to slowdown and registered growth in 2019-20 and 2020-21.
- The global economy contracted due to the pandemic in 2020, leading to a contraction in fixed investment, private consumption, and export.

- The Indian economy also contracted sharply due to the stringent lockdown imposed during March-May 2020, but economic activity started to gain traction in the second half of FY 2021 with the announcement of multiple packages under the Atma Nirbhar Bharat Mission.
- India aims to become a US$5 trillion economy by 2024-25, with a focus on increased exports, industrial and agricultural production.

Rural Money Markets – Formal and Informal Rural Money Markets

- Around 60% of India's population depends on agriculture for a living and 55% of the workforce is employed in this sector.
- Improving agricultural productivity is important for economic growth and access to formal finance is crucial for this.
- Farmers can get credit from formal (banks and cooperatives) or non-institutional (moneylenders, traders, relatives, friends, landlords, etc.) sources.

Formal Credit Institutions

- The institutional credit for rural areas in India is provided by Commercial Banks, Regional Rural Banks, and Cooperatives.
- Commercial Banks and RRBs have a significant presence in rural and semi-urban areas, with around 65% of branches located there.
- India's cooperative banking sector has around 98,545 institutions, including 1,539 urban cooperative banks and 97,006 rural cooperatives.
- In addition to bank branches, commercial banks have a vast network of over 2.05 lakh ATMs and 4.35 lakh Banking Correspondent (BC) network across the country.
- Small Finance Banks, numbering 12, have started functioning recently and have opened more than 4,300 branches across states.

Institutional Credit System vs Non-Institutional Credit Agencies–Coverage

- Despite the increase in the number of banking outlets in rural areas, a significant number of rural households still borrow from moneylenders, according to the Indian Human Development Survey.
- However, there has been a decline in this trend due to the increased penetration of credit institutions in rural areas.
- According to the All-India Debt and Investment Survey 2019, institutional credit now amounts to about 66% of the total outstanding credit in rural areas.
- This is a significant increase from 29% in 1971.
- However, the change has not occurred uniformly across all states, and non-institutional creditors still dominate in some areas.
- The distribution of outstanding cash debt by source type across various categories of institutions is presented in a table.

Non-Institutional or Informal Sources of Funding

- Money lenders, including agricultural and professional money lenders, dominate non-institutional funding sources.
- Moneylenders are still important lenders in rural areas due to their borrower-friendly approach, informal approach, and round the clock availability of finance.
- Money lenders extend loans against security of gold jewels, land documents, cultivation rights, promissory note, and even against utensils.
- Small farmers and tenant farmers depend on landlords and others for their financial requirements.
- Traders and commission agents provide credit during the growing season but require farmers to sell their produce to them at a lower price and also deduct commission and other charges.
- Traders and commission agents are more active in the case of commercial crops and horticulture crops.

Rural Indebtedness

- India's indebtedness has increased in both rural and urban areas over the years.
- As of 30 June, 2018, almost one-third of rural households and more than a fifth of urban homes were in debt.
- This information is from the All-India Debt and Investment Survey 2019 (NSS 77th round).
- Non-institutional credit agencies were the primary source of debt for a higher percentage of households in rural areas than in urban areas.
- A higher percentage of households in rural areas were indebted to both institutional and non-institutional credit agencies compared to urban areas.
- Rural households had an average debt of Rs. 59,748, with cultivator households having a higher average debt of Rs. 74,460 compared to non-cultivator households with an average debt of Rs. 40,432.
- Urban households had an average debt of Rs. 1,20,336, with self-employed households having a higher average debt of Rs. 1,79,765 compared to other households with an average debt of Rs. 99,353.
- In Rural India, 66% of outstanding cash debt was from institutional credit agencies, while 34% was from non-institutional credit agencies. In Urban India, 87% of outstanding cash debt was from institutional credit agencies, while 13% was from non-institutional credit agencies.
- Indebted households in Rural India had an average debt of Rs. 1,70,533, with cultivator households having a higher average debt of Rs. 1,84,903 compared to non-cultivator households with an average debt of Rs. 1,43,557.
- Indebted households in Urban India had an average debt of Rs. 5,36,861, with self-employed households having a higher average debt of Rs. 6,52,768 compared to other households with an average debt of Rs. 4,82,162.
- Rural indebtedness has been a concern for policymakers for several years.

- An expert group headed by Prof Radhakrishna analyzed the agricultural crisis and the agrarian crisis as two dimensions of rising agricultural indebtedness in the country.

Rural Poverty

- Poverty is difficult to precisely define but measuring it through the poverty ratio, which is the ratio of the number of poor to the total population, is important for evaluating the economy's performance in providing a minimum standard of living to all citizens.
- More than 200 million people in India are still considered poor.
- The poverty line is determined by per capita consumption expenditure on food and non-food items and varies between rural and urban areas as well as across different states.
- The poverty line includes the food component, normative expenditure on essential non-food items, and behaviorally determined expenditure on other non-food items.
- High population growth rate is a major reason for poverty in India.
- Ever-increasing prices of basic commodities make it difficult for people below the poverty line to survive.
- The caste system and unequal distribution of income and resources are reasons for poverty in India.
- Unskilled workers are paid low wages despite their hard work, particularly in the unorganized sector.

Different Methods of Measuring Poverty Line

- There are different methods to measure poverty in India.
- Some analysts focus on deprivations, but this approach has difficulties in aggregating data from different sources.
- The best approach is to look at minimum consumption expenditure per person or household.
- Any household failing to meet this level of consumption expenditure can be considered poor.
- Minimum consumption expenditure can be derived in terms of minimum expenditure on food and non-food items.
- The methodology for estimating poverty used by the Planning Commission is based on recommendations made by expert groups.

- M Dandekar and N Rath in 1971 suggested that poverty line should be derived from the expenditure that provides 2250 calories per day in both rural and urban areas.
- They concluded that 40% of rural residents and 50% of urban residents were below the poverty line in 1960-61.

- The task force headed by Dr YK Alagh in 1979 constructed a poverty line for rural and urban areas based on nutritional requirements and related consumption expenditure.
- Poverty estimates for subsequent years were to be calculated by adjusting the price level for inflation.

- The Task Force chaired by DT Lakdawala suggested that consumption expenditure should be calculated based on calorie consumption, state-specific poverty lines should be constructed and updated using CPI-IW in urban areas and CPI-AL in rural areas, and scaling of poverty estimates based on National Accounts Statistics should be discontinued.

- Rangarajan Committee was set up in 2012 to review international poverty estimation methods and to recommend how these estimates of poverty can be linked to.
- The Rangarajan committee estimation is based on an independent large survey of households by Center for Monitoring Indian Economy (CMIE) and considers a household poor if it is unable to save.
- The Rangarajan Committee was formed in 2012 to review international poverty estimation methods and suggest a method for empirical poverty estimation in India.
- The committee used an independent large survey of households by the Center for
- Monitoring Indian Economy (CMIE) for its estimation.
- The Rangarajan committee uses a different methodology where a household is considered poor if it is unable to save.

- National Accounts Statistics (NAS) and National Sample Survey Organization (NSSO) have different estimates of consumption expenditure.
- The Expert Group (Rangarajan) prefers NSSO's estimates over NAS estimates. The approach taken by the Expert Group (Lakdawala) and the Expert Group (Tendulkar) also preferred NSSO's estimates over NAS estimates.
- The methodology for capturing spatial and temporal variation in prices to estimate poverty levels has been refined since 1979.
- The Expert Group (Rangarajan) agrees with the methodology adopted by the
- Expert Group (Tendulkar) in this regard, which uses a combination of unit values and price-relatives derived from Consumer Expenditure Surveys and Consumer Price Indices.

Poverty Estimates by the World Bank

- The World Bank estimates poverty levels in its member countries at regular intervals.
- Their poverty line is set at US $1.25 per person, per day, adjusted to local currency using PPP conversion factors.
- This poverty line is based on the average of national poverty lines in the poorest 15 countries using 2005 ICP data.
- The World Bank's poverty estimation methodology does not take into account cost-of-living differences within countries, or distinguish between transient and chronic poverty.
- The Planning Commission methodology used in India uses state and region-specific poverty lines, capturing regional prices more precisely.
- As of the latest estimate, the global poverty line is set at $1.90 per day, up from $1.25, to reflect differences in cost of living across countries based on 2011 prices.

Sustainable Development Goals

- Sustainable Development Goals (SDGs) replace the Millennium Development Goals (MDGs) and guide the development agenda for the next 15 years.
- United Nations General Assembly (UNGA) announced a set of 17 SDGs and 169 MDGs targets in 2015.
- SDGs focus on eradicating poverty, promoting gender equality, combating inequalities, and integrating economic, social, and environmental dimensions of sustainable development.
- SDGs were adopted after one of the largest consultation exercises in UN history in June 2012.
- SDGs cover a broad range of sustainable development issues, including ending poverty and hunger, improving health and education, making cities more sustainable, combating climate change, and protecting oceans and forests.
- SDGs are effective from January 2016 and will end in 2030.
- Agriculture is a major source of livelihood in rural India but its share in the national economy is decreasing. Non-farm sectors are becoming more important. There has been a 3% growth in Gross Value Added (GVA) by agriculture and allied activities in 2020-21 with record production of food grains and horticulture crops.
- India's economy has been resilient and is the fastest growing major economy in the world. Major reforms like GST, IBC, monetary policy framework, and liberalization of FDI have aided its growth trajectory. However, there are downside risks to growth with regard to inflation, fiscal deficit, banking sector reforms, and the external sector.
- The banking structure in rural India consists of commercial banks, regional rural banks, and cooperatives. There are over 142,300 bank branches in the country, with 65% in rural and semi-urban areas. The co-operative banking sector has 98,545 institutions, including 1,539 urban cooperative banks and 97,006 rural cooperatives. Commercial banks also have over 2.05 lakh branches.
- The Indian banking system has a wide network of ATMs and BCs, but many rural households still borrow from moneylenders.
- The poverty ratio in India is measured using a predetermined poverty line and survey data on consumption expenditure.
- Poverty estimates in India are periodically reviewed by expert groups to make them relevant to the current economic situation.
- The World Bank estimates poverty using a poverty line of US $1.25 per person per day measured at 2005 international prices.
- The Sustainable Development Goals (SDGs) were adopted in 2015 to guide international development efforts for the next 15 years, with a focus on ending poverty, improving health and education, combating climate change, and protecting natural resources.

Unit 4: Infrastructure

- Economic progress of a country depends on the growth of agriculture and industry.
- Agriculture needs things like credit, power, roads, and markets to produce goods.
- Industry needs machinery, skilled workers, managers, banking and marketing facilities, transport, and shipping facilities.
- All these facilities are called infrastructure.
- Infrastructure is essential for agricultural and industrial growth.
- Infrastructure is also known as economic and social overheads
- Physical infrastructure improves productivity and helps to realize human potential.
- It also improves the quality of life of the population.
- Infrastructure includes roads, railways, air transportation, seaports, electric power, telecommunications, and information technology.
- Infrastructure is crucial for manufacturing, agriculture, and services sectors.
- Infrastructure directly affects the sustainability of growth and overall development.
- High-growth Asian economies invested significantly in infrastructure.
- Infrastructure creation has a significant impact on poverty reduction.

- In India, there has been some improvement in infrastructure development, but significant gaps still need to be filled
- Infrastructure supports primary, secondary and tertiary sectors of the economy.
- Infrastructure expands capabilities of stakeholders in development.
- Small businesses need good quality and reliable infrastructure for growth.
- The Central government has launched programs for rural development, with agriculture, handicrafts, fisheries, poultry, and dairy as thrust areas.
- The Ministry of Rural Development formulates policies for rural development.
- Lack of basic infrastructure like electricity, clean water, and sanitation hinders rural productivity and economic growth.
- Farmers and casual wage workers are affected by the lack of basic infrastructure
- Rural areas have 90% of the working population, and income growth will help achieve faster economic growth.

- The government has announced programs and schemes for agriculture reform and rural development.
- These programs aim to invest in agriculture and rural development institutions.
- The Department of Agriculture, Cooperation and Farmers' Welfare has received increased funding in the 2021-22 budget.
- Infrastructure includes power, bridges, dams, roads, and urban infrastructure development.
- India ranks 44th out of 160 countries in the Logistics Performance Index.

- Infrastructure is a key driver of the Indian economy and receives intense focus from the government.
- Policies are being created to ensure time-bound creation of world-class infrastructure
- Infrastructure sector includes power, bridges, dams, roads, and urban infrastructure development.
- India ranks 44th among 160 countries in the World Bank's Logistics Performance Index (LPI) of 2018.
- Infrastructure sector is a key driver for the Indian economy, responsible for propelling overall development with intense focus from the government to ensure time-bound creation of world-class infrastructure.
- The government allocated `233,083 crore (US$32.02 billion) to enhance transport infrastructure in the Union Budget 2021, and expanded the National Infrastructure Pipeline (NIP) to 7,400 projects.
- The government invested US$1.4 trillion in infrastructure development through the NIP as of July 2021.
- The Indian power sector has substantial investment potential, forecasted to attract investments worth US$128-135 billion between 2019 and 2023.
- By 2026-27, all India power generation installed capacity will be nearly 620 GW, with 38% from coal and 44% from renewable energy
- India's core sector growth increased by 9.4% in July 2021 compared to a decline of 7.6% in July 2020 due to Covid-19 restrictions.

- The Ministry of Road Transport Highways plans to launch 1,080-km road construction projects worth US$ 3.4 billion under the Bharatmala Pariyojana, covering Maharashtra, Gujarat, Rajasthan, Punjab, Haryana, and Himalayan territories.
- The Economic Importance and Inter State Connectivity Scheme has an allocation of US$ 22 million for FY22.
- The Ministry of New and Renewable Energy is undertaking Rooftop Solar Program Phase II to encourage rooftop solar installation of 4,000 MW in residential areas by 2022 with a subsidy provision.
- The Ministry of Commerce's Logistics Division presented its plans for 'Freight Smart Cities' to improve urban freight efficiency and reduce logistics expenses.
- The XV Finance Commission recommended earmarking US$ 1,077 million to provide performance-based assistance to states for new city incubation, with each proposed new city having a budget of US$ 134 million, and each state having one new city under the proposed concept.
- The government, the Central Water Commission, government representatives from 10 states, and the World Bank signed a US$ 250 million project to improve the safety and performance of existing dams across various states

- The Ministry of Petroleum and Natural Gas, and government-owned GAIL have allocated ` 5,000 crore for setting up two plants each for producing ethanol and compressed biogas from municipal waste.
- The Ministry of Railways plans to monetize assets including Eastern and Western Dedicated Freight Corridors, induction of 150 modern rakes through public-private partnership PPP, station redevelopment through PPP, railway land parcels, multifunctional complexes (MFC), railway colonies, hill railways and stadiums.
- The government announced a long-term US$ 82 billion plan to invest in the country's seaports under the Sagarmala project, with 574 identified projects to be implemented by 2035.
- The Ministry of Power (MoP) has constituted an expert committee including members from state governments, the Ministry of New and Renewable Energy (MNRE), NITI Aayog and the Central Electricity Authority (CEA) to implement the National Electricity Policy (NEP) 2021.
- The Parliament passed a bill to set up the National Bank for Financing Infrastructure and Development (NaBFID) to fund infrastructure projects.
- The government has announced several interventions under the Pradhan Mantri Aatmanirbhar Swasth Bharat Yojana (PMANSY) for the development of the healthcare sector

Transport

- Good transport facilities are important for expanding markets, movement of raw materials and finished goods, and developing remote areas.
- Roads are a crucial element of the transportation infrastructure in India, especially since the economy is largely agrarian and settlement pattern is rural-oriented.
- Road construction and maintenance provide significant employment opportunities, which is important due to demographic expansion and growth of the labor force.
- Indian roads are classified into four categories: National highways, State highways, Major District Roads, and rural roads.
- National highways are the backbone of the road network

Pradhan Mantri Gram Sadak Yojana (PMGSY)

- Pradhan Mantri Gram Sadak Yojana (PMGSY) connects remote rural areas to national highways.
- The scheme aims to provide all-weather road connectivity to every rural habitation with a minimum population of 500 in plains and 250-plus in hill states, tribal districts and desert areas.
- PMGSY-II was launched in May 2013 to upgrade existing selected rural roads and improve their overall efficiency.
- The routes are selected based on identification of rural growth centres, other critical rural hubs, and tourist places.
- The scheme is fully funded by the Central Government and covers a total of 1.78 lakh habitations as per the criteria laid down.

- Since its inception, 6.76 lakh Kms roads have been completed, and 1.715 lakh habitations have been connected.
- The value of the projects implemented/being implemented stood at 3.25 lakh crore, against which, expenditure of 2.62 lakh crore have been incurred, as at end October, 2021.
- The establishment of motorable roads enables producers of perishable produce to sell their produce to a wider base of consumers, in nearby towns, and companies to distribute their products through rural retail stores

Rural Road Connectivity Works under the MGNREGS

- The Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) aims to create employment opportunities in rural areas.
- The scheme guarantees rural households not less than 100 days of paid employment per financial year for unskilled manual work.
- The program is demand-driven and self-selecting, meaning that rural households can volunteer to work under the scheme.
- The primary objective of MGNREGS is to enhance livelihood security for rural households.
- The scheme has far-reaching social and economic goals, including poverty reduction, asset creation, and sustainable development.
- One of the components of MGNREGS is rural road connectivity works, which aims to provide all-weather connectivity to unconnected villages and rural production centers.
- The scheme also covers the construction of internal roads and the up-gradation of existing rural roads.
- Rural road connectivity works under MGNREGS aim to improve the mobility of people and goods, reduce travel time and costs, and enhance access to markets and services
- The Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) is a program to provide rural households with a minimum of 100 days of paid employment per financial year through unskilled manual work.
- MGNREGS aims to enhance livelihood security and strengthen the Panchayati Raj Institutions.
- The list of permissible works under MGNREGS was expanded in 2014 to provide greater location-specific flexibility.

Markets

- Agriculture sector needs competitive and well-functioning markets for farmers to sell their produce.
- Restrictive and monopolistic practices of present marketing system need to be removed to benefit farmers and reduce intermediaries in supply chain.
- Private sector investment in development of post-harvest marketing infrastructure is required to reduce wastages and provide access to global markets.
- Traditionally, farmers have three choices to sell their produce: sell to village traders, sell in village market (hat), or take the produce to the Mandis.

- In Mandis, brokers (dalals) help farmers to sell their produce to wholesalers, who then sell to retailers or big users like flour mills, processing units and cotton spinning units.
- Small farmers often resort to distress sale due to lack of storage facilities and need for cash, resulting in selling produce at a low price.
- To overcome these problems, the government has developed programs for developing Agricultural Marketing system in the country.
- The Marketing Division of Department of Agriculture, Cooperation & Farmers Welfare (DAC&FW) is responsible for policy and program implementation for Agricultural Marketing Reforms and Schemes of Integrated Scheme for Agricultural Marketing (ISAM), and National Agricultural Market (NAM) through Agri-Tech Infrastructure Fund (ATIF).

Marketing Research and Information Network Scheme

- The Marketing Research and Information Network Scheme collects and disseminates information on price, arrival and other market-related data for the benefit of farmers and other market users.
- The scheme is implemented in collaboration with Agricultural Marketing Boards/ Directorates of Marketing, APMCs and NIC.
- Information on wholesale prices and arrivals of more than 300 commodities and 2000 varieties are being disseminated on a daily basis through the portal.
- The 'Agmarknet' portal and National Agricultural Market Atlas portals have been revamped and hosted with a user-friendly format.
- Mandi price information is disseminated through DD Kisan channel and Kisan Call Centres.
- Kisan Suvidha, an omnibus mobile app developed by the Department of Agriculture & Cooperation, Ministry of Agriculture and Farmers Welfare, has been helping farmers by providing relevant information quickly

The Agricultural Produce (Grading and Marking) Act, 1937

- The Agricultural Produce (Grading and Marking) Act, 1937 (amended in the year 1986) provides for the grading and marking of agricultural produce.
- The AGMARK Grading Facilities Scheme aims to meet the expenditure for the purchase of equipment, chemicals, glassware and apparatus, AMC of the equipment as well as renovation and repair works in the AGMARK Laboratories/Regional and Sub offices.
- The scheme supports 11 Regional AGMARK Laboratories and a Central AGMARK Laboratory in Nagpur for analysis of check samples and research samples

- Agri-business Development (ABD) through Venture Capital Assistance (VCA) scheme provides interest-free loans to qualifying agribusiness projects that lack capital.
- The scheme is implemented by Small Farmers' Agri Business Consortium (SFAC), which is promoted by the Department of Agriculture, Cooperation and Farmers' Welfare, GOI.

- The objectives of the scheme are to set up agribusiness ventures with institutions where government ownership is more than 50%, catalyze private investment in agribusiness, strengthen backward linkages of agribusiness projects with producers, assist farmers and agriculture graduates to enhance their participation in value chain, and arrange training and visits for agri-preneurs in setting up identified agribusiness projects.
- The scheme also aims to increase rural income and employment.
- The SFAC collaborates with nationalized banks, SBI, IDBI, SIDBI, NABARD, NCDC, NEDFi, Exim Bank, RRBs & State Financial Corporations.
- The scheme aims to set up agribusiness ventures in collaboration with financial institutions such as nationalized banks, SBI, IDBI, SIDBI, NABARD, NCDC, NEDFi, Exim Bank, RRBs & State Financial Corporations.

- The SFAC venture capital is repayable after the term loan of lending institutions has been repaid.
- The project should be accepted by the notified financial institutions for the grant of term loan.
- The quantum of SFAC venture capital assistance will depend on the project cost and will be 26% of the promoter's equity or `50.00 lakhs, whichever is lower.
- In the case of agribusiness projects set up in North-Eastern Region, Hilly States (Uttarakhand, Himachal Pradesh, Jammu & Kashmir), and projects promoted by a registered Farmer Producers Organization, the quantum of venture capital will be 40% of the promoter's equity or `50.00 lakhs, whichever is lower.
- The cost of the proposed agribusiness project should be 15 lakh & above, subject to a maximum of 500 lakh. However, projects valuing `10 lakh and above, proposed to be located in backward districts as notified by Planning Commission, hilly and North-Eastern States could also be considered for PDF and VCA

National Institute of Agricultural Marketing Management

- The Chaudhary Charan Singh National Institute of Agricultural Marketing (NIAM) is a premier National level Institute.
- It was established by the Government of India in August 1988 to offer specialized training, research, consultancy and education in Agricultural Marketing.
- NIAM is an autonomous body under the Ministry of Agriculture, Government of India.
- It was set up as a registered society to promote agricultural marketing management.
- The main aim of NIAM is to provide training, research, consultancy and education to various stakeholders of agricultural marketing such as farmers, traders, entrepreneurs, policymakers, etc.
- The institute offers various programmes such as Post Graduate Diploma in Agri-business Management, Executive PGDM in Agri-business Management, Management Development Programmes, International Programmes, etc.

- NIAM also undertakes research and consultancy projects on various aspects of agricultural marketing.
- The institute collaborates with various national and international agencies to promote research, training and consultancy activities in the field of agricultural marketing
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- The main aim of NIAM is to provide training, research, consultancy and education to various stakeholders of agricultural marketing such as farmers, traders, entrepreneurs, policymakers, etc.
- The Institute caters to the needs of Agricultural Marketing personnel in India as well as from South East Asian countries.

The objectives of the Institute are:

- To conduct research on long term projects, policy formulation, prepare status papers, conduct case studies in specific to marketing problems.
- To impart training to various levels of personnel of organizations involved in agricultural marketing activities such as State agricultural marketing board (SAMB), Co-operative marketing, Commodity Boards, Input agencies, progressive farmers, traders, entrepreneurs.
- To help them develop bankable projects for creation of market infrastructure& integrated value chain.
- To offer consultancy services to state and Central Departments, public-sector undertaking, cooperative, etc., in preparation of Master plans for States.
- To develop promising human resources by providing long term structured courses in agricultural marketing.
- To cover a wide information network in the country in agricultural marketing to evolve efficient, innovative and competitive marketing process

National Agriculture Market

- The National Agriculture Market (e-NAM) is an online trading platform launched by the Indian government to create a barrier-free market for farmers.
- The Small Farmers’ Agribusiness Consortium (SFAC) is the lead promoter of e-NAM.
- Currently, 1000 markets from 18 states and three union territories are linked to the e-NAM network.
- e-NAM provides free software for system integration and automation of recording transactions, complete information on trade, real-time arrival recording, and analysis of price trends, arrival and trading activities.

- e-NAM also offers an automated record of financial information and reduces the requirement for manpower.
- 1971 FPOs (Farmer Producer Organizations) have been onboarded on the e-NAM platform.
- FPOs/FPCs (Farmer Producer Companies) can act as an aggregator for their members and sell through e-trading, as one or multiple lots depending on the requirement.
- Payment will be made directly to the FPO/FPCs bank account, which they can distribute among members.
- The Union budget 2017-18 made provision for installation of collection/sorting/grading/packing facilities at the FPO/FPC premises.
- The platform offers a personalized dashboard and real-time information on arrival, quality, and price of commodities

Model APMC Act 2017

- The Agriculture Ministry has proposed a new model APMC Act for the implementation of a single-point levy of market fee across a State and a single trading license for cost-effectiveness of transactions.
- The new APMC Act suggests the removal of the concept of notified market area to remove the fragmentation of the market with the State/Union Territory.
- The States can integrate on the online platform e-NAM for online sale and purchase of commodities nationwide.
- NITI Aayog has developed the first-ever comprehensive Agriculture Marketing and Farmer Friendly Reforms Index (AMFFRI) to rank states based on the implementation of various agriculture reforms
- The Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY) is a rural electrification program in India, which replaced the previous program called RGGVY.
- The total financial outlay for DDUGJY until 2021-22 is Rs. 82,300 crore, with the central government providing 60% of the project cost as a grant.

- The Bharat Net Program aims to establish a high-speed digital highway to connect all 2,50,000-gram panchayats (village councils) in India.
- The BSNL Next Generation Network project is expected to contribute to the modernization of telecom infrastructure in rural areas.
- The plan to set up Wi-Fi hotspots all over India would help accelerate provision of broadband connectivity.
- Digital technology like mobile and internet is expected to bring positive change in the lives of Indian farmers
- The Digital India program aims to provide government services online, expand internet connectivity to rural areas, and boost manufacturing of electronic goods in India.
- The Bharat Net Program is aimed at establishing a high-speed digital highway to connect all 2,50,000-gram panchayats.

- The next generation network project of BSNL can be expected to contribute to the modernization of the telecom infrastructure in rural areas.
- Digital technology like mobile and Internet is expected to bring a positive change in the lives of Indian farmers, by providing them with information about weather, crops, soils, financing, storage of produce, and marketing in the rural areas.
- The National Digital Literacy mission aims to provide Information Communication and Technology (ICT) training to 10 lakh persons initially, and to make 60 million rural people digitally literate in a period of three years.

The Pradhan Mantri Krishi Sinchayee Yojana (PMKSY)

- PMKSY was launched in July 2015 in India.
- The main objective of PMKSY is to improve irrigation facilities and practices in agriculture.
- The program aims to increase the cultivable area under assured irrigation and improve water use efficiency.
- The program also focuses on adopting precision irrigation and other water-saving technologies for sustainable water conservation.
- Another goal is to recharge aquifers and explore the possibility of reusing treated municipal waste water for pri-urban agriculture.
- The program aims to attract greater private investment in precision irrigation and related technologies
- PMKSY amalgamates ongoing schemes, such as the Accelerated Irrigation Benefit Program (AIBP), Integrated Watershed Management Program (IWMP), and On Farm Water Management (OFWM).
- The scheme will be implemented by the Ministries of Agriculture, Water Resources, and Rural Development.
- Ministry of Rural Development will undertake rainwater conservation and construction of water harvesting structures, small dams, and bunding.
- MoWR, RD&GR will undertake various measures for the creation of assured irrigation source and water distribution systems.
- State Level Sanctioning Committee (SLSC) chaired by the Chief Secretary of the State will be responsible for the implementation of the scheme

Unit 5: Agriculture Economy

Agriculture

- Agriculture is important to India's economy, with 60% of rural households depending on it for their livelihood.
- Despite the challenges of the Covid-19 pandemic, the agricultural sector has remained resilient.
- Agriculture, along with fisheries and forestry, is one of the largest contributors to India's GDP.
- In 2020-21, there was a 3% growth in agriculture and allied activities, with record food grain production.
- The share of agriculture in overall Gross Value Added (GVA) increased to 16.3%.
- The area sown for Kharif crops was higher by 4.8% in 2020-21, leading to increased food grain production.

Horticulture

- Horticulture crop production reached a new high of 326.6 million tons, surpassing food grain production for the ninth consecutive year.
- The increase in horticulture crop production was due to a 2.7% increase in cultivation area, despite a 0.9% decline in productivity.
- Onion cultivation saw the highest area expansion at 11.5%.

Livestock Sector

- The livestock sector in India has grown at a compounded annual growth rate of 8.24% from 2014-15 to 2018-19.
- The contribution of livestock to the agriculture and allied sector's Gross Value Added (GVA) increased from 24.32% in 2014-15 to 28.63% in 2018-19.
- The livestock sector contributed 4.19% to the total GVA in 2018-19.
- Fish production in India reached an all-time high of 14.16 million metric tons in 2019-20.
- The Fisheries sector contributed 1.24% to the total national GVA and 7.28% to the agricultural GVA, with a GVA of ₹ 2,12,915 crores.
- The article will discuss the structure and characteristics of Indian agriculture, its role in economic development, constraints, challenges, and emerging issues for ensuring further growth in the sector
- The livestock sector in India grew at a rate of 8.24% annually from 2014-15 to 2018-19.
- The contribution of livestock to the Gross Value Added (GVA) of the agriculture and allied sector increased from 24.32% in 2014-15 to 28.63% in 2018-19.
- The livestock sector contributed 4.19% to the total GVA in 2018-19.
- The fish production in India reached an all-time high of 14.16 million metric tons in 2019-20.

- The Gross Value Added (GVA) by the Fisheries sector to the national economy stood at ₹2,12,915 crores, which constituted 1.24% of the total national GVA and 7.28% of the agricultural GVA.

Structure and Characteristics of Indian Agriculture

- Agriculture involves cultivation of crops and raising livestock.
- Agricultural economy includes production, distribution, exchange, and consumption of goods of agricultural origin.
- Indian agriculture is significant for the economy as it involves production, distribution, exchange and consumption of cereals, pulses, oilseeds, fruits, vegetables, other crops, livestock, fish and forest products.
- Indian agriculture is diverse, with a variety of crops grown in various climatic zones and soil types.
- Alluvial soils are widespread in India, while Vertosols (black soils), Alfisols (red soils), Lateritic soils, and Desert soils are found in specific regions
- Indian agriculture is diverse and crops are grown in various climatic zones and soil types.
- Cropping activities take place throughout the year, with two main seasons in northern India – Kharif (July to October) and Rabi (October to March) – and a minor season called Zaid (March to June).
- Indian agriculture is mostly dependent on the monsoon season, with about 90% of annual rainfall received during the months of June to September.
- The net irrigated area in India is about 33.3% of the net area sown, meaning about 67% of the net area sown is dependent on rainfall.
- The Planning Commission has identified 15 agriculture regions based on agro-climatic conditions for development and planning of the agricultural economy.
- Agricultural land has declined from 185.16 million ha to 181.06 million ha, while non-agricultural land has increased from 19.60 million ha to 27.32 million ha.
- To conserve top soil and prevent soil erosion and land degradation, GOI has implemented various programs, including NWDPRA, RVP&FPR, RADAS, WDPSCA, and IWMP, which have developed about 85 million ha of degraded lands.

Cropping System

- A cropping system refers to a set of crop systems that make up the cropping activities of a farm system.
- A cropping system includes a combination of crops grown in time and space, either solo or inter-planted.
- Crops can be grown in a mixed or rotational cropping pattern, and land can be occupied by one or two crops in a season
  - India produces the most milk in the world, with over 16.9 million farmers and 1.91 lakh dairy cooperative societies. In 2019, the country produced 187.7 million MT of milk, and it

is expected to increase to over 198 million MT. The per capita availability of milk in 2019 was 394 grams.

- India has the largest livestock population and produces 5.3 million MT of meat annually. Uttar Pradesh is the largest meat producer, followed by West Bengal and Andhra Pradesh. India is the largest producer of buffalo meat and the second largest producer of goat meat.
- Wool production in India was estimated to be 54.1 m.kg in 2019-20.
- Poultry is a fast-growing sub-sector of animal husbandry in India, with highly efficient vertical integration. Egg production has increased from 66.45 billion in 2011-12 to 83 billion in 2015-16, and is estimated to reach 106 billion in 2020-21. The per capita availability of eggs increased from 63 eggs/annum in 2014-15 to 81 eggs/annum in 2020.
- India is the second largest producer of fish in the world, contributing 5.68% of the global fish production. The total fish production in 2018-19 was 13.75 million metric tons, with an annual growth rate of over 7.5%. India is also a major producer of fish through aquaculture and ranks second in the world, after China. The marine fisheries potential in India is estimated to be 5.3 million tons

Role of Agriculture in Economic Development

- Agriculture contributes to the Gross Domestic Product (GDP) and National Income of a country.
- As a developing economy grows, non-agricultural sectors like manufacturing and services are expected to grow faster than agriculture.
- Agriculture continues to play an important role in economic development and growth by providing raw materials for industries and acting as a market for non-agricultural goods.
- Raw materials from agriculture are used in a number of industries such as food processing, beverages, textiles, and leather.
- Agriculture is also a source of employment for a large number of people

Agriculture-Industry Linkage

- As the economy develops and diversifies, the share of agriculture in net national product or national income declines, but at a much slower rate if the concept of agri-business is used to denote agriculture sector.
- Agri-business includes inputs sector to agriculture, agricultural production, and agro-processing.
- The concept of inter-industry linkage describes inter-sectoral interdependence, which measures the effect of an autonomous increase in final demand for the product of a given industry on the output of other industries.
- Inter-sectoral linkages measure both direct and indirect effects, with direct effects being the first round and indirect effects leading to a third and so on for several rounds.
- Two kinds of linkage are identified – backward and forward.

- Backward linkage is measured in terms of the ratio of intermediate inputs purchased from other industries and total output of a particular industry.
- Forward linkage is measured in terms of the ratio of intermediate output sales to other industries and total sales, including final consumer sales of a particular industry.
- Total linkage is defined as the sum of backward and forward linkages

Issues in Economic Development

- Three important issues in economic development are: balance between agriculture and industry, the role of State and market, and the role of international trade.
- In most economies, non-agricultural sectors provide higher incomes compared to agriculture.
- In economically developed economies, industry and services sectors dominate.
- Agriculture is still important as it employs a large number of people and is less capital-intensive.
- Some argue that industrialization is the cause of economic development, while others believe that agriculture plays an important role.
- A balance between agriculture and industry is necessary for economic development

Resources In Agriculture

- Production in agriculture transforms resources into output
- Productive resources are scarce and include land, labour, capital, and management
- Land includes all natural resources with exchange value such as water, air, sunshine, and forests
- The quality of land depends on soil quality, nutrient level, and water holding capacity
- Labour is associated with division of labour and efficiency in production
- The workforce in agriculture in India includes cultivators, agricultural labourers, and those engaged in livestock, forestry, fishing, plantation, orchards, and allied activities
    - Land is a scarce resource that includes natural resources such as land, water, air, sunshine, and forests. The quality of land depends on soil quality, nutrient level, and water holding capacity.
    - Labour or workforce in agriculture includes cultivators, agricultural labourers, and those engaged in livestock, forestry, fishing, plantation, orchards, and allied activities. Problems faced by agricultural labour include low productivity, underemployment, and deteriorating economic conditions. Promotion of non-farm sector activities can help mitigate these problems.
    - Agricultural capital includes money invested in livestock, machinery, buildings, and social overhead capital such as market yards, public utilities, and research and extension. Credit is a possible source of capital that is owned by individuals or businesses in potential form. Capital is considered strategic in raising productivity of land and labour and occupies a central position in the process of economic development

Technical Change in Agriculture

- Technical change refers to changes in techniques of production due to scientific research and experience.
- Technical change can be embodied (introduction of new technology in the form of physical inputs) or disembodied (improved managerial ability due to better information on weather and prices).
- Induced innovation hypothesis suggests that technical change is influenced by relative factor prices that stimulate the search for new methods of production using cheaper factors of production.
- In Indian agriculture, the use of high yielding variety seeds, chemical fertilizers, and irrigation, as well as mechanization, are examples of technical changes.
- These technical changes have led to increased yields per unit area, resulting in the substitution of machines for labor.
- The introduction of high yielding rice, wheat, and maize varieties in the mid-1960s started the technical change in agriculture known as the Green Revolution.
- Improvement in yield depends on various factors such as irrigation, technology, quality seeds, fertilizers/pesticides, and micro-nutrients

Seeds

- Seeds are the basic and most critical input for sustainable agriculture.
- The direct contribution of quality seed to total production is estimated to be about 15-20% and can be increased up to 45% with efficient management of other inputs.
- The Government of India (GOI) has taken several policy initiatives for seed development.
- The National Seed Project Phase-I (1977-78), Phase-II (1978-79) and Phase-III (1990-1991) were carried out to re-structure the seed industry and strengthen the seed infrastructure.
- There are 15 state seed corporations along with National Seeds Corporation and State Farms Corporation of India at the national level.
- Three types of seed generations recognized in the Indian seed program are breeder, foundation, and certified seeds.
- Breeder and foundation seed production ensures quality assurance in the seed multiplication chain to maintain variety purity.
- The organized sector (private and public) accounts for 30-35% of the total seeds distributed, while the unorganized sector (farm-saved seeds) accounts for the rest.
- Seed Certification Agencies, numbering about 24, functioning in various states
- The Seed Village Program is a major component of the scheme, which aims to improve the quality of farm-saved seeds.
- More than 25,000 seed villages have been organized across the country under the Seed Village Program.

- The Seed Bank Program has been restructured as the National Seed Reserve, which aims to meet the seed requirements of short and medium duration crops during natural calamities and unforeseen conditions
- Chemical fertilizers have played a significant role in the development of agriculture in India.
- Per hectare consumption of fertilizers has increased from 105.5 kg in 2005-06 to 128.6 kg in 2008-09.
- However, recent trends show a decline in marginal productivity of soil in relation to the application of fertilizers and in some cases, contributed to decline in production.

Factors contributing to the decline in productivity

- It includes skewed NPK application, comparatively higher application of straight fertilizers like urea, DAP and MOP.
- Lack of application of proper nutrients based on soil analysis has also contributed to the slowdown in growth of productivity.
- Domestic production of urea in the FY 2020 was around 245 lakh tons, as compared to about 200 tons in the year 2008-09 whereas that of DAP was around 38.9 lakh tons in FY 2019.
- The government has taken measures to improve fertilizer application in the country through the National Project on Management of Soil Health & Fertility (NPMSF) which includes setting up of 500 new Soil Testing Laboratories (STLs) and 250 mobile soil testing laboratories

Chemical fertilizers

Chemical fertilizers have played a significant role in the development of the agricultural sector.

- The per hectare consumption of fertilizers in nutrient terms was 128.6 kg in 2008–09.
- Recent trends in agricultural productivity show a decline in marginal productivity of soil in relation to the application of fertilizers, which contributed to decline in production.
- Skewed NPK application and comparatively higher application of straight fertilizers like urea, DAP and MOP, as against the complex fertilizers, have contributed to the decline in productivity.
- Lack of application of proper nutrients based on soil analysis has also contributed to slowdown in growth of productivity.
- Balanced use of fertilizers is defined as the timely application of all essential plant nutrients in optimum quantities and in the right proportion, suitable for specific soil/crop conditions.
- The Government has initiated measures to promote the balanced use of fertilizers through implementation of various programs/schemes
  - Soil Health Management (SHM) is a component under the National Mission for Sustainable Agriculture (NMSA) which promotes the use of soil testing laboratories to facilitate balanced use of fertilizers through trainings and demonstrations.
  - Soil Health Card Scheme was introduced in 2014-15 to issue soil health cards to all farmers in the country. These cards

- provide information on the nutrient status of soil along with recommendations on appropriate dosage of nutrients for improving soil health and fertility. The soil is tested every 3 years to identify nutrient deficiencies for taking corrective measures.
- Customized fertilizers are soil-specific and crop-specific fertilizers that encourage balanced use of fertilizers. Organic fertilizers such as city-based compost and vermicompost, and bio-fertilizers like rhizobium, azotobacter, Azospirillum, and phosphate solubilizing bacteria have been recognized and incorporated in the Fertilizer Control Order FCO 1985

Impact of Technological Change

- Technological change in agriculture has two effects on an economy: it increases food supply and reduces prices, and it makes it possible to produce more with less labor.
- Technological change is generally beneficial for individuals and the economy.
- Adoption of improved technology benefits farmers with increased output and income.
- Consumers benefit from increased supplies and lower prices.
- The green revolution technology was adopted by Indian farmers, but benefits did not reach rain-fed areas due to low irrigation coverage.
- Concerns have been raised regarding the productivity, growth, and sustainability of agriculture in green revolution areas.
- Soil and water-related problems such as waterlogging, soil salinity, and overexploitation of groundwater are reported from green revolution areas.
- Doubts have been raised about the sustainability of high yielding varieties.
- The ill effects of green revolution include soil degradation and polluted waterways due to the high use of chemical fertilizers, pesticides, and heavy machinery over decades

Constraints in Agricultural Development

- The main constraints in agriculture development in India relate to land ownership and operation, capital formation, marketing, organization and research and extension.
- Ownership of land is regarding legal title of land and operation relates to actual cultivation of land. The difference between ownership and operation of land originates due to land tenancy.
- Land reforms can change the modes of production in agriculture, social class stratification and the pattern of land tenure.
- Congenial agrarian structure helps the process of technological change in agriculture.
- From the economic point of view, land reforms aim at rational use of scarce land resources.
- India has quite a high percentage of total land put under cultivation of agricultural crops (51.6 per cent), as compared to most other countries.
- Despite the availability of huge stock of land resources for agricultural operations in the country, per capita availability of agricultural land is quite less (1.15 ha) as compared to many other countries and it is decreasing day by day on account of sub-division of operational holdings

- Land reforms in India aim to improve land ownership and operation, capital formation, marketing, organization, and research and extension in agriculture.
- India has a high percentage of total land put under cultivation of agricultural crops (51.6%), but the per capita availability of agricultural land is quite low (1.15 ha) compared to other countries.
- Land reforms in India include abolition of intermediaries, tenancy reform, fixation of land ceiling, consolidation of land holding, and co-operative management of land.
- Fixation of a ceiling or upper limit on land holdings allows for the state to distribute surplus land to landless individuals.
- Consolidation of land holdings aims to combine fragmented land holdings, but has had mixed results.
- Co-operative management in agriculture production and marketing activities has remained largely theoretical in India, except in a few successful cases

Land fragmentation

- Land fragmentation is the separation of small or incomplete pieces of land from the original land it belonged to.
- Due to population growth, the availability of land has decreased over time.
- Per capita availability of land has declined from 0.91 hectares in 1951 to 0.27 hectares in 2011, and is projected to decline further to 0.20 hectares in 2035.
- The per capita availability of agricultural land has declined from 0.5 hectares in 1951 to 0.15 hectares in 2011, and is likely to decline further.

Capital formation

- Capital formation is a critical factor for sustained growth in the agriculture sector and includes private and public investment.
- Private investment includes land improvement, agricultural implements, and livestock, while public investment includes large-scale irrigation systems, power generation, infrastructure development, research, and extension.
- Capital formation is important for capacity building and sustainability, and a decline in capital formation can act as a constraint to agricultural development if corrective measures are not taken in time.
- The Gross Capital Formation (GCF) in agriculture as a proportion to the GVA has declined from 18.2% in 2011-12 to 13.7% in 2017-18, which may impede growth in production and productivity.
- Public sector investment in agriculture provides an environment for private investment.
- The share of public sector in GCF has increased in recent years, but it was still low at 21.6% in 2017-18 compared to 43% in 1980-81.
- To improve productivity, it's important to increase capital formation in agriculture through both public and private sector investments.

- The government has increased allocations for the agriculture sector in successive budgets, and for the budget of 2021-22, an allocation of Rs. 1.315 lakh crore has been made for the Agriculture, Cooperation and Farmers' Welfare Ministry

Emerging Issues in Agriculture

- **Political Participation:** Agricultural development involves the participation of people in decision making to increase their stake in the success of the state.
- **Farmers' Organizations:** Effective organization of farmers can contribute significantly to agricultural development, but the village panchayat system has deteriorated due to political interference.
- Stakeholders must strategize to address emerging issues/challenges in Indian agriculture related to the environment, climate change, international trade, agricultural diversification, and policy reforms.
- Agriculture can have an impact on the environment, including the soil, water, air, animals, plants, people, and the food itself.
- Agricultural practices can contribute to environmental issues such as climate change, deforestation, biodiversity loss, dead zones, genetic engineering, irrigation problems, pollutants, soil degradation, and waste.

Global Scenario

- The international community is committed to increasing the sustainability of food production as part of Sustainable Development Goal "End hunger, achieve food security and improved nutrition and promote sustainable agriculture."
- The United Nations Environment Program's "Making Peace with Nature" report highlighted agriculture as both a driver and an industry under threat from environmental degradation.
- The impact of agriculture on the environment can be evaluated using both means-based indicators, which look at farming practices, and effect-based indicators, which consider actual effects of the agricultural system.
- The impacts of irrigation on the environment include changes in quantity and quality of soil and water, as well as effects on natural and social conditions in river basins and downstream of an irrigation scheme
- Overuse of underground aquifers and poor irrigation management can lead to depletion of water sources, water pollution, soil salinity, and damage to soil structure.
- Pesticides used in agriculture can have negative effects on non-target species, as they can be carried into other areas through runoff and wind, and can increase pest resistance over time.
- Climate change and agriculture are interconnected and have global impacts.
- Global warming is expected to have significant effects on agriculture, including changes in crop yields, increased water scarcity, and soil degradation.

Deforestation

- Deforestation is the clearing of forests on a large scale, often for land use such as pasture or crops.
- Cattle ranching, logging, palm oil plantations, and slash-and-burn farming are all major causes of deforestation.
- Deforestation leads to loss of habitat for many species and contributes to climate change by releasing carbon dioxide into the atmosphere and reducing the number of trees that can absorb it.
- Deforestation can also cause soil to dry out and lead to extreme fluctuations in temperature.
- The Ministry of Environment, Forest and Climate Change (MoEFCC) in India is guiding the country's efforts to combat climate change, including advising sector ministries and state governments on reducing greenhouse gas emissions and promoting sustainable practices
- India is working to combat climate change through the Ministry of Environment, Forest and Climate Change (MoEFCC) by advising sector ministries and state governments on reducing greenhouse gas emissions and promoting sustainable practices.
- NABARD, a National Implementing Entity, is working to channelize finances towards adaptation and mitigation interventions for climate change in the country, and has participated in 40 projects with a total financial support of Rs. 1820 crore.

High-Level Expert Group (HLEG)

- India aims to increase agriculture exports from USD 40 billion to USD 100 billion, which could create more jobs, according to the High-Level Expert Group (HLEG) on agricultural export set up by the 15th Finance Commission.
- The HLEG recommends prioritizing 22 crop value chains and establishing lighthouses in 7 crop value chains (rice, shrimp, spices, buffalo, fruits and vegetables, vegetable oil and wood), with a focus on the United States, the European Union and the Middle East to double India's agriculture exports
- India aims to increase agriculture exports from USD 40 bn to USD 100 bn.
- The High-Level Expert Group (HLEG) on agricultural export estimates that this will create more jobs.
- The HLEG suggests prioritizing 22 crop value chains to establish lighthouses in 7 crop value chains.

Agricultural Diversification and Food Security

- Crop diversification has been increasing due to modern agricultural technology and economic reasons.
- Crop pattern changes are influenced by five main factors: resource-related factors (such as irrigation, rainfall, and soil fertility), technology-related factors (including seed, fertilizer, and water technologies, as well as marketing, storage, and processing), household-related factors (such as food and fodder self-sufficiency requirements and investment capacity), price-related

factors (such as output and input prices, trade policies, and other economic policies), and institutional and infrastructure-related factors (such as farm size and tenancy arrangements, research, extension, marketing systems, and government regulatory policies).

- The factors that influence crop diversification are not independent but inter-related.
- There are five broad categories of factors that influence crop diversification: resource-related, technology-related, household-related, price-related, and institutional and infrastructure-related.
- These factors are inter-related and can influence each other.
- Government policies, supportive or regulatory, affect input and output prices, and special programs affect area allocation and crop composition.

Economic Factors

- Economic liberalization policies and globalization also influence area allocation decisions.
- Factors such as food and fodder self-sufficiency, farm size, and investment constraints are important for smaller farms in influencing area allocation.
- Larger farmers are more focused on economic considerations based on relative crop prices.
- Economic factors play a relatively stronger role in influencing crop patterns in areas with better irrigation and infrastructure potential.
- In such areas, commercialization and market networks co-evolve to make farmers more responsive to economic impulses.
- Indian agriculture is influenced by various factors like resources, technology, household requirements, prices, institutions, and infrastructure.
- These factors are interrelated, and government policies affect input and output prices.
- Economic liberalization policies and globalization processes have strong impacts on farmers' area allocation decisions.
- The relative importance of factors influencing crop choices is changing over time, with economic factors becoming increasingly important.

National Food Security Mission' (NFSM)

- The Centrally Sponsored Scheme, 'National Food Security Mission' (NFSM), was launched in October 2007 to achieve the targeted additional production of rice, wheat, and pulses.
- The NFSM was successful in achieving its target production during the Eleventh Plan (2011-12) and continued during the 12th Five Year Plan with new targets.
- The new targets of the 12th Five Year Plan were to achieve additional production of 25 million tons of food grains by the end of the plan.
- The program continued beyond the 12th Plan with revised operational guidelines, based on past experience and feedback received from states.
- The program aimed to achieve 13 million tons of additional food grain production by 2019-20, comprising of rice, wheat, pulses, and coarse cereals

- The National Development Council adopted a resolution in 2007 to launch a Food Security Mission to increase the production of rice, wheat, and pulses.
- The Centrally Sponsored Scheme, 'National Food Security Mission' (NFSM), was launched in October 2007 to achieve the targeted additional production of rice, wheat, and pulses.
- The NFSM was successful in achieving its target production during the Eleventh Plan (2011-12) and continued during the 12th Five Year Plan with new targets.

Value Chain in Indian Agriculture

- Value chains in agriculture involve multiple players and channels, but the degree of organization and governance is a challenge.
- Initiatives to improve value chains include investing in technology, processing, quality control, and marketing infrastructure, creating commodity exchanges for price discovery, and institutional interventions such as farmer collectives.
- Constraints in organizing and stabilizing value chains include a large number of small farm holdings and challenges in efficient production and aggregation.
- Sustainable value chains require interventions to build farmers' confidence in market-oriented farming and adoption of higher technology of cultivation.
- Most value chain approaches have a market perspective, focus on end markets, recognize the importance of relationships between different links in the chain, improve value generation for different participants in the chain, and empower the private sector.
- Sugar, milk, oilseeds, cotton, rubber, coffee, tea, spices, fresh vegetables and fruits, flowers, marine products, and artisanal products are some of the products with established value chains in India.
- The four models of agriculture value chain most prominently documented in India are Farmer/Producer driven AVC, Buyer driven AVC, Facilitator driven AVC, and Integrated AVC.
- Strengthening and integrating Indian agriculture value chains (AVC) into global agriculture value chains (GAVC) can increase competitiveness of exports and meet global demand for agriculture and horticulture products.
- Collective action in the form of self-help groups, cooperatives, and producer associations is essential to overcome scale limitations in aggregation of dispersed production and distribution of inputs and services.
- Successful models where financing of value chains played a crucial role in developing value chains for smallholder farmers include VAPCOL in Gujarat, MAHAGRAPES in Maharashtra, and SAFAL in Delhi.
- Issues in the agriculture value chain exist at different levels and need to be identified and addressed to harness opportunities presented

Issues in Agriculture Value Chains

- There are issues in the agriculture value chain that need to be identified and addressed in order to take advantage of the opportunities presented. These issues exist at different levels:

- At the farmers level, limited access to better inputs, including credit and technologies, low marketable surpluses (food crops) coupled with absence of aggregation mechanism, inadequacies in warehousing facilities, cold storage, cold chain, etc., for perishable Agri-produce and inadequate risk mitigation interventions to address production and market risks.
- At the market intermediaries' level, inadequacies in infrastructure for produce handling, sorting and grading, dominance of unorganized trading, qualitative and quantitative losses, opportunistic profiteering, multiple layers in marketing channel contributing to high price build-up which neither benefits the producer nor consumer, etc.
- In so far as they relate to logistics, the issues largely pertain to connectivity in rural areas, use of open trucks even for perishable produce – which is the most predominant mode of transport and absence of an integrated cold chain and high costs.
- At processors level the issues largely relate to quality of raw materials sourced, product standards, food safety, hygiene issues, etc.

National Mission for Sustainable Agriculture (NMSA)

- The Rain Fed Area Development (RAD) component focuses on developing integrated farming systems and value addition activities to maximize farm returns and mitigate the impacts of climate change.
- The On-Farm Water Management (OFWM) component aims to enhance water use efficiency through micro irrigation, efficient water application and distribution systems, secondary storage and drainage development, and conservation of resources to enhance agricultural productivity and quality.
- The Climate Change & Sustainable Agriculture Modelling & Networking (CCSAMN) component focuses on disseminating rain-fed technologies, planning convergence and coordination in pilot blocks, research/model/pilot projects for different agro-climatic conditions, capacity building training, and networking projects on climate change adaptation and mitigation.
- NMSA aims for sustainable agriculture growth through 17 deliverables focusing on 10 key dimensions of Indian agriculture.
- During the Twelfth Five Year Plan, these deliverables were mapped against restructured missions/schemes.
- The programs included under NMSA are: Rainfed Area Development Program (RADP), National Mission on Micro Irrigation (NMMI), National Project on Organic Farming (NPOF), National Project on Management of Soil Health & Fertility (NPMSH&F), and Soil and Land Use Survey of India.

Unit 6: Rural Development Policies

- Planners have been focusing on improving the lives of rural people since the country gained independence.
- Policies and programs have been created and modified to better the economic and social conditions of rural areas.
- Specific policies have been made for the development of both farming and non-farming rural sectors.
- Government policies have a long-term outlook and are designed to achieve long-term goals.

Rural Development Schemes

Swarnjayanti Gram Swarozgar Yojana (SGSY)

- The Integrated Rural Development Program (IRDP) was launched to provide sustainable income to rural households living below the poverty line (BPL).
- IRDP was modified and renamed Swarnjayanti Gram Swarozgar Yojana (SGSY) in 1999.
- Evaluation of SGSY showed mixed results. Only 22% of the estimated 25 million households organized into self-help groups (SHGs) were successful in accessing bank credit.
- Poor mobilization of SHGs and varying quality of their operations were identified as issues.
- The one-off assetization program focusing on a single livelihood activity did not meet multiple livelihood requirements of the poor.
- Capital investment was provided up-front as a subsidy, without enough investment in social mobilization or group formation.
- Uneven geographical spread of SHGs, high attrition rates among SHG members, and lack of adequate banking sector response, impeded program performance.
- Several states did not fully invest the funds received under SGSY, indicating a lack of proper delivery systems and dedicated implementation.

National Rural Livelihoods Mission (NRLM)

The National Rural Livelihoods Mission (NRLM) was launched to address the shortcomings of SGSY and provide a better livelihood strategy for rural households living in poverty
There was a mismatch between program capacity and requirements for skill training and capacity building among rural poor.
Absence of collective institutions such as self-help group (SHG) federations prevented poor households from accessing higher order support services for productivity enhancement, marketing linkages or risk management.

A Committee on Credit Related Issues under SGSY was constituted to examine the scheme implementation.
The Committee recommended adopting a 'Livelihoods Approach' to rural poverty elimination.

The Livelihoods Approach encompasses four inter-related tasks: mobilizing poor households into functionally effective SHGs and their federations, enhancing access to bank credit and financial, technical and marketing services, building capacities and skills for gainful and sustainable livelihood development, and converging various schemes for efficient delivery of social and economic support services to poor households

SGSY was a program for providing sustainable income to rural BPL households, but its results were mixed.
A Committee on Credit Related Issues under SGSY recommended a livelihoods approach to rural poverty elimination.
SGSY was restructured into NRLM in 2010 to provide a sharper focus on poverty reduction and achieve the Millennium Development Goals.
NRLM aims to cover 7 crore rural poor households across the country through self-managed Self-Help Groups (SHGs) and federated institutions and support them for livelihoods collectives in 8-10 years.
NRLM is implemented in a Mission Mode and is aided in part through investment support by the World Bank.

In November 2015, the program was renamed as Deendayal Antyodaya Yojana (DAY-NRLM).
NRLM was launched in 2010-11 to provide a sharper focus for poverty reduction and achieve Millennium Development Goals by 2015.
NRLM aims to cover 7 crore rural poor households across 600 districts, 6000 blocks, 2.5 lakh Gram Panchayats, and 6 lakh villages in the country.
NRLM is implemented in a mission mode, which enables the states to formulate their own livelihoods-based poverty reduction action plans and focus on targets, outcomes, and time-bound delivery.

The guiding principles of NRLM are to empower the poor by mobilizing them, building strong institutions, and providing dedicated support.
NRLM follows a demand-driven strategy where States have the flexibility to develop their livelihoods-based perspective plans and annual action plans for poverty reduction
NRLM facilitates knowledge dissemination, skill building, access to credit, marketing, and other livelihood services to help rural poor become self-sufficient.
NRLM's core values include inclusion of the poorest, transparency and accountability, ownership and key role of the

poor and their institutions, and community self-reliance and self-dependence.
The target group under NRLM is identified through a participatory identification process at the community level, and all households identified as poor are eligible for benefits.
The NRLM Target Group is de-linked from the BPL and is revised frequently through the Participatory Identification Process (PIP) vetted by the Gram Sabha and approved by the Gram Panchayat.

NRLM provides Revolving Fund (RF) and Community Investment Fund (CIF) as resources in perpetuity to the institutions of the poor to strengthen their institutional capacity

NRLM focuses on both the demand and supply sides of financial inclusion.
It promotes financial literacy among the poor and provides catalytic capital to the SHGs and their federations to improve the demand side of financial inclusion.
On the supply side, it coordinates with the financial sector to encourage the use of ICT-based financial technologies, business correspondents and community facilitators.
NRLM also aims to provide universal coverage of rural poor against the risk of loss of life, health, and assets.
It works towards improving remittances in areas where migration is prevalent

Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA
MGNREGA provides at least 100 days of guaranteed wage employment in a financial year to every rural household, whose adult members volunteer to do unskilled manual work.
MGNREGA was passed by the Parliament on 23rd August 2005 and was implemented in 200 districts in the first phase with effect from February 2006.
The Act was subsequently extended to additional 130 districts in April/May, 2007 and the remaining districts were included with effect from April 1st, 2008.
Currently, MGNREGA is under implementation in 644 districts of the country, covering a substantial rural population.

The core objectives of MGNREGA are to provide not less than 100 days of unskilled manual work, strengthen the livelihood resource base of the poor, proactively ensure social inclusion, and strengthen Panchayati Raj Institutions
MGNREGA provides social protection for vulnerable people living in rural India by guaranteeing wage employment opportunities.
It enhances livelihood security of the rural poor through generation of wage employment opportunities in works, leading to creation of durable assets.
MGNREGA rejuvenates natural resource base of rural areas.
It creates a durable and productive rural asset base.

MGNREGA empowers the socially disadvantaged, especially women, Scheduled Castes (SCs) and Scheduled Tribes (STs), through a rights-based legislation.
It strengthens decentralized, participatory planning through convergence of various anti-poverty and livelihoods initiatives.
MGNREGA deepens democracy at the grassroots, by strengthening Panchayati Raj Institutions.
Under MGNREGA, Central Government can delegate powers to State Governments or subordinate officers by a notification, and State Governments can delegate the powers to subordinates.

State Government may make rules to carry out the provisions of the Act, subject to consistency with the rules made by the Central Government.

MGNREGA is a demand-driven wage employment program

Skill Development and Entrepreneurship Initiatives
Skills and knowledge are important for economic growth and social development.
India faces a big challenge as only 14.69% of the workforce has undergone formal skill training.
The National Institute for Entrepreneurship and Small Business Development (NIESBUD) was established in 1983 and is registered under the Societies Registration Act, 1860.
In May 2015, the Ministry of Skill Development and Entrepreneurship took over the administrative affairs of the Institute.

NIESBUD serves as a training provider, catalyst for promotion of entrepreneurship, development of start-ups and self-employment, and sustenance of economic ventures.
The Institute serves as a facilitator, coordinator, and guide through different interventions such as training, research, mentoring, hand-holding, and other facilitative interventions
National Institute for Entrepreneurship and Small Business Development (NIESBUD):
Provide training to individuals on entrepreneurship and small business development.

Promote entrepreneurship and support the development of startups and self-employment.
Develop promotional material and campaigns to create a favorable environment for entrepreneurship and remove misconceptions.
Facilitate the provision of business development services for prospective startups and self-employment ventures.
Implement an e-mentoring mechanism for support, monitoring, and follow-up.
Coordinate and facilitate activities under the "Pradhan Mantri Yuva Yojana" and certify beneficiaries.

Conduct research and evaluate the effectiveness of initiatives aimed at "Ease of Doing Business" by startups and self-employed individuals.
Create and host a knowledge repository of information, support materials, government policies, etc. for use by potential startups, new entrepreneurs, and MSMEs
Indian Institute of Entrepreneurship (IIE) was established in 1993 by the Ministry of Industry, Department of SSI & ARI, and Government of India as an autonomous national institute.
It provides training, research, and consultancy services in small and micro-enterprises with a focus on entrepreneurship development.

It is currently under the supervision of the Ministry of Skill Development and Entrepreneurship (MSDE). The institute promotes and develops entrepreneurship.
It conducts research and provides consultancy services for entrepreneurship development.

It collaborates with other organizations to increase its outreach and provides consultancy services to potential entrepreneurs to enhance their employability.
The institute promotes the use of information technology in its activities and functions and schemes and initiatives through the National Skill Development Corporation

Pradhan Mantri Kaushal Vikas Yojana (PMKVY)
The PMKVY is a scheme created by the Ministry of Skill Development & Entrepreneurship (MSDE) to provide outcome-based skill training to Indian youths.
The aim of the scheme is to make a large number of youths employable and help them earn a livelihood through skill certification and reward.
The scheme was launched by the Government of India on 15 July, 2015, on the occasion of World Youth Skills Day.
The scheme was approved for another four years (2016-2020) with an outlay of ` 12,000 crores to train 10 million youths.
The PMKVY is being implemented in collaboration with states

The PMKVY scheme has two components: Centrally Sponsored Centrally Managed (CSCM) and Centrally Sponsored State Managed (CSSM).
Under the CSCM scheme, 75% of PMKVY funds from 2016-2020 will be available to MSDE for skilling through the National Skill Development Corporation (NSDC).
Under the CSSM scheme, 25% of PMKVY funds from 2016-2020 will be allocated to the States.
NSDC is a non-profit organization that works towards skill development in India

UDAAN SCHEME
The Udaan Scheme is a part of the Special Industry Initiative (SII) for Jammu and Kashmir (J&K), which is funded by the Ministry of Home Affairs and implemented by the National Skill Development Corporation (NSDC).
The Udaan program aims to address the needs of the educated unemployed in J&K, particularly graduates, postgraduates, and three-year diploma engineers, by providing them with skills and job opportunities.
The program also aims to expose corporate India to the rich talent pool available in J&K.
The scheme was allocated a fund of Rs. 750 crore by the MHA and was targeted to reach out to 40,000 youth in J&K over a period of 5 years.
More than 44,000 candidates have joined the Udaan training program, out of which around 39,000 have completed the training, and about 24,000 have been offered jobs across different sectors.
The Udaan Mega selection drives have been organized in different districts of the state, where multiple corporates, including TCS, Apollo Medskills, KPMG, etc., have participated

Pradhan Mantri Yuva Yojana
Pradhan Mantri Yuva Udyamita Vikas Abhiyan (YUVA) was launched in November 2016.

The aim of the scheme is to promote entrepreneurship among the youth by creating an enabling eco-system through education and training, advocacy, and access to support networks.

The specific objectives of the scheme are to educate and equip potential and early-stage entrepreneurs, connect entrepreneurs through networks of peers, mentors, incubators, funding, and business services, support entrepreneurs through Entrepreneurship Hubs (E-Hubs), and catalyze a culture shift to support aspiring entrepreneurs.
The scheme is being implemented in partnership with both public and private stakeholders.
The scheme will provide skill development programs and learning facilities to all eligible young entrepreneurs.
More than 3,000 colleges, schools, and other educational institutions will offer the program in the next five years. The first phase of the project will take five years

The scheme aims to promote entrepreneurship among young people through education, training, and support networks.
The scheme involves partnerships with public and private stakeholders.
The scheme targets nearly 2,200 higher educational institutions, 500 it is, 300 schools, and 50 entrepreneurship and skill development centers.
The scheme provides easy access to mentor networks and information for young entrepreneurs.
The scheme includes online training procedures for trainees to access study materials from home.
The scheme includes guidelines for the labs in the institutions involved in the program.

The scheme awards young entrepreneurs who contribute to growing the economy. The scheme is open to young people below the age of 30.
The project will run for five years with a budget of `499.94 crore, funded by both central and state governments.
All applications for the scheme must be made online as per the laid-down procedures

Shyama Prasad Mukherji Rurban Mission (SPMRM)

- The Shyama Prasad Mukherji Rurban Mission (SPMRM) was launched in September 2015 by the Indian government.
- The mission aims to strengthen rural areas by providing economic, social, and physical infrastructure facilities.
- The mission aims to develop 300 Rurban clusters in the next 5 years.
- In the first phase, 100 clusters will be taken up, and more clusters will be identified based on the progress of the scheme.
- The objectives of the mission are to bridge the rural-urban divide, spread development in the region, attract investments in rural areas, and stimulate local economic development with an emphasis on reducing poverty

- The growth-oriented programs in the sixties did not benefit the backward areas, resulting in an increased gap between prosperous and backward areas.
- Area-specific programs were introduced in the early seventies as a corrective measure, including the Drought Prone Areas Program (DPAP), Hill Areas Development Program (HADP), and Desert Areas Development Program (DDP).
- DPAP was launched in 1973 to improve the condition of arid and semi-arid areas with poor natural resources.
- The program aimed to restore ecological balance by developing and managing water resources, conserving soil and moisture, afforestation, developing pasture lands, and improving livestock development.
- The program also focused on improving infrastructure facilities like roads, rural electrification, and providing basic amenities to the people.
- The program was implemented in stages, with the first stage covering 107 districts in 14 states.
- The program was later merged with other development programs in 1990
- The growth-oriented programs in the sixties benefited well-endowed areas and increased the gap between prosperous and backward areas.
- To address this, area-specific programs were introduced in the early seventies, including the
  - Drought Prone Areas Program (DPAP)
  - Hill Areas Development Program (HADP)
  - Desert Areas Development Program (DDP).
- DPAP was launched in 1973 in arid and semi-arid areas with poor natural resources to restore ecological balance and improve productivity.
- DPAP focused on water resource development, soil and moisture conservation measures, afforestation, pasture and livestock development, and subsidiary occupations.
- The program was equally funded by the GOI and states, with funds allocated based on the number of blocks covered in each district.
- The program was implemented by District Rural Development Agencies, and during the Eighth Plan, emphasis was laid on micro-shed basis planning, training, and improving people's participation.
- HADP was launched to develop hill areas, which constitute 21% of the total area and support 9% of the population.
- The program focused on improving the socio-economic conditions of people in hill areas, with special emphasis on agriculture and horticulture, land development, forestry, and animal husbandry.
- The program was implemented by state governments, with funding from the central government

Power Supply to Rural India Program

- Non-commercial sources like firewood, cow dung, and agricultural waste provide 80-90% of energy for cooking and heating in rural areas.
- Energy needs for production are met by draught animal energy and human labor. Commercial forms of energy are mainly consumed by affluent households.
- Non-availability of energy is a major constraint in improving the quality of life in rural areas.

Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY)

- The Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY) was launched by the Indian government in 2015 to provide continuous power supply to rural areas.
- The scheme subsumed the Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) for village electrification and electricity distribution infrastructure.
- The Rural Electrification Corporation is the nodal agency for implementing the DDUGJY.
- The DDUGJY focuses on feeder separation and strengthening sub-transmission and distribution infrastructure, including metering, to provide round-the-clock power to rural households and adequate power to agricultural consumers.
- The Ministry of Power has sanctioned 921 projects under DDUGJY-RE to electrify unelectrified villages and provide intensive electrification to partially electrified villages.
- The government provides free electricity connections to BPL households and subsidizes electricity connections to APL households
- Non-commercial energy (firewood, cow dung, agricultural waste) provides 80-90% of energy for cooking and heating in rural areas.
- Production needs are mainly met by animal energy and human labor.
- Lack of energy availability is a major constraint in improving rural life.
- GOI provides grant funding up to 60% of project cost (85% for special states) and additional grant up to 15% (5% for special category states) on achievement of prescribed milestones.
- REC has released subsidy amounting to Rs. 53,326 crore to states for the scheme's implementation.
- IEA acknowledged in 2018 that India's electrification of every village was one of the greatest success stories in the world in 2018.

Development of Dryland Farming

- Dry farming areas make up 70% of the gross cropped area but only contribute 42% to total food grain production.
- Integrated Dry Land Agricultural Development scheme launched in 1970-71 to test and demonstrate technology developed by All-India Co-ordinated Research Project for Dryland Agriculture, under ICAR.
- Field demonstrations showed the technology could bring a significant increase in production of dryland crops.

- Scheme was transferred to state sector and micro-watershed approach was envisaged in early eighties on a pilot basis.
- Work was taken up by end of 1984-85 in about 4,400 micro-watersheds, covering an area of about 4.2 million hectares.
- Major components of watershed development were land development, construction of water harvesting storage, and coverage of area with improved/drought-resistant seeds and fertilizers.
- National Watershed Development Project for Rainfed Areas (NWDPRA) initiated in Sixth Plan continued in successive Plans.
- NWDPRA envisaged development of a micro-watershed in every block having assured irrigation of less than 30%.
- Use of vegetable barriers is principal means to prevent soil erosion and conserve moisture.
- Extension support through local progressive farmers and training of all concerned has been emphasized

Soil and Water Conservation

- Soil conservation is important to prevent soil loss and maintain soil fertility.
- Unsustainable farming practices like slash-and-burn can cause soil erosion and reduced fertility.
- Techniques like crop rotation, cover cropping, conservation tillage, and planted windbreaks are used for improved soil conservation.
- Soil erosion is still a major environmental problem in many parts of the world, including India.
- Climate change is worsening the problem of soil erosion.
- A holistic approach is needed for successful soil and water conservation policies.
- Watershed programs have been effective in bringing socio-economic change by revolutionizing agriculture through technological soil and water management
- Soil conservation aims to prevent soil loss and degradation caused by various factors such as erosion, over-usage, chemical contamination, etc.
- Various techniques such as crop rotation, conservation tillage, cover cropping, and planted windbreaks are adopted for improved soil conservation.
- Soil erosion continues to be a major environmental problem worldwide, including in India, despite years of study and investment in remediation and prevention.
- Watershed programs have been one of the most effective strategies for soil and water conservation, resulting in significant positive results and improved productivity in different parts of the country.
- Water is a scarce natural resource that is fundamental to life, livelihood, food security, and sustainable development. India has limited renewable water resources and uneven distribution of water resources over time and space, further adding to the challenge of water availability.

Pradhan Mantri Krishi Sinchayee Yojana (PMKSY)

- The Pradhan Mantri Krishi Sinchayee Yojana (PMKSY) is a government scheme aimed at increasing irrigation and reducing the impact of drought.
- The scheme is being implemented by three ministries, led by the Ministry of Water Resources, RD&GR.
- The scheme has a budget of Rs. 50,000 crore over five years, and combines three existing programs related to irrigation and water management.
- The objectives of PMKSY are to improve efficiency of water use in agriculture, expand cultivable area under assured irrigation, and promote precision irrigation and water-saving technologies.

Rural Infrastructure Development Fund (RIDF)

- The Rural Infrastructure Development Fund (RIDF) was set up in NABARD in 1995-96 to provide financing to state governments for completing ongoing rural infrastructure projects
- The Rural Infrastructure Development Fund (RIDF) was created in 1995-96 to finance ongoing rural infrastructure projects.
- The Fund has an initial corpus of Rs. 2,000 crore, and is funded by deposits from commercial banks that fall short in agriculture lending under the priority sector.
- The annual allocation is announced in the Union Budget, and the RBI prepares a list of bank-wise allocations based on the priority sector shortfall.
- RIDF has received a cumulative allocation of Rs. 3,78,022 crore, including Rs. 18,500 crore under the Bharat Nirman Program.
- There are 37 eligible activities under RIDF, including agriculture and related sectors, social sector, and rural connectivity projects such as rural roads, irrigation, power projects, drinking water, soil conservation, watershed development, etc.
- State Governments/Union Territories, State Owned Corporations, and State Agricultural Universities can apply for RIDF assistance
- NABARD releases the sanctioned amount on a reimbursement basis, except for an initial mobilization advance.
- Loans for rural connectivity, social and agri-related sectors are eligible for 80-95% of project cost.
- Interest rates for loans disbursed by NABARD from RIDF are linked to the prevailing Bank Rate.
- Loans availed under RIDF must be repaid in equal annual instalments within seven years from the date of withdrawal, including a grace period of two years.
- Overdue interest on the overdue interest amount is applicable if the State Government/Union Territory fails to pay the interest on the due date.
- Loans taken under RIDF need to be repaid in seven years with a two-year grace period. Interest needs to be paid at the end of each quarter. If the State Government fails to pay the interest on time, they have to pay overdue interest on the overdue interest amount at the same rate as the principal amount.

- Loans will be secured by an irrevocable letter of authority/mandate, Time Promissory Note, unconditional Guarantee from State Governments, and acceptance of the sanction letter's terms and conditions.
- Projects sanctioned under RIDF can take two to five years to be implemented, depending on the project type and location of the state. Projects that do not start within one year of sanction are considered non-starters
- Loans availed under RIDF must be repaid in equal annual instalments within 7 years, including a grace period of 2 years. Interest must be paid at the end of each quarter, and if the State Government/Union Territory fails to pay the interest on the due date, they will be liable to pay overdue interest on the overdue interest amount at the same rate as applicable to the principal amount.
- Loans sanctioned will be secured by the irrevocable letter of authority/mandate, Time Promissory Note (TPN), execution of unconditional Guarantee from State Governments (Additionally required for support to State Government sponsored organizations, etc.), and acceptance of terms and conditions of sanction in the duplicate copy of the sanction letter.
- The implementation phase for projects sanctioned under the Fund is spread over 2 to 5 years, varying with the type of project and the location of the state. A project will be considered non-starter if no drawals are made within 1 year from the date of the sanction letter, and the sanctions would lapse if the State Government fails to ground the project within a period of 18 months from the date of the sanction letter. NABARD may consider withdrawal of projects by State Governments on account of genuine constraints/difficulties.
- NABARD emphasizes systematic and sustained monitoring of projects sanctioned under RIDF. Field monitoring is supplemented with desk reviews and periodic returns. Regular field visits are undertaken to monitor the progress of projects, and a High-Powered Committee presided over by the Chief Secretary has been constituted at the state level to review the implementation of all projects and programs under the auspices of the Fund

Macroeconomic Stabilization

- The policy reforms in macroeconomic stabilization included fiscal-monetary policy reforms.
- The aim was to balance aggregate demand and supply, minimize the distortion effects of the tax system and force public enterprises to minimize cost and maximize efficiency.
- The large and growing fiscal deficit of the government was causing high domestic inflation and worsening balance of payments.
- The government formulated a policy of fiscal adjustment to obtain a better balance between aggregate demand and supply.
- The medium-term objective was to reduce overall public sector deficit to about 3 to 4 per cent by mid-1990s to reduce borrowing requirements of the government.
- The government aimed to control public expenditure and collect higher tax and non-tax revenues to achieve the reduction in fiscal deficit.

Structural Reforms

- High domestic inflation and worsening balance of payments were caused by the large and growing fiscal deficit of the government. The government formulated a policy of fiscal adjustment to reduce the overall public sector deficit to about 3 to 4 per cent by mid-1990s, with the aim of reducing borrowing requirements of the government, including that from the RBI.
- The government planned to control public expenditure and collect higher tax and non-tax revenues. Expenditure was concentrated in two areas: consumption expenditure (mainly of defence and administrative expenditure) and subsidy payments.
- Deregulation of industry and trade was effected with expectation to reduce supervisory and regulatory functions of the government, which, in turn, would contain the growth of government's administrative expenditure in the future.
- To generate additional revenue, the government planned to broaden the tax base, rationalize tax rates, and improve collection through non-tax sources. User charges on public services were identified as an area where there is potential for additional revenue mobilization.
- Comprehensive structural reforms have been undertaken since July 1991 to improve the supply-side of the economy. These include trade and capital flows reforms, industrial deregulation, and public sector reforms

Financial Sector Reforms

- Reserve requirements for banks were reduced and prudential norms for income recognition and provisioning were introduced.
- Minimum capital adequacy norms were fixed for banks.
- Commercial banks were allowed to open new branches and close down non-viable ones.
- Interest rates on loans above Rs. 2 lakhs were fully deregulated.
- Reforms had an indirect impact on the rural economy with focus on credit flow, investment, input subsidies, agricultural exports, poverty alleviation, and employment generation

Impact of Reform in Rural Economy

- Reserve requirements for banks were reduced and prudential norms for income recognition and provisioning were introduced.
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Poverty Alleviation and Employment Program

- The government implemented poverty alleviation schemes and programs such as IRDP, JRY, and EAS to help families living in poverty and generate employment opportunities.

- The number of families assisted under IRDP decreased, but the man-days of employment generated under JRY and EAS increased.
- The government continued to emphasize the social sector despite the economic reforms, recognizing the magnitude of poverty and unemployment.
- The Committee on Banking Sector Reforms (Narasimham Committee II) provided a framework for strengthening the banking sector in April 1998.
- Scheduled commercial banks were required to maintain a capital to risk-weighted assets ratio (CRAR), subject to asset-liability management practices and guidelines on risk management.
- The Income recognition, asset classification, and provisioning norms were tightened, and a credit information bureau (CIBIL) was established.

The central government has launched various schemes to provide income support and social security for farmers, such as the Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) scheme, which provides payments of ₹6,000 per year to farmers' families. State governments are also encouraged to implement programs to support farmers

- Agro-forestry is being promoted for additional income through the "Har Medh Par Ped" program.
- Bamboo has been removed from the definition of trees and a restructured National Bamboo Mission has been launched to promote bamboo plantation and value addition.
- The Pradhan Mantri Annadata Aay Sanrakshan Abhiyan (PM-AASHA) scheme aims to ensure remunerative prices to farmers for their produce.
- Beekeeping has been promoted under the Mission for Integrated Development of Horticulture (MIDH) to increase crop productivity and honey production.
- Government sets annual targets for the flow of credit to the agriculture sector and provides interest subvention on short-term crop loans up to ` 3.00 lakh with incentive for prompt repayment.
- Interest subvention of 2% is available to banks for the first year on the restructured amount in case of natural calamities. The benefit of interest is given to farmers who store their produce in warehouses against negotiable receipts

Other Measures

The government is promoting mechanization of small and marginal farms by setting up farm machinery banks and high-tech machinery hubs.

The Credit Guarantee Fund Scheme for Farmer Producer Companies has been launched to provide collateral-free credit to eligible lending institutes.

The National Agriculture Market scheme is being implemented to deploy an electronic trading portal in selected regulated wholesale markets and link it with about 1000 markets across the country.

Unit 7: Issues Concerning Rural Areas

Introduction

- The term "rural development" refers to activities aimed at improving the economic and social well-being of rural people, including agriculture and allied activities, rural non-farm sector, economic and social infrastructure, community services, and human resources development.
- Rural development is a strategy to help poor rural women and men gain more of what they want and need for themselves and their children, by enabling them to demand and control more of the benefits of rural development.
- It involves developing and utilizing natural and human resources, technologies, infrastructural facilities, institutions and organization, and government policies and programs to encourage and speed up economic growth in rural areas, provide jobs, and improve the quality of rural life towards self-sustenance.
- Rural development typically involves changes in popular attitudes and, in some cases, even in customs and belief.
- The goal of rural development is to move a social system away from an unsatisfactory state of life towards a materially and spiritually better condition of life

Components of Rural Development

Rural development encompasses various components like agriculture, allied activities, non-farm sector, increase in income of the poor, employment generation, and provision of basic amenities and infrastructure.

Approaches to rural development can be classified into six types

- Community Approach
- Growth-oriented Approach
- Target Group Approach
- Area Development Approach
- Welfare Approach
- Integrated Approach

The maintenance of living resources is crucially important for sustainable rural development

- Soil Health Management (SHM) is an important initiative by the Government of India under the National Mission for Sustainable Agriculture (NMSA). Its aim is to promote Integrated Nutrient Management (INM) through the careful use of chemical fertilizers, organic manures, and bio-fertilizers to improve soil health and productivity. The initiative also includes strengthening soil and fertilizer testing facilities, promoting organic farming practices, and providing training to laboratory staff, extension staff, and farmers.

- Pradhan Mantri Krishi Sinchayee Yojana (PMKSY) is another initiative implemented by the Government of India to improve irrigation infrastructure, expand cultivable areas, and promote sustainable water use. The initiative aims to enhance on-farm water use efficiency, promote precision-irrigation and other water-saving technologies, recharge aquifers, and explore the possibility of reusing treated municipal wastewater for peri-urban agriculture. PMKSY also seeks to attract private investment in the agriculture sector
- The Paramparagat Krishi Vikas Yojana aims to promote organic farming in India by improving soil health, organic matter content, and farmer income. The scheme targets to cover an area of 5 lakh acres through 10,000 clusters of 50 acres each

Necessity for Rural Development

- Rural development is an important part of India's development policy.
- However, there are several issues faced in rural development.
- Agricultural growth rate in India is not high and the growth is not the same for all crops and regions.
- Coverage of irrigation is slightly over one-third of gross cropped area, leaving the larger part dependent on rainfall.
- Fluctuations in rainfall affect agricultural production and lead to fluctuation in farmers' income.
- The prosperous areas in agriculture are having serious problems of degradation of soil, water-logging, and salinity.
- Agricultural productivity per hectare is still very low compared to developed countries.
- The growth of small industries in rural areas is slow due to lack of infrastructure and technology.
- Massive poverty exists in rural areas, affecting landless laborers, small and marginal farmers, and rural artisans due to low productivity of their assets.
- Poverty is caused by social and economic structures in rural areas, which require government intervention for poverty alleviation programs.
- Basic infrastructure such as roads, electricity, drinking water, schools, hospitals, transport, and communication in rural areas are inadequate and poorly maintained, affecting the poor villagers
- Rural non-farm sector and small industries are underdeveloped with traditional industries unable to compete with industrial products.
- Small and unorganized rural entrepreneurs with low bargaining power and need for government intervention to strengthen their bargaining power.
- Traditional farming techniques used in large areas of the country leading to the need for government intervention to adopt modern techniques for increased agriculture production and farmer income improvement

Measures for Development

- Increase in capital is necessary for growth, which can be achieved through domestic savings or foreign aid. India's current saving rate is around 28-30% of GDP, which needs to be improved.
- Foreign aid for rural development mainly comes from international organizations and donor countries. Planning for these grants and loans should be rigorous, with a focus on agro-processing and hi-tech industries.
- There needs to be a larger investment in agriculture and allied sectors to attain the planned 4% growth rate. Investments are needed in land improvement, marketing, and processing activities.
- Technology improvement is essential for economic development. The green revolution saw a surge in modern agricultural inputs and equipment, but traditional technologies still prevail in many rural areas.
- Small farmers and artisans often can't adopt modern practices and technologies, so there is a need to design appropriate technologies for local conditions

Development of Natural Resources

- Increase in Capital
- Upgrading Technology
- Development of Natural Resources
- Improving Human Capital

Rural Development and Rural Management

- Development of rural areas is important for improving the quality of life of rural people.
- Rural development includes improving agriculture, village and cottage industries, socio-economic infrastructure, community services, and human resources in rural areas.
- Natural and human resources need to be effectively managed for rural development.
- The goal of development efforts is human development, which includes productivity, equity, sustainability, and empowerment.
- The boundary between rural development and rural management is blurred, and both are important.
- Rural development issues involve improving rural infrastructure and increasing per capita income, while rural management involves planning, organizing, facilitating, and maintaining an environment to achieve these objectives

Key Issues Concerning Rural Management

- Key development issues in rural management include poverty removal, increasing per capita income, sustainability of development projects, and empowerment of rural people.
- Rural development must be managed sustainably, with planning, organization, and facilitation.

- Choices must be made regarding the organization of rural development, such as through government departments, NGOs, people organizations, or a combination.
- Success parameters must be considered when managing key issues.
- Sustainable development means meeting the needs of the present without compromising the ability of future generations to meet their own needs, according to the Brundtland Commission

Marketing Management

- The term "market" refers to buyers and sellers in contact with each other, not just a place or commodity.
- Agricultural marketing is a process that involves all aspects of market structure and system, based on technical and economic considerations, including pre- and post-production operations, assembling, grading, processing, storage, transportation, and distribution.
- The three essential components of agricultural marketing are assembling, processing, and distribution.
- Agricultural commodities are different from manufactured commodities due to their special characteristics, including perishability.
- Farm products are generally perishable, such as milk within a few hours, vegetables within a few days, and food grains within a few months.
- Processing may reduce the extent of perishability, but agricultural products cannot be made non-perishable like industrial products
  - Perishability
  - Bulkiness of Products
  - Variation in Quality of Production
  - Small Size and Scattered Production
  - Processing
  - Price Inelasticity

Co-Operative Marketing

- Co-operative marketing is an alternative to the traditional marketing system and aims to ensure fair prices for both consumers and producers.
- The existing structure of co-operative marketing is a pyramidal four-tier structure, with primary marketing societies at the base and apex organizations at the top.
- The government has also played a role in agricultural marketing by setting up regulated markets, establishing Agricultural Produce Market Committees (APMCs), and providing infrastructure and credit facilities
- Co-operative Marketing: A system where farmers group together to market their produce and ensure fair prices for both consumers and producers.

- The existing structure of co-operative marketing is a four-tier structure, with societies at the village level, district federations, apex societies at the state level, and national federations at the national level.
- Some states have societies/federations for general and specific purposes, such as sugarcane, cotton, milk, and handloom co-operatives.
- The National Agricultural Co-operative Marketing Federation (NAFED) was set up at the all-India level to work for the problems faced by farmers in marketing their produce and to promote agricultural marketing in the country.

National Agricultural Market (NAM)

- The National Agricultural Market (NAM), an electronic market, was launched in 2016 to provide farmers better selling opportunities.
- The eNAM portal is managed by Small Farmers' Agribusiness Consortium (SFAC).
- Farmers can trade directly through the eNAM mobile app or through registered commission agents.
- The eNAM is linked to 1000 markets
- Agricultural markets in India are regulated by state Agricultural Produce Marketing Committee (APMC) laws.
- Farmers are required to sell their produce at state-owned mandis under these laws, but there are issues with this system.

- The Agriculture Department is contemplating looping in AGMARK for providing better grading and assaying services to assure quality of the produce/products.
- Farmers' markets have been established in various states to promote direct interactions of producers with consumers in fresh produce.
- These farmers' markets have not had a major impact on farm incomes as sales through this marketing channel are generally small.
- Some significant government initiatives include the Horticultural Producers' Cooperative Marketing & Processing Society (HOPCOMS) in Karnataka and the SAFAL F&V project of National Dairy Development Board (NDDB) in Bangalore
- Availability of finance against stored produce and improved knowledge on price risk management allows farmers and farmers' organizations to obtain better price realization for their produce.
- Trading through Electronic Commodity Exchange provides an alternative marketing channel, which increases the potential for better price realization

E-Trading: Virtual markets for agricultural products are a new concept, but several states have amended their APMC Acts to allow for e-trading. Categories of virtual markets include futures exchange, spot exchange, warehouse receipt system, ICT based market information, and web marketing.

Grading and Standardization: The Agricultural Produce (Grading and Marketing) Act allows the Central Government to prescribe grade standards for agricultural commodities and livestock products. The Directorate of Marketing and Inspection (DMI) has prepared grade standards for several agricultural commodities. Graded products bear the AGMARK label. The different categories of grading include domestic consumption, exports, and producer level. The Central Quality Control Laboratory and its regional subsidiaries collect and analyze samples of products for grading.

Use of Standard Weight: The passing of the Standard Weight Act and adoption of the metric system have facilitated uniformity and enforcement of standard weight throughout the country. This ensures fair trade practices and protects consumers from being cheated

Standard Weight: The Standard Weight Act and the adoption of the metric system have facilitated the enforcement of uniform standards for weights and measures throughout the country. The Legal Metrology Act of 2009 regulates the trade of weights, measures, and other goods to ensure accuracy and security in weighments and measurements.

Storage facilities: After agricultural produce is harvested, it needs to be stored properly to minimize losses. Food wastage occurs at all levels of farming, and some of the reasons for this include crop damage, improper harvesting techniques, poor packaging and transportation, and poor storage conditions. Inadequate storage capacity and poor conditions of storage are some of the issues with the state of storage facilities in the country.

Central Warehousing Corporation (CWC)

- The government of India is promoting the construction of warehousing infrastructure for storing agricultural produce.
- Central Warehousing Corporation (CWC) provides storage and handling services for agricultural produce in their warehouses, inland clearance depots, and air cargo complexes.
- CWC has 19 State Warehousing Corporations (SWCs) as its associates, and CWC is a 50% shareholder in the equity capital of the SWCs.
- The SWCs operate 2202 warehouses with a total storage capacity of 488.78 lakh MT.
- CWC also offers consultancy services and training for constructing warehousing infrastructure.

Emerging Issues and Challenges in Rural Marketing

- India’s signing of the GATT in 1992 allows for increased international trade opportunities and access to MFN status from 121 countries.
- India is exempted from providing a minimum accessing of 3.5% to other nations due to its current balance of payments position.
- India’s high tariffs on agricultural products make it difficult for imported farm products to be sold in Indian markets.

- Agricultural subsidy reduction does not apply to India as its value is only 5.2% of the value of agricultural output.
- Governments around the world manage their agricultural production and trade sectors to create a balance of agricultural imports, exports, and food for domestic consumption.
- Developing countries use subsidies to procure food for the needy and provide them at subsidized prices through public distribution system programs.
- The WTO Agreement on Agriculture allows developing countries to provide price support and public stockholding for food security as long as total domestic agricultural subsidies do not exceed 10% of the total agricultural output
- India and some other developing countries may exceed the 10% subsidy threshold allowed by the WTO Agreement on Agriculture for their food security programs. In 2012, India and other developing countries proposed an exemption from the threshold, but no consensus was reached in 2015.

- India's agricultural marketing infrastructure needs improvement in cost-effective post-harvest technology, market yards/warehousing, quality control, and specialized
- infrastructure for exports.
- Economies of scale are critical for effective marketing, but most farmers are small, scattered, and unorganized. Inadequate marketable surplus also affects efficient marketing. Group marketing through farmers' organizations or cooperatives can be a solution.
- Cooperatives can play a key role in rural marketing by providing access to markets, credit, and other inputs, improving bargaining power, and reducing transaction costs. However, challenges such as lack of awareness, poor governance, and weak financial management need to be addressed
- Cooperative Marketing: Cooperatives should play a major role in rural marketing. Successful examples of cooperative marketing organizations are the Kaira District Cooperative Milk Producers' Union Ltd., Anand (AMUL), and the cooperative sugar factories in Maharashtra.
- Emphasis on Value Addition: Agro-processing industries at the village/farm level should be encouraged so that producers benefit from value addition. Only 1% of fruits and vegetables are processed in India, compared to 83% in Malaysia and 78% in the Philippines.
- Market Intelligence and Dissemination of Information: An effective market intelligence network is needed, from the importer in the global market to the rural producer. Reports integrating the current status and future scenario should be produced by national organizations.
- Lending Against Warehouse Receipts: Warehouse receipts (WRS) are documents issued by warehouses to depositors against the commodities deposited in the warehouses. The financial institutions, which accept warehouse receipts as collateral, have a higher level of liquidity, as commodities always have clear market prices, and gain the right to claim the collateral before other creditors. The banks also receive higher protection of the collateral enforced by good

management practices of the licensed warehouse and the supervision of the regulatory agency. A negotiable warehouse receipt system has the following advantages

Importance of Agricultural Prices

- Agricultural prices impact the income and living standards of farmers, rural laborers, and non-farming population, as well as the prices of non-farm goods and foreign trade.
- Prices of agricultural products, particularly food grains, influence the general price level in India, as they make up about half of the total weight in the general index and about 40% of personal consumption expenditure.
- Simply using modern technology and producing efficiently will not help farmers if they do not receive remunerative prices.
- Agricultural prices affect the allocation of resources for production and consumption, such as farmers allocating more resources to produce rice if its price increases relative to other food grains, and rice consumers looking for substitutes like coarse grains.
- Changes in agricultural prices impact the transfer of income between agricultural and non-agricultural sectors of the economy
- All farm products have a specific production season, resulting in seasonal price fluctuations.
- The production time cannot be shortened, even if demand increases, due to the biological nature of production.
- Production involves risks and uncertainties, leading to unpredictable price changes.
- Transportation costs restrict movements from surplus to deficit areas unless prices are commensurate.
- Quality of agricultural produce varies with soil, climatic factors, and application of inputs
- Base period for constructing index numbers should be a normal period that represents at least one complete production process.

- The Commission for Agricultural Costs and Prices (CACP) advises the government on price policy for agricultural commodities, with a balanced and integrated approach.
- Administered prices, such as the Minimum Support Price (MSP), are an important component of agricultural price policy in India. MSP provides guaranteed prices and assured markets for farmers, protecting them from price fluctuations caused by market imperfections and information asymmetry.
- MSP covers crops such as food grains, oil seeds, fiber crops, sugarcane, and tobacco, with separate reports for Kharif and Rabi seasons.
- The government considers the CACP report, views of state governments, and overall demand and supply situation before taking a final decision.
- Sugarcane has a statutory minimum price, called Fair Remunerative Price (FRP), which sugar factories are bound to pay, and lower prices are illegal.
- Announcing MSP before sowing season helps farmers understand the extent of price insurance cover provided by the government

- **Statutory Minimum Prices:** It is a legally binding minimum price set by the government for crops such as sugarcane, and the buyer/miller must purchase the commodity at the announced price or higher.
- **Procurement Prices:** It is the price at which the government procures food grains or industrial raw material to maintain buffer stocks, feed the public distribution system, and is generally adopted during times of shortages.
- **Issue Prices:** These are the prices at which the government provides certain specified commodities to consumers through public distribution agencies like ration shops and fair price shops, and they are generally lower than market prices

- The preponderance of poor families in rural and urban areas makes it important to make food grains available to them at affordable prices.
- With the switch from restrictive price measures to a price support regime, it is necessary to rely more on the market.
- It is desirable to restrict the government's commitment to supplying food grains only to well-defined target groups/areas such as 'Below Poverty Line Families.'
- The government has already initiated efforts to identify and focus on well-defined target groups by revamping the public distribution system
- Government aims to provide incentives to farmers to improve farm output and contribute to agricultural and economic growth through price policy.
- Political lobbies may influence policy decisions on support prices for agricultural commodities.
- Some state governments announce higher support prices, creating inter-regional disparities in agricultural prices.

MODULE - B: FINANCING RURAL DEVELOPMENT

Unit 8: Regulation of Rural Financial Services

Overall Set Up of Rural Financial Institutions (RFIS)

- Under the multi-agency approach, the cooperative credit institutions, commercial banks, regional rural banks and small finance banks receive active support from Governments and the Reserve Bank.
- While RBI is providing overall guidance to these institutions for their efficient functioning, National Bank for Agriculture and Rural Development (NABARD) and Small Industries Development Bank of India (SIDBI) are providing refinance support to these institutions for augmenting the ground level credit flow to the priority areas.

Function And Policies of RBI In Rural Banking

Role of RBI in Rural Credit

- A special feature of the RBI Act was provision for granting financial accommodation to the cooperative banking sector and scheduled banks. Section 17 of the Act envisage provision of agricultural credit by the Bank for seasonal agricultural operations and marketing of crops.
- The broad functions of the Agricultural Credit Department were:
- To maintain an expert staff to study all questions of agricultural credit and be available for consultation by the Central Government, State Government, State Co-operative Banks and other banking organizations,
- To co-ordinate the operations of the Bank in connection with agricultural credit and its relations with the State Cooperative Banks and any other banks or organizations, engaged in the business of agricultural credit.

Integrated Scheme of Rural Credit

The All-India Rural Credit Survey Committee (1954) made several recommendations, known as the Integrated Scheme of Rural Credit. It observed that only three per cent of agricultural credit was supplied by cooperatives and the rest by the money lenders.
The RBI decided to provide:

- Finance to the state Governments for contribution to the share capital of cooperative credit institutions at various levels, and
- Finance to the Cooperative Credit Structure to meet the credit requirements of short-term, medium-term and long-term finance.
- RBI established two National Funds, viz., National Agricultural Credit (Long Term Operations) Fund and the National Agricultural Credit (Stabilization) Fund in 1956.
- The NAC (LTO) Funds had an initial contribution of Rs. 10 crore. The Fund was to be utilized:

- For grant of long-term loans to State Governments for the purpose of their subscribing directly or indirectly to the share capital of cooperative credit institutions
- For grant of medium term loans to State Cooperative Banks and through them to Central Cooperative Banks or Societies for 15 months to 5 years
- For loans to State Land Development Bank for periods not exceeding 20 years by way of direct loans and by purchase of debentures floated by them.

The NAC (Stabilization) Fund was to be utilized for converting short term loans into medium term loans. This facility would be available to State Cooperative Banks to provide relief to farmers when they were not in a position to repay their dues in time, owing to drought, famine or other natural calamities.

Agricultural Refinance and Development Corporation

- RBI established the Agricultural Refinance Corporation in 1963, as its associate institution. Subsequently, it was renamed as Agricultural Refinance and Development Corporation (ARDC), to facilitate carrying development activities by the Corporation.
- The ARDC, until its merger with NABARD, had been refinancing the Land Development Banks, Commercial Banks, State Cooperative Banks, and Regional Rural Banks for various Schemes for agriculture and allied activities as well as for other diversified purposes.

Setting up REC /SFDA/MFAL

- On the basis of the recommendation of the All-India Rural Credit Review Committee (1969), Rural Electrification Corporation was set up in July 1969, to finance rural electrification schemes and Small Farmers Development Agency (SFDA) and Marginal Farmers and Agricultural Labourers Projects (MFAL) were set up to deal with the problems of small farmers and agricultural labourers and to ensure availability of agricultural inputs, services and credit.

RBI and Cooperatives

RBI played an important role in expansion of rural credit by cooperative sector till the formation of NABARD. Its role can be summarized as:

- Provision of finance
- Promotional activities including advisory role, and
- Regulatory functions.

RBI and Commercial Banks

The major efforts of RBI were:

- Introduction of the concept of priority sector lending (1967) and Lead Bank Scheme (1969),
- Issue of guidelines for the indirect financing of agriculture, by commercial banks through the primary agricultural credit societies (1970)

- Calling upon the banks to adopt an area approach for preparation and implementation of agriculture development schemes for ensuring effective supervision over the end use of credit by the ultimate beneficiaries (1970),
- Setting up the Credit Guarantee Corporation (1971) (now known as Deposit Insurance and Credit Guarantee Corporation)
- Introduction of the Differential Rate of Interest Scheme (DRI) (1972)
- Advising Banks to adopt simplified forms and liberalize the security and margin money requirements.

RBI and Regional Rural Banks

- The objective of RRBs was to provide credit facilities to the rural poor, namely, the small and marginal farmers, agricultural labourers, rural artisans and small entrepreneurs. After the formation of NABARD, RBI's functions relating to RRBs were transferred to NABARD. Presently, NABARD looks after the promotional and refinancing work, besides supervision and inspection of RRBs.

Role and Functions of NABARD

- RBI at the instance of GOI appointed the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD), under the Chairmanship of Shri B. Sivaraman. The CRAFICARD recommended (1981) the establishment of a separate bank, at the national level, under the umbrella of RBI, to be known as National Bank for Agriculture and Rural Development (NABARD), as a refinancing agency for the entire rural credit system.

NABARD is entrusted with the following major functions:

- Providing refinance to lending institutions in rural areas
- Bringing about or promoting institutional development and
- Evaluating, monitoring and inspecting the client banks

NABARD Infrastructure Development Assistance (NIDA): NIDA was designed by NABARD to fund projects for agriculture infrastructure, rural connectivity, renewable energy, power transmission, drinking water and sanitation, and other social and commercial infrastructure by offering flexible long-term loans to State Government and State-owned corporations.

Promotional and Development Programs

Climate change program initiatives: As a National Implementing Entity for three important funding arrangements, viz. Adaptation Fund, National Adaptation Fund for Climate Change and Green Climate Fund, NABARD have been aiming under the program to channelize national, international and private finances towards adaptation and mitigation interventions in the country.

- Watershed Development Programs
- Natural Resource Management in collaboration with corporate entities

- Integrated Water management Scheme in water campaign villages
- Sustainable Tribal Livelihoods program under the Tribal Development Fund: NABARD has set up a Tribal Development Fund with an initial corpus of Rs. 50 crore and utilized the fund for implementing programs, aiming at promotion of sustainable livelihoods among tribal families
- Sustainable Sugarcane Initiative (SSI), Better Cotton Initiatives (BCI) with drip irrigation, integrated biogas, ecotourism, sustainable agriculture practices.
- Micro Finance initiatives: NABARD has initiated a program to promote Self Help Groups, with a view to linking rural women with banks for savings and credit, to meet their families' needs and improve their livelihood.
- Financial Inclusion interventions: The Financial Inclusion Fund set up within NABARD with a view to supporting developmental and promotional activities including creation of financial inclusion infrastructure across the country.

Institutional Development Functions of NABARD

- NABARD provides policy, financial as well as technical support to rural credit cooperatives, as a part of institutional development efforts. Financial support is provided through the Cooperative Development Fund, while technical, capacity building and knowledge sharing support comes from the training establishments of the cooperatives and the Centre for Professional Excellence in Cooperatives (C-PEC) Lucknow.
- NABARD Initiated Project on Core Banking Solutions (CBS) in Co-operatives
- NABARD has also rolled out a pilot scheme on implementation of Fraud Risk Management Software in eight rural cooperative banks, selected on the basis of their level of adoption of technology and financial health by providing grant support to these banks from out of the Cooperative Development Fund.

Subsidiaries of NABARD:

- NABARD has also promoted a few subsidiaries over the years, towards its endeavor to promote agriculture and rural development. These subsidiaries offer consultancy services in the arena of agriculture and rural development (NABCONS) and provide credit for promotion, expansion and commercialization of enterprises engaged in agriculture, non- farm activities and micro finance (NABFINS, NABSAMRUDDHI and NABKISAN).
- The NABVENTURES Ltd launched in 2013 manages venture growth equity funds that invest in early to mid-stage start-ups /companies in agriculture, food, related financial services and rural health tech/edu-tech.

Lead Bank Scheme

- The genesis of the Lead Bank Scheme (LBS) can be traced to the Study Group headed by Prof. D. R. Gadgil (Gadgil Study Group), on the Organizational Framework for the Implementation of the Social Objectives, which submitted its report in October 1969.

- The Study Group drew attention to the fact that the commercial banks did not have adequate presence in rural areas and also lacked the required rural orientation. The Study Group, therefore, recommended the adoption of an 'Area Approach' to evolve plans and programs for the development of an adequate banking and credit structure in the rural areas.
- Subsequently, the Committee of Bankers on Branch Expansion Program of Public Sector Banks appointed by the RBI under the Chairmanship of Shri F. K. F. Nariman (Nariman Committee), endorsed the idea of an 'Area Approach', in its report recommending that in order to enable the Public Sector Banks to discharge their social responsibilities, each bank should concentrate on certain districts, where it should act as a 'Lead Bank'.
- Lead Bank Scheme was introduced by RBI in December 1969. The Scheme aims at coordinating the activities of banks and other developmental agencies in order to achieve the objective of enhancing the flow of bank finance to the priority sector and other sectors and to promote banks' role in the overall development of the rural sector. For coordinating the activities in the district, a particular bank is assigned 'Lead Bank'.
- Lead Bank Scheme was reviewed by the Usha Thorat Committee, which recommended directing the focus of the scheme to financial inclusion. RBI has been periodically monitoring the implementation of the scheme and detailed guidelines have been issued on the set up of BLBC, DCC and SLBC and convening of the meetings by these committees for effective implementation of the Lead Bank Scheme.

Monitoring of LBS by RBI – Monitoring Information System (MIS)

- Data on Annual Credit Plan (ACP) is an important element to review the flow of credit in the state. ACP formats are aligned with the extant reporting guidelines on priority sector lending.
- ACP is to be prepared considering the categories of priority sector that would include Agriculture, Micro, Small and Medium Enterprises, Export Credit, Education, Housing, Social Infrastructure, Renewable Energy and Others.
- As per RBI guidelines, the bank loans to Micro/Small and Medium Enterprises (Services), engaged in providing or rendering of services as defined in terms of investment in equipment under MSMED Act, 2006, shall qualify under priority sector, without any credit cap. Accordingly, the applicable loan limits per borrower to Micro/Small Enterprises (Rs. 5 crore) and Medium Enterprises (Rs. 10 crore) under the MSMEs Sector (Services), for classification under priority sector have been removed.

Assignment of Lead Bank Responsibility

- As on June 30, 2020, 12 public sector banks and one private sector bank have been assigned Lead Bank responsibility in 726 districts of the country.
- State Level Bankers' Committee (SLBC) / Union Territory Level Bankers' Committee (UTLBC), as an apex level forum at the State/Union Territory (UT) level, coordinates the activities of the financial institutions and Government departments in the State/Union Territory under the Lead Bank Scheme.

National Strategy for Financial Inclusion (NSFI): 2019-2024 – Universal Access to Financial Services

- Providing banking access to every village within a 5 KM radius/ hamlet of 500 households in hilly areas has been one of the key objectives of the National Strategy for Financial Inclusion (NSFI): 2019-2024.
- Accordingly, SLBC/ UTLBC Convenor banks have been advised to review the presence of banking outlets of Scheduled Commercial Banks (SCBs), Regional Rural Banks (RRBs), Small Finance Banks(SFBs) and Payments Banks(PBs) in every village within a 5 KM radius/ hamlet of 500 households in hilly areas under their jurisdiction(s) and ensure that universal access to financial services are provided to all such villages.

Credit Deposit Ratio (CD Ratio)

CD Ratio of Banks in Rural and Semi-Urban areas:

- Banks have been advised to achieve a CD Ratio of 60 % in respect of their rural and semi-urban branches separately on an All-India basis.
- Banks are advised that in the districts having CD Ratio less than 40 %, Special Sub-Committees (SSCs) of the DCC shall be set up to monitor the CD Ratio. Districts having CD Ratio between 40 and 60 percent, shall be monitored under the existing system by the DCC, and the district with CD Ratio of less than 20 percent need to be treated on a special footing.

Direct Benefit Transfer

- Direct Benefit Transfer (DBT) was rolled out by the Government of India in selected districts in January 2013. It was expanded to other districts subsequently. As a prerequisite to the implementation of the DBT, every eligible individual should have a bank account. Further, to make disbursements at the doorstep through the ICT-based BC model, banking outlets either through brick & mortar branches or the branchless mode is needed in all villages across the country.
- Banks have been advised to:
- Take steps to complete the opening of bank accounts and seeding of Aadhaar numbers, in all bank accounts.
- Closely monitor the progress in seeding of Aadhaar number with the bank accounts of beneficiaries.
- Put in place a system to provide the beneficiary of the seeding request an acknowledgement and also send a confirmation of the seeding of Aadhaar number.
- Form a DBT Implementation Co-ordination Committee, along with the State Government department concerned, at district level and review the seeding of Aadhaar numbers in bank accounts.
- Ensure that district and village wise names and other details of business correspondents (BCs) engaged/ other arrangements made by the bank are displayed on the SLBC website.

- Set up a Complaint Grievance Redressal mechanism in each bank and nominate a Complaint Redressal Officer in each district, to redress the grievances related to 'seeding' of Aadhaar number in bank accounts.

Service Area Approach

- The Service Area Approach (SAA), introduced in April 1989 for planned and orderly development of rural and semi-urban areas was applicable to all scheduled commercial banks including Regional Rural Banks.
- Under SAA, each bank branch in a rural or semi-urban area was designated to serve an area of 15 to 25 villages and the branch was responsible for meeting the needs of bank credit of its service area.
- Dispensing with 'No Due Certificate': In order to ensure hassle free credit to all borrowers, especially in rural and semi-urban areas and keeping in view the technological developments and the different ways available with banks to avoid multiple financing, banks have been advised to dispense with obtaining a 'No Due Certificate' from the individual borrowers (including SHGs & JLGs) in rural and semi-urban areas for all types of loans.

Doubling of Farmers' Income by Year 2022

The strategy to achieve this goal, includes:

- Focus on irrigation with large budgets, with the aim of "per drop, more crop"
- Provision of quality seeds and nutrients based on soil health of each field
- Investments in warehousing and cold chains to prevent post-harvest crop losses
- Promotion of value addition through food processing
- Creation of a national farm market, removing distortions and development of infrastructure such as e-platform across 585 stations
- Strengthening of the crop insurance scheme to mitigate risks, at affordable cost
- Promotion of ancillary activities like poultry, bee-keeping and fisheries

Expanding and Deepening of Digital Payments Ecosystem

- With a view to expanding and deepening the digital payments ecosystem, the SLBCs/UTLBCs were advised to identify one district in their respective States/UTs on a pilot basis in consultation with banks and stakeholders and allocate it to a bank with significant footprint which will endeavour to make the district 100% digitally enabled within a period of one year, in order to enable every individual in the district to make/ receive payments digitally in a safe, secure, quick, affordable and convenient manner.

Unit 9: Rural Credit Institutions

- Credit in rural areas for agriculture, allied activities, cottage and village industries, and rural artisans is provided by cooperatives in STCCS and LTCCS, commercial banks, and Regional Rural Banks.
- Local Area Banks provide credit for viable economic activities in local areas.
- Small finance banks were launched in 2014-15 to promote financial inclusion by providing savings vehicles to unserved and underserved populations and credit to small business units, small and marginal farmers, micro and small industries, and unorganized sector entities.
- Microfinance institutions act as a supplement to the services offered by banks, providing microcredit and services such as training and counseling to their constituents.
- The set-up of these agencies and their roles in providing rural credit are discussed.
- The regulator's appropriate policy measures for the growth of these credit agencies for the expansion of rural credit are also discussed

Cooperative Credit System

- Cooperative credit system in India began with the establishment of Primary Agricultural Credit Societies (PACS) in villages in 1904.
- Until the nationalization of commercial banks in 1969, cooperatives were the only institutions providing institutional credit to agriculture.
- Two parallel wings of cooperative credit institutions were developed for purveying short-term and medium-term credit to the cultivators and long-term credit for debt redemption and investment in agriculture.
- The present three-tier structure of the cooperative credit institutions, also known as the Short Term Cooperative Credit Structure (STCCS), has emerged with State Cooperative Banks (StCBs) at the State Level, District Central Cooperative Banks (DCCBs) at the district level and Primary Agricultural Credit Societies (PACS) at the village level.

State Cooperative Banks (StCBs)

- Many StCBs have defective loan policies and procedures, causing poor recoveries.
- StCBs face high political interference on banking activities.
- Some StCBs have made improper investments, causing financial losses.
- NABARD is implementing institutional development measures to improve StCBs' working.
- NABARD requires StCBs to draw Development Action Plans for streamlining their working.
- NABARD reviews StCBs' operations during inspections and offers suggestions for effective loan management practices and strengthening internal controls.
- The StCBs had assets over ` 340260 crores as of 31 March 2020.
- 32 out of the 33 StCBs were working on profit.
- Aggregate gross and net NPA were 6.7% and 3.4% respectively.
- 30 StCBs had a capital adequacy ratio of more than 9% as of that date

District Central Cooperative Banks

- District Central Cooperative Banks (DCCBs) act as a middle tier organization in the Short-Term Cooperative Credit Structure.
- They mainly provide external functional assistance to affiliated cooperative societies in credit and non-credit segments and exercise control and supervision over them.
- DCCBs mobilize deposits from members and non-members and conduct general banking business through their branches.
- The share capital of DCCB is contributed by cooperative societies federated to it and the State Government to enable it to augment its borrowing power.
- DCCBs involve their lendable resources for agriculture and other activities in rural areas through affiliated societies.
- DCCBs mobilize deposits and conduct general banking through their branches.
- Share capital is contributed by affiliated societies and the state government.
- DCCBs use their resources for agriculture and other rural activities through societies.
- They borrow from State Cooperative Banks to meet credit demand.
- DCCBs are governed by Banking Regulation Act, 1949 (AACS) and RBI guidelines.
- They can open branches based on administrative convenience and profitability.
- DCCBs are subject to statutory inspection and surveillance by NABARD.
- Many DCCBs face organization and managerial deficiencies due to various reasons.
- Non-compliant banks must implement bank-specific action plans for recovery of overdues.
- Other DCCBs advised to implement Development Action Plans for growth and development.
- As of 31 March 2020, there were 351 DCCBs with assets of 535977 crores.
- 291 DCCBs were working in profit, with gross NPAs and NPAs at aggregate level at 12.6% and 6.6%, respectively.
- CRAR of 316 banks was more than 9% as on that date

Primary Agricultural Credit Societies (PACS)

- PACS were formed in 1904 to provide cheap credit to farmers and relieve them from the clutches of money lenders.
- PACS undertake multiple activities such as sale of fertilizers, other agricultural inputs, and distribution of ration items under the PDS.
- Almost 97% of villages in India are covered by PACS.
- Main functions of PACS are to promote economic interests of members, provide short- and medium-term loans, promote savings habit, supply agricultural inputs, provide marketing facilities for agricultural produce, and supply domestic product requirements.
- PACS have a managing committee of 5-9 members, which elects
- a President, Secretary, and Treasurer to look after day-to-day functioning of the society.
- All office bearers of PACS render honorary service, and each society shall have a full-time paid secretary to maintain its accounts.
- Agriculturists, agricultural laborers, artisans, and small traders can become members of PACS

- Villages can become members of the society.
- PACS issue ordinary shares of small value (₹10 or ₹50) to their members, and the ownership of shares determines the rights and obligations of the holder to the society.
- There are about 95,595 primary level societies (including FSS and LAMPS) across the country having owned funds of ₹42,196 crores as on 31 March 2019, with a membership of over 13.20 crore.
- Farmers' Service Societies (FSS) were launched in 1973 to cater to the credit and non-credit needs of farmers at a single point.
- FSSs aim to diversify operations, especially in commodity marketing and processing, and reach weaker sections, such as small and marginal farmers who were previously unable to access PACSs or their services.
- FSSs provide a variety of services like funding infrastructural development, such as godowns and agro-services, as well as providing finances for processing industries in their localities other than credit and supply of inputs

Farmers' Service Societies (FSS)

Farmers' Service Societies (FSS) were launched in 1973 to cater to the credit and non-credit needs of farmers, particularly small farmers. The main objective of FSS is to provide all types of credit and services to farmers in an integrated manner and at one contact point. FSS has a compact area of operations in 10-20 villages and is designed to reach a business of Rs. 2.5-3 million within 3-5 years. FSS has branches and may even reach a business of Rs. 10 million in 5-7 years. FSS is oriented towards weaker sections of the rural population and has a strategy for agro-based development, utilizing land and manpower. FSS undertakes credit and non-credit operations, including agro-processing, and is a self-paying proposition that meets all its costs within a reasonable period of time. FSS is part of a three-tiered cooperative credit organization when sponsored by state cooperative banks, but remains a cooperative organization even when sponsored by commercial banks. FSS has adequate and properly trained managerial and technical personnel.

The salient features of FSS are:

- compact area of operations
- potential for larger business
- strategy for agro-based development
- membership oriented towards weaker sections
- management representation from weaker sections
- credit and non-credit operations
- self-paying proposition,
- part of three-tiered cooperative credit organization
- cooperative organization even when sponsored by commercial banks
- adequate and properly trained personnel
- larger sized Rural Financial Institutions (RFIs) with wider scope of operations

Large-Sized Adivasi Multi-Purpose Co-operative Societies (LAMPS)

- Large-Sized Adivasi Multi-Purpose Co-operative Societies (LAMPS) were recommended by a study team under the Government of India in 1971.
- LAMPS are mainly set up in hill and tribal areas to provide credit, technical guidance, inputs and essential commodities, and marketing assistance to the tribals for their agricultural and subsidiary occupations.
- LAMPS operate under a single roof and aim to meet social obligations and consumer requisites.
- LAMPS are formed in a compact area with a population of approximately 10,000, mostly comprising tribals.
- Membership in LAMPS is restricted, with 70% of members being tribals and 30% being non-tribals

Long Term Cooperative Credit Structure

- The Long-Term Cooperative Credit Structure (LTCCS) was established in the early 1920s to provide long-term loans to farmers to redeem debts on land.
- The first Land Mortgage Bank was established in Punjab in 1920, followed by many others in different provinces.
- The Central Land Mortgage Bank in Madras centralized the issue of debentures and coordinated the working of Primary Land Mortgage Banks.
- The inadequacy of resources of primary credit societies to undertake long-term lending activities led to the establishment of Land Mortgage Banks.
- Land Mortgage Banks grew rapidly in the 1930s and 40s without any uniform pattern in terms of size and operations.
- The All India Rural Credit Survey Committee recommended reorganization of Land Mortgage Banks with State-level apex body and Primary Land Mortgage Banks at taluka level.

Agriculture & Rural Development Banks (ARDBs)

- Agriculture & Rural Development Banks (ARDBs) played a significant role in improving land productivity through irrigation and farm mechanization.
- ARDBs started financing rural non-farm projects in the 80s and 90s, increasing income and providing alternate employment.
- Before 1980-1990, ARDBs were the only credit institutions for agriculture investment credit.
- State/Central governments and financial institutions subscribe to ARDBs' Special/Ordinary Development Debentures.
- State Cooperative Agriculture & Rural Development Banks (SCARDBs) provide long-term loans to agriculturists for various activities.
- NABARD provides refinance to viable ARDBs for investment credit loans.
- There are 13 fully functional SCARDBs and 601 PCARDBs affiliated to SCARDBs with a network of branches.

- SCARDBs avail banking facilities from State Apex Co-operative Banks.
- NABARD undertakes voluntary inspections of SCARDBs to ensure healthy loaning practices.
- Liabilities and assets of SCARDBs and PCARDBs were 27,104 crores and 31,180 crores, respectively, as of March 31, 2020.
- The NPAs (Non-Performing Assets) as a percentage of loans and advances outstanding stood at 33% for SCARDBs.
- PCARDBs had incurred losses, and 350 of the 602 PCARDBs had incurred losses
- ARDBs (Agri and Rural Development Banks) are facing problems due to organizational and managerial issues.

National Cooperative Development Corporation

- The National Cooperative Development Corporation (NCDC) is a statutory corporation established by an Act of Parliament in 1963.
- It operates under the Ministry of Agriculture & Farmers' Welfare and promotes cooperative credit and development.
- The basic functions of NCDC include planning, promoting and financing programs related to agricultural produce, foodstuffs, fertilizers, insecticides, machinery, lac, soap, textiles, rubber, and more.
- NCDC finances projects in rural industrial cooperative sectors, water conservation, irrigation, agri-insurance, agro-credit, rural sanitation, animal health, etc.
- Loans and grants are given to primary and secondary level cooperative societies through state governments, while multistate/national level societies and federations receive direct assistance.
- The NCDC has a General Council that shapes policies and programs and a Board of Management that handles day-to-day activities.
- NCDC has technical and managerial capabilities in various areas, such as cooperation, organization & methods, financial management, and more.
- The NCDC helps cooperatives to identify and implement successful projects related to sugar, oilseeds, textiles, fruits & vegetables, dairy, poultry and livestock, fishery, handlooms, civil engineering, refrigeration, and preservation

Regional Rural Banks

- Regional Rural Banks (RRBs) were established in 1975-76 to provide credit and other facilities to small and marginal farmers, agricultural laborers, artisans and small entrepreneurs in rural areas.
- RRBs have joint shareholding by the Central Government, the concerned State Government and the sponsoring bank, and are eligible institutions for inclusion in the second schedule to Reserve Bank of India Act, 1934.
- The objectives of RRBs are to make credit available to rural households for agriculture and allied activities, reduce the dependence of weaker sections on private money lenders, open

branches in unbanked rural areas, mobilize rural savings, and supplement other institutional agencies in credit delivery to rural areas.

- Over the past five decades, RRBs have grown from regional banks with limited operations to viable banks with operations extending to the entire state.
- The structure and operations of RRBs have been examined by various committees, and measures taken based on their recommendations have helped the healthy growth of the RRBs system.
- The implementation of various reforms, recapitalization assistance and development plans have helped the RRBs to gain strength during the last two decades.
- The government has pursued amalgamation of RRBs to strengthen them in the Indian Financial System, and the Phase III amalgamation program initiated in 2018-19 aims at eventually having 40 RRBs across the country.

Domestic scheduled commercial banks (other than RRBs)

- Domestic scheduled commercial banks (other than RRBs) are allowed to open banking outlets in Tier 1 to Tier 6 centers without seeking permission from the RBI in each case.
- At least 25% of the total number of banking outlets opened during a financial year should be opened in unbanked rural centers.
- A part-time banking outlet opened in any center will be counted and added to the denominator as well as numerator on a pro-rata basis for computing the requirement and compliance with the norm of opening 25% banking outlets in unbanked rural centers.
- The first fixed point BC outlet of a bank, as well as the first “brick and mortar” branch, will be treated as banking outlets for the purpose of complying with the above instructions
- A banking outlet is a fixed location where banks’ staff or business correspondents offer services like deposit acceptance, cash withdrawal, cheque encashment or lending money for at least 4 hours per day and 5 days a week.
- A banking outlet providing services for less than 4 hours per day and 5 days a week will be considered a part-time banking outlet.
- An unbanked rural center is a rural area without a banking outlet of a scheduled commercial bank, small finance bank, payment bank, regional rural bank, local area bank, or licensed cooperative bank for carrying out customer-based banking transactions.
- Domestic scheduled commercial banks can open banking outlets in Tier 1 to Tier 6 centers without permission from the Reserve Bank of India unless there are specific restrictions.
- At least 25% of the total number of banking outlets opened during a financial year should be opened in unbanked rural centers.
- The first fixed point BC outlet and the first brick and mortar outlet opened by a bank are exempted from the 25% requirement. A part-time banking outlet will be counted on a pro-rata basis when calculating compliance with the 25% requirement

Special Agricultural Credit Plans (SACP)

- Public sector banks have Special Agricultural Credit Plans (SACP) since 1994-95, to improve credit flow to agriculture.
- Under SACP, banks set targets for disbursement of credit during a year, with an increase of 20-25% over the previous year.
- RBI monitors the progress of SACPs by banks and it has contributed to significant growth of credit from public sector banks in the last two decades.
- Institutional credit flow to agriculture has steadily expanded with the help of central and state governments, RBI, NABARD, and financial institutions.
- Ground level credit flow for agriculture through various institutions has increased from 5.11 crore in 2011-12 to over 15.00 lakh crore in 2020-21.

Other Financial Institutions Catering to Rural Areas

Local Area Banks (LABs)

- Local Area Banks (LABs) were established in 1996 to provide institutional mechanisms for promoting rural savings and credit availability in rural and semi-urban areas.
- LABs are set up in district towns and focus on lending to agriculture and allied activities, SSI, agro-industrial activities, trading activities, and the non-farm sector.
- LABs are governed by the provisions of the RBI Act, Banking Regulation Act, and other relevant statutes and must adhere to prudential norms, accounting policies, and IRAC norms prescribed by RBI for asset classification and provisioning.
- Currently, three LABs are functioning in Andhra Pradesh and Punjab.

Small Finance Banks (SFBs)

- Small Finance Banks were granted licenses by RBI in 2014 with the objective of providing financial inclusion and extending credit to unserved and underserved sections of the population.
- Small Finance Banks are required to have at least 50% of their loan portfolio dedicated to the priority sector, including agriculture, micro and small enterprises, and weaker sections of society.
- Small Finance Banks must comply with the regulations and guidelines issued by RBI in relation to their operations and activities
- Small Finance Banks (SFBs) were licensed by RBI in 2014 to cater to under-served sectors such as MSMEs, small and marginal farmers, and other unorganized sector entities.
- Currently, 12 SFBs are functioning in the country and have shown rapid growth in their branch network and asset base.
- SFBs have been successful in reaching out to borrowers with small credit needs and have an impressive coverage of borrowers.

- There is a high degree of concentration within the SFB group, with top-two and top-three banks accounting for a significant portion of total assets of the group.
- SFBs are catering to the economic sectors that are relatively under-served by other Scheduled Commercial Banks.
- SFBs have succeeded reasonably in reaching out to MSMEs and their loan portfolio is geared towards small-sized borrowers.
- The branch network of SFBs has rapidly expanded, but they are concentrated in regions/states that are already well-banked

Payment Banks

- Payment Banks were established to advance financial inclusion and offer banking and financial services to the unbanked and underbanked areas, small entrepreneurs, migrant labor force, and low-income households.
- There are currently six Payment Banks in India, namely Airtel Payment Bank, India Post Payment Bank, Fino, Paytm Payment Bank, NSDL Payment Bank, and Jio Payment Bank.
- Payment Banks can accept demand deposits in the form of savings and current accounts but cannot issue loans or credit cards.
- The funds received by Payment Banks as deposits are invested in government securities in the form of Statutory Liquidity Ratio (SLR) to the extent of 75% of their demand deposits, and the remaining is kept as demand deposits with other scheduled commercial banks

Initiatives for Augmenting Credit Flow

- The Kisan Credit Card Scheme was introduced in 1998 to provide timely and hassle-free production credit to farmers.
- Owners, tenants, oral lessees, sharecroppers, and members of SHGs/JLGs are eligible for the KC card.
- The KC card system has contributed to increased disbursement of production credit over the last two decades, with 6.528 crore operative KC cards as of March 31, 2020, with an outstanding amount of Rs. 6.97 lakh crore
- The government formed an Inter-ministerial Committee in 2016 to examine the issue of doubling farmers' income by 2022.
- The strategy included seven sources of income growth for farmers, including improving crop productivity, livestock productivity, and cost efficiency, among others.
- The government has formed an Empowered Body to monitor the progress of the implementation of the committee's recommendations.
- Agriculture is a State subject, so the State Governments undertake implementation of programs/schemes for the development of the sector.
- The Government of India supplements the efforts of the State Governments through various schemes/ programs meant for the welfare of farmers, including increasing production, remunerative returns, and income support.

- The government has adopted several developmental programs, schemes, reforms, and policies that focus on higher incomes for the farmers, supported by higher budgetary allocations, non-budgetary financial resources, and supplementary income transfers under PM-KISAN.
- The latest major intervention is the 'Atma Nirbhar Bharat – Agriculture,' which includes comprehensive market reforms and the creation of the Agricultural Infrastructure Fund (AIF) worth `1 lakh crore.
- The various interventions and schemes launched under these programs are expected to help farmers maximize their farm income, taking advantage of institutional credit

Basic Savings Bank Deposit Accounts (BSSDA)

- In 2005, RBI directed commercial banks to offer "no-frills" basic banking accounts with low or nil minimum balances and charges, called Basic Savings Bank Deposit Accounts (BSBDA), to promote financial inclusion.
- Existing "no-frills" accounts were to be converted into BSBDA accounts.
- BSBDA accounts have certain conditions, such as:
- Total credits in a year should not exceed one lakh rupees
- Maximum balance in the account should not exceed fifty thousand rupees
- Total debits (cash withdrawals and transfers) in a month should not exceed ten thousand rupees
- Foreign remittances cannot be credited to small accounts without normal KYC formalities
- Small accounts are valid for 12 months initially, extendable by another 12 months if the person provides proof of an officially valid document
- Small accounts can only be opened at CBS linked branches of banks or at branches where it is possible to manually monitor the fulfillment of conditions.

Role of Information and Communication Technologies in Rural Banking

- Providing financial services to the poor, especially in rural areas, is challenging and costly due to lack of information and collateral.
- Rural customers make a large number of small transactions in inaccessible geographic locations, making this clientele base unappealing to traditional bankers.
- RBI is now focused on educating the rural population through financial literacy camps by rural branches of banks at regular intervals to increase awareness and adoption of banking services by rural customers
- The banking sector in India is changing rapidly, with more emphasis on rural banking and microfinance.
- Providing financial services to the poor in rural areas is challenging and costly because of a lack of information on customers, absence of collateral, and low literacy rates.

- Technology is an excellent tool to address these challenges and improve efficiency, control of operations, productivity, and profitability for banks.
- The RBI is focusing on educating rural populations about financial literacy through financial literacy camps.
- Some of the newer technology initiatives being explored by banks include ATMs in mobile banking units with biometric authentication mechanisms, branch-in-a-box, and wireless technology-based PDAs.
- These initiatives provide speedy access to banking services, reduce the cost of transactions, and improve customer convenience
- Newer technology initiatives being explored by banks include ATMs in mobile banking units with biometric authentication mechanisms, voice-guided animated screens, and touch-enabled transactions.
- Branch-in-a-box is a relocatable and pre-fabricated bank branch that uses modern broadband satellite technology for communication. It provides full transaction facilities to customers and can be used in areas with limited infrastructure.
- Technology has played a big role in the banking industry, with various advancements such as Ledger Posting Machines, Total Branch Automation, and Core Banking Solution.
- Technology is now a necessity for banks to survive, with mobile banking being a popular method for managing banking needs.
- Banks in India have adopted technology extensively to enhance customer experience, optimize costs, and manage risk.
- The digital village program has been implemented by several banks in India, with the aim of digitizing transactions, providing vocational training, and credit facilities to help villagers earn a sustainable livelihood.
- UPI 123Pay is an instant payment system for feature phone users, allowing them to undertake a range of transactions through IVR, app functionality, missed call-based approach, and sound-based payments.
- Indian banks have introduced innovative technology-driven products such as HDFC's "watchbanking" through wearable devices
- NPCI introduced UPI 123Pay, an instant payment system for feature phone users, which offers a range of transactions through IVR, app functionality, missed calls, and sound-based payments.
- Indian banks are shifting towards internet and mobile banking as young consumers demand real-time online information.

Prepaid Payment Instruments

- Prepaid Payment Instruments (PPIs) are payment instruments used for purchasing goods and services against the value stored on them.
- PPIs in India are classified under three categories: Closed, Semi-closed, and Open system.

- Closed System PPIs are issued by entities for purchasing goods and services from that entity only, without permitting cash withdrawal or redemption.
- Semi-Closed System PPIs can be used for purchasing goods and services, including financial services and remittance facilities, at a group of identified merchant locations/establishments that have a contract with the issuer to accept PPIs as payment.
- Open System PPIs can be used for purchase of goods and services, including financial services, but also allow cash withdrawal at ATMs, and settlement of third-party services.
- Closed system PPIs do not require approval/authorization from the Reserve Bank of India, while Semi-closed and Open system PPIs require authorization

Rural Development Banking - Initiatives for Inclusive Growth

- Indian banking sector has been making efforts to include more people in the formal financial system.
- Pradhan Mantri Jan Dhan Yojana (PMJDY) is one of the key initiatives launched to facilitate financial inclusion.
- Mobile banking has been instrumental in increasing reach for banks, especially in urban and semi-urban areas.
- Volume of digital transactions using the mobile banking channel has witnessed sharp annual increases.
- Banks are heavily investing in growing their electronic payments' footprint via PoS terminals, at merchant establishments.
- The government and RBI have been pushing for direct benefit transfers using Aadhaar.
- National Payments Corporation of India (NPCI) has played a major role in shaping the financial services landscape.
- RBI has granted approval to some entities to set up differentiated banks namely "Small Finance Banks" and "Payments Banks" to further the cause of financial inclusion in the country.

NABARD Role in Financial Inclusion

- NABARD is working towards financial inclusion of the excluded population.
- NABARD supports activities related to financial literacy, knowledge dissemination, creation of infrastructure, facilitating technology adoption by banks and policy advocacy.
- NABARD is focusing on augmenting both the demand and supply side of the financial ecosystem.
- NABARD is adopting a differentiated strategy for focused Financial Inclusion Fund (FIF) interventions.
- NABARD is providing grant assistance at an enhanced rate of 90% for Special Focus Districts.
- For other districts, there will be a standard participation share of FIF support depending on the type of credit agency

Pradhan Mantri Fasal Bima Yojana

- The Pradhan Mantri Fasal Bima Yojana is a crop insurance scheme launched in 2016 for farmers.
- The scheme aims to provide financial support to farmers in case of crop loss or damage due to unforeseen events, stabilize their income, encourage modern agricultural practices, ensure their credit worthiness, diversify crops, and enhance growth and competitiveness of the agriculture sector.
- Farmers growing notified crops in a notified area during the season who have insurable interest in the crop are eligible to participate.
- The premium rates are very low, with a uniform premium of only 2% to be paid by farmers for all Kharif crops and 1.5% for all Rabi crops. For annual commercial and horticultural crops, the premium is only 5%.
- The government will pay the balance premium to provide full insured amount to the farmers against crop loss on account of natural calamities.
- The scheme is voluntary for all farmers from Kharif 2020 season.
- Yield losses due to non-preventable risks like natural fire, lightning, storm, hailstorm, cyclone, typhoon, tempest, hurricane, and tornado are covered under comprehensive risk insurance.
- Risks due to flood, inundation, landslide, drought, dry spells, pests, and diseases are also covered.
- All the services involved in the implementation of the scheme are exempt from Service Tax liability.
- It is estimated that the scheme will ensure 75-80% subsidy for the farmers in the insurance premium

Restructured Weather Based Crop Insurance Scheme (RWBCIS)

- The Restructured Weather Based Crop Insurance Scheme (RWBCIS) launched in 2016 aims to mitigate financial losses to insured farmers due to adverse weather conditions.
- The scheme uses weather parameters as a proxy for crop yields and compensates cultivators for deemed crop losses.
- The claims process commences once the weather data is received, and standard claims are processed and paid within 45 days from the end of the risk period.
- The RWBCIS is administered by the Ministry of Agriculture
- Coconut Palm Insurance Scheme (CPIS)
- 9.9.3 Coconut Palm Insurance Scheme (CPIS):
- Implemented since 2009-10 in select areas of Andhra Pradesh, Goa, Karnataka, Kerala, Maharashtra, Orissa and Tamil Nadu.
- Administered by the Coconut Development Board.
- Provides insurance coverage for total loss of individual palm, in age group of 4 to 60 years, due to various natural and other perils.

Rashtriya Swasthya Bima Yojana (RSBY)

- Rashtriya Swasthya Bima Yojana (RSBY) is a health insurance program launched by the Indian government.
- It provides health insurance coverage to Below Poverty Line (BPL) families.
- The scheme covers workers in the unorganized sector and their family members (a family unit of five).
- The implementing agencies verify the eligibility of the beneficiaries and issue smart cards for identification.
- The respective state governments design the in-patient health care insurance benefits for the beneficiaries based on their requirements.
- The package/scheme includes at least the following minimum benefits:
  - Coverage of the unorganized sector worker and his family (unit of five)
  - Total sum insured of Rs. 30,000 per family per annum on a 'family floater' basis
  - Cashless attendance to all covered ailments (iv) coverage of pre-existing diseases
  - Transportation costs (actual with a maximum limit of Rs. 100 per visit) within an overall limit of Rs. 1000.
- The funding pattern includes a contribution by the government of India of 75% of the estimated annual premium subject to a maximum of Rs. 565 per family per annum, and a contribution by the respective state governments of 25% of the annual premium.
- The beneficiary pays Rs. 30 per annum as a registration/renewal fee.
- The administrative and other related costs of administering the scheme are borne by the respective state governments.
- The scheme benefits are now available under the Ayushman Bharat Yojana or Pradhan Mantri Jan Arogya Yojana
- Types of micro insurance products include life, health, disability, and property.
- Challenges in micro insurance include lack of awareness, wrong product selection, lack of data, portability issues, discontinuation of premium payments, and delay in claim settlement.
- Micro Insurance Regulations were introduced in 2005, with 16 life insurance companies offering 26 schemes, but market penetration is low.

The Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)

- PMJJBY is a one-year life insurance scheme renewable from year to year offering coverage for death.
- The scheme is administered through public and private sector insurance companies in partnership with scheduled commercial banks, regional rural banks, and cooperative banks.
- The scheme aims to provide insurance coverage to the poor and underprivileged sections of society and promote inclusive growth.
- Individuals aged 18-50 years with a bank account are eligible to benefit from the scheme.
- People who join the scheme before completing 50 years of age continue to have the risk of life cover up to the age of 55 years subject to payment of premium.

Pradhan Mantri Suraksha Bima Yojana (PMSBY)

- The Pradhan Mantri Suraksha Bima Yojana (PMSBY) is a one-year cover Personal Accident Insurance Scheme, renewable from year to year, offering protection against death or disability due to an accident.
- The benefits of the scheme include coverage for death and loss of eyes, hands, or feet due to an accident.
- Premium payable is Rs. 12 per annum per member, and the premium will be deducted from the account holder's bank account through 'auto-debit' facility in one installment, as per the consent given on enrolment.
- Members may also give a one-time mandate for auto-debit every year, subject to re-calibration
- The scheme is offered through public and private insurance companies, in partnership with participating banks. Individuals aged between 18 to 70 years who hold a bank account can join the scheme.
- The scheme offers a death benefit of Rs. 2 lakh, and in case of loss of eyesight or loss of use of hands or feet, it provides a benefit of Rs. 2 lakh.
- For loss of sight in one eye or loss of use of one hand or foot, it provides a benefit of Rs. 1 lakh.
- Enrolment for the scheme was initially open until 31st May 2015, but it was extended to 31st August 2015.
- Subscribers who wish to continue beyond the first year can give their consent for auto-debit before each successive May 31st for successive years

Micro Finance Institutions

- The Business Correspondent model allows NGOs, MFIs, registered societies, and post offices to act as intermediaries for banks.
- Banks should conduct thorough due diligence on these entities before engaging them as Business Correspondents.
- Business Correspondents can disburse small value credit, recover principal/interest, collect small value deposits, sell insurance/mutual fund/pension products, and receive and deliver small value remittances/payment instruments.
- Banks should have a policy for engaging Business Correspondents and get approval from their Board of Directors.
- Banks should carry out due diligence on individuals/entities to be engaged as Business Correspondents.
- Banks should ensure that Business Correspondents are well-established, have a good reputation, and are trusted by local people.

Unit 10: Financing Agriculture and Allied Activities

- Agricultural financing has two components: crop loans (production credit) and term loans (investment credit).
- Crop loans are governed by the norms of the Crop Loan System advocated by RBI.
- Crop loan refers to credit required for current expenditure for raising crops on land till the crops are harvested.
- Crop Loan System has been in vogue for nearly five decades and has undergone major developments.
- Technological developments have brought about increasing usage of hybrid or high yielding varieties of seeds and chemical fertilizers.
- Special programs aimed at increasing the production of food grains, oilseeds, and pulses have been introduced by GOI.
- The RBI provides guidelines for banks to determine scales of finance for crop loans based on input costs and agriculture practices.

- District Level Technical Committees (DLTCs) are responsible for fixing the scales of finance for each crop in the district.
- The State Level Technical Committee (SLTC) reviews and guides the DLTCs to ensure realistic costs and flexible approaches.
- NABARD suggests flexible measures such as varying scales of finance within a district and fixing separate scales for commercial seed production and export-oriented crops.
- Assessment of repaying capacity is crucial for crop loans, but there are challenges in determining it since it does not generate incremental income.
- The Crop Loan Manual of RBI recommends that crop loan liabilities should not exceed 50% of the annual farm output.
- Banks use different assumptions to calculate the repaying capacity based on gross value of crop produces, income from other sources, and family consumption

- The Kisan Credit Card (KCC) scheme was introduced by the Government of India (GOI) in 1998 to provide credit to farmers for their crop production needs.
- The KCC scheme enables farmers to draw money as and when they require funds and make payments as and when they are placed with funds, reducing the cost of borrowing.
- The system removed the cumbersome procedure of review and renewal of the loan account, enabling frequent contact with the borrower and the bank and promoting recovery.
- GOI has been topping up the benefits of various schemes to KCC holders since the introduction of the scheme.
    - During 2006-07, the 2 per cent interest subvention scheme was introduced for short term crop loans up to ` 3.00 lakh, capping the interest rate to be charged from the farmers at 7 per cent per annum.

- With a view to promoting the credit culture and effective recycling of the funds of the banking system, GOI, during the year 2009-10, have introduced a scheme envisaging provision of incentive to borrowers of short-term agriculture credit through institutions at 1 per cent for prompt repayment.
- The KCC guidelines have been revisited by the Bhasin Working Group appointed by RBI in the year 2012.
- The revised scheme envisages reckoning the post-harvest needs of the farmers, produce marketing loan, consumption requirements of the farmer household, working capital requirements for maintenance of farm assets and activities allied to agriculture and investment credit requirements for agriculture and allied activities.
- Individual/joint borrowers who are the owner cultivators, tenant farmers, oral lessees and sharecroppers and members of SHGs/JLGs are eligible for issue of KC Cards.
- The flex KCC concept introduced around the same period for marginal farmers envisages provision of a flexible limit of 10,000 to 50,000, based on the land holding and crops grown.
- During the year 2012-13, issue of KC Cards in the form of interoperable RuPay cards was advocated.

Features of Kisan Credit Card Scheme

- Kisan Credit Card (KCC) is a credit delivery mechanism for farmers in India.
- The scheme is implemented by commercial banks, Regional Rural Banks (RRBs), and cooperatives.
- The objective of the KCC scheme is to provide timely credit support to farmers for various purposes like crop cultivation, post-harvest expenses, consumption requirements, working capital, and investment credit requirements.
- All farmers, including individuals/joint borrowers, owner cultivators, tenant farmers, oral lessees, and sharecroppers, are eligible for the KCC scheme.
- The credit limit/loan amount under KCC is fixed based on factors like the scale of finance for crops, post-harvest/household/consumption requirements, repairs, maintenance expenses of farm assets, crop insurance, PAIS, and asset insurance.
- For farmers raising a single crop in a year, the short-term limit for the first year is calculated as the scale of finance for the crop multiplied by the extent of area cultivated, plus 10% of the limit for post-harvest/household/consumption requirements, plus 20% of the limit for repairs and maintenance expenses of farm assets, plus crop insurance, PAIS, and asset insurance.
- For the second and subsequent years, the limit is calculated based on the first year limit plus 10% of the limit for cost escalation/increase in scale of finance for every successive year (2nd, 3rd, 4th, and 5th year) and estimated term loan component for the tenure of the KCC (5 years

- The KCC is a flexible credit facility that allows farmers to draw money from the card as per their requirements.
- The card can be used for short-term credit for crop production and long-term credit for investments in farming activities.
- The card limit will be determined based on the cost of cultivation, post-harvest expenses, and other expenses related to agricultural activities.
- The card will be valid for a period of 5 years, after which it can be renewed.
- Interest rates on the card will be decided by the bank, based on their lending rates.
- Repayment of the card can be made within a period of 1-5 years, depending on the type of activity/investment.
- No separate margin is required for crop loans, as it is built into the scales of finance.
- Security requirements will be in conformity with RBI guidelines.
- Uniformity will be adopted in respect of interest subvention/incentives, insurance schemes, documentation, and processing fees.
- Farmers will be provided with a short-term sub-limit cum SB account and a separate folio for the long-term sub-limit.
- An account can be treated as NPA as standard assets when the balance outstanding is less than or equal to the drawing limit at any point of time during the preceding year

Basic Features of NABARD Refinance Support to Cooperative Banks and RRBs for Crop Production

- NABARD sanctions cash credit limits to Short-Term Cooperative Credit Structure (STCCS) for refinancing DCCBs or direct lending to PACS.
- StCBs can provide refinance to PACS through their branches in areas where DCCBs cannot purvey SAO credit to PACS.
- Eligible banks for refinance are determined based on compliance with regulatory requirements and CRAR.
- Quantum of refinance limits is based on credit absorption capacity, NPAs, and lending programs of the banks.
- Relaxation in eligibility norms considered for banks in difficult/hilly regions and northeast states.
- RRBs also considered for cash credit limits at concessional rate of interest.
- Banks availing refinance must comply with Crop Loan System and KCC loan norms and maintain credit flow to small and marginal farmers.
- NABARD maintains Short Term Rural Credit (STRC) Refinance Funds and market borrowings to augment funds for refinance requirements.
- Banks expected to provide relief to farmers affected by natural calamities by converting outstanding loans into medium-term loans with a moratorium period of at least one year.
- RBI has issued detailed guidelines for grant of relief measures based on annewari certificates issued by state governments on crop loss

Term-Loans for Agriculture and Allied Activities

- The government provides relief measures for farmers affected by droughts and other calamities.
- Banks are required to provide fresh production credit to farmers who receive conversion facilities.
- NABARD provides refinance to cooperative banks and regional rural banks for MT loans granted to farmers under Section 24 of the NABARD Act.
- Farmers availing crop production credit must cover their crop with crop insurance under the Pradhan Mantri Fasal Bima Yojana.
- Banks may need to consider rescheduling repayment of term loan instalments for borrowers whose assets are partially/totally damaged.
- Loans provided for more than 18 months are called term loans and are further classified into medium-term loans and long-term loans.
- Agricultural term loans are granted for capital-intensive activities like acquiring assets for minor irrigation and growing plantation and horticulture crops.
- Agricultural schemes are classified into three types: area development schemes, banking plans, and integrated schemes
- Financing for agriculture development can be done through project financing approach.
- Three types of project financing approaches are mentioned
  - Area Development
  - Programme Financing
  - Individual Borrower Oriented Investment.
- Margin money or down payment is the share of the borrower in the total project cost.
- Bank loan depends on total cost of investment minus margin money of the borrower.
- Adequacy, timeliness, and cost of credit are important considerations in bank credit.
- Repayment schedule is related to the repayment capacity of the borrower, surplus generated from the activity, sustenance requirement, and the life of the asset
- Agricultural term loans are provided by banks to farmers for adopting improved technology.
- The loan amount is determined by the cost of the activity, margin money and the borrower's repayment capacity.
- The repayment of the loan can be done through various methods, such as the bullet payment method, the equated instalment method, and the graded instalment method.
- Tangible security is required by banks to ensure loan repayment, but RBI has devised security norms for priority sector lending, so that small, marginal, and tenant farmers can access credit.
- The creditworthiness of the borrower is an important factor in determining loan eligibility, which is reflected in the borrower's past repayment behavior and risk-bearing ability.
- Different sectors/sub-sectors have different technical norms and model bankable schemes for financing investments

- Minor irrigation structures include dug wells, bore wells, tube wells, and pipelines for carrying water for individual farmers' land.
- Choice of structure depends on factors like depth of water table and soil/stone structure.
- MI structures should conform to technical parameters and availability of backward and forward linkages.
- Groundwater availability areas are categorized as safe, semi-critical, critical, and unsafe, and finance should be provided in safe blocks adhering to spacing norms.
- Cost aspects should be logically arrived at to ensure farmers are adequately financed and realize incremental income.
- Lift irrigation involves lifting water with pumps or surge pools and distributing it to the fields of beneficiary farmers with a suitable distribution system.
- distribution in Lift irrigation is complex due to varying topography and farm sizes, and gravity-based systems must be designed based on available hydraulic head.
- Most Lift irrigation schemes are implemented as cooperative schemes in India.

Horticulture Sectors

- The plantation and horticulture sectors cover a diverse range of crops, including fruits, vegetables, spices, flowers, medicinal and aromatic plants, mushrooms, beekeeping, and plantation crops like tea, coffee, rubber, coconut, and oil palm.
- The importance of this sector in the rural economy is increasing due to its diversity, higher productivity, export orientation, and intensification of production systems.
- Horticulture production has outpaced food grain production since 2012-13, with a 10% increase compared to a 6% increase in food grain production.
- The horticulture sector is important not only from an economic perspective but also from a nutritional perspective for the population.
- Horticulture is poised to play a key role in achieving the government's goal of doubling farmers' income by 2022 due to the willingness of growers to adopt technology and effective natural resources management.
- Several development programs are under implementation to promote the integrated development of horticulture crops.
- The canvas of horticulture and plantation in India is broad-based and multifaceted, with a variety of crops grown in different regions.
- India is ranked second in fruits and vegetables and first in the production of peas and okra, mango, and banana, among others.
- The horticulture and plantation sectors are widely heralded as sunrise sectors that provide a dynamic tool for improving the economic conditions of farmers and entrepreneurs, creating diversification opportunities with high-value crops, and increasing exports
- The plantation and horticulture sectors encompass a diverse range of crops including fruits, vegetables, spices, flowers, medicinal and aromatic plants, mushrooms, beekeeping, and plantation crops.

Animal Husbandry (AH) Sector

- The Indian government is focusing on the development of the animal husbandry (AH) sector, which includes dairy, sheep farming, goat rearing, piggery, and poultry farming.
- AH sector is an important contributor to India's economy, providing employment and income generation opportunities to millions of people.
- The government has launched various schemes to support the growth of the dairy sector, such as National Livestock Mission and e-GOPALA App, which provide marketplaces and AI services to farmers.
- The government is also implementing programs for sheep farming, including cross-breeding and genetic stock up-gradation, training in sheep shearing, grading of wool, and maintenance of sheep shearing machines.

- Poultry sector in India is valued at about `80,000 crore and is divided into two sub-sectors, organized and unorganized, with different needs and challenges.
- The organized poultry sector needs policy support and intervention for disease surveillance, quality control of feed, eggs, and meat, compliance to WTO and CODEX norms, and value addition for export boosting.
- Various ministries and agencies such as Export Inspection Council of India, APEDA, Ministry of Food Processing Industries, FSSAI, and BIS deal with these issues.
- The unorganized poultry sector generates additional income for small and medium farmers and plays a key role in supplementary income generation and family nutrition for the poorest of the poor

- Hi-tech agriculture projects in India are both technology and capital intensive with superior yield in terms of quality and quantity.
- Hygienic and microbial standards are important as many of these products are for consumption purpose.
- Plant tissue culture is widely practiced in developing countries for various plants including banana, sugarcane, medicinal plants, oil palm, bamboo, citrus, papaya and horticulture/medicinal plants.
- Commercial and export-oriented floriculture units are established under controlled climatic conditions with potential for higher productivity.
- Mushroom cultivation is a profitable business in India, with huge potential for both domestic and export markets.
- Marine products like prawns and shrimps offer good scope for export with freshwater prawn farming based on new biotechnology methods developed in certain states.
- Institutional credit support can help entrepreneurs/corporates to undertake these activities and boost the agricultural and fisheries sector in India.

- Hi-tech abattoirs are needed for hygienic meat supply and reducing environmental pollution.
- Credit institutions finance rural abattoirs, and the Ministry of Food Processing launched a credit scheme for slaughterhouses in rural areas.
- Small and marginal slaughterhouses in rural areas can improve livelihood and turn into successful enterprises.
- India has vast potential for exporting fruits and vegetables, and corporate borrowers are involved in their production and processing for exports.
- Financing term loans for agriculture faces challenges such as limited capacity, high transaction costs, natural calamities, marketing risks, unscientific interest rates, and difficulty in monitoring accounts with longer repayment periods.
- However, business opportunities exist for lending for term loans due to unexploited potential, favorable government policies, and support from higher financing agencies.

- Banks decide per gram rate for credit against pledge of gold ornaments based on past trends and fluctuations in gold prices.
- Branches must adhere to guidelines set by the bank for managing the portfolio efficiently.
- Borrowers must use standard application format and comply with KYC procedures.
- Correct and legally valid documentation is required.
- Banks must follow margin and interest rates as per RBI guidelines.
- Important loan terms and conditions must be explained to borrowers.
- Documentation requirements must be standardized in accordance with Fair Practice Code.
- Borrowers should service interest periodically to establish creditworthiness.
- Banks must adopt a well-calibrated approach for recovery of interest dues and principal instalments.
- Auction procedures must be undertaken and completed on time, following all norms laid down by the Auction Policy and Fair Practice Code.
- Legal implications relating to release of collateral security upon loan closure must be standardized and vetted by legal experts.
- RBI has issued guidelines for standardizing valuation of gold ornaments and jewellery accepted as collateral.

Unit 11: Financing Rural Non-Farm Sector

Rural Non-Farm Sector - Facilitative Set Up, Importance, Structure and Growth, Strength and Issues Concerning the Sector

- Rural Non-farm Sector (RNFS) refers to off-farm and non-farm activities in secondary and tertiary sectors that primarily benefit rural areas.
- The term 'Village and Small Industries' (VSI) has also been used to refer to this sector, and the government's policies mainly focus on VSI. The VSI sector is divided into eight subsectors, including Khadi & Village Industries, Handloom, Sericulture, Handicrafts, Coir, Small scale industries, and Power-looms.
- Small scale industries and power-looms are mostly urban-oriented and use modern technologies, while traditional industries are mostly rural and semi-urban and sustain and create both part and full-time employment while preserving craftsmanship and art heritage.
- The small scale sector is significant for using local materials, engaging local manpower, and catering mainly to the domestic market.

Facilitative set up for promotion of rural non-farm sector:

- Cottage Industries Board divided into three independent boards, and three more boards were set up
- Regional Small Industries Service Institutes (SISI) established to provide technical assistance/guidance
- Rural Industries Projects (RIPs) program launched in 1962 as a centrally sponsored scheme

District Industries Centre (DICs)

- District Industries Centre (DICs) program launched in 1979 with the aim of establishing one DIC in each district
- DICs conduct industrial potential surveys and guide entrepreneurs regarding credit, procurement of raw material, and marketing arrangements
- DIC functions also include identifying entrepreneurs, formulating suitable schemes, providing backward and forward linkages, training facilities, research, and extension facilities.

Small Industries Development Organization (SIDO)

- The Small Industries Development Organization (SIDO) was established in 1954 to promote and monitor the small-scale sector in India.
- SIDO provides consultancy, training, common facility services, and marketing assistance to the small-scale sector.
- National Institute for Entrepreneurial and Small Business Development (NIESBUD) was set up by SIDO in 1983 to conduct and coordinate entrepreneurial development programs in the country.

- SIDO conducts Entrepreneurial Development Programs through Small Industries Services Institutes to motivate and prepare prospective entrepreneurs.
- Rural non-farm development can prevent rural people from migrating to urban industrial and commercial centres.
- Rural industries are generally less capital-intensive and more labour absorbing.
- Rural industrialization has significant spin-offs for agricultural development.
- Rural income distribution is much less unequal in areas where a wide network of non-farm avenues of employment exists.

- Rural Non-farm activities can provide employment opportunities and income potential during the agricultural off-season.
- RNFS in India is diverse and geographically dispersed, with three major sub-sectors: stable enterprises with surplus generation and growth, seasonal activities run solely with unpaid family labor, and paid workers with low earnings and disintegrated market.
- RNFS includes non-agricultural activities like mining and quarrying, manufacturing, processing, repair, construction, trade, and other services.
- RNFS can reduce rural poverty and complement agricultural income to improve the assets held by the poor and increase their productivity.
- Rural non-farm economy is seen as an effective strategy for decentralizing economic activities in rural India and halting migration to urban areas.
- India's experience differs from other countries where non-farm employment growth leads to labor shift to urban areas. Between 1999-2000 and 2011-12, there has been a considerable increase in rural non-farm employment (12%).
- The states of Jammu and Kashmir, Goa, and Punjab had the greatest rise in rural non-farm employment.
- The proportion of households relying on agriculture as the primary source of income decreased from 63% in 2002-03 to 58% in 2012-13. The construction sector saw the biggest increase in rural non-agricultural employment, from 14.4% in 1999-00 to 30.1% in 2011-12.

Strength and Weaknesses of Non-farm Sector

- Rural non-farm economy is seen as a way to decentralize economic activities and prevent migration to urban areas.
- India's growth in non-farm employment has been mainly in Rural Non-Farm Employment (RNFE).
- There has been a significant increase in rural non-farm employment from 1999-2000 to 2011-12.
- The construction sector has seen the biggest increase in non-agricultural employment in rural areas.
- There has been a rise in casual wage employment and a decline in self-employment.

- About 77% of households have no regular wage/salaried person, with higher unemployment rates among females.
- Rural agricultural wage growth has been robust from 2004-05 to 2011-12.
- Factors driving rural wage growth include a tightening labor market, inflation, and the Mahatma Gandhi National Rural Employment Guarantee Scheme.
- The Ministry launched ASPIRE in 2015 to create employment opportunities through skill-upgradation, handholding, mentoring, incubation, and credit support to rural youth and women.
- GOI announced the setting up of a fund for regeneration of traditional industries and financial assistance for establishing training institutions.
- Absence of appropriate forward and backward integration greatly affects the performance of non-farm activities in rural areas, and gaps in the integration of production linkages have constrained the development of non-farm enterprises in India.

Promotion of Traditional Industries

- The Khadi and Village Industries (KVI) sector creates employment opportunities at a low cost and provides sustainable employment to rural artisans.
- The KVI sector serves the basic needs of processed goods for the rural sector and provides employment to about 150 lakh people.
- The Khadi and Village Industries Commission (KVIC) is the primary promotional institution for KVIs and was established in 1951 through an Act of Parliament.
- State level Khadi and Village Industries Boards (KVIBs) were subsequently established by state governments, which receive grants and loans from KVIC.
- The KVIC undertakes activities like skill improvement, transfer of technology, research & development, and marketing to generate employment and self-employment opportunities in rural areas.
- KVI programs are implemented through state and union territories KVIBs, registered institutions, bank and financial institutions, and more than 6.71 lakh entrepreneurial units under REGP & PMEGP.
- The KVIC is responsible for planning, promotion, organization, and implementation of KVI programs in rural areas, along with building a reserve of raw materials and implements for supply to producers, creation of common service facilities, and organizing training for artisans.
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- The KVIC undertakes activities like skill improvement, transfer of technology, research & development, and marketing to generate employment/self-employment opportunities in rural areas.
- The KVIC is responsible for planning, promotion, organization, and implementation of programs for the development of Khadi and other village industries in rural areas.

- The KVIC promotes co-operative efforts amongst KVIs and encourages research in production techniques and equipment.
- The production and sales in the village industries sector stood at Rs. 70329 crore and Rs. 84675 crores respectively in 2020-21.
- The production and sales in the Khadi sector slightly declined as spinning and weaving activities were affected by the pandemic.

Prime Minister's Employment Generation Programme (PMEGP)

- PMEGP provides financial assistance for setting up new enterprises in the rural areas
- The Prime Minister's Employment Generation Programme (PMEGP) is a credit-linked subsidy program aimed at generating self-employment opportunities in urban and rural areas.
- The program is monitored by the Ministry of Micro, Small and Medium Enterprises and implemented through KVIC.
- Assistance is available only to new units to be established, with no income ceiling for setting up the projects.
- Subsidies ranging from 15% to 35% are available under the program, depending on the borrower's category and location.
- Bank credit will cover 60-75% of the cost after deducting margin money and subsidy.
- Banks will claim subsidies based on projected capital expenditure in the project report, while margin money can only be availed upon actual capital expenditure.
- The working capital component should be utilized in a manner that reaches 100% of the cash credit limit within three years of the lock-in period of margin money and not less than 75% utilization of it.
- The Khadi sector experienced a decrease in production and sales due to the pandemic.

Scheme of Fund for Regeneration of Traditional Industries (SFURTI): Aims to organize traditional artisans and industries into groups to make them competitive and provide long-term sustainability
Interest Subsidy Eligibility Certificate (ISEC): Provides concessional rate of interest for working capital purposes for registered institutions of KVIC
Market Promotion Development Assistance (MPDA): Provides market promotion and development assistance for Khadi industries, with the aim of increasing earnings for artisans
Khadi Reform and Development Program (KRDP): Formed for employment generation, enhancing the earning of artisans, and repositioning Khadi to meet market requirements
Beekeeping - The Honey Mission: Aims to improve the livelihoods of rural communities through income generation, medicinal and food value of honey, support for agricultural activities, forest conservation efforts, and sustainable livelihoods
Market Development Assistance (MDA): Promotion assistance for the development of Khadi, with financial assistance reserved for weavers and spinners as an additional incentive.

National Handloom Development Program (NHDP)

- The National Handloom Development Program (NHDP) is a central sector scheme for integrated and holistic development of handlooms and welfare of handloom weavers.
- The scheme supports weavers, both within and outside the cooperative fold, through various interventions such as skill upgradation, product development, construction of workshed, and setting up of common facility centers (CFC).
- Financial assistance up to 2.00 crore per Block Level Cluster (BLC) and up to 50.00 lakh for setting up one dye house at district level are provided.
- Financial assistance is also provided for organizing marketing events, in domestic as well as overseas markets, to provide marketing platform to the handloom agencies/weavers to sell their products directly to the consumers.
- Under the Weaver MUDRA Scheme, credit at concessional interest rate of 6% is provided to the handloom weavers, along with margin money assistance to a maximum of `10,000 per weaver and credit guarantee for a period of 3 years.
- NHDP is a central sector scheme for integrated and holistic development of handlooms and welfare of handloom weavers.
- E-commerce policy framework established to promote online marketing of handloom products, with 23 e-commerce entities engaged for this purpose.
- Objectives of the scheme include empowering handloom weavers, facilitating collectivization, promoting design development through creation of design studio and involvement of professional designers, and involving professional marketers to identify items of production to meet changing market demands.

The government has taken several steps to promote the handloom sector in India. Some of the key initiatives include:

- Engaging 23 e-commerce platforms to promote online marketing of handloom products
- Setting up Urban Haats in big towns and cities to provide direct marketing facilities to weavers and eliminate middle agencies
- Developing Mega Handloom Clusters to improve infrastructure facilities, technology up-gradation, skill up-gradation, design inputs, and health facilities, among others
- Empowering handloom weavers, facilitating their collectivization, and promoting sustainable growth and diversification
- Providing support and linkages in terms of infrastructure, technology, product diversification, design development, raw material banks, marketing and promotion, credit, social security, and other components
- Encouraging public-private partnership models for collaboration between the government, beneficiary weavers, financially creditworthy and commercially linked marketing enterprises, and financial institutions

- Implementing the "Revival, Reform, and Restructuring Package for Handloom Sector" during the 12th Plan Period, aimed at benefiting 15000 Weavers' Cooperative Societies and 3 lakh Weavers across the country, with objectives like loan waiver, recapitalization of cooperatives, concessional credit, and credit guarantee for fresh loans Focusing on improving the availability and quality of yarn to support the handloom sector.

Yarn Supply Scheme

- Yarn Supply Scheme is implemented to provide all types of yarn at Mill Gate Price.
- The scheme is implemented through National Handloom Development Corporation.
- Freight reimbursement and depot operating charges are given to depot operating agencies.
- 10% price subsidy exists on hank yarn with quantity caps on cotton, domestic silk, wool and linen yarn.

- Handloom Weavers' Comprehensive Welfare Scheme provides life, accidental, and disability insurance coverage to handloom weavers/workers.
- Sant Kabir Award is conferred to outstanding weavers who have made valuable contributions to keeping alive the handloom heritage. Reserve Bank of India formulated a Handloom Refinance Scheme and extended credit facilities to the State Cooperative Banks for financing the working capital requirements of the Primary Weavers Cooperative Societies.
- Handicrafts industry in India has a long history and is well-known worldwide.
- The government has implemented various schemes and programs to promote the growth of the handicrafts industry, including providing financial assistance, training, and marketing support.
- National Handicrafts and Handlooms Museum in Delhi and various state level organizations are working towards the preservation and promotion of traditional handicrafts.

Handicrafts Sector

- The handicrafts industry in India has a long history and is well known around the world.
- The Indian government has given high priority to the growth of this industry due to its high employment intensity.
- The handicrafts sector is part of the unorganized sector of the village economy and is an important aspect of village and cottage industries. Indian handicraft items range from wooden, stone, metal, glass, bamboo, cane, clay, terracotta ceramics, and textiles.
- Various states in India are popular for their handicraft collections, each with its own identity.
- The traditional handicraft industry is under threat due to competition from cheaper machine-made substitutes and a lack of innovative methods and technology advancement practices.
- Handicrafts are important not only because of employment opportunities but also as a significant source of foreign exchange earnings for India.
- Handicraft exports have increased dramatically since 1999 and were valued at 3.53 billion USD during 2019-20.

- The top 10 destinations for Indian handicraft exports are the US, the UK, the UAE, Germany, France, LAC, Italy, the Netherlands, Canada, and Australia.
- The government of India has increased incentive rates under the MEIS scheme for handicraft items to help exporters recover input costs and boost exports.
- Private sector organizations and development organizations are working towards the revival and promotion of handicrafts in India.

- Various craft enterprises use different models to carry out sustainable solutions.
- Development organizations are working for revival and promotion of endangered crafts.
- Social enterprises are working directly with craft practitioners/organizations/clusters.
- Leading networks and organizations include Craft Council of India, Dastkar, Dastakari Haat Samiti, Sasha Association for Craft Producers, SEWA, and AIACA.
- Fabindia is the largest domestic market retailer, sourcing products from over 40,000 artisans.
- Other private crafts businesses include Anokhi and Goodearth.
- Rangasutra and Industree Foundation are two successful organizations working towards artisan-owned enterprise development and promotion.
- E-commerce platforms such as jaypore.com, itokri, and gaatha.com are offering opportunities for marketing handicraft products.
- Export Promotion Council for Handicrafts (EPCH) is an apex body of handicrafts exporters with over 9000 members.
- GOI programs and schemes under NHDP include Ambedkar Hastshilp Vikas Yojana, focusing on DTU and other components to provide training to artisans and develop their skills and welfare measures.
- The handicraft sector in India is a significant contributor to the country's economy.

- The National Institute of Fashion Technology (NIFT) is a leading institution for fashion education in India, established in 1986 under the Ministry of Textiles.
- Micro Units Development and Refinance Agency Ltd (MUDRA) provides loans to non-corporate small businesses and micro units through banks, NBFCs, MFIs, and other eligible financial intermediaries.
- The Small Industries Development Bank of India (SIDBI) is the principal financial institution for the promotion, financing, and development of the MSME sector, and collaborates with the Ministry of Textiles for implementing schemes for cane and bamboo craft, credit linked capital subsidy scheme (CLCSS), and technology upgradation fund scheme (TUFS).
- Many states have set up cooperative societies in the handicrafts sector to facilitate collective procurement of raw materials and marketing of products, with some governments establishing apex marketing societies for primary level handicraft societies.
- The production credit requirements of primary and apex societies are met by cooperative banks in the Short-Term Cooperative Credit Structure, with refinance support from NABARD.

Coir Sector

- Coir industry is an agro-based rural industry providing employment to over 7 lakhs workers in coconut producing states of India.
- It is an export-oriented industry that earned more than ` 2200 crores of foreign exchange for India during 2018-19.
- The government has introduced various schemes and programs to promote the coir industry.
- The sector offers employment opportunities in households, cooperatives, NGOs, manufacturers, and exporters.
- Coir and coir products are exported to 110 countries all over the world. Most of the coir units in India are located in rural areas, and the workers belong to economically and socially weaker sections of society.
- Coir industry is based on the use of coconut husk as raw material, which is abundant in regions of concentrated coconut cultivation in India.
- The industry contributes significantly to women empowerment, as a large proportion of workers in this sector are women.

- Crates, lids, and containers made out of coir composite board are superior in quality compared to plywood and MDF boards and are cost-effective.
- India annually produces about 280,000 metric tons of coir fiber, with coir fibers accounting for about one-third of the coconut pulp and the other two-thirds being coir pith
- Coir products have a wide range of uses and potential for development.
- The Central and State/UT Governments have undertaken modernization and developmental activities
- The Coir Udyami Yojana is a credit-linked subsidy scheme that provides assistance for setting up any type of coir unit, with a maximum cost of up to Rs. 10 lakhs plus working capital.
- The Skill Upgradation and Mahila Coir Yojana provides various programs for entrepreneurship development, awareness, workshop, seminar, exposure tour, and training on manufacturing of value-added coir products, spinning, weaving, and other product diversification processes for creating skilled manpower required for the coir industry. It also focuses on management skills for entrepreneurs to run their units effectively and efficiently.
- The Export Market Promotion scheme aims to improve the export performance of Indian Coir Sector through various export market promotion activities such as sponsoring delegations, participation in seminars and conferences, organizing participation in international fairs, extending financial assistance to Micro, Small and Medium Enterprises and Exporters, and presenting Coir Industry Awards on an annual basis.
- The Domestic Market Promotion Program focuses on popularizing coir and coir products and expanding the domestic market through the establishment and maintenance of showrooms and sales depots, participation in domestic exhibitions, etc.

Sericulture

- Sericulture involves cultivating food for silkworms and reeling cocoons for processing and weaving.
- India's leading silk variety is Mulberry silk, obtained from feeding domesticated silkworms with mulberry leaves.
- Sericulture is a labor-intensive industry with high returns and provides employment to weaker and marginalized sections of society.
- Silk is known as the "Queen of Textiles" and provides livelihood opportunities for millions.
- India has a rich history in silk production and trade dating back to the 15th century.
- Sericulture provides employment to approximately 8 million persons in rural and semi-urban areas in India, with a significant number belonging to economically weaker sections of society, including women.
- India produces all five known commercial silks, and muga silk is unique and exclusive to India.
- India is the second-largest producer of silk in the world, with Karnataka, Andhra Pradesh, Jharkhand, West Bengal, Tamil Nadu, and North Eastern States being the major producers.
- State governments take measures to motivate farmers to adopt improved technologies in mulberry cultivation and silkworm rearing and provide assistance for constructing rearing houses and procuring improved equipment.
- State governments also establish rearing centers, set up grainages for production of seed laying, cocoon markets, and government reeling units to promote the industry.
- India is the second-largest producer of silk in the world.

- The silk industry in India is divided into two sectors - organized and unorganized.
- The organized sector includes government-sponsored programs and cooperative societies that provide support and services to sericulture farmers and handloom weavers.
- The unorganized sector includes individual farmers and weavers who operate outside the government-sponsored programs and cooperative societies.

Central Silk Board (CSB)

- The Central Silk Board (CSB), a statutory body established in 1948, is responsible for the development of sericulture and silk industry in India.
- The CSB's mandated activities include research and development, maintenance of silkworm seed production network, standardization and quality control, and promotion of Indian silk in domestic and international markets.
- The CSB operates through 300 units located in different states and implements its programs through three central sector schemes.
- The schemes focus on increasing the quality and productivity of silk in the country and enhancing the income of stakeholders.
- The Catalytic Development Program (CDP) was one of the centrally sponsored schemes that aimed to transfer technology to the field and incentivize investments among stakeholders.

- State Departments of Sericulture should identify potential farmers with water sources to raise Mulberry plantation.
- High yielding Mulberry varieties specific to the agro-climatic region are recommended for Bivoltine/ICB silk production.
- Each state should have norms indicating the minimum number of plants per unit area to provide subsidies to farmers for optimizing production.
- State Departments and CSB will jointly assist in procuring quality chawkie rearing equipment.
- Two acres of chawkie garden are essential for a CRC to rear 1.50 to 1.60 lakh DFLs of chawkie worms @ 5000 DFLs/batch once in every 10 days interval with 32 batches per annum.
- The CRC should adopt improved mulberry varieties suited for 'chawki' and technology packages recommended by research institutes.

Raw Material Supply – Arrangements

- Assured supply of raw material at reasonable rates is crucial for the growth of RNFS.
- The government has taken various measures for the supply of raw material to small-scale units, particularly traditional sub-sectors. State SIDCs are arranging to supply raw materials to small scale and cottage units at reasonable rates.
- Relaxations in the import policy are given in favor of the small-scale sector.
- Availability of raw material under this policy has not been satisfactory in terms of quantity and quality.
- Creation of buffer stocks of essential and scarce raw material under the aegis of NSIC at the central level and SIDCs at the state level was envisaged by the Industrial Policy Statement of 1980.
- Marketing problems of cottage and small industries stem from their scale of operation, lack of standardization, inadequate market intelligence, competition from large-scale units, and insufficient holding capacity.
- Assistance in marketing to small entrepreneurs, artisans and craftsmen is provided to a limited extent by various organizations.
- A number of Export Promotion Councils have been set up for export marketing of important manufactured products.
- The Indian government has taken various measures to promote the growth of small-scale enterprises in the rural sector.
- These measures include providing credit support through institutions like NABARD and SIDBI.

Technology Development and Training

- The Indian Government has engaged several institutions to promote technology and innovation for the development of small-scale enterprises.
- Some of the major organizations in this field are the Council of Scientific and Industrial Research (CSIR), the National Research Development Corporation (NRDC), the National Small

Industries Corporation (NSIC), and the Council for Advancement of People's Action and Rural Technology (CAPART).

- CSIR is responsible for technology upgradation and has developed a range of technologies for rural enterprises, especially in the area of metal working, pottery, leather processing, fiber works, energy, stationery, etc.
- NRDC is concerned with technology transfer and extension, offering facilities such as process know-how, feasibility and project reports, detailed engineering, and training in operating plants.
- NSIC has a country-wide network and offers services such as hire-purchase, leasing, raw material, marketing, and export development, and has launched schemes to help the establishment and modernization of small-scale units.
- CAPART functions as a nodal agency for promoting socio-economic conditions of rural people by assisting them in adopting appropriate technologies and other related programs, and by organizing training programs for skill development.

Unit 12: SME Finance

- Micro, Small and Medium Enterprises are the backbone of economies, including India, and are responsible for job creation and economic growth.
- MSMEs require low capital investment per unit of output and utilize natural resources and domestic skills to cater to the domestic market.
- The sector contributes to socio-economic upliftment by generating employment opportunities for the untapped masses living in urban and rural areas.
- The definitions and coverage of the sector have been broadened under the MSMED Act, recognizing the concept of enterprise to include both manufacturing and services sectors, besides defining the medium enterprises.
- Credit is an essential input for the growth of the sector, facilitating expansion of operations, development of new products, and investment in new production facilities.
- Various programs/schemes of the Government of India and policy prescriptions of the Reserve Bank of India exist to support the growth and development of MSMEs.
- SIDBI operates a number of schemes to benefit MSMEs.
- The chapter will also discuss the appraisal of proposals and project techniques related to credit proposals received from MSME units.

Definition of SME

- The MSMED Act provides for a consultative mechanism with wide representation of stakeholders and specific funds for promoting and developing small enterprises.
- The Act also includes progressive credit policies, preference in government procurement, and mechanisms for mitigating problems of delayed payments.
- In 2015, amendments were made to the Act to enhance investment limits and include more types of enterprises in the classification.
- In 2020, the definition of MSMEs was revised to address concerns about low investment thresholds discouraging growth and long-pending demands for a revision.

Importance of the Sector to the Indian Economy

- The MSME sector has a legal framework in place to provide for their development and competitiveness.
- Amendments were made in 2015 to increase investment limits and include smaller enterprises in the medium category to avail benefits and become competitive.
- The definition of MSMEs was revised in 2020 to address concerns of the sector due to Covid-19 and to enable expansion of operations.
- The revised criteria for classification of MSMEs is based on investment in plant and machinery/equipment and turnover.
- The KVIC Act was also amended in 2006 to redefine "village industries."

- The MSME sector is important to the Indian economy and has played a crucial role in employment generation, exports, and innovation.

- Out of 58.5 million establishments, 77.6% were engaged in non-agricultural activities and 22.4% were engaged in agricultural activities excluding crop production and plantation.
- The total number of establishments increased from 41.25 million in 2005 to 58.5 million in 2013, a growth of 41.79%, with rural areas growing at 38.37% and urban areas at 47.13%.
- Non-agricultural establishments grew at the rate of 28.97% and
- agricultural establishments at the rate of 115.98% between the two Economic Censuses.
- 22.6% of the total establishments belong to the primary sector, with agriculture sector being 22.45% and mining and quarrying being 0.15%. Secondary sector accounted for 19.72% and tertiary sector accounted for 57.68%.
- 71.74% were Own Account Establishments (without any hired worker) and 28.26% were establishments with at least one hired worker. Own Account Establishments grew at the rate of 56.02% while the growth of establishments with hired workers was 15.11% since 2005.
- Private ownership accounted for 96.4% of establishments, with government/PSU ownership at 3.6%
- 36.19% of establishments were home-based, 18.44% operated from outside households without a fixed structure, and 45.37% operated from outside households with a fixed structure
- 93% of establishments were perennial, 5.9% were seasonal, and 1.1% were casual
- Livestock was the major economic activity in agriculture (86.74%), while retail trade (35.41%) and manufacturing
- (22.77%) dominated the non-agricultural sector
- 89.39% of establishments were owned by proprietors, with 15.4% of those owned by females
- Manufacturing was the largest employer with 30.3 million (23.1%) employees, followed by retail trade with 27.19 million
- (20.7%) employees, and the livestock sector with 19.4 million (14.8%) employees
- 95.5% of establishments had 1-5 workers, 3.13% had 6-9 workers, and 1.37% had 10 or more workers. The overall average employment per establishment was 2.24, with Own Account Establishments at 1.39 and establishments with at least one hired worker at 4.42.

Arrangements for Provision of Credit to the MSME Sector

- Funding small and medium-sized enterprises is a major function of the general business finance market.
- Business finance is required at every stage of a business life cycle, including acquiring fixed assets, meeting day-to-day expenses, promoting and marketing the product, distributing it to prospective consumers, and managing human resources.
- Banks, credit agencies, and state-level financial institutions meet a major portion of the credit requirements of the MSME sector.

- Non-banking financial companies also perform financial intermediation in providing credit to the sector

Appraisal of MSME Loan Proposals –Techniques and Requirement Assessment af Projects for Term Loans

- The credit department and officers should examine the details of the businesses and their owners, including their financials, to ensure good loan quality.
- They need to know what type of industry the business is in or planning to enter, and whether it is a growing sector according to government policies.
- Businesses in growing sectors with good long-term prospects should be preferred over those with poor prospects
- Credit officers need to examine the profile of the unit/industry, credentials of the entrepreneurs/units, and their financials to ensure quality in the loan portfolio.
- They should examine the type of industry/activity the enterprise is pursuing/intending to pursue, whether there is scope for higher profitability and reducing customer concentration.

Bankers should:

- Examine specific aspects related to the products and services offered by the enterprise, such as whether they match market requirements and how they are priced.
- Compare the products or services offered by the enterprise with those offered by competitors.
- Examine the enterprise's sales plan and whether it is achievable given the enterprise's capacity.
- Ensure that the enterprise has addressed any intellectual property or legal issues related to its products or services.
- Examine the enterprise's plans for future products or services and whether it has any plans for innovative offerings.
- Conduct a detailed examination of production, sales/marketing, and debt service capacity to determine the enterprise's strengths and weaknesses.
- The insights gained from the examination will help the bank make financial decisions and stipulate appropriate terms for sanction and monitoring during the loan period.

Raw materials availability: Examining the availability of raw materials used by the enterprise, their procurement planning, and whether it synchronizes with the production cycle of the industry.
Manufacturing process: Examining the various stages of the manufacturing process, machinery required, availability of work-shed, power, skilled labor, technical or key personnel, rated capacity of machinery, and synchronization of production and marketing plans.
Manufacturing productivity ratios: Reviewing manufacturing productivity ratios such as performance ratio and utilization ratio to judge technical efficiency.

Marketing and sales: Understanding the efficiency of the marketing and sales functions of the enterprise and reviewing financial accounting ratios such as sales assets turnover ratio, direct marketing expenses, promotional ratio, return on marketing assets, velocity of the distribution channel, and average age of debtors.

Implications of important ratios: Recording the implications of inventory turnover ratio, accounts receivable turnover, and debtor turnover ratio.

- Sales-per-employee is a useful metric for service-based businesses to determine efficiency.
- The project approach is a flexible way to analyze the costs and benefits of independent units.
- Project preparation and analysis are important for efficient use of financial resources.
- Discounted cash flow techniques like NPV, BCR, and IRR are used in project appraisal.
- Financial analysis aims to determine if a project generates acceptable profitability and can service debt.
- Investment outlay, financing, viability, profitability, breakeven analysis, sensitivity analysis, and risk analysis are examined during financial appraisal.
- Cash flow statement is the basis for financial analysis.
- Negative cash flow is expected in the initial period due to investment in capital assets.
- Discounted cash flow technique is used for long-term projects to account for the time value of money.
- Discount factors are computed using the formula: d = 1/(1+r)^n.

- The discount rate for project analysis should be based on opportunity cost or weighted cost of borrowing, generating resources for repayment of borrowed funds and a reasonable rate of return.
- The discount rate can be real or nominal, with the real rate adjusted for inflation.
- In India, a rate of 15% is considered appropriate for agricultural and rural development projects.
- Financial viability is measured by net present value (NPV), benefit cost ratio (BCR), internal rate of return (IRR), and debt service coverage ratios (DSCR).
- NPV represents wealth creation by the project, calculated by taking the discounted sum of cash flows during the project life.
- A project is considered viable if the NPV is positive at a given discount rate.
- Among mutually exclusive projects, the one with the highest NPV should be selected.
- BCR is the ratio of discounted value of benefits to the discounted value of costs.
- The project is viable when BCR is one or more than one and unviable when it is less than one.

(a) Investment Analysis: It involves the examination of potential investment opportunities to determine if they are financially feasible and will yield returns.

(b) Scenario Analysis: It is the process of evaluating possible future events and predicting the feasible outcomes, especially for financial modeling when favorable and unfavorable events could impact the project.

(c) Risk Analysis: It involves identifying key risk variables, finding out their values, assigning probabilities for each value, and determining the probability of negative outcomes of the project to add valuable information in project analysis.

(d) Economic Appraisal: It examines the project's impact on the entire economy to determine if it will improve the country's economic welfare, usually conducted by agencies like the World Bank and development agencies for significant investments.

(e) Social/Distributive Appraisal: It includes financial, economic, and distributional effect analysis to identify affected parties and their gains and losses, determining if the project is financially unviable but socially and economically viable. It depends on the government's goals and belief in positive externalities outweighing negative financial cash flow.

(f) Environmental Aspects: It involves the assessment of the consequences of the project on the natural environment through Environmental Impact Assessment, which has become increasingly important to most banks and financial institutions.

- Environmental Impact Assessment (EIA) is an analysis that evaluates the environmental impact of a project before it is undertaken.
- In India, there is a separate ministry and act for environmental protection, and the Central Pollution Control Board (CPCB) ensures proper implementation.
- Most industries are covered by the act and have to seek clearance before setting up and on a regular basis.
- RBI has directed banks not to extend credit facilities to industries with harmful environmental effects.
- Credit officers should use standard formats for recording loan appraisal notes to avoid missing any item.
- For borrowers with up to 5 crore fund-based working capital limit, the turnover method is used for sanctioning credit limits.
- For other borrowers, the MPBF system of assessment is used to determine the working capital requirement.
- Banks can also sanction bill discounting limits and encourage discounting of bills backed by LC.
- Non-fund facilities such as Letter of Credit and guarantee should follow RBI guidelines.
- Banks should set out terms and conditions clearly in sanction letters and receive written confirmation from authorized persons.
- Periodical visits/inspection should be undertaken to ensure units maintain necessary stocks and activities are in accordance with plans.
- Any warning signals should be brought to the notice of the branch manager/branch head for pursuing appropriate corrective measures.

Small Industries Development Bank of India (SIDBI)

- SIDBI has taken steps to support the MSME sector
- SIDBI has established associate institutions like ISTSL, SMERA, ISARC, and STCL for the growth and development of the SME sector.
- SIDBI is a development financial institution in India.
- SIDBI has various subsidiaries, including SIDBI Venture Capital Limited (SVCL).
- SVCL is an investment management company focused on investing in startups and early-stage technology businesses, manufacturing SMEs, service entities, Agri-businesses, financial inclusion companies, etc.
- SIDBI has set up three funds: the National Fund for Small Industries (NFSI), SIDBI Growth Fund (SGF), and India Opportunities Fund (IOF).
- SVCL has been appointed as the investment manager to NFSIT, SGF & IOF.
- Micro and small Enterprises Refinance Scheme (MSERS) provides Refinance assistance to scheduled banks and select financial institutions for MSMEs.
- SIDBI Make in India Fund aims to Make MSMEs a world-class Manufacturing hub and provides concessional finance to identified sectors.
- SIDBI has created a `10,000 crores 'SIDBI Make in India Soft Loan Fund for Micro Small and Medium Enterprises (SMILE) to provide soft loans to MSMEs for new establishments or growth opportunities.
- SIDBI has created the `2000 crore 'India Aspiration Fund' to make investments in venture capital funds (VCF) which would in turn invest in MSMEs.

Pradhan Mantri Mudra Yojana (PMMY)

- SIDBI promotes MUDRA as a fully-owned subsidiary to extend affordable loans to Non-corporate, Non-farm Micro and small enterprises.
- The Pradhan Mantri Mudra Yojana (PMMY) was launched to provide loans to micro and small enterprises.
- MUDRA was created as a refinancing institution to provide loans up to `10 lakhs through various financial institutions.
- MUDRA's mission is to create an inclusive entrepreneurial culture for financial security and success.
- 4 Key benefits of MUDRA loans include no collateral or security required, no processing charges, and flexibility in fund usage.
- PMMY has disbursed `16.50 lakh crores, benefiting 32.12 crore borrowers so far.

Receivables Exchange of India Ltd (RXIL)

- Receivables Exchange of India Ltd (RXIL) is a joint venture of SIDBI and National Stock Exchange of India Limited (NSE).
- RXIL operates India's First Trade Receivables Discounting System (TReDS), an online platform for financing of receivables of Micro, Small & Medium Enterprises.

- The main objective of RXIL is to address the critical needs of MSMEs, i.e., promptly finance trade receivables and financing their trade receivables based on Buyers credit rating without recourse to MSME Vendor.
- RXIL commenced operations on January 09, 2017.
- The TReDS Platform of RXIL is expected to be a catalyst in the growth of MSMEs by bringing in transparency in the business eco-system and addressing the issue of delayed payments for MSMEs.

Policy Prescriptions Of RBI for the Growth of MSME Sector

- The RBI considers lending to Micro, Small, and Medium Enterprises (MSMEs) as a priority sector for banks.
- MSMEs engaged in manufacturing or production of goods in industries listed in the first schedule of the Industries (Development and Regulation) Act, 1951, and those engaged in providing or rendering services are eligible for priority sector advances.
- Banks are required to achieve a 20% YoY growth in credit to micro and small enterprises, a 10% annual growth in the number of micro enterprise accounts, and 60% of total lending to the MSE sector as of the corresponding quarter of the previous year to micro enterprises.
- Public sector banks have been advised to open at least one specialized branch in each district to serve the MSME sector better.
- Banks have been permitted to categorize their MSME general banking branches as specialized MSME branches if they have 60% or more of their advances to the MSME sector.
- The government has announced a policy package to step up credit to the MSME sector, requiring public sector banks to ensure specialized MSME branches in identified clusters/centers with a preponderance of small enterprises to provide easy access to credit and develop expertise.
- More than 3000 specialized MSME branches are functioning in the country, although their core competence will be utilized for extending finance and other services to the MSME sector, they will have operational flexibility to extend finance/render other services to other sectors/borrowers.

- Banks advised to have loan policies for the MSE sector approved by their Board of Directors.
- Banks advised to appraise the working capital requirements of borrowers based on their business cycle and credit needs.
- Banks can sanction a composite loan limit of `1 crore for MSME entrepreneurs through a Single Window approach.
- Cluster-based approach to lending suggested to cater to the diverse needs of the MSE sector.
- All credit related matters, including charging of interest, have been deregulated and are governed by the banks' own lending policies.
- Banks must sanction all advances with reference to the Marginal cost of fund-based lending rates (MCLR).

- Banks not to accept collateral security for loans up to Rs. 10 lakh extended to units in the MSE sector.
- Credit rating is not mandatory but recommended for MSME borrowers as it helps in credit pricing of loans.

- The Reserve Bank of India (RBI) has taken various measures to support the growth and development of the micro, small, and medium enterprises (MSME) sector in India.
- RBI has issued guidelines to banks to ensure that they provide financial assistance to MSMEs under various government-sponsored schemes or through direct lending.
- Banks have been advised to set up special cells or integrate this function in the Financial Literacy Centres (FLCs) to provide assistance to MSME entrepreneurs in financial literacy, operational skills, accounting and finance, business planning, etc.
- RBI has launched a booklet titled "Nurturing Dreams, Empowering Enterprises – Financing needs of Micro and Small Enterprises – A guide" to provide guidance to new entrepreneurs in this sector.
- RBI set up an Expert Committee on MSMEs under the chairmanship of Shri U K Sinha in Jan 2019 to go into various issues concerning the sector.
- The committee made several recommendations for the economic and financial sustainability of the MSME sector.
- Banks are incentivized to lend to MSMEs through the NBFC sector, and bank credit to registered NBFCs (other than Micro Finance Institutions) for on-lending to micro and small enterprises up to Rs. 20 lakh per borrower is eligible for classification as priority sector lending.
- A scheme of one-time restructuring without an asset classification downgrade was permitted to GST registered MSME accounts that were in default but standard as on January 1, 2019, and has been extended to accounts that are standard but in default as on January 1, 2020.
- Incremental loans to MSMEs, along with retail loans for automobiles and residential housing, were exempted from CRR from January 31, 2020, to July 31, 2020.
- New floating rate loans to the micro and small entrepreneurs were linked to the external benchmark to improve monetary policy transmission, and from April 01, 2020, all new floating rate loans to medium enterprises extended by banks will also be linked to the external benchmarks.

Initiatives Taken by GOI for the Development of MSME Sector

- The Reserve Bank introduced the Trade Receivables Discounting System (TReDS) in 2014 to address delayed payments for MSMEs.
- 'On tap' authorization has been given to entities for providing TReDS platforms to make the system more efficient.
- The Union Budget 2020-21 announced app-based invoice financing products to tackle delayed payments.

- Udyog Aadhaar Memorandum (UAM) was launched in September 2015 to enable entrepreneurs to register themselves online without fees and supporting documents.
- The Ministry of MSME introduced a composite criterion for classification of MSMEs based on investment and turnover, and replaced the Udyog Aadhaar Memorandum with Udyam registration.
- A total of 5.38 lakh enterprises have registered under Manufacturing category and 8.65 lakh enterprises under the Service sector.
- The Scheme for Promotion of Innovation, Rural Industry, and Entrepreneurship (ASPIRE) was launched in March 2015 to promote entrepreneurship culture in India and create new jobs.
- ASPIRE has a corpus of INR 200 crores for automation of agricultural practices, value addition to agriculture and forest produce, recycling of agricultural wastages, business models for aggregation and value addition relevant to rural areas, and social impact.
- Livelihood Business Incubators (LBI) will be set up under the aegis of the National Small Industries Corporation (NSIC), KVIC, Coir Board, or any other institution/agency of GOI/State Government or under PPP mode.
- The Indian government has launched the "Support for Entrepreneurial and Managerial Development of SMEs" (SEED) program to enhance the competitiveness of MSMEs in the agro-based industry sector.
- The program includes setting up Technology Business Incubators (TBI) at two levels – supporting existing incubation centers and setting up new ones by eligible private institutions, industry associations, academic institutions, R&D laboratories, universities, government entities, and technology parks.
- Start-up promotion will be facilitated through Small Industries Development Bank of India (SIDBI) using innovative means of finance like equity, quasi-equity, angel fund, venture capital fund, impact funds, challenge funds, etc.
- The financial support under SEED is up to ` 1 crore for NSIC & others and ` 50 Lakh for PPP incubators.
- For setting up TBI, the assistance is for ` 30 Lakh for existing and ` 1 Crore for new incubators.
- Other financial support includes funds for incubation of ideas @ ` 3 lakh per idea and a seed capital of ` 1 Crore for setting up of start-ups by the incubators.
- Under the SEED scheme, 500 new incubation centers will be set up all over India.

Lean Manufacturing Competitiveness Scheme (LMCS)

- The National Manufacturing Competitiveness Program (NMCP) – Lean Manufacturing Competitiveness Scheme (LMCS) for MSMEs aims to reduce manufacturing costs and improve product quality.
- LMCS involves applying Lean Techniques such as Total Productive Maintenance (TPM), 5S (Sort, Set-in-order, Shine, Standardize, Sustain), visual control, standard operation procedures, just in time, Kanban system, cellular layout, Poka-Yoke, etc.

- The scheme has been approved as a pilot project in 100 Mini Clusters for implementations of Lean Techniques.
- The main objective of LMCS is to bring manufacturing competitiveness in the MSME sector.
- Lean Manufacturing Consultants (LMCs) will assess the existing manufacturing system of member units of the Mini Cluster(s) and stipulate detailed step by step procedures and schedules for implementing and achieving lean techniques.
- A Special Purpose Vehicle (SPV) will be formed in each cluster.
- The SEED and LMCS schemes aim to enhance the competitiveness of MSMEs in India.

Credit Guarantee Scheme (CGS)

- The Credit Guarantee Scheme (CGS) was enhanced from January 1, 2017, to cover credit facilities beyond Rs. 100 lakh in respect of working capital facilities, up to Rs. 200 lakh, provided the proposal meets the guidelines of CGS.
- CGTMSE covers credit facilities (Fund based and/or Non-fund based) extended by Member Lending Institutions (MLIs) to a single eligible borrower in the Micro and Small Enterprise's Sector.
- The corpus of the Trust has been recently enhanced from Rs. 2500 crore to Rs. 7500 crore, and the entire enhancement in the corpus is fully funded by the Government of India.
- The Trust covers credit facilities for a single eligible borrower in the Micro and Small Enterprises sector up to Rs. 50 lakh (Regional Rural Banks/select Financial Institutions), up to Rs. 200 lakh (Scheduled Commercial Banks, select Financial Institutions, Small Finance Banks (SFBs) and Scheduled Urban Co-operative Banks) by way of term loan and/or working capital facilities on or after entering into an agreement with the Trust, without any collateral security and/or third party guarantees.
- The maximum guarantee coverage limit per borrower is Rs. 200 lakh based on the outstanding credit facilities, and the borrowers can avail incremental credit facilities subject to a maximum cap of Rs. 200 lakh.
- The extent of guarantee cover for various categories ranges from 50% to 85% of the amount in default, subject to a maximum limit.
- The lenders should cover eligible credit facilities as soon as they are sanctioned, and apply for guarantee cover latest by the end of the subsequent calendar quarter.
- Guarantee will commence from the date of payment of the guarantee fee and shall run through the agreed tenure of the term credit in case of term loans/composite loans and for a period of 5 years where working capital facilities alone are extended to borrowers, or for such period as may be specified by the Guarantee Trust in this behalf.
- The cumulative guarantee approved by the trust till March 31, 2018, stood at Rs. 30.3 lakh for a cumulative loan amount of Rs. 1.47 lakh crore.

Delayed Payments to Micro and Small Enterprises under the Micro Small and Medium Enterprises Development (MSMED) Act, 2006

- MSMEs in India face various constraints such as lack of credit, high cost of credit, difficulty in complying with collateral requirements, limited access to equity capital, and problems in supply to government departments.
- MSMEs also face difficulties in procurement of raw materials, storage, designing, packaging, product display, and lack of access to global markets.
- Inadequate infrastructure facilities such as power, water, and roads, low technology levels, and lack of skilled manpower are also challenges faced by MSMEs.
- Multiplicity of labour laws, complicated procedures associated with compliance to such laws, absence of a suitable mechanism for quick revival of viable sick enterprises, and issues relating to taxation are other constraints faced by MSMEs.
- The Micro, Small and Medium Enterprise Development (MSMED) Act, 2006 contains provisions relating to “Delayed Payment to Micro and Small Enterprise (MSEs)”.
- State Governments are required to establish Micro and Small Enterprise Facilitation Council (MSEFC) for settlement of disputes on getting references/filing on delayed payments.
- The buyer is liable to pay compound interest with monthly rests to the supplier on the amount at the three times of the Bank Rate, notified by RBI, in case of delayed payment.
- Every reference made to MSEFC shall be decided within a period of ninety days from the date of making such a reference.
- If the Appellant (not being the supplier) wants to file an appeal, no application for setting aside any decree or award by the MSEFC shall be entertained by any court, unless the appellant (not being supplier) has deposited with it, the 75% of the award amount.
- Banks have been advised by RBI to fix separate sub-limits, within the overall limits, specifically for meeting payment obligations in respect of purchases from MSEs either on cash basis or delayed payment.

Performance and Credit Rating Scheme (PCRS)

- RBI has issued guidelines for banks to provide credit to Micro and Small Enterprises (MSEs).
- Banks should allocate at least 60% of their total advances to the priority sector, of which 10% should be earmarked for MSEs.
- Banks should create a sub-limit for the MSE segment within the overall priority sector limit.
- Banks should closely monitor the operations in the sub-limits and ensure that corporate borrowers pay their dues to MSE suppliers before the agreed date.
- RBI has introduced the Trade Receivables Discounting System (TReDS) to facilitate quick settlement of dues to MSMEs.
- The Performance and Credit Rating Scheme (PCRS) is being implemented through NSIC to provide a trusted third-party opinion on the capabilities and creditworthiness of MSEs.
- Rating under the scheme is carried out through empaneled rating agencies.

- Rating fee payable by MSEs is subsidized for the first year only and is subject to a maximum of 75% of the fee or Rs. 40,000, whichever is less.
- Banks should identify incipient stress in MSME loan accounts by creating three sub-categories under the Special Mention Account (SMA) category.
- On the basis of warning signals in respect of accounts in SMA-2, the branch should forward the details of stressed accounts to the Committee for a suitable corrective action plan.

An enterprise can voluntarily initiate proceedings if it apprehends failure of business or inability to pay debts.

- The enterprise can make the application directly to the Committee or to the branch.
- The Committee should convene its meeting within five working days to examine the account for a suitable CAP.
- Banks with exposure towards MSME sector must constitute a Committee at each district/Division level/Regional office level.
- The Committee will be chaired by the regional/zonal head of the convener bank.
- Officer-in-charge of the Micro, Small and Medium Enterprises Credit Department of the convener bank will be the member and convener of the Committee.
- The Committee will also have an independent external expert with expertise in MSME related matters nominated by the bank.
- One representative from the concerned State Government should be brought in the Committee.
- Senior representatives of all banks/lenders having exposure to the borrower should be included when handling accounts under consortium or multiple banking arrangements.
- The Committee should notify the concerned enterprise about the application filed by the lender within five working days.
- The enterprise should respond to the application or make a representation before the Committee within fifteen working days and disclose details of all liabilities owed to the State or Central Government and unsecured creditors.
- On receipt of information, the Committee may send notice to statutory creditors informing them about the application under the Framework.
- The creditors can make a representation regarding their claims before the Committee within fifteen working days.
- The information received is required to determine the total liability of the Enterprise to arrive at a suitable CAP and not for payments of the same by the lenders.

The Reserve Bank of India (RBI) has issued guidelines for the resolution of stressed assets in the banking sector.

- The guidelines are applicable to a committee of lenders with more than one bank and the committee must be formed for each case of stressed assets.

- The committee must finalize a corrective action plan (CAP) for the stressed asset within 30 days of its first meeting and convey the decision to the enterprise within five working days.
- If the CAP involves restructuring of the debt, a Techno-Economic Viability study needs to be conducted within 20-30 working days, depending on the size of the account.
- Upon finalization of the CAP, the implementation of the plan must be completed by the concerned bank within 30-90 days, depending on whether the CAP is rectification or restructuring.
- The options available under the CAP are rectification, restructuring, or recovery.
- Accounts eligible for restructuring are those reported as standard, special mention account, or sub-standard by one or more lenders of the committee.
- Willful defaulters are not eligible for restructuring, but the committee may review the reasons for classification of the borrower as a willful defaulter and satisfy itself that the borrower is not a willful defaulter.
- The decisions agreed upon by a majority of the creditors (75% by value and 50% by number) in the committee would be considered as the basis for proceeding with the restructuring of the account and will be binding on all lenders under the terms of the Inter-Creditor Agreement.

The RBI has issued a framework for the resolution of stressed assets by banks.

- A committee of lenders will be formed for each stressed account with aggregate exposure of Rs. 20 crore or more.
- The committee must convene its first meeting within 30 days of the account being reported as stressed.
- The committee must decide on the corrective action plan (CAP) within 30 days of its first meeting and convey its decision to the enterprise within 5 working days.
- If the CAP envisages debt restructuring, a detailed Techno-Economic Viability (TEV) study must be conducted, and the terms of restructuring finalized within 20-30 working days.
- Upon finalization of the CAP, the implementation of that plan must be completed by the concerned bank within 30-90 days, depending on the type of CAP.
- Three options are available under the CAP: rectification, restructuring, and recovery.
- The committee may take up only those accounts reported as standard, special mention account, or sub-standard.
- Willful defaulters and cases of fraud and malfeasance are not eligible for restructuring.
- The stakeholders will bear the first loss of the enterprise rather than the lenders.
- Viability milestones must be stipulated, and the committee must periodically review the account for achievement/non-achievement of milestones and consider initiating suitable measures.

Unit 13: Concepts of Project, Aspects of Project Formulation & Appraisal & Model Bankable Projects

- Model economics have been prepared based on techno-economic parameters suggested by NABARD for select investments.
- Cash flow based on these parameters are indicated for arriving at the benefit-cost ratio and internal rate of return.
- This assessment will help bankers determine the financial viability and bankability of proposals/schemes received for financial assistance.
- Field officers and officials need to consider all cash flow items relevant for the investment to determine incremental income/surplus accruing to borrowers.
- Studying cash flow during the life cycle of assets financed will help banks decide on the financial viability and bankability of the scheme/project.
- The input costs and income estimates presented in the model schemes are representative in nature and officers appraising loan proposals need to consider current costs and labor costs prevailing in their regions.

The Technical Analysis

- The technical analysis of a project involves examining the inputs and outputs of real goods and services.
- Technical analysis is crucial and needs to be thorough and precise.
- The technical framework must be defined clearly enough to allow for thorough analysis.
- The technical analysis examines various factors, such as soils in the region, water availability, potential crop and Livestock varieties, and the potential for mechanization and pest control.
- The technical analysis determines potential yields, cropping patterns, and possibilities for multi-cropping.
- The technical analysis also examines marketing and storage facilities and necessary processing systems.
- Gaps in information may be identified, and additional surveys or field trials may be necessary to verify information.

Project and Project Analyst

- The project analyst must ensure that technical work is thorough and appropriate, that technical estimates are realistic, and that the proposed technology can be realistically used by farmers in the project area.
- The institutional, organizational, and managerial aspects of projects are important for project implementation.
- The appropriateness of the institutional setting should be examined, taking into account the socio-cultural patterns and institutions of the project beneficiaries.

- The project design should consider the customs and culture of the farmers participating in the project.
- The project should relate properly to the institutional structure of the country/region.
- If the project is related to government development programs/schemes, the project design should conform to the conditions stipulated by them to receive technical support, subsidies, margin money assistance, etc.
- When projects are implemented by organizations, their manageability, organizational design, and ability of the project director and technical staff should be examined during project appraisal.

Managerial issues are crucial to good project design and implementation, and a realistic assessment should be made.

- Social factors must be considered in project analysis.
- Income distribution should be explicitly considered in project design.
- Employment opportunities should also be considered.
- Governments may want to focus on specific regions for growth.
- Project analysts should consider potential adverse effects on certain groups or regions.
- The design should aim to minimize negative effects, such as displacement of farmers.

- Taxes and subsidies are treated as transfer payments in economic analysis.
- Taxes that a project can bear and sales Taxes are part of the total project benefit and are transferred to the government, while subsidies to the project are a Cost to the society.
- market prices are normally used in financial analysis, while economic analysis may adjust prices to more accurately reflect social or economic values using “shadow” or “accounting” prices.
- in both financial and economic analysis, projected prices are used, which are hypothetical prices.

In economic analysis, interest on capital is not separated and deducted from the gross return, as it is considered part of the total return to the society.

- Interest imputed or “paid” to the entity from whose point of view the financial analysis is being done is not treated as a cost.
- The objective of policy makers is to ensure investment of scarce capital resources in the best possible manner to further national objectives.
- Economic analysis helps identify projects that make the greatest contribution to national income.
- Economic analysis allows for remuneration to labour and other inputs either at market prices or at shadow prices to better approximate efficiency prices or “opportunity costs”.
- Projects with the best return to capital are selected for implementation.
- The assumption is that capital is the most important limit to faster economic growth.

- Capital alone does not cause economic growth as all productive factors combined in a project contribute to new income created.
- Economic analysis does not address the issue of income distribution.
- Part of a project's benefit is usually taken through taxes for purposes outside the project, while part may become the basis of an indirect transfer of income.

The Project Cycle

- The project cycle refers to the natural sequence of planning and executing projects.
- The cycle is typically divided into five stages: identification, preparation and analysis, appraisal, implementation, and evaluation.
- The first stage, identification, involves finding potential projects through the input of technical specialists, local leaders, and proposals to extend existing programs.
- Technical specialists and local leaders may identify areas where new investments could be profitable.
- Suggestions for new projects may also arise due to a shortage of agricultural products or the need to expand production.
- The project cycle involves identification, preparation and analysis, appraisal, implementation, and evaluation.
- Potential projects are identified by technical specialists, local leaders, and development banks.
- Economic development plans prioritize sectors and areas for investment, which lead to specific project suggestions.
- Specific project suggestions come from operating agencies responsible for project implementation and sector surveys.
- Preparation and analysis of projects involve progressively more detailed planning and feasibility studies.
- Feasibility studies provide information for deciding whether to proceed with advanced planning.
- Feasibility study details depend on project complexity and existing knowledge.
- Consideration is given to various aspects of the project during preparation and analysis, including market trends, import statistics, future needs, rural life, production and marketing possibilities, and existing plans and programs.
- Thorough preparation and analysis of projects increase efficiency and ensure smooth implementation
- feasibility studies are necessary for deciding whether to proceed with advanced planning
- After project preparation, a critical review and appraisal should be done before committing large sums appraisal process may involve new information and assessment of project plan's appropriateness and soundness.
- If serious flaws are found, investment may not proceed

- Banks should inspect crop water requirements and ensure funds are used properly.
- Electricity availability should be checked before approving loans for electric pump sets.
- Minimum area of land to be brought under irrigation is specified for different types of structures.
- Surplus water can be sold to neighboring farms and the income can be considered for loan repayment.
- Pump sets should conform to BIS 10804-1994 standards and second-hand pump sets must have sufficient serviceable life.
- No change in HP of the pump set should be made when replacing existing pump sets.
- Electric motors should be provided with a starter and a capacitor matching the motor.
- After-sale services and repair facilities should be provided by manufacturers/dealers.
- Invoice orders should be verified and pipelines for which loans are advanced should be actually laid.
- Permission from competent authority should be obtained for lifting water from rivers/canals and should cover at least three years longer than the repayment period of loans.
- The scheme should ensure financial viability and bankability of MI schemes.

Fixation of Repayment Period based on cash flow:

- Bankers consider cash flow and incremental cash flow while fixing repayment period.
- Gestation period is considered, requiring only interest payment in the initial year.
- Principal and interest recovered in annual instalments coinciding with the harvesting season.
- Repayment period for Dug Well/Borewell loans is 11-15 years with a gestation period of 23 months.
- Pump-set/oil engine loans can be recovered in 5 years as the loan amount is comparatively less.

Lift irrigation:

- Techno-economic feasibility is important for lift irrigation schemes.
- Scheme size depends on water availability from the river or stream.
- Groundwater resources and soil type should be considered.
- Economic benefits should be compared with the investment cost.
- Operation and maintenance costs should be considered.
- Suitable financial assistance should be provided for the project.
- Lift irrigation schemes should have a benefit-cost ratio of at least 1.5 to be economically sound.
- Availability of electric connection, registration and share capital should be ensured for lift irrigation societies.
- Societies should maintain proper books of accounts and adhere to cooperative principles.
- Financial viability of a lift irrigation scheme should be worked out by comparing pre and post-development stage incomes.

- Banks should adhere to specific norms when financing drip irrigation schemes.
- Adequate water quality and availability should be ensured.
- The system design and cost estimates should consider plant requirements, cropping pattern, soil characteristics, etc.
- The installing agency should prepare a plan and suggest efficient system design.
- Performance guarantee and after-sales service should be provided by the installing agency.
- Banks should periodically monitor implementation and assess system performance.
- Pipes in the system should be safeguarded.

Farm Mechanization

- Land development activities can be financed by banks through suitable proposals.
- Fencing is a one-time investment that provides long-term protection for agricultural fields and properties.
- Banks can finance fencing as part of the land development scheme, based on the type of fencing and material used.
- Appraisal of land development schemes takes into account the areas developed for cultivation, cropping pattern, and yield pattern to arrive at benefits.
- Banks can encourage tractor/power tiller financing, with certain terms and conditions, such as minimum landholding requirements and registration with the local Regional Transport Authority.
- Banks also consider financing second-hand tractors in exceptional cases.
- Comprehensive insurance policy with a bank clause should be taken to settle dues in case of claims.
- Farm power distribution is uneven across states, with small/marginal holdings unable to own farm machinery due to economic conditions.
- Custom Hiring Centres can bring farm machinery within the reach of small/marginal holdings through collective ownership.

- NABARD has formulated a model scheme to promote Custom Hiring Centres (CHCs) to provide farm machinery to small and marginal farmers.
- The objectives of the scheme are to improve mechanization, provide hiring services, and expand mechanized activities in small and marginal holdings.
- The CHC may ideally comprise of machineries such as a 35 HP tractor, power tiller, multi-crop power thresher, winnower, self-propelled reaper, sprayers, and repairing tools.
- Recurring costs such as fuel, lubricant cost, driver charges, repair maintenance charges, labour, interest on bank loan, and insurance charges are reckoned as recurring costs and compared with the income earned out of custom hiring for working out the economics and benefit-cost ratio.
- NABARD has circulated the unit costs of different machineries needed for farming operations, and the banks can finance other machineries depending upon the requirement of the farmers.

- The model scheme of financing combined harvesters is presented in the statement.

Harvester

- A harvester or combine is a machine that harvests grain crops by combining three separate operations into one process – reaping, threshing, and winnowing.
- There are two types of combine harvesters – self-propelled and PTO operated/mount type.
- The scope of the scheme is to assess the economic viability of combine harvesters for both track and wheel types.
- Currently, the market size of combine harvesters in India is at an infancy stage and is steadily growing.
- Presently, the total population of combine harvesters is estimated to be around 50,000 and availability is not uniformly spread.
- Due to high capital cost, combines are mostly owned by merchants and private parties, and around 90% of harvest operation is done by custom hiring.
- The financial analysis includes considering fixed and variable costs, rental income as cash inflow, net benefits, Benefit-Cost Ratio, and Internal Rate of Return.
- Debt Service Coverage Ratio for each year as well as the average DSCR should be worked out to determine the bankability of the proposal.
- Such loans are generally recovered over a period of 8 years with a one-year moratorium period.

Financing Plantation and Horticulture

- Bankers need to consider various costs while financing plantation and horticulture crops.
- These costs include planting material, farm yard manure, fertilizers, irrigation costs, shade material, staking material, plant protection chemicals, fencing, etc.
- Technical specifications provided by the State agriculture/horticulture Department should be taken into account.
- Some crops may take time to yield, so there may be a need to finance operational costs during the initial years.
- Working capital requirements for These initial years can be capitalized.
- The State Level Unit costs Committee constituted by NABARD suggests the quantum of operational Cost to be capitalized.
- Banks need to adhere to These guidelines to ensure adequate financing.

- Banks should ensure compactness of areas for easy supervision while selecting villages/areas for financing.
- Suitable areas for financing may be identified in consultation with concerned departments of the State Government/Commodity Boards.
- Loans should only be given to beneficiaries with assured water
- supply for irrigation in areas where rainfed cultivation is not possible.

- Loans should cover investment for raising plants in the first year and maintenance in subsequent years until the plant comes to bearing stage.
- If loans are proposed to be availed of only in the first year of planting and not for maintenance during subsequent years, the bank should ensure beneficiaries have their own resources for maintenance.
- Beneficiaries should procure required planting materials of required quantity and quality from reliable sources.
- Beneficiaries should observe technical terms like digging standard sized pits with recommended spacing, using only vegetatively propagated planting materials, planting high yielding recommended varieties, staking young saplings, providing shade cover and fencing, following recommended fertilization and plant protection schedules, and developing adequate soil conservation and drainage arrangements.
- Beneficiaries can be encouraged to raise intercrops, preferably leguminous crops during the first four-five years to improve farm income.
- Adequate shade should be developed for protection of crops like coffee, tea, coconut, cardamom, etc., and a minimum number of shade trees should be retained per acre.
- Quick growing trees like subabul may also be planted wherever necessary.
- Proper and adequate soil conservation and drainage arrangements shall be ensured.
- Installation of processing equipment and civil engineering works shall be carried out according to approved plans and designs.
- Banks staff may provide necessary technical guidance and supervision or satisfy itself that the required technical guidance and supervision is made available by the concerned department of the State Government/Commodity Board.
- Soil conservation measures such as contour bunding should be completed before planting.
- Arrangements should be made for marketing the produce to ensure fair prices for beneficiaries.
- Banks must ensure that beneficiaries have tie-up arrangements with marketing agencies for loan repayment through sale proceeds.
- Loans will be granted based on case appraisal and assessment of repayment capacity of borrowers.
- BC Ratio and internal rate of return should be considered to determine the bankability of projects.
- Repayment schedules should be based on surplus generated by the investment financed.
- The indicative repayment schedule and moratorium period for different plantation and horticulture crops are provided in a table.

Dairy Schemes

- For large dairy schemes, detailed project reports are required.

- Finance items include capital asset items, land development, fencing, digging of wells, electricity connections, transport vehicle, milk processing facilities, etc.
- Beneficiaries should consult with technical persons of State Animal Husbandry Department, DRDA, Dairy Co-operative Society/ Union/ Federation/ commercial dairy farmers and visit progressive dairy farms for practical training and experience.
- The project should include technical, financial, and managerial aspects in detail based on the type of unit and capacity.
- Technical aspects include land and land development, proposed capacity/number of milch animals, civil structures, equipment and plant machinery, housing, production parameters, feeding, breeding facilities, veterinary aid, electricity, water, marketing of milk and other products.
- Financial aspects include financial viability, financial position of the borrower, lending terms.
- Managerial aspects include the borrower's profile, capability to manage the proposed business, prior experience, technical and other special qualifications, technical/managerial staff employed/proposed to be employed, training facilities, assistance available from the state government, and regulatory clearance.
- Bankers financing dairy units need to take into account the capital and recurring costs and prevailing market prices to work out the net benefit and year-wise surplus.

Poultry Farming

- Loans with Refinance facility from NABARD are available for starting poultry farming
- Banks provide financial assistance for construction of sheds, purchase of equipment, creating infrastructure, purchase of chicks, and meeting Working capital requirements
- A Scheme can be prepared After consulting with local technical persons and visiting progressive layer farms
- Technical feasibility should consider land, proposed capacity/farm size, civil structures, equipment, and arrangement for housing birds
- Chicks should be considered based on strain, number of birds/batch strength, source of chicks, and vaccination
- A small unit for rearing improved indigenous birds for meat can be established as a backyard unit by landless families or SHG members.
- Indigenous birds are more resistant to diseases and adverse weather conditions, and can be reared in sheds made from low-cost housing materials.
- Area of 1 sq ft per bird is sufficient, and overcrowding should be avoided.
- Sheds should be constructed on well-raised, non-waterlogging areas, and be well-ventilated, with an elevated floor at least 2ft above ground level.
- Brooding arrangements are required for day-old chicks, which can be done using electric bulbs or bukhari, and the floor should be covered with paddy/wheat straw.
- Birds are to be protected from predators and sheds cleaned regularly to prevent dampness and infections.

- Vaccinations and deworming are necessary for maintaining a healthy flock.
- Good quality concentrate feed should be provided, stored in clean, dry, and well-ventilated rooms to avoid fungal infections.
- Birds should be fed per schedule to avoid over and underfeeding, and fresh and clean drinking water should always be available.
- Banks need to consider prevailing market prices/costs, borrower categories, and interest rates within RBI guidelines when financing small-sized broiler units.
- Security will be as per RBI/NABARD guidelines, and loan repayment is based on gross surplus generated in the project, with a repayment period of 5 years without moratorium.
- The birds and other assets (poultry shed, equipment, etc.) should be insured, and a Risk/Mortality fund may be considered in lieu of poultry insurance where necessary.

Sheep Breeding

- Preparation of sheep breeding scheme with consultation of local technical persons and visiting progressive sheep farmers and government/agricultural university sheep farms
- Technical aspects to consider: nearness to veterinary and wool collection centers, availability of good quality animals, training facilities, grazing lands, feed, medicines, and marketing facilities
- Financial aspects to consider: unit cost, input costs, output costs, income-expenditure statement, annual gross surplus, cash flow analysis, and repayment schedule
- Managerial aspects to consider: borrower's ability to keep the flock intact, protect it from predators, and guide it to market areas in time for shearing
- Outlay of the project depends on local conditions, unit size, and investment components included in the project
- Banks are free to decide interest rates within overall RBI guidelines and shall follow norms for security per RBI/NABARD guidelines.

Goat Rearing

- Fodder arrangement is important for intensive/semi-intensive goat rearing.
- Cost of cultivation for perennial and annual fodder crops is included.
- Farmers should grow fodder under guidance of district agencies.
- Seasonal variations in nutrient availability can affect body weight gain.
- Supplementary feeding with green fodder or concentrate may be necessary.
- Leguminous fodder is preferred by goats.
- Cheap ingredients like agro-forests byproduct and organic waste can be used for concentrate mixture.
- Technical, financial, and managerial aspects should be included in the project plan.
- Outlay of the project depends on local conditions, unit size, and investment components.
- Loans will be disbursed in stages against specific assets.
- Margin ranges from 10% to 25%.

- Banks can decide interest rates within RBI guidelines.
- Security will be as per RBI/NABARD guidelines.
- Animals and assets should be insured.
- A representative model of 10 Female + 1 Male unit is presented for understanding the economics of the model.

Pisciculture

- Composite fish culture is the most popular mode of fish culture in India.
- This technology allows for maximum fish production from a pond/tank through natural and artificial feeding.
- Perennial freshwater ponds/tanks with a depth of 1.5-2.0 meters can be used for fish culture.
- Seasonal ponds can also be used for short duration fish culture.
- Catla and Rohu are recommended species for intensive fish culture based on their feeding habits.
- Technical parameters of intensive fish culture include site selection, pond development, stocking, fertilization, feeding, etc.
- The soil of the pond should be water retentive with adequate water supply.
- Banks should consider these norms while financing intensive fish culture farming.
- Derelict, semi-derelict, or swampy ponds can be renovated for fish culture by dewatering, desilting, repair of embankments, and provision of inlet and outlet.
- Eligible items for pond development include desilting, deepening, excavation, impoundment of marginal areas, embankment construction/repair, and inlet/outlet construction.
- Pre and post-stocking pond management is crucial, including liming, removal of unwanted weeds and fish, and controlling pH levels.
- Financing can be provided to individuals, companies, partnerships, cooperative societies, groups of fish farmers, producer companies/organizations/groups.
- Margin money and subsidies are available for different categories of farmers under a centrally sponsored subsidy scheme.
- Training in fish farming is essential before availing of bank loans.
- Repayment of the term loan can be made in 8-10 years in equated annual installments with a moratorium on repayment of principal for the first year.
- Security guidelines of RBI need to be followed.
- The model economics of financing intensive carp culture of catla and rohu in a 1 ha water spread area are discussed in detail.

Bee Keeping

- Beekeeping can offer direct employment opportunities to people, especially hill dwellers, tribals, and farmers with very low investment and skills.
- Bee farming can be undertaken in a cluster mode by small farmers/marginal farmers, FPOs, JLGs/SHGs, etc. to ensure profitability and sustainability.

- Beekeeping is an additional income generating activity that can be undertaken on a part-time basis.
- Beekeeping can help enhance the yield of flowering crops by 15% to 20%.
- The selected site for beekeeping should be dry without dampness, with clean natural or artificial source of water, and trees for wind belts and shade.
- Bee pasturage and forage plants should be plenty around the apiary site.
- The equipment used for honey bee farming comprises small tools such as beekeeping brushes, hive tools, queen cages, honey extractors, smokers, pollen traps, etc.
- Suitable crops for beekeeping include vegetable crops, oilseed crops, and forage seed crops.
- Yield increase due to bee pollination in honey bee farming has been noteworthy, with incremental crop yields up to 44% in mustard & sunflower, 32-45% increase in cotton, 20% increase in lucerne, 90% increase in onion, and 45% increase in apple yield reported.
- Hives should be placed very near the field to save bee's energy and migrate colonies near the field at 10% flowering.
- Colonies should have at least 5 to 6 frame strength of bees and with sealed brood and young mated queen. Sufficient space should be allowed for pollen and honey storage.

Financing Rural Godowns

- Moisture control in godowns can be achieved through non-hygroscopic construction material, sound wall, roof and floor construction, vapor barriers, and aeration.
- Godowns can be small (50, 100, 200, 250 MT), medium (500, 1000, 2000 MT), or large (above 2000 MT).
- For godowns with a capacity of 1000 MT and above, suitable compartments should be built.
- The ideal stack size for godowns is 9.15 m × 6.1 m × 4.57 m.
- The plinth of the godown should be at least 80 cm above the finished ground level and should be filled with good, selected earth in layers not exceeding 200 mm.
- The plinth can be constructed of either stone or brick masonry in lime mortar (1:2) or cement mortar (1:6) and should have a damp proof course of well-graded concrete with water-proofing compound.
- A cement concrete or reinforced cement or stone slab projection of 15 cm to 18 cm at plinth level may be provided at 0.75 m to 0.8m plinth height.
- The foundation, flooring, walls, and roofs of the godown should conform to Central/State PWD specifications and warehouse norms.
- The walls should be designed in accordance with general constructional practices and should ensure that tensile stresses do not exceed the cracking limit.
- The roof should be of single span structural steel or tubular trusses fixed on RCC or stone masonry or brick masonry pillars at a height of 5.60 m for road-fed godowns.
- Adequate ventilation should be provided through fixed ventilators located 15 cm below the top edge of the wall, and moveable steps should be provided for the godown entrances.

Financing Sericulture

- Loans under the scheme will be given to those who have assured water supply facilities for irrigation.
- Loans will be issued for investment in raising plants and their maintenance until the plant comes to bearing stage.
- The bank will ensure that the planting materials of the required quantity and quality are procured from reliable sources.
- The pits dug will be of standard size and with recommended spacing and number of plants as per the recommendations of Central Sericulture Research Institute.
- The recommended fertilization and plant protection schedules of Commodity Board/AU/Department of Horticulture shall be followed.
- Adequate fencing arrangements will have to be provided as per local practices with a view to protecting the garden from cattle and trespassers.
- Watering of plants shall be done during dry months of the first two to three seasons in respect of plants to be raised under rainfed conditions.
- Proper and adequate soil conservation and drainage arrangements shall be ensured.
- The bank's staff may provide necessary technical guidance and supervision.
- Necessary arrangements should be made for marketing of the produce so that the beneficiaries get fair prices.
- The bank shall grant loans to individual beneficiaries based on a case appraisal and assessment of the repayment capacity of the borrowers.
- The technical officers of the implementing branches shall be trained at CSRTI Mysore before commencing financing under the scheme.
- The loan for rearing house and equipment shall be released only after beneficiaries are fully trained.

Financing Mushroom Cultivation

- Silkworms require careful rearing techniques and good sanitation to prevent diseases.
- The rearing room and appliances must be cleaned and disinfected with formaldehyde solution.
- Room temperature should be maintained as per state sericulture department specifications.
- Loan provided for mulberry cultivation and cocoon rearing can be recovered in 5 years, including a one-year moratorium period.
- Button mushroom is the most popular variety grown and consumed worldwide.
- Mushroom production involves spawn production, compost preparation, spawning, spawn running, casing, and fruiting.
- Spawn is produced from selected strains of mushrooms under sterile conditions.
- Compost is mainly prepared from a mixture of plant wastes, salts, supplements, and water.
- Each ton of compost should contain 6.6 kg nitrogen, 2.0 kg phosphate, and 5.0 kg potassium.

- The ratio of C:N in a good substrate should be 25-30:1 at staking and 16-17:1 in the case of final compost.

- There are two methods of preparing compost: short and long.
- The short method involves mixing organic matter with straw and watering it for 12 days, while turning the stack multiple times and adding gypsum.
- The long method involves turning the compost multiple times over 28 days and adding BHC before checking for ammonia smell.
- Spawning is the process of mixing spawn with compost.
- There are three methods of spawning: spot spawning, surface spawning, and layer spawning.
- After spawning, the compost is filled into bags or trays and kept at a temperature of 23 ± 2°C with a relative humidity of 90% for spawn running.
- Casing material should have high porosity, water holding capacity, and a pH range of 7-7.5.

Cultivation of Mushrooms

- The cultivation of white button mushrooms involves several stages, including substrate preparation, casing, fruiting, and harvesting.
- The substrate is prepared using a mixture of ingredients such as wheat straw, poultry manure, and gypsum.
- The substrate is pasteurized and inoculated with mushroom spawn before being transferred to a casing layer, which is a layer of soil or compost.
- The casing layer is treated with formaldehyde, Bavistin, or steam sterilization to prevent disease and promote growth.
- Fruiting requires favorable environmental conditions such as temperature, moisture, humidity, ventilation, and low CO_2 concentration.
- Harvesting is done at the button stage, and mushrooms are highly perishable.
- Majority of entrepreneurs produce mushrooms under two models: seasonal cultivation and year-round production under environmental controlled conditions.
- The average production of 2 kg mushroom per 10 kg of compost has been considered.
- The entrepreneur is expected to bring in 10% of the project cost as margin money.
- The bank loan interest rate is assumed to be 10% for small units and 12.5% for medium-sized units.
- Only 50% of the surplus left after servicing of the payment of interest would be available for servicing the principal repayment.

MODULE - C: PRIORITY SECTOR FINANCING AND GOVT. INITIATIVES

Unit 14: Priority Sector Lending

Priority Sector Advances

- In 1980, all commercial banks were advised to achieve the target of priority sector lending at 40 per cent of the aggregate bank advances by 1985. Sub-targets were also specified for lending to agriculture and the weaker sections within the priority sector. The guidelines have undergone changes over the period and the a revised Master Directions – Priority Sector Lending (PSL) – Targets and Classification was issued in September 2020.
- The targets and sub-targets as fixed for each category are applicable to every commercial bank [including Regional Rural Bank (RRB), Small Finance Bank (SFB), Local Area Bank] and Primary (Urban) Co- operative Bank (UCB) other than Salary Earners' Bank.

The categories under priority sector are as follows:

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

Targets and Sub-Targets for Priority Sector

The targets and sub-targets set under priority sector lending, to be computed on the basis of the Adjusted Net Bank Credit (ANBC)/Credit Equivalent of Off-Balance Sheet Exposure (CEOBE) as applicable as on the corresponding date of the preceding year, are as under:

Categories	Domestic commercial banks (excl. RRBs & SFBs) & foreign banks with 20 branches and above	Foreign banks with less than 20 branches	Regional Rural Banks	Small Finance Banks

Total Priority Sector	**40 per cent** of ANBC or CEOBE whichever is higher	**40 per cent** of ANBC or CEOBE whichever is higher; out of which up to **32%** can be in the form of lending to Exports and not less than **8%** can be to any other priority sector	**75 per cent** of ANBC or CEOBE whichever is higher; However, lending to Medium Enterprises, Social Infrastructure and Renewable Energy shall be reckoned for priority sector achievement only up to **15 per cent** of ANBC.	**75 per cent** of ANBC or CEOBE whichever is higher.

Sub-targets for Priority sector

Categories	**Domestic commercial banks (excl. RRBs & SFBs) & foreign banks with 20 branches and above**	**Foreign banks with less than 20 branches**	**Regional Rural Banks**	**Small Finance Banks**
Agriculture	**18 per cent** of ANBC or CEOBE, whichever is higher; out of which a target of **10 percent#** is prescribed for Small and Marginal Farmers (SMFs)	Not applicable	**18 per cent** ANBC or CEOBE, whichever is higher; out of which a target of **10 percent#** is prescribed for SMFs	**18 per cent** of ANBC or CEOBE, whichever is higher; out of which a target of **10 percent#** is prescribed for SMFs
Micro Enterprises	**7.5 per cent** of ANBC or CEOBE, whichever is higher	Not applicable	**7.5 per cent** of ANBC or CEOBE, whichever is higher	**7.5 per cent** of ANBC or CEOBE, whichever is higher
Advances to Weaker Sections	**12 percent#** of ANBC or CEOBE, whichever is higher	Not applicable	**15 per cent** of ANBC or CEOBE, whichever is higher	**12 percent#** of ANBC or CEOBE, whichever is higher

Revised targets for SMFs and Weaker Section will be implemented in a phased manner as indicated below

Priority Sector Targets/Sub-targets for UCBs

Categories	**Primary Urban Co-operative Bank**				
Total Priority Sector	40 per cent of ANBC or CEOBE, whichever is higher, which shall stand increased to 75 per cent of ANBC or CEOBE, whichever is higher, with effect from March 31, 2024. Urban Co-operative Banks (UCBs) shall comply with the stipulated target as per the following milestones:				
	March 31, 2020	March 31, 2021	March 31, 2022	March 31, 2023	March 31, 2024
	40%	45%	50%	60%	75%
Micro Enterprises	7.5 per cent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher				
Advances to Weaker Sections	12 per cent# of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.				
# Revised targets for weaker sections will be implemented in a phased manner as indicated below					

The targets for lending to SMFs and for Weaker Sections shall be revised upwards from FY 2021-22 onwards as follows:

Financial Year	**Small and Marginal Farmers target ***	**Weaker Sections target ^**
2020-21	**8%**	**10%**
2021-22	**9%**	**11%**
2022-23	**9.5%**	**11.5%**
2023-24	**10%**	**12%**

* Not applicable to UCBs
^ Weaker Sections target for RRBs will continue to be 15% of ANBC or CEOBE, whichever is higher.

Description of Eligible Categories Under Priority Sector

Agriculture

- Crop loans including loans for traditional / non-traditional plantations, horticulture and allied activities.

- Medium and long-term loans for agriculture and allied activities (e.g., purchase of agricultural implements and machinery and developmental loans for allied activities).
- Loans for pre and post-harvest activities viz. spraying, harvesting, grading and transporting of their own farm produce.
- Loans to distressed farmers indebted to non-institutional lenders.
- Loans under the Kisan Credit Card Scheme.
- Loans to small and marginal farmers for purchase of land for agricultural purposes.
- Loans against pledge / hypothecation of agricultural produce (including warehouse receipt) for a period not exceeding 12 months subject to a limit up to Rs. 75 lakh against NWRs/ e-NWRs and up to Rs. 50 lakhs against warehouse receipts other than NWRs/e-NWRs.
- Loans to farmers for installation of stand-alone Solar Agriculture Pumps and for solarisation of grid connected Agriculture Pumps.
- Loans to farmers for installation of solar power plants on barren/fallow land.
- Farm Credit – Corporate farmers, Farmer Producer Organisations (FPOs)/(FPC) Companies of Individual Farmers, Partnership firms and Co-operatives of farmers engaged in Agriculture and Allied Activities.
- Loans for the following activities will be subject to an aggregate limit of Rs. 2 crore per borrowing entity:
  - Crop loans to farmers which will include traditional/non-traditional plantations and horticulture and loans for allied activities.
  - Medium and long-term loans for agriculture and allied activities (e.g., purchase of agricultural implements and machinery and developmental loans for allied activities).
  - Loans for pre and post-harvest activities viz. spraying, harvesting, grading and transporting of their own farm produce.
- Loans up to Rs. 75 lakh against pledge/hypothecation of agricultural produce for a period not exceeding 12 months against NWRs/eNWRs and up to Rs. 50 lakh against warehouse receipts other than NWRs/eNWRs.
- Loans up to Rs 5 crore per borrowing entity to FPOs/FPCs undertaking farming with assured marketing of their produce at a pre-determined price.
- UCBs are not permitted to lend to co-operatives of farmers.
- Agriculture Infrastructure: Loans for agriculture infrastructure will be subject to an aggregate sanctioned limit of Rs. 100 crore per borrower from the bank.

Ancillary Services:

Following loans under ancillary services will be subject to limits prescribed as under:

- Loans up to Rs. 5 crore to co-operative societies of farmers for purchase of the produce of members.
- Loans up to Rs. 50 crore to Start-ups, that are engaged in agriculture and allied services.
- Loans for Food and Agro-processing up to an aggregate sanctioned limit of ₹100 crore per borrower from the banking system.

Bank credit to registered NBFCs (other than MFIs) towards on-lending for 'Term lending' component under agriculture will be allowed up to ₹ 10 lakh per borrower.

Micro, Small and Medium Enterprises (MSMEs):

- Loans up to ₹50 crore to Start-ups, as per definition of Ministry of Commerce and Industry, Govt. of India.
- All loans to units in the KVI sector will be eligible for classification under the sub-target of 7.5 percent prescribed for Micro Enterprises under priority sector.
- Overdraft to Pradhan Mantri Jan-Dhan Yojana (PMJDY) account holders as per limits and conditions prescribed by Department of Financial Services, Ministry of Finance from time to time, will qualify as achievement of the target for lending to Micro Enterprises.
- Outstanding deposits with SIDBI and MUDRA Ltd. on account of priority sector shortfall.

Export Credit (not applicable to RRBs and LABs)

Education

- Loans to individuals for educational purposes, including vocational courses, not exceeding Rs. 20 lakh will be considered as eligible for priority sector classification.

Housing

- Loans to individuals up to Rs. 35 lakh in metropolitan centres (with population of ten lakh and above) and up to Rs. 25 lakh in other centres for purchase/construction of a dwelling unit per family provided the overall cost of the dwelling unit in the metropolitan centre and at other centres does not exceed Rs. 45 lakh and Rs. 30 lakh respectively.
- Housing loans to banks' own employees will not be eligible for classification under the priority sector.
- Since Housing loans which are backed by long term bonds are exempted from ANBC, banks should not classify such loans under priority sector.
- Investments made by UCBs in bonds issued by NHB / HUDCO on or after April 1, 2007 shall not be eligible for classification under priority sector.

Housing (other aspects)

- Loans up to Rs. 10 lakh in metropolitan centres and up to Rs. 6 lakh in other centres for repairs to damaged dwelling
- Bank loans to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers subject to dwelling units with carpet area of not more than 60 sq.m.
- Bank loans for affordable housing projects using at least 50% of FAR/FSI for dwelling units with carpet area of not more than 60 sq.m.

- Bank loans to HFCs (approved by NHB for their refinance) for on-lending, up to Rs. 20 lakh for individual borrowers, for purchase/construction/ reconstruction of individual dwelling units or for slum clearance and rehabilitation of slum dwellers.
- Outstanding deposits with NHB on account of priority sector shortfall.

Social Infrastructure

- Bank loans up to a limit of Rs. 5 crore per borrower for setting up schools, drinking water facilities and sanitation facilities including construction/ refurbishment of household toilets and water improvements at household level, etc.
- Loans up to a limit of Rs. 10 crore per borrower for building health care facilities including under 'Ayushman Bharat' in Tier II to Tier VI centres.
- In case of UCBs, the above limits are applicable only in centres having a population of less than one lakh.

Renewable Energy

- Bank loans up to a limit of Rs. 30 crore to borrowers for purposes like solar based power generators, biomass-based power generators, wind mills, micro-hydel plants and for nonconventional energy based public utilities, viz., street lighting systems and remote village electrification, etc., will be eligible for Priority Sector classification.
- For individual households, the loan limit will be Rs. 10 lakh per borrower.

Others:

The following loans as per the prescribed limits are eligible for priority sector classification:

- Loans not exceeding Rs. 1.00 lakh per borrower provided directly by banks to individuals and individual members of SHG/JLG, provided the individual borrower's household annual income in rural areas does not exceed Rs. 1.00 lakh and for non-rural areas it does not exceed Rs. 1.60 lakh, and loans not exceeding Rs. 2.00 lakh provided directly by banks to SHG/JLG for activities other than agriculture or MSME, viz., loans for meeting social needs, construction or repair of house, construction of toilets or any viable common activity started by the SHGs.
- Loans to distressed persons not exceeding Rs. 1.00 lakh per borrower to prepay their debt to non-institutional lenders.
- Loans up to Rs. 50 crore to Start-ups, as per definition of Ministry of Commerce and Industry, Govt. of India that are engaged in activities other than Agriculture or MSME.

Weaker Section

- Priority sector loans to the following borrowers will be considered as lending under Weaker Sections category.

Inter-bank Participation Certificate

- IBPCs bought by banks, on a risk sharing basis, are eligible for classification under respective categories of priority sector, provided the underlying assets are eligible to be categorized under the respective categories of priority sector and the banks fulfil the Reserve Bank of India guidelines.

Priority Sector Lending Certificates (PSLCs)

- The outstanding PSLCs bought by banks will be eligible for classification under respective categories of priority sector provided the underlying assets originated by banks are eligible to be classified as priority sector advances and fulfil the Reserve Bank of India guidelines on Priority Sector Lending Certificates issued.

Bank loans to NBFCs for on-lending (not applicable to RRBs, UCBs, SFBs and LABs):

Bank credit to registered NBFCs (other than MFIs) for on-lending will be eligible for classification as priority sector under respective categories subject to the following conditions:

- **Agriculture:** On-lending by NBFCs for 'Term lending' component under Agriculture will be allowed up to Rs.10 lakh per borrower.
- **Micro & Small enterprises:** On-lending by NBFC will be allowed up to Rs. 20 lakh per borrower.
- Bank loans to HFCs for on-lending (not applicable to RRBs, SFBs and LABs): Bank credit to Housing Finance Companies (HFCs), approved by NHB for their refinance, for on-lending for the purpose of purchase/construction/ reconstruction of individual dwelling units or for slum clearance and rehabilitation of slum dwellers, subject to an aggregate loan limit of Rs. 20 lakh per borrower.

Non- Achievement of Priority Sector Targets

- Banks having any shortfall in lending to priority sector shall be allocated amounts for contribution to the Rural Infrastructure Development Fund (RIDF) established with NABARD and other funds with NABARD/NHB/SIDBI/ MUDRA Ltd., as decided by the Reserve Bank from time to time.
- With effect from March 31, 2021, all UCBs (excluding those under all-inclusive directions) will be required to contribute to Rural Infrastructure Development Fund (RIDF) established with NABARD and other funds with NABARD/ NHB/ SIDBI/ MUDRA Ltd., against their priority sector lending (PSL) shortfall vis-a -vis the prescribed target.
- While computing priority sector target achievement, shortfall/ excess lending for each quarter will be monitored separately.
- The interest rates on banks' contribution to RIDF or any other funds, tenure of deposits, etc. shall be fixed by Reserve Bank of India from time to time.
- Non-achievement of priority sector targets and sub-targets will be taken into account while granting regulatory clearances/approvals for various purposes.

Common Guidelines for Priority Sector Loans

- **Rate of interest:** The rates of interest on bank loans will be as per directives issued by Department of Regulation (DoR), RBI from time to time.
- **Service charges:** No loan related and ad hoc service charges/inspection charges should be levied on priority sector loans up to Rs. 25,000.
- **Receipt, Sanction/Rejection/Disbursement Register:** A register/electronic record should be maintained by the bank wherein the date of receipt, sanction/rejection/disbursement with reasons thereof, etc. should be recorded. The register/electronic record should be made available to all inspecting agencies.
- **Issue of acknowledgement of loan applications:** Banks should provide acknowledgement for loan applications received under priority sector loans. Bank Boards should prescribe a time limit within which the bank communicates its decision in writing to the applicants.

Unit 15: Poverty Alleviation Programs

- Eradicating poverty in India is a long-term goal.
- Poverty alleviation is expected to improve in the next 50 years due to the trickle-down effect of the growing middle class, emphasis on education, reservation of seats in government jobs, and increasing empowerment of women and economically weaker sections of society.
- 3 It is incorrect to say that all poverty reduction programs have failed.
- Government has initiated sustained efforts and refined various schemes to help the poor attain self-sufficiency in food production and supply of basic commodities at controlled prices.
- Acceleration of economic growth with a focus on employment-intensive sectors facilitates the removal of poverty in the long run.
- Skill development training programs have been launched to empower people to pursue self-employment.
- Technology plays a crucial role in enabling inclusiveness and providing efficient services.
- Direct Benefits Transfers (DBT), namely the JAM Trinity solution, offers possibilities for effectively targeting public resources to those who need them most and including all those who have been deprived in multiple ways.
- The progress is already evident with overhauling of the subsidy regime and moving to the Aadhaar-based system.

Poverty Assessment and Way Forward

- India started big-bang economic reforms in 1991 and the GDP growth has been much higher in the post-reform period.
- Success of reforms depends on whether the well-being of people, particularly that of poor, increased over time.
- Poverty declined by 1.36 percentage points per annum after 1991, compared to that of 0.44 percentage points per annum, prior to that period.
- Urban growth is the most important contributor to the rapid reduction in poverty, even though rural areas showed growth in the post-reform period.
- Poverty estimates based on the Tendulkar Committee methodology, using household consumption expenditure survey data collected by the NSSO in its 68th round (2011–12), show that the incidence of poverty declined from 37.2 per cent in 2004–5 to 21.9 per cent in 2011–12, for the country as a whole.
- There was a sharper decline in the number of rural poor.
- High rural poverty can be attributed to lower farm incomes, due to subsistence agriculture, lack of sustainable livelihoods in rural areas, impact of rise in prices of food products on rural incomes, lack of skills, under-employment and unemployment.
- Economic reforms in India in 1991 led to higher GDP growth, but the success of reforms depends on the well-being of people.

- Poverty estimates based on the Tendulkar Committee methodology show that poverty declined from 37.2% in 2004-05 to 21.9% in 2011-12, with a sharper decline in rural areas.
- The Economic Survey 2016-17 advocated for the adoption of Universal Basic Income (UBI) as an alternative to social welfare schemes, in an effort to reduce poverty.
- The government has launched various schemes aimed at creating wage employment and promoting self-employment, such as the Food for work Program, NREGA, and Swarna Jayanti Shahari Rozgar Yojana.
- The government has launched various schemes for Poverty alleviation and social justice, including programs for wage employment, self-employment, and affordable housing for the rural poor.
- The National Food Security Act aims to provide subsidized Food grains to two-thirds of the population.
- the Poverty reduction was due to higher economic growth, agriculture growth, rural Non-farm employment, real wage increases for rural laborers, employment in construction sector, and programs like MGNREGA.
- The World Bank reports that India has achieved annual growth exceeding 7% over the last 15 years and continues to pull millions of people out of poverty, but the recent Covid-19 pandemic may impact the poor and vulnerable.
- The government has initiated programs like DDU-GKY to promote skill training and generate a skilled workforce.
- Programs like Jan Dhan Yojana, Mid-day meal Scheme, and Public Distribution System are contributing to the welfare of the poor.

However, Poverty and hunger are still challenges in India.

- According to FAO estimates, 14% of the population is undernourished, and 51.4% of women between 15 and 49 years are anemic.
- 34.7% of children under five in India are stunted, and 20% suffer from wasting.
- Malnourished children have a higher risk of death from common childhood illnesses.
- The Global Hunger Index 2020 ranks India at 101 out of 116 countries based on indicators like wasting, stunting, child mortality rates, and undernourishment.
- A National Sample Survey is conducted to assess Poverty and related issues in India.
- About 5% of India's population sleeps without two square meals a day.
- The Antyodaya Anna Yojana (AAY) was launched in 2000 for the poorest of the poor families, and it now covers 2.5 crore households.
- Over 2.3 crore children in India, up to 6 years of age, are suffering from malnourishment and are underweight.
- Bihar has the highest proportion of underweight children at nearly 50%, followed by Andhra Pradesh (37%), Uttar Pradesh (36%), Rajasthan, and Chhattisgarh (both 32%).
- According to the NSSO, per capita annual household consumption of cereal declined for both rural and urban populations between 1993-94 and 2011-12.

- Dietary energy intake has declined from 2,153 kcal per person per day in 1993-94 to 2,071 kcal per day in 2011-12, according to the NSSO.

Initiatives of the Government – Features of the Schemes Implemented for Poverty Reduction

- India has one of the highest demographics of malnourished children in the world, with 44% of children under 5 underweight and 72% of infants having anemia.
- India has invested in child malnutrition programs which have seen a significant reduction in the number of underweight and stunted children by the end of 2014.
- India has also exceeded the World Health Assembly's targets for breastfeeding infants under 6 months.
- The Deendayal Antyodaya Yojana – National Rural Livelihoods Mission (DAY-NRLM) is a program launched by the Ministry of Rural Development to promote poverty reduction.
- DAY-NRLM replaces the Swarnjayanti Gram Swarozgar Yojana (SGSY) scheme and focuses on building strong institutions of the poor, particularly women, and enabling them to access financial and livelihood services.
- The program provides capacity building support, initial fund support, and formation and nurturing of SHG federations and livelihood organizations.
- The program also promotes skill development of rural youth to start their own enterprises or take up jobs in the organized sector.

Pradhan Mantri Gram Sadak Yojana (PMGSY)

- The Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) provides 100 days of guaranteed employment in rural areas to every household as per demand, resulting in creation of productive assets, strengthening livelihood resources of the poor, ensuring social inclusion, and strengthening Panchayat Raj institutions.
- The MGNREGS has evolved over the last two years to increase its focus on creating durable assets, diversifying livelihood opportunities, and natural resource management to improve farmers' income and wage opportunities.
- The program is self-targeted and provides a higher number of employment days (150 days) in drought-affected areas.
- Technological and programmatic improvements have been made, including digitalization of job cards, seeding them with Aadhaar, linking payment through Aadhaar payment bridge, geo-tagging of MGNREGS assets, and payment of wages directly to beneficiaries' accounts.
- The PMGSY provides connectivity to unconnected habitations through single all-weather roads to eligible unconnected habitations, as per core network, with a population of 500 persons in plain areas and 250 persons and above in special category states.
- PMGSY aims to set high and uniform technical and management standards and facilitate policy development and planning at the state level to ensure sustainable management of the rural roads network.

- About 1.67 lakh unconnected habitations are eligible for coverage under the PMGSY program, involving construction of about 3.71 lakh km of roads for new connectivity and 3.68 lakh km under upgradation.

Welfare Schemes

- The PMAY-G provides housing for all by 2022 and has replaced the Indira Awas Yojana.
- PMAY-G is a scheme that provides housing to eligible beneficiaries, with a focus on female-headed households and households with a single girl child.
- The scheme also addresses the basic needs of households through convergence with other government schemes, such as MGNREGS and Swachh Bharat Mission.
- The PDS is a safety-net program in India that provides subsidized grains to the poor.
- The PDS began as a universal program but has been targeted towards the poor since 1997.
- States identify the poor for delivery of food grains and distribute them in a transparent and accountable manner at the FPS level.
- The allocation of food grains to states/UTs is based on the average consumption in the past.
- The government increased the allocation of food grains to BPL families from 10 kg to 20 kg per family per month at 50% of the economic cost and allocation to APL families at economic cost.
- Technology-based reforms have been introduced under TPDS to improve efficiency in implementation of the program, such as digitization of ration cards and computerization of data relating to eligibility of beneficiaries and transactions.
- Pradhan Mantri Garib Kalyan Yojana is a relief package of Rs 1.70 Lakh crore for the poor to help them fight against COVID-19
- The package includes insurance cover of Rs 50 Lakh per health worker, free food for 80 crore poor people for three months, financial support of Rs 500 per month for 20 crore women Jan Dhan account holders, an increase in MNREGA wage, ex-gratia of Rs 1,000 to 3 crore poor senior citizens, poor widows, and poor disabled, front-loading Rs 2,000 to farmers under PM Kisan Yojana, and using Building and Construction Workers Welfare Fund to provide relief to construction workers.
- Pradhan Mantri Jan Aushadhi Yojana aims to provide quality drugs/medicines at an affordable cost across the country. It plans to open 3000 Jan Aushadhi stores to sell drugs.
- Pradhan Mantri Ujjwala Yojana aims to provide clean cooking fuel such as LPG to rural and deprived households. The program targeted to release 8 crore LPG connections to the deprived by March 2020, and provision to release an additional 1 crore LPG connections has been made in the Union Budget 2021-22. The scheme provides financial support of Rs 1600 for each LPG connection to the BPL households and provides the first LPG refill and stove (hotplate) free of cost.

Unit 16: Rural Housing and Education Loans

- Housing is a basic requirement for human survival and is necessary for social integration.
- Rural housing development is important for poverty alleviation and overall rural development.
- Public housing programs in India began with the rehabilitation of refugees after independence.
- In 1957, a Village Housing Program was introduced, providing loans up to Rs. 5,000 per unit.
- Specific focus on rural housing started with National Rural Employment Program (1980) and Rural Landless Employment Guarantee Program (1983).
- Indira Awas Yojana (IAY) was launched in 1985 as a sub-scheme of RLEGP for SCs/STs and freed bonded laborers.
- In 1989, 6% of funds for Jawahar Rozgar Yojana (JRY) were allocated for housing for SCs/STs and freed bonded laborers.
- In 1993-94, the coverage was extended to Non-SC/ST families.
- IAY became an independent scheme in 1996 to address the housing needs of BPL households.
- IAY has addressed rural housing shortage, but there is still a huge gap in rural housing.
- The scheme has been restructured into Pradhan Mantri Awas
- Yojana-Gramin (PMAY-G) with effect from 1st April 2016, to address the gap and provide "Housing for All" by 2022.

Pradhan Mantri Awas Yojana (Grameen)

- The Pradhan Mantri Awas Yojana-Gramin (PMAY-G) was introduced in April 2016 to address the gaps in implementing the Indira Awas Yojana (IAY).
- The PMAY-G aims to provide pucca houses to all houseless persons and those living in kutcha and dilapidated houses by 2022.
- A pucca house is one that can withstand normal wear and tear, including climatic conditions, for at least 30 years with reasonable maintenance.
- The objective is to cover one crore households in three years from 2016-17 to 2018-19.
- The minimum size of the house has been increased to 25 sq. mt. with a hygienic cooking place.
- The unit assistance has been increased from Rs. 70,000 to Rs. 1,20,000 in plains and from Rs. 75,000 to Rs. 1,30,000 in hilly states.
- Pradhan Mantri Awas Yojana-Gramin (PMAY-G) aims to provide pucca houses to all houseless and those living in kutcha and dilapidated houses by Y-2022.
- The objective is to cover one crore households in three years from 2016-17 to 2018-19.
- Minimum size has been increased to 25 sq. mt. with hygienic cooking place, and the unit assistance has been increased from Rs. 70,000 to Rs. 1,20,000 in plains and from Rs. 75,000 to Rs. 1,30,000 in hilly states and difficult areas.
- The Cost of the Unit is to be shared between Central and State Governments in the Ratio of 40:60 in plain areas and 10:90 for north Eastern and Hilly states.

- Provision of toilets at Rs. 12,000 and 90/95 days of unskilled wage labour under MGNREGA over and above the unit cost.
- Identification of beneficiaries using Socio Economic Caste Census (SECC-2011) data, with selection done by the community through the Gram Sabha.
- Setting up of National technical support Agency, at the National Level, to provide technical support in achieving the target set under the project.
- Special projects to be sanctioned to states based on situational exigencies and Special needs.
- Use of effective convergence for Provision of various facilities.
- All payments through DBT to beneficiary's Bank/post office accounts registered in AwasSoft MIS.
- households without shelter, destitute/living on alms, manual scavenger, primitive tribal groups, legally released bonded labourers shall be included under the Scheme automatically.
- Houses sanctioned under PMAY-G are eligible to receive assistance of Rs. 12,000/- for construction of a toilet from Swachh Bharat Mission, MGNREGS or any other dedicated financing source of the Government.
- The amount will be credited to the beneficiary's Bank account within a period of one week After issuance of the sanction letter.

- The beneficiary has to construct the house himself or get it constructed, under his supervision.
- The scheme stipulates that construction of the house should be completed within a period of 12 months from the date of sanction letter.
- Beneficiaries can avail institutional loan up to Rs. 70,000 if they desire so.
- Loans to individuals up to Rs. 35 lakh in metropolitan centres and up to Rs. 25 lakh in other centres for purchase/construction of a dwelling unit per family are considered under priority sector, provided the overall cost of the dwelling unit does not exceed Rs. 45 lakh and Rs. 30 lakh respectively.
- Loans up to Rs. 10 lakh in metropolitan centres and up to Rs. 6 lakh in other centres for repairs to damaged dwelling units conforming to the overall cost of the dwelling unit as prescribed are also considered under priority sector.
- Bank loans to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers subject to dwelling units with carpet area of not more than 60 sq.m are considered under priority sector.
- Bank loans for affordable housing projects using at least 50% of FAR/FSI for dwelling units with carpet area of not more than 60 sq.m are considered under priority sector.
- Bank loans to HFCs (approved by NHB for their refinance) for on-lending, up to Rs. 20 lakh for individual borrowers, for purchase/construction/reconstruction of individual dwelling units or for slum clearance and rehabilitation of slum dwellers are considered under priority sector.

Rural Housing Policy by NABARD

- NABARD has adopted a comprehensive rural housing policy to meet huge unmet needs of rural housing in the country and raised resources from the market for on-lending to National Rural Infrastructure Development Agency (NRIDA) for various initiatives of Government for rural infrastructure development including PMAY-G.
- NABARD has sanctioned Rs. 61,975 crore and released Rs. 48,819 crore for PMAY-G against which sanctions have been accorded for construction of over 2.24 crore houses, and about 1.69 crore houses have been completed as on 5 Jan, 2022.
- NABARD has been extending financial assistance for rural housing to Co-operatives and State entities (State Housing Boards/Corporations, etc.).
- Assistance for construction of toilets by SHG women and other individuals under rural sanitation is also extended through eligible institutions.
- NABARD has been extending loans to the National Centre for Drinking Water, Sanitation and Quality, towards part funding of Central share, towards construction of 3 crore household toilets under Swachh Bharat Mission- Gramin (SBM-G).
- Loan assistance to the NCDWS&Q, under the program aggregated Rs. 12, 298 crore as on 31 March, 2021, which had facilitated construction of over 3.3 crore household toilets.
- NABARD has conducted more than 2,000 Sanitation Literacy Programs in NABARD supported project areas, across the country, with the help of jingles, short film, posters, etc. to create awareness on Water, Sanitation and Hygiene (WASH) to sustain attitudinal changes for adopting safe sanitation and hygiene practices, especially in the context of the Covid-19 pandemic, and on the availability of credit for constructing sanitation facilities.

Education Loan

- NABARD has launched a refinance product to support the WASH sector for eligible financial institutions.
- Education is important for human resources development and empowerment in any country.
- The government provides primary education on a universal basis, but higher education is moving into the domain of the private sector.
- Higher education is becoming more costly, and the need for institutional funding is increasing.
- The Indian Banks' Association has formulated a model education loan scheme and circulated it amongst banks for adoption.
- The Reserve Bank of India has permitted banks to classify certain types of education loans as a priority sector.
- The objective of the education loan scheme is to provide financial support to meritorious students for pursuing higher education in India and abroad.
- The scheme provides an opportunity for meritorious students from poor families to pursue education with affordable terms and conditions.

- Eligibility requires Indian nationality and admission to a higher education course through an Entrance Test/Merit Based Selection process after completion of HSC (10 plus 2 or equivalent).
- For some post-graduate courses or research programs, other criteria such as employability and reputation of the institution may be considered.
- The scheme provides assistance for approved courses leading to graduate/postgraduate degree and PG diplomas conducted by recognized institutions in India or abroad, including courses like ICWA, CA, CFA, etc.
- Courses conducted by IIMs, IITs, IISC, XLRI, NIFT, NID, etc. are eligible, as well as regular degree/diploma courses like aeronautical, pilot training, shipping, degree/diploma in nursing or any other discipline approved by regulatory bodies.
- Approved courses offered in India by reputed foreign universities are eligible, as well as job-oriented
- professional/technical courses offered by reputed universities abroad.
- Courses conducted by CIMA-London, CPA in the USA, etc. are also eligible.
- Expenses considered for the loan include fees, travel expenses, insurance premium, caution deposit, purchase of books/equipment, and any other expense required to complete the course.
- Need-based finance will be considered subject to a maximum limit of 10 lakhs for studies in India and 20 lakhs for studies abroad.
- Margin requirement is 5% for loans above 4 lakhs for studies in India and 15% for studies abroad, except for loans eligible for credit guarantee coverage where margin is nil up to 7.5 lakhs.
- Loan documents should be executed by the student and parent/guardian as joint borrowers, and security can be in the form of land/building, government securities, life policy, gold, etc.
- Repayment holiday/moratorium is course period + 1 year, and repayment of the loan will be in equated monthly installments for 15 years, with no prepayment penalty.
- Banks may consider moratorium in special circumstances, and extension of time for completion of the course may be permitted for a maximum period of two years.
- Banks may advise the borrower to arrange for life insurance policy of the student availing education loan.

Skill Development and Entrepreneurship Loan Scheme (Skill Loan Scheme)

- The National Skill Development Mission aims to address the shortage of skilled workers in India.
- The Skill Development and Entrepreneurship Loan Scheme has replaced the earlier model loan scheme for vocational education and training.
- The scheme provides loan facility to individuals who intend to take up skill development courses.

- Eligibility for the scheme includes individuals who have secured admission in courses recognized by central or State education boards, training partners affiliated to National Skill Development Corporation (NSDC)/Sector Skill Councils, State Skill Mission, State Skill Corporation, leading to a certificate/diploma/degree issued by such organizations as per National Skill Qualification Framework (NSQF).
- There is no minimum stipulation in relation to course duration, and no specific age restriction for students to be eligible for skilling loan.
- Maximum financial assistance shall be Rs. 1,50,000 to cover tuition fees, other reasonable expenditure found necessary for completion of the course, including but not limited to assessment fee, examination fee, library charges, laboratory fee, caution deposit, purchase of books, equipment and instruments.
- Margin for loan shall not exceed 10% of the total course expenditure.
- No collateral security shall be obtained, but banks have the option to apply for credit guarantee from the National Credit Guarantee Trust Company Ltd (NCGTC) against defaults, at a nominal guarantee fee, which shall not exceed 0.5% of the outstanding loan amount.
- Repayment shall start after a moratorium period up to six months from the date of completion of the course, if the course duration is up to one year, and up to 12 months if the course duration is more than one year.
- The loans shall have a tenure ranging between 3 to 7 years, and no prepayment charges are to be recovered.

Pradhan Mantri Vidya Lakshmi Karyakram (PMVLK)

- Pradhan Mantri Vidya Lakshmi Karyakram (PMVLK) launched in 2015 aims to provide easy access to educational loans for every student.
- An online portal, https://www.vidyalakshmi.co.in/Students/, was launched to provide a single window platform for students seeking educational loans or scholarships.
- Students can search for various educational loan and scholarship providers, make applications and track their status online.
- Loan applications can be made for studying within India and abroad for any type of course, including under-graduation, post-graduation, professional, and vocational courses.
- Section 80E of the Income Tax Act, 1961, allows deductions on interest on education loans taken for higher studies (maximum period: 8 years).
- Education loan taken for higher education after passing the Senior Secondary Examination or its equivalent from any school, board, or university recognized by the Central Government or State Government or local authority is covered under Section 80E.
- Tax benefits under Section 80E covers students for whom the taxpayer is the legal guardian.
- Loans to individuals for educational purposes, including vocational courses up to ` 20 lakhs, irrespective of the sanctioned amount, are considered eligible for priority sector classification.

Unit 17: Initiatives of RBI under Financial Inclusion & Financial Education Programs and Implementation of Various Poverty Reduction Programs

National Strategy for Financial Inclusion

- RBI's monetary policy measures indirectly help in poverty alleviation.
- Direct poverty alleviation is the responsibility of fiscal policy.
- Neglecting the issues of the poor may undermine the benefits of economic reforms.
- RBI plays a key role in evolving policy measures for financial inclusion and supports the government's poverty reduction programs.
- RBI initiates measures for financial education and consumer protection.
- The National Strategy for Financial Inclusion (NSFI) 2019-24 seeks to address the barriers of access to financial products and services.
- An inclusive financial system is pro-growth and pro-poor, with the potential to reduce income inequality and poverty.
- The NSFI was prepared by RBI with inputs from GOI and other financial regulators.
- The NSFI includes specific financial inclusion goals, strategies to reach them, and mechanisms to measure progress.

- Sustainable livelihood generation can help people out of poverty.
- The NSFI recommends converging various employment generation and skill development programs.
- Details of ongoing skill development and livelihood generation programs should be made available to new entrants.
- A framework for a focused approach to increase financial literacy, managerial skills, credit, and market linkages needs to be developed.
- Coordinated efforts should be made to promote financial literacy at grassroots levels through SLBC/DCC/DLRC.
- Financial literacy modules should be developed through NCFE.
- Process literacy should be focused on, along with concept literacy, to empower customers.
- The reach of Centres for Financial Literacy should be expanded.
- A strong customer protection architecture is vital due to emerging risks from digital financial services.
- The internal grievances redressal mechanism of financial service providers needs to be strengthened.
- A customer grievance portal/mobile app should be developed for lodging, tracking, and redressal status of grievances.

NSFI

- The NSFI recommends a set of action plans to promote sustainable financial inclusion Over the next five years.

- The recommendations cover various aspects, including access to financial services, livelihood and skill development, financial literacy, customer protection, and effective coordination.
- The recommendations emphasize the need for multi-stakeholder involvement and a decentralized approach to planning and development.
- The NSFI proposes specific action plans, such as leveraging technology for stakeholder coordination, expanding the reach of financial literacy programs, and strengthening the grievance redressal mechanism.
- The NSFI aims to achieve its vision of financial inclusion at the ground Level, with the involvement of Gram Panchayats, civil society, and NGOs.

National Strategy for Financial Education

- Financial inclusion is a national priority in India, which provides access to financial products and services to vulnerable groups at an affordable cost in a fair and transparent manner.
- Financial education is a demand-side intervention that helps people achieve financial well-being by accessing appropriate financial products and services through regulated entities.
- Financial education initiatives will be guided by the National Strategy for Financial Education (NSFE).
- India has made significant progress in financial inclusion through initiatives such as Pradhan Mantri Jan-Dhan Yojana and social security schemes, which have brought excluded sections into the financial mainstream.
- The proportion of adults with a formal account in India has risen from 35% in 2011 to 80% in 2017, largely due to PMJDY and supportive financial regulators.
- Financial literacy plays a central role in ensuring people use appropriate formal financial services for their financial well-being.
- India's large adult population can leverage its demographic advantage to become one of the fastest growing economies with inclusive growth.
- A multi-stakeholder approach is necessary for achieving nationwide financial literacy.

- The National Strategy for Financial Education (NSFE) is a coordinated approach to financial education to improve financial literacy and planning for the future.
- The NSFE adopts a multi-stakeholder approach to achieve financial well-being for Indians.
- The National Centre for Financial Education (NCFE) has been established to provide basic financial education and develop suitable content for increasing financial literacy.
- Digitalization has brought newer opportunities to the forefront, and the NSFE has been revised to adopt innovative measures to implement financial education.
- The NSFE 2020-25 focuses on advancing the skills of financial service providers and intermediaries involved in disseminating financial literacy.
- The strategic objectives of the NSFE 2020-25 include inculcating financial literacy, encouraging active savings behavior, participation in financial markets, developing credit discipline, improving usage of digital financial services, managing risk, planning for retirement,

knowledge about rights, duties, and grievance redressal, and improving research and evaluation methods.

- The NSFE document recommends a 5C approach for financial education: content development, capacity building, community-led model, communication strategy, and collaboration among stakeholders.
- National Centre for Financial Education conducts financial education campaigns and programs for various age groups, such as Money Smart School Program, National Financial Literacy Assessment Test, Financial Education Program for Adults, etc.
- RBI provides financial literacy guide, financial diary, and posters for public awareness. They conduct outreach programs and campaigns on various financial topics through press releases, statements, regulatory guidelines, events, and social media.
- SEBI arranges financial education programs through resource persons, visit to SEBI by students, and investor awareness programs. They also maintain a dedicated investor website, set up a toll-free helpline, and provide redressal measures for investors.
- The stakeholders aim to promote financial literacy among the general public through various initiatives and programs. A monitoring and evaluation framework is recommended to assess
- the progress made.
- The National Centre for Financial Education conducts financial education campaigns, basic financial education programs for schools, and training programs for teachers, students, and adults.
- The Reserve Bank of India (RBI) provides financial literacy guides, financial diaries, posters, and booklets, and conducts outreach programs through various media channels. RBI also conducts awareness campaigns on safe digital banking, limited liability, and easy banking for senior citizens.
- The Securities and Exchange Board of India (SEBI) offers financial education through resource persons programs, investor awareness programs, and commodity awareness programs. SEBI also maintains a dedicated investor website and a toll-free helpline for investors.

PFRDA

- Launched Pension Sanchay website in 2018, which provides meaningful insight regarding fundamentals of finance, banking and investments
- Periodically organizing subscriber awareness programs through Central record keeping agencies at different places
- Conducts Annuity literacy Program, in coordination with NPS Trust and Annuity Service Providers for making subscribers aware About the different annuities available to them.

NABARD

- Creation of financial awareness amongst rural masses through various media –creating awareness through leaflets, posters, jingles related to financial inclusion, etc.

- Organizing financial literacy awareness Program (FLAPs) for those who are newly inducted in the financial system extend support to rural self employment training Institutes /rural development and self employment training Institute to acquire training equipment for livelihood training capacity building initiatives to sensitize and train the staff of the banks for effective delivery of financial literacy
- Impart training for BCs/BFs of banks and reimbursement of examination fees

SIDBI

- Launched Samriddhi, a virtual assistance on the Udyami Mitra portal for the guidance of budding entrepreneurs which provide guidance ranging from kinds of loans to handholding support bankability kit for MSE entrepreneurs is hosted in its portal to serve as guide for them
- Certified credit counsellors and credit counselling institutions have been empaneled and onboarded on Udyami Mitra Platform to strengthen the supply side by enhancing access to credit as also giving thrust to demand side issues of MSMEs particularly for those at the bottom of pyramid
- Project profiles covering over 40 industrial sectors hosted in the Udyami Mitra portal for reference/guidance of the entrepreneurs
- Organizing Entrepreneurship awareness Program in aspirational districts
- Organizing stalls for creating awareness for spreading Entrepreneurship culture in melas – organizing educative shows on various schemes

National Payment Corporation of India (NPCI)

- Working with banks to create awareness and literacy sessions on RuPay, IMPS, AePS, and USSD-99#
- Disseminating digital payment literacy to corporate employees and beneficiaries with the help of These agencies
- Organizing e-payment literacy camps across the country

Direct Benefit Transfer

- Direct Benefit Transfer (DBT) was started on January 1, 2013, with the aim of reforming the government delivery system in welfare schemes.
- DBT Mission was created in the Planning Commission to act as the nodal point for the implementation of the DBT programs, which was later transferred to the Department of Expenditure and then to Cabinet Secretariat.
- The first phase of DBT was initiated in 43 districts, and later 78 more districts were added in 27 schemes, pertaining to scholarships, women, child and labour welfare.
- DBT was further expanded across the country, in December 2014, and seven new scholarship schemes and MGNREGA were brought under DBT.

- Electronic Payment Framework was laid down in February 2015, and all the Ministries/Departments and institutions/PSUs attached to them were advised to follow the framework.
- Aadhaar is useful in targeting the intended beneficiaries, and beneficiaries are encouraged to have Aadhaar.
- RBI has advised banks to open accounts for all eligible individuals in camp mode, seed the existing accounts or new accounts opened with Aadhaar numbers and put in place an effective mechanism to monitor and review the progress in the implementation of DBT.
- SLBC Convenor Banks and Lead Banks have been advised to institute a monitoring and review mechanism to periodically assess and evaluate the progress made in the implementation of DBT by banks.
- RBI has issued guidelines to the banks for the successful implementation of the Deendayal Antyodaya Yojana – National Rural Livelihoods Mission (DAY-NRLM) under the NRLM/NULM.

- Self Help Groups (SHGs) engaged in promoting savings habits among members are eligible to open savings accounts.
- KYC verification of office bearers is sufficient for opening a savings account for SHGs.
- PAN may not be required at the time of opening the account or transactions, and declaration in Form No 60 may be accepted.
- CDD of all members of SHGs is not required at the time of opening accounts, and only CDD of office bearers is sufficient.
- Banks may undertake KYC verification of all members at the time of credit linking of SHGs, but opening savings accounts for all members is not a prerequisite.
- Banks should maintain separate savings and loan accounts for SHGs.
- Business Correspondents deployed by banks may also open savings accounts for SHGs after verification by the base branch.
- Banks should open savings accounts for Federations of SHGs at the village, Gram Panchayat, Cluster, or higher level.
- Current accounts for Producer Groups promoted under DAY-NRLM should be opened by banks to facilitate collective production and marketing.
- SHGs and their federations should transact through their respective savings and Cash Credit Loan accounts.
- Credit plans for SHG Bank Linkage should be based on the Potential Linked Plan/State Focus Paper prepared by NABARD, SLBC sub-committee.
- Eligibility criteria for SHGs to avail loans include active existence for at least 6 months, practicing Panchasutras, and qualifying as per grading norms fixed by NABARD.
- Defunct SHGs are also eligible for credit if they are revived and continue to be active for a minimum period of 3 months.
- Common Loan Application Forms recommended by the Indian Bank's Association should be used by all banks for extending credit facility to SHGs.

- Loan passbooks or statements of accounts in regional languages should be issued to SHGs containing all loan details and terms.
- Passbooks should be updated with every transaction and terms and conditions should be explained during documentation and disbursement.
- Bank staff should attend SHG meetings regularly to monitor their performance.
- Banks should set up cells for SHGs to monitor credit flow and guideline implementation.
- Prompt loan repayment is necessary and banks should take measures to ensure recovery.
- Willful defaulters should not be financed, but non-willful defaulters should not be debarred from receiving loans.
- All facilities sanctioned under DAY-NRLM would be governed by the Asset Classification norms.
- SLBCs, DCCs, and BLBCs should monitor and resolve issues related to SHG-bank linkage and credit flow.
- Branches should furnish progress and delinquency reports to Lead District Managers every month.

- Banks are required to give a state-wise consolidated report on the progress made on DAYNRLM to RBI/NABARD at quarterly intervals.
- Existing procedure of submitting LBR returns to be continued, duly furnishing the correct code.
- Data sharing on a mutually agreed format/interval may be provided to DAY-NRLM or State Rural Livelihood Missions (SRLMs) for initiating various strategies including recovery, etc.
- Banks should regularly share data on loans to SHGs with the DAY-NRLM or SRLMs, directly from the CBS platform.
- Banks should share data of PMJJBY and PMSBY with DAY-NRLM on agreed formats to facilitate higher enrollment and claim settlement under these schemes.
- Banks should share data of all SHG transactions being done at Business Correspondents points using Dual Authentication technology on a mutually agreed format/interval only after obtaining consent of the customer.
- SRLMs would develop strategic partnerships with major banks at various levels and invest in creating enabling conditions for both the banks and the poor for a mutually rewarding relationship.
- SRLMs would assist the SHGs through imparting financial Literacy, extending counselling services on savings, credit, insurance, pension and training on Micro-investment Planning embedded in capacity building.
- SRLMs would extend support to banks for improving the quality of banking services to poor clients including follow-up for recovery of over dues if any, by positioning customer relationship managers (Bank Mitra/ Sakhi) with every bank branch involved in financing of SHGs.

- Leveraging IT mobile technologies and institutions of poor, youth or SHG member as business facilitators and business correspondents.
- One exclusive sub-committee for SHG Bank Linkage may be formed at village/cluster/ block level which would provide support to the banks in ensuring proper utilization of loan amount, recovery, etc. The bank linkage sub-committee members from each village level federation along with project staff would meet once in a month, under the chairmanship of the Branch Manager in the branch premises with the agenda items relating to bank linkage.

- A task force will scrutinize loan applications based on experience, skills, viability, and scope of activity.
- The CEO/Municipal Commissioner of ULB will be responsible for constituting the task force, which may have more than one team.
- The task force will recommend suitable applications, reject unsuitable ones, or ask for additional information.
- Recommended cases will be forwarded to banks for further processing within 15 days.
- Banks must report periodically on the status of applications, which can also be updated online if an MIS is used.
- Banks can directly accept loan applications from urban poor beneficiaries without ULB sponsorship.
- ULBs can claim interest subsidy for eligible beneficiaries after confirming their eligibility.
- Training is required before financial assistance is extended to beneficiaries.
- ULBs will conduct Entrepreneurship Development Programs for 3-7 days for individual and group entrepreneurs.
- Follow-up Entrepreneurship Development Programs will be conducted as required, preferably once every six months.

- Banks can provide finance to individuals for capital expenditure through Term Loans and Working Capital loans through Cash Credit.
- Banks can also provide Composite Loans consisting of Capital Expenditure and Working Capital components.
- Group Enterprises (SEP-G) can avail subsidized loans for self-employment under certain norms/specifications.
- Group enterprises must have a minimum of three members, with a minimum of 70% of members from urban poor families.
- Each member of the group can be provided an individual loan up to `2 lakhs and an overall cap of `10 lakhs based on the principle of joint liability of the group.
- Banks may extend finance to groups for capital expenditure in the form of Term Loans and Working Capital loans through Cash Credit.
- No collateral guarantee is required, only the assets created would be hypothecated/mortgaged/pledged to banks for advancing loans.

- The repayment schedule would range between 5 to 7 years after an initial moratorium of 6-18 months.
- The SHG Bank Linkage Program emphasizes linking of SHGs with banks.
- Banks have been advised to consider lending to SHGs as part of their mainstream credit operations.
- Under the SM&ID component of DAYNULM, ULBs will facilitate access to Revolving Fund (RF) for SHGs.
- Banks will send details of disbursed loan cases to the ULB for releasing the interest subsidy amount on a monthly basis.

- DAY-NULM provides subsidized loans to individual entrepreneurs for setting up enterprises to support urban poor livelihoods.
- Self-Help Groups (SHGs) can also avail of term loans or cash credit limit loans, and additional loans can be sanctioned if needed.
- ULBs will maintain data on SHG loan applications forwarded to banks and send it to SULM monthly.
- SULM will monitor and review progress with banks regularly and coordinate with SLBC for interest subsidy/subvention on SHG loans.
- State/ULBs are responsible for identifying, selecting, forming, and monitoring SHGs for interest subvention, not banks.
- Guidelines for prompt repayment of loans are provided for both cash credit limit and term loans to SHGs.
- ULBs will prepare a data sheet of recommended applications along with their status details and send it to SULM monthly.
- SULM will compile all reports received from ULBs and communicate progress to MoHUA monthly.
- SULM will ensure progress under SEP is reviewed in SLBC and DCC meetings.
- Credit cards or MUDRA cards will be facilitated through banks to support micro-entrepreneurs in meeting their working capital and miscellaneous credit needs.

- The Self Employment Programme (SEP) under the Deendayal Antyodaya Yojana – National Urban Livelihoods Mission (DAY-NULM) aims to provide financial assistance and credit to micro-entrepreneurs in urban areas.
- SEP provides loans to individuals and groups for setting up and expanding micro-enterprises.
- The loans are given by banks and the interest on these loans is subsidized by the government.
- The ULB will identify potential beneficiaries and facilitate linkages with banks for the issuance of credit cards.
- Micro-entrepreneurs may require support in areas such as establishment, technology, marketing, and other services.

- City Livelihoods Centers (CLCs) will be established under DAY-NULM to provide these support services to micro-enterprises.
- The funding for SEP will be shared between the Centre and States as per the general norms under DAY-NULM.
- The progress of activities and targets under SEP will be closely monitored and evaluated by the State Mission Management Unit (SMMU) and City Mission Management Unit (CMMU) at the ULB level.
- A comprehensive IT-enabled DAY-NULM MIS will be established for tracking targets and achievements, and progress reports will be made available in the public domain.

- SEP beneficiaries should be visited periodically to assess impact and address problems.
- Community Organizers (Cos) should visit all beneficiaries once in three months.
- Project officer/technical experts at CMMU level should visit at least 50% beneficiaries once in three months.
- Observations during field visits should be recorded and uploaded on MIS.
- Economic status data of beneficiaries should be collected during field visits and compared with loan application data to assess impact.
- Impact analysis studies should be conducted at suitable intervals to assess impact of SEP on beneficiaries' economic status.
- Banks should furnish cumulative progress reports on quarterly basis to Director, NULM and RBI.
- Unique code should be used for NULM loans in banks' databases, with separate sub-codes for SEP-I, SEP-G, SHG, and WSHGs.
- Proper care must be taken in classifying loans under NULM, particularly for SHG and WSHGs, to enable distinct identification and eligibility for additional 3% interest subvention for WSHGs.

- Natural calamities cause damage to human life and economic pursuits in various areas of India.
- The Central, State, and local authorities plan for the economic rehabilitation of the affected people.
- Commercial Banks, RRBs, and Cooperative Banks have a developmental role and must support the economic revival efforts.
- The banks' contribution includes rescheduling existing loans and sanctioning fresh loans as per the emerging requirements of borrowers.
- Banks may take facilitating measures such as reducing/waiving their penal charges, etc.
- RBI has issued detailed guidelines to enable banks to take uniform and concerted action expeditiously.
- The guidelines cover institutional framework, restructuring of existing loans, providing fresh loans, and other ancillary relief measures.

- The directions issued by RBI shall be applicable to farmers/loanees affected by a natural calamity as declared by the State Government/Authorities.
- Banks need to have a blueprint of action approved by the Board of Directors to provide required relief and assistance with utmost speed and without any loss of time.

- Repayment relief is necessary for those affected by natural calamities.
- Restructuring of existing loans will be required.
- Short-term production credit (crop loans) can be restructured if not overdue.
- Principal and interest due can be converted into a term loan.
- Repayment period may vary depending on severity of calamity and loss of economic assets.
- Maximum repayment period is up to 2 years (including moratorium period of 1 year) for loss between 33% and 50%.
- Maximum repayment period is up to 5 years (including moratorium period of 1 year) for crop loss of 50% or more.
- Moratorium period of at least 1 year should be considered for all cases of restructuring.
- No additional collateral security should be insisted for restructured loans.
- Long-term (investment) credit installments should be rescheduled based on repaying capacity of borrowers.
- Installments defaulted willfully in earlier years are not eligible for rescheduling.
- Rescheduling of installment can be done for natural calamities where only crop for that year is damaged.
- Rescheduling of installment can be done for natural calamities where productive assets are partially or totally damaged.
- Total repayment period for restructured/fresh term loan should not exceed 5 years.
- Rescheduling of other loans besides agriculture loans may be required based on severity of calamity.
- Recovery of all loans may be postponed by specified period.
- Viability of the venture shall be the primary consideration for extending credit to any unit for rehabilitation.
- Restructured portion of short-term and long-term loans can be treated as current dues and need not be classified as NPA.

- Higher provisions are required for such restructured standard advances.
- Interest income from restructured accounts classified as ‘standard assets’ will be recognized as per prescribed norms.
- In the event of a major calamity, banks may relax their Know Your Customer (KYC) norms for affected persons who are unable to provide standard identification documents.
- Non-documentary verification methods such as opening a small account based on photograph and signature or thumb impression in front of a bank official may be used.

- Access to bank accounts may be provided through temporary premises or mobile banking facilities, with approval from the concerned regional office of RBI.
- ATMs should be restored at the earliest or alternate arrangements made for providing cash facilities.
- Other measures that banks may take at their discretion to alleviate the condition of affected persons include waiving ATM fees, increasing ATM withdrawal limits, waiving overdraft fees, waiving early withdrawal penalties on time deposits, waiving late fees for credit card or other loan installment payments, and giving credit card holders the option to convert their outstanding balance to EMIs repayable in 1 or 2 years.

- The Reserve Bank of India (RBI) has advised banks to provide relief measures to people affected by natural calamities or riots/disturbances.
- District Consultative Committees (DCC) and State Level Bankers' Committee (SLBC) play a key role in deciding the relief measures to be provided.
- Banks are required to upload data on relief measures extended to natural calamity-affected people on a monthly basis on the RBI portal.
- RBI has advised banks to increase their advances to Scheduled Castes/Scheduled Tribes (SCs/STs) under the priority sector.
- District Level Consultative Committees should be the principal mechanism for credit planning, and banks should establish closer liaison with District Industries Centres for promoting self-employment.
- Banks should give weightage to SCs/STs in the credit planning process and draw up special bankable schemes to ensure their participation.
- Banks should periodically review their lending policies and procedures to ensure timely and adequate loans that generate incremental income to make them self-liquidating.
- While adopting villages for intensive lending, villages with a sizeable population of SCs/STs may be specially chosen.

SC/ST Borrowers

- Bank staff should assist poor borrowers in completing forms and other formalities to ensure timely credit facilities.
- Greater awareness needs to be created among SC/ST borrowers about various schemes formulated by banks.
- Banks should organize meetings exclusively for SC/ST beneficiaries to understand their credit needs and incorporate them in the credit plan.
- Banks shall consider loan proposals of SC/ST communities with utmost sympathy and understanding.
- Circulars issued by RBI/NABARD shall be circulated among the staff for compliance.
- Banks shall not insist on deposits while considering loan applications under poverty alleviation schemes/self-employment programs from SC/ST borrowers.

- Non-release of subsidy upfront amounts to under-financing and hampers asset creation/income generation.
- Banks shall advise their branches/controlling offices to render all the necessary institutional support to National Scheduled Tribes Finance & Development Corporation and National Scheduled Castes Finance & Development Corporation.
- Advances sanctioned to state-sponsored organizations of SC/ST shall be treated as Priority Sector Advances.
- Rejection of loan applications in respect of SC/ST shall be done at the next higher level instead of the branch level.
- Scheduled Caste/ Tribes Development Corporations can consider bankable schemes/proposals for bank finance.
- Several major centrally sponsored schemes under which credit is provided by banks and subsidy is received through Government Agencies.
- Credit flow under these schemes is monitored by RBI, and there is a significant reservation/relaxation for the members of the SC/ ST communities.
- Banks shall take advantage of these schemes for provision of credit to SCs/STs.

Deendayal Antyodaya Yojana-National Rural Livelihoods Mission (DAY-NRLM) launched by the Ministry of Rural Development, Government of India to provide livelihood opportunities for vulnerable sections of society, with 50% beneficiaries being SC/STs.

Deendayal Antyodaya Yojana-National Urban Livelihoods Mission (DAY-NULM) launched by the Ministry of Housing and Urban Affairs, Government of India, to provide livelihood opportunities for vulnerable sections of society, with SC/STs to be given advances to the extent of their strength in the local population.

Differential Rate of Interest Scheme (DRI) provides concessional finance up to Rs.15,000 at 4% p.a. interest to weaker sections for productive activities. SCs/STs must be given advances to the extent of 40% of total DRI advances, with no land holding size eligibility criteria.

Credit Enhancement Guarantee Scheme for Scheduled Castes (CEGSSC) launched by Ministry of Social Justice & Empowerment to provide credit enhancement guarantee to Member Lending Institutions (MLIs) providing financial assistance to SC entrepreneurs. Registered companies and societies/partnership/sole proprietorship firms/individual SC entrepreneurs with more than 51% shareholding by SC entrepreneurs are eligible for guarantee.

Guidelines for monitoring the flow of credit to SC/ST beneficiaries include setting up special cells in bank Head Offices, inviting representatives of National Commission for SCs/STs, National Scheduled Castes and Scheduled Tribes Finance and Development Corporation (NSFDC), and State Scheduled Castes and Scheduled Tribes Finance and Development Corporation (SCDC) to attend SLBC meetings..

- Banks are required to review the credit given to SC/ST communities on a quarterly basis and report any major gap to the Board of the Bank for review.
- Data on advances to SCs and STs shall be reported to RBI for review.

- Commercial banks are advised to ensure smooth flow of bank credit to minority communities, especially in the 121 minority concentration districts.
- Banks are required to achieve a target of 40% of Adjusted Net Bank Credit (ANBC) for lending to the priority sector and 12% of ANBC for lending to weaker sections, including minority communities.
- The communities deemed to be belonging to minority communities are Sikhs, Muslims, Christians, Zoroastrians, Buddhists, and Jains.
- Advances granted to partnership firms with majority partners or beneficial ownership belonging to the specified minority communities can be treated as advances granted to minority communities.

- Reserve Bank of India issued guidelines for banks to ensure financial inclusion of minority communities.
- Banks are required to allocate a specific percentage of their total priority sector lending to minority communities.
- District Consultative Committees (DCCs) will review the progress of credit flow to minority communities.
- Lead Banks in identified minority concentrated districts will provide data on priority sector advances to Regional Offices of RBI and relevant ministries.
- Banks are required to provide necessary orientation to officials and staff on various programs for the welfare of minorities.
- Lead Banks should organize sensitization workshops and Entrepreneur Development Programs for minority communities in identified districts.
- There shall be good publicity about anti-poverty programs of the government in districts with a concentration of minority communities.
- National Minorities Development and Finance Corporation (NMDFC) was established to promote economic and developmental activities for minority communities. NMDFC operates the Margin Money Scheme.
- Banks may implement the Margin Money Scheme while extending bank finance.

MODULE - D: PROBLEMS AND PROSPECTS IN RURAL BANKING

Unit 18: Role of Banking – Emerging Trends in Rural Banking Characteristics of Rural Society

Improvement in availability of banking outlets

- The number of banking outlets has considerably increased with banks opening ATMs and the RBI permitting banks to establish the outlets of Business Correspondents. As per the data uploaded in Jan Dhan Darshak app, in relation to the record of the banking outlets mapped by the banks across the country, there are 1.66 lakh branches, 4.35 lakh BCs and 2.07 lakhs ATMs.
- PMJDY accounts with banks have grown three-fold from 14.72 crore in March, 2015 to 43.04 crore as on August, 2021. About 55 per cent of Jan Dhan account holders are women and about 67 per cent accounts are in rural and semi urban areas. The aggregate deposits under PMJDY accounts stood at 1.46 lakh core and the deposits in these accounts have increased 6.3 time over the six years period (i.e., between August, 2015 and August, 2021.

Areas of Concern and Actions Pursued

Population Served

- To promote financial inclusion and to extend the banking network in unbanked areas, general permission has been granted by Reserve Bank of India (RBI) to domestic Scheduled Commercial Banks including Public Sector Banks (excluding Regional Rural Banks) to open branches at any place in the country, without seeking prior approval of RBI in each case, subject to at least 25 percent of the total number of branches opened during a financial year being opened in unbanked rural (Tier 5 and Tier 6) centers.
- RBI has also specified that the total number of branches opened in Tier 1 centers (population 100,000 and above) during the financial year cannot exceed the total number of branches opened in Tier 2 to Tier 6 centers (population up to 99,999) and all centers in the North Eastern States and Sikkim.

High Transaction Cost

- Commercial banks face high transaction cost in their rural branches. The real issues in rural banking of commercial banks are lack of infrastructure, reluctance of staff to serve in remote rural areas, large number of accounts dealing in small amounts, difficulty in getting financial information on rural borrowers, leading to some amount of uncertainty in the minds of the bankers and lack of security, for carrying cash in remote areas, etc.
- The ICT can play an important role by increasing effective access and improving delivery and governance in banking services. Bharat Interface for Money (BHIM) developed by National Payment Corporation of India (NPCI) enables fast, secure, reliable cashless payment, through the Mobile Phone. It is interoperable with other Unified Payment Interface applications. BHIM

application is currently available on Android. The BHIM-Aadhaar digital payment platform, is specially designed to suit the rural customers.

Cost of Credit

- As regards cost of credit, for most of the period, the administered interest rate regime was applicable for bank lending and this included concessional terms for priority sector. Currently, all interest rates (except loans to weaker sections) on bank advances including in rural areas are deregulated.
- According to recent survey of NSSO, in the rural segment of India, about 34 per cent of all households have acquired credit from non-institutional sources, while the institutional or formal sources have advanced credit to 66 per cent of rural households.

The survey as well as other studies had highlighted the following issues:

- The credit-deposit ratio obtained across the states/regions revealed that despite the intermediation of banks, the ratio continues to be low, in the rural area.
- The all-in costs of credit from banks, after factoring in timeliness, transaction-costs and access, appear high for agriculture relative to private corporate sector,
- The performance of some of the public sector banks in rural and agricultural lending is also inadequate; the performance of most of the private and foreign banks is even lower that of the public sector banks, despite considerable expansion of the scope of priority sector lending by RBI.
- Credit-system in rural areas finds it difficult to cope with the rising demands of commercialized agriculture.
- Although there has been notable progress in micro finance, it is mostly confined to the states with fairly well-developed banking system. Further, the cost of credit, at around 20 to 30 per cent, also appears high.

Present Focus on Banking in Rural Areas

- Present policies regarding rural banking are based on the Report of the Committee on Financial Inclusion in India (Chairman Dr. C. Rangarajan), 2008. The Report viewed financial inclusion as a comprehensive and holistic process of ensuring access to financial services and timely and adequate credit, particularly by vulnerable groups, such as weaker sections and low-income groups, at an affordable cost.
- According to the Report, the overall strategy for building an inclusive financial sector should be based on:
  - Effecting improvements within the existing formal credit delivery mechanism;
  - Suggesting measures for improving credit absorption capacity, especially, amongst marginal and sub-marginal farmers and poor non-cultivator households;
  - Evolving new models for effective outreach; and
  - Leveraging on technology-based solutions.

- Keeping in view the enormity of the task involved, the Committee recommended the setting up of a mission mode National Rural Financial Inclusion Plan (NRFIP), with a target of providing access to comprehensive financial services to at least 50 per cent (55.77 million) of the excluded rural households by 2012, and the remaining by 2015.
- The Committee has also recommended that the Government should constitute a National Mission on Financial Inclusion (NaMFI) comprising representatives of all stakeholders, for suggesting the overall policy changes required, and supporting stakeholders in the domain of public, private and NGO sectors in undertaking promotional initiatives.

Inclusive Banking Activities

Strengthening of Institutional Mechanism

- RBI has set up Financial Stability and Development Council (FSDC), which has an exclusive mandate for financial inclusion and financial literacy. A separate Technical Group on financial inclusion and financial literacy, under the Chairmanship of a Deputy Governor, has been set up under the aegis of FSDC.
- In order to spearhead efforts towards greater financial inclusion, RBI has constituted a Financial Inclusion Advisory Committee (FIAC) under the Chairmanship of Deputy Governor.

Revamping of Lead Bank Scheme

- A Committee of Executive Directors of the Reserve Bank was constituted to study the efficacy of the Lead Bank Scheme (LBS) and suggest measures for its improvement.
- A Steering Sub-committee of SLBC/ UT Level Bankers Committee (UTLBC) has been constituted in all the states/UTs. Action points pertaining to alignment of corporate business targets for branches, blocks, districts and states with an Annual Credit Plan (ACP), standardization of information/data, and management of data flow under the LBS are under various stages of implementation.

Assignment of Lead Bank Responsibility

- Under the LBS, one bank in each district is assigned the leadership role and acts as a consortium leader to co-ordinate the efforts of the banks in that district, particularly in matters such as branch expansion and credit planning to meet the credit needs of the district.

Financial Inclusion Plans (FIPs)

- In order to have a planned and structured approach to financial inclusion, banks have been advised to prepare Board-approved Financial Inclusion Plans (FIPs).
- These FIPs capture banks' achievements on various parameters such as the number of outlets (branches and BCs), Basic Savings Bank Deposit Accounts (BSBDAs), overdraft facilities, KCCs and General Credit Card (GCC) accounts and transactions in ICT-BC accounts.

Penetration of Banking Services

- The use of information technology (IT) and intermediaries has made it possible to increase outreach, scale and depth of banking services at an affordable cost.
- SLBC convenor banks were advised that while opening new banking outlets in Unbanked Rural Centers (URCs) in tier 5 and 6 centers, banks should give priority to URCs having population above 5,000 (i.e., tier-5 centres).
- Further, SLBC convenor banks were advised to consider opening of a CBS enabled banking outlet or a part time banking outlet, in the villages with population less than 2,000 that still remain unbanked.

Pradhan Mantri Jan Dhan Yojana (PMJDY)

- Financial inclusion in India has progressed substantially since the introduction of Pradhan Mantri Jan Dhan Yojana (PMJDY). According to Financial Inclusion Insights (FII – 2015), while ownership of bank accounts has increased to about 2/3rd of all adults in India, active use has increased to about 40 percent.

Aadhaar-Enabled Unified Payment Infrastructure

- A Taskforce on an Aadhaar-Enabled Unified Payment Infrastructure recommended increasing commissions to BCs, in order to make them profitable. This profitability is highly dependent on the volume of transactions per BC, and one can model scenarios where a UBI (universal basic income) can lead to increased financial inclusion through an increased number of transactions.

New Banking Entities Permitted in the Financial Inclusion Space

- RBI has granted approval to eligible entities to set up differentiated banks namely "Small Finance Banks" (SFBs) and "Payments Banks" to further the cause of financial inclusion in the country.
- SFBs are expected to enhance the supply of credit to small business units, small and marginal farmers, micro and small industries and other entities in the unorganized sector. The Payment Banks are expected to provide cost-efficient remittance services in a secured technology driven environment.

Role of Payment System in Promoting Financial Inclusion

- Considering the strong linkage between financial inclusion and the payment systems, RBI has taken several steps. Some of these include encouraging use of Mobile Banking, pre-paid instruments in the form of digital wallets and mobile wallets, operationalization of the Aadhaar Bridge Payment System (ABPS) and Aadhaar-Enabled Payment system (AEPS), etc.

Financial Literacy Centres (FLCs) / Rural Self Employment Training Institutes

- Banks in India have been mandated to set up FLCs for extending financial literacy. RBI is encouraging banks to set up CFLs (Centres for Financial Literacy) at the block level, on a pilot basis.
- The Rural Self Employment Training Institutes (RSETIs) have been set up by various banks all over the country at the district level. The key objective of RSETI is "Short term training and long-term hand holding with assistance to credit linkage for trainees".

Direct Benefit Transfer and Aadhaar Seeding of accounts:

- An important driver for enhancing the demand side of financial inclusion is Direct Benefit Transfer (DBT).
- If entitlements under various state sponsored schemes starts directly flowing into the bank accounts of individuals under DBT mode, it can act as a catalyst to encourage saving habit leading to build up of investment and seed capital for availing productive credit.

National Strategy for financial inclusion – Plan for 2019-2024

- National Strategy for Financial Inclusion 2019-2024 has been prepared, under the aegis of the Financial Inclusion Advisory Committee, based on the inputs and suggestions from the Government of India and other financial sector regulators.
- The strategy envisages to make formal financial services available, accessible, and affordable to all the citizens, in a safe and transparent manner, to support inclusive and resilient multi-stakeholder led growth.
- It proposes forward looking recommendations to help achieve universal access to financial services through a bouquet of basic financial services leveraging on the BC Model, access to livelihood and skills development, financial literacy and education, customer protection and grievance redressal with effective co-ordination.

Financial Inclusion Index developed by RBI

- RBI has constructed a composite Financial Inclusion Index (FI-Index) to capture the extent of financial inclusion across the country.
- The index captures information on various aspects of financial inclusion in a single value ranging between 0 and 100, where 0 represents complete financial exclusion and 100 indicates full financial inclusion. The FI-Index comprises of three broad parameters (weights indicated in brackets) viz., Access (35%), Usage
- (45%), and Quality (20%) with each of these consisting of various dimensions. A unique feature of the Index is the Quality parameter which captures the quality aspect of financial inclusion as reflected by financial literacy, consumer protection, and inequalities and deficiencies in services.

Unit 19: Role of Technology in Financial Inclusion and Rural Development

Modern Management of Agriculture – Possible Technological Components

The components for modern management of agriculture can be remote sensing, geographical information system, data analysis, artificial intelligence and machine learning and internet of things.

Remote Sensing

- Remote sensing made use of visible, near infrared and shortwave infrared sensors to form images of the earth's surface by detecting the solar radiation reflected from targets on the ground.
- In case of crop cultivation, remote satellite or drone- based imagery can assist in crop classification. The image sensing systems can be used for estimation of acreage under cultivation, arriving at production estimates, evaluation of crop losses, spread of disease, if any, in any region, monitoring bio-diversity, assessment of the impact of agro-ecology, etc.

Geographical Information System

- This allows for multiple data of varied detail to be graphically depicted on a map and thus, providing visual and other indicators to ease associated decision making.
- GIS tools and analytics can accurately depict the collection of data on, crop acreage, production, crop health, disease and also maintain geo-database of farmers.

Big Data Analytics, Internet of Things (IoT), Block Chain and Artificial Intelligence:

- Big data analytics provide opportunity to systemize the large amount of widely dispersed data.
- Government agricultural development schemes and programs viz. AGMARKNET/e-NAM, Soil Health Card, National Animal Disease Reporting System (NADRS), Kisan Call Centre Database, DBT schemes and others, are already driving the need for adoption of Big Data Analytics in the agricultural sector.

Internet of Things in Agriculture

- The Internet of Things (coined by Kevin Ashton) is the interconnection via the internet of computing devices, embedded in everyday objects, enabling them to send and receive data.
- Various IT solution- provider companies/vendors have designed and supplied different platforms and software in the market for a digital solution to the problems faced in agriculture/ agri-business for automation, resource-management, etc. for the benefit of farmers.

Artificial Intelligence

- Artificial Intelligence (AI) takes automation to another level, by incorporating analysis and learning on the basis of past and current data. Farmers can benefit not only from the direct on-farm applications of AI, but also from its use in the development of improved seeds, crop protection, and fertility products.

Machine Learning Technique

- The use of ICT by way of interactive communication with farmers, also creates opportunity for AI powered chat-bots. These can use machine learning techniques, understand natural language and interact with users in a personalized way, giving advice and recommendations on specific farm problems.
- Public Extension service centres, Krishi Vigyan Kendras (KVKs) and Agricultural Technology Management Agencies (ATMA) are all well positioned to be the nerve centres for AI applications.

Blockchain technology for agricultural value system

- The blockchain is a ledger of accounts and transactions that are written and stored by all participants. it facilitates the use of data-driven technologies to make farming smarter.

Benefits of Usage of Technology in Agriculture

- The application of IoT technology in agriculture can bring a social change in the rural society in as much as the farmers can gain insight from data, develop plans and manage and execute these plans independently, as also undertake course correction and revise plans as required.
- Crop planning, crop scheduling, etc., can be done by them without depending on the extension machinery of the state. It is possible from them to take better on-farm decisions such as the optimal time to plant, irrigate, protect or harvest their crops.
- With the increase in productivity and income there will be increase in GDP in agriculture.
- The state/ nation-wide monitoring can be possible by time series, and spatial data analysis and taking measures and such measures would facilitate ground water conservation, lowering of carbon footprint due to reduced energy consumption and prevention of fertilizer run off and soil erosion.

Progress of IOT In Indian Agriculture

- Satellite derived seasonal cropping pattern, experiments on yield estimation, estimation of net-sown crop area and agricultural drought assessment studies are conducted by National Remove Sensing Centre of the Indian Space Research Organization.
- The Information Technology Research Academy (ITRA), Hyderabad set up by the Ministry of Electronics and Information Technology, in consultation with the Indian Council of Agricultural Research (ICAR), had identified various areas for research purpose in respect of robotics, sensors, interpretation and use of sensor data.
- The Indian Agriculture Research Institute (IARI) has formulated a collaborative research project entitled “SENSAGRI – SENsor based Smart Agriculture” - to develop indigenous prototype for Drone based crop and soil health monitoring system using Hyperspectral

Remote Sensing (HRS) sensors, so as to be integrated with satellite-based technologies for large scale applications.

- Government is contemplating to position two of the important Public Extension Service Centres, viz Krishi Vigyan Kendras (KVKs) and Agricultural Technology Management Agencies (ATMA) in a big way for AI applications and for knowledge diffusion among India's vast farming community.
- The Department of Agriculture, Cooperation and Farmers' Welfare (DAC&FW) has already conceived proposal which envisaged that the information generated from Sensors could be provided on the phone of farmers as SMS or via mobile apps pre-loaded on their phone, and the collected data may be used for Big Data Analysis so as to create suitable Policies and Decision Support System (DSS).
- Farmers are provided all the relevant information relating to soil, crop and weather through web sites / portals as also through phones/app/mobiles through Kisan Call Centre – 18001801551.
- National e-Governance Plan – Agriculture (NeGP-A): It aimed at bridging gap in communication by using technology. It provides an integrated approach to the delivery of services to the farming community, using ICT. Under NeGP-A, around 60 online services have been developed over the last few years and launched to provide ease of access and timely information to farmers.
- GOI launched the Digital India Land Record Modernization Program with a view to minimizing the scope of land or property disputes and to enhance transparency in land records.
- Infosys, Tata Consultancy Services, SkyMet and Indian Space Research Organization are in a partner ecosystem with Azure FarmBeats of Microsoft, enabling a rich ecosystem of agriculture technology, sensors, and data providers.
- The SmartFarming4AP was developed by the Government of Andhra Pradesh in partnership with Bill & Melinda Gates Foundation and Dalberg Advisors to solve some of the most pressing challenges faced by small and marginal farmers in the state.
- SatSure, a data analytics company has integrated satellite imagery, weather and big data/ IoT analytics with the agriculture sector to help farmers with financial security and crop insurance. Radio Monsoon (started by five researchers) aims to ensure safety among fishermen in south India.

Other Initiatives For Development Of Rural Areas

- GOI launched the Digital India Land Record Modernization Program with a view to minimizing the scope of land or property disputes and to enhance transparency in land records. With the digitization of land records and providing the facility to the banks for creating online charge can address many issues relating to agricultural credit. It can also help in reducing the instances of multiple or double financing on the same piece of land. This will also facilitate easy access to land records for extending hassle-free loans to farmers and in time.

- In April, 2020, a central sector scheme called Survey of Villages and Mapping with Improvised Technology in Village Areas (SVAMITVA) was launched to promote a socio-economically empowered and self-reliant rural India by the Ministry of Panchayati Raj.
- In terms of the guidelines of the scheme, the Revenue Department/ Land Records Department will be the nodal department at the state level for carrying out the scheme with the support of State Panchayati Raj Department. The Survey of India shall work as the technology partner.

Financial Technology In Financial Inclusion Space

NABARD which is maintaining the Financial Inclusion Fund has taken a series of initiatives for leveraging technology in the Financial Inclusion landscape for furthering financial inclusion in the rural areas.

Migration to CBS: The CBS platform is essential for providing digital banking services to remote rural areas. While commercial banks have adopted CBS on their own, NABARD has supported the weak RRBs and Rural Cooperative Banks (RCBs) to implement CBS.

Facilitating DBT: The NABARD-initiated CBS project in RCBs, apart from improving productivity within their organizations, has also helped them to credit DBT seamlessly into the accounts of their customers.

Enabling technologies and initiatives: NABARD supported the integration of CBS with CBS plus services, such as ATM, micro-ATM and Atal Pension Yojana.

The Bank Sakhi model, which coopts the SHG members as BCAs of the banks was pioneered by NABARD in order to provide time-flexible, acceptable, trustworthy and dependable BC services.

Payment Acceptance Infrastructure: To cover all the farmers with RuPay Kisan Credit (RKCs) on mission mode for full coverage of KCC accounts, RRBs and RCBs were supported for Europay, Master Card, Visa (EMV) chip based RKCs. Besides support to BCs/Bank Sakhis and branches for banking transactions, merchant channel transactions are also supported through the deployment of Pos/mPoS terminals in one lakh villages in Tier 3 to Tier 6 centres.

Onboarding for regulatory requirements: Support extended to rural banks for meeting regulatory requirements such as C-KYC and Aadhaar User Agency or KYC User Agency. Further StCBs and RRBs have been supported for the opening of Aadhaar Enrollment and Update Centres so that they can provide Aadhaar related services to the people.

Connectivity for banking transactions: To solve the issues of poor telecom connectivity and non-availability of continuous power in remote areas, support for solar power VSATs, etc. was provided for fixed customer service points in Sub Service Areas.

Digitizing Self- Help Groups: With a view to creating a digital ecosystem to provide an end to-end solution to the Self-Help Groups-Bank Linkage Program to help standardize books of accounts and bring transparency and regularity in operation NABARD has launched e-Shakti project. Under this initiative 12.3 lakh SHGs were onboarded covering 140.9 lakh members spread over 1.7 lakh villages.

Unit 20: Financing Poor as Bankable Opportunities: Micro Credit and Self Help Groups

Microcredit Delivery Models

Grameen Bank

- Under Grameen Bank model, a bank unit is set up with a Field Manager and a number of bank workers, covering an area of about 15 to 22 villages. The manager and workers start by visiting villages to familiarize themselves with the local milieu, in which, they will be operating and identify prospective clientele, as well as explain the purpose, functions, and mode of operation of the bank to the local population.
- Groups of five prospective borrowers are formed; in the first stage, only two of them are eligible for, and receive, a loan. The group is observed for a month to see if the members are conforming to rules of the bank. Only if the first two borrowers repay the principal plus interest over a period of fifty weeks, other members of the group become eligible themselves for a loan.

Village banks

- Village banks are community-based credit and savings associations. They typically consist of 25 to 50 low-income individuals who are seeking to improve their lives through self-employment activities.
- This model is widely adopted and implemented by FINCA in Latin America and the Caribbean, and a few other countries in Africa and Asia.

Group Model

- The Group model's philosophy lies in the fact that shortcomings and weaknesses at the individual level are overcome by the collective responsibility and security afforded by the formation of a group of such individuals. One example of the Group Model is "Joint Liability". When a group takes out a loan, they are jointly liable to repay the loan when one of the group's members defaults on the repayments.

Intermediary model of credit lending

- The intermediary plays a critical role of generating credit awareness and education among the borrowers These activities are geared towards raising the credit worthiness of the borrowers to a level sufficient enough to make them attractive to the lenders. Individual lenders, NGO, micro enterprise /micro credit programs and commercial banks could act as intermediaries.

NGO Model

- NGOs have emerged as a key player in the field of micro credit. NGOs have been active in starting and participating in micro credit programs.

Rotating Savings and Credit Associations Model

- Rotating savings and credit associations are essentially a group of individuals who come together and make regular cyclical contributions to a common fund, which is then given as a lump sum to one member in each cycle. For example, a group of 12 persons may contribute Rs. 100 per month for 12 months.
- The Rs. 1,200 collected each month is given to one or two members according to their needs. Thus, a member will 'lend' money to other members through his regular monthly contributions.

Small Business Model

- Policies have generally focussed on direct interventions in the form of supporting systems such as training, technical advice, management principles, etc.; and indirect interventions in the form of an enabling policy and market environment. Microcredit has been provided to SMEs directly, or as a part of a larger enterprise development program, along with other inputs.

Bank guarantees Model

- Bank guarantee is used to obtain a loan from a commercial bank. Loans obtained may be given directly to an individual, or they may be given to a self-formed group. Guaranteed funds may be used for various purposes, including loan recovery and insurance claims.

SHG- Bank Linkage Program Approach

A Self-Help Group is usually formed by 10 to 20 people from a homogeneous class who come together for addressing their common problems.

The financial scheme under this program is followed by the following principles:

- Saving first and no credit without saving
- Savings as partial collateral
- Bank loan to SHGs for on-lending to members
- Credit decision or on-lending to SHG members to be decided by the SHG
- Interest rates and other terms and conditions for loans to members to be decided by the SHG
- Joint liability as a substitute of physical collateral
- Small loans to begin with and difficult credit cycles clearly defined.

Micro Finance Institutions (MFIS)

- Microfinance Institutions in India emerged in the late 1980s, in response to the gap in availability of banking services for the unserved and underserved rural population.
- Micro Finance Institutions (MFIs) act as an important conduit for extending financial services to the microfinance sector in the country, by raising resources from banks and other institutions and extending loans to individuals or members of JLGs.

MFIs could be –

- NGO-MFIs – registered under the Societies Registration Act, 1860 or the Indian Trust Act, 1880
- Cooperative MFIs – registered under the State Cooperative Societies Act or Mutually Aided Cooperative Societies Act or Multi State Cooperative Societies Act
- MFIs incorporated under Section 25 of Company Act 1956 / Section 8 of Companies Act, 2013
- NBFC-MFIs incorporated under the Companies Act, 1956/2013 and registered with RBI.
- Local Area Bank.

Role of NABARD As Microfinance Facilitator

- NABARD has continued with its role as the main facilitator and mentor of microfinance initiatives in the country, particularly the SHG Bank Linkage initiative.
- Apart from refinancing the loans issued by eligible credit institutions to SHGs/JLGs, it provides support in the form of grant assistance for formation, nurturing and credit linking of SHGs with the banks, capacity building of various stakeholders through training, exposure visits, seminars, workshops, etc.
- NABARD intensified its efforts to promote sustainable livelihoods among SHG members by launching Livelihood and Enterprise Development Program (LEDP), pilots in micro insurance and pension, digitization of SHGs.

Promotion of Women SHGs in backward districts

- This is a targeted scheme which NABARD implements in association with the Department of Financial Services, Ministry of Finance, and Government of India. NABARD continued to implement the scheme for promotion and financing of Women Self Help Groups in 150 identified Left-Wing Extremism (LWE) and backward districts of the country.

Promotion of JLGs

- Under its JLG promotion support initiatives, NABARD has been extending grant support for formation and nurturing of JLGs to banks and other JLG promoting institutions. For strengthening JLG financing, NABARD also extends
  (a) financial support for awareness creation and capacity building to all stakeholders of the program
  (b) Refinance support to those banks which finance JLGs.

SHG Based Livelihood Interventions of NABARD

- Self-employment generation and creating employment opportunities through businesses are the two important aspects from entrepreneurship development perspective. NABARD recognizes that livelihood promotion activities are essential for holistic financial inclusion.
- MEDP and LEDP are the two skill development programs supported by NABARD for providing necessary impetus to enterprise promotion activities amongst SHG members.

- NABARD has updated the guidelines under MEDP and LEDP. The new features are - the programs now include JLG members as participants, provision of daily stipend to participants, additional training on market linkages, e-marketing, branding and packaging, demonstration unit and issuance of Training Certificates for enabling participants to obtain Bank loan to set up enterprises.
- The grant assistance has been enhanced for MEDPs from Rs. 0.50 lakh to Rs. 1.00 lakh and in case of LEDPs from Rs. 6.43 lakh to Rs. 8.80 lakh for Farm Sector and from ` 4.98 lakh to ` 7.15 lakh for Non-Farm Sector.

Micro Enterprise Development Program (MEDP)

- It was launched in 2006, the main objective of the program is to enhance the capacities of participants, through appropriate skill up-gradation in existing or new livelihood activities in farm or non-farm activities and enrich knowledge of participants on enterprise management, business dynamics and rural markets.
- Training activities under MEDP, being short duration in nature, are organized for 15 days and with 30 participants. A maximum grant assistance of Rs. 1 lakh is available under NABARD's support towards conduct of farm or non-farm based MEDPs.
- Digitization brings in speed and efficiency and to ease application processing NABARD operationalized MEDPs on "NABSKILL" portal, in July 2019. It is very encouraging to note that during 2020-21, 273 MEDP applications were processed on NABSKILL.

Livelihood and Entrepreneurship Development Program (LEDP)

- Taking cue from the feedback generated from implementing MEDPs for over 10 years, prompted NABARD to conceive a more comprehensive and holistic approach towards sustainable livelihood generation and in December 2015, the Livelihood and Enterprise Development Program (LEDP) was initiated on a pilot basis.
- LEDP also envisaged conduct of livelihood promotion in both farm and off -farm activities but under project mode in clusters in contiguous villages, with a provision for intensive training for skill building, refresher training, backward-forward linkages, handholding and escort support for credit linkage.
- The broad objectives of LEDP are to identify suitable livelihood activities through participatory approach, to enhance the capacities of SHG members through identifying the skill gaps and appropriate skill upgradation, to enhance the income levels of SHG members.

Project E – Shakti

- In line with Government of India's "Digital India" mission, E-Shakti, a pilot project for digitization of SHGs was launched by NABARD in the year 2015 in two districts Ramgarh (Jharkhand) and Dhule (Maharashtra) and later expanded to 100 districts across the country during 2016 and 2017.

- It aims at digitization of data of all SHGs for enhancing the ease of doing business with SHGs. USP of the E-Shakti project is 'one-click' availability of the social and financial information of the Self-Help Groups maintaining Saving Bank accounts with the banks.
- The project which operates through the portal viz. https://eshakti.nabard. org, and mobile Apps (E-Shakti App and E-Shakti Tracker App), makes the SHGs and their members accessible to bank credit and also empowers them by giving access to their own bank accounts and other details through their mobile.

SIDBI & Micro Credit

SIDBI Foundation for Micro Credit (SFMC)

- SIDBI, with an intention to fill the institutional void in inclusion space, started experimenting in 1994, by dispensing Micro Credit through the NGOs, wherein such institutions were used as financial intermediaries for delivering credit to the poor and unreached, mainly women.
- A department within SIDBI viz. SIDBI Foundation for Micro Credit (SFMC) was created in 1999, to serve as an apex wholesale unit for microfinance providing a complete range of financial and non-financial services to the MFIs, so as to facilitate their development into financially sustainable entities.
- SFMC is providing services such as loan funds, grant support, equity and institution building support to the retailing Micro Finance Institutions (MFIs) so as to facilitate their development into financially sustainable entities.

National Microfinance Support Program

- "National Microfinance Support Program (NMFSP)" was launched by SIDBI in April 2000. Under the NMFSP, SIDBI entered into a collaboration with Department for International Development (DFID), UK in April 2000. Subsequently, another collaboration with International Fund for Agricultural Development (IFAD), Rome in April 2002 was made with a view to providing on-lending fund support to partner MFIs.
- The purpose of the program was:
- To contribute to the development of a more formal, extensive and effective microfinance sector on a national scale that serves poor women and men; and
- To assist in the evolution of an appropriate enabling environment for the development of sustainable finance institutions.

Rating of MFIs

- Most micro finance programs were initially operated by NGOs and were not subjected to regulation and supervision as they were registered as Societies or Trusts. Non-regulation of these institutions worked to their detriment and these institutions were not able to have smooth access to funds from the financial sector which was wary of lending to such entities.

- SIDBI pioneered the concept of Capacity Assessment Rating (CAR). The MFI rating tool on various parameters, that has become an industry- standard, put the much-needed checks in place to assess risk perception of MFIs and is used as proxy for Bank Loan Ratings. Rating of MFIs has gained sector-wide acceptance and has become a pre requisite for getting assistance from the banks/ financial institutions.

Responsible Financial Initiatives

SIDBI implemented a World Bank funded "Scaling Up Sustainable and Responsible Microfinance Project" aimed at scaling up access to sustainable microfinance services to the financially excluded, particularly in under-served areas of India, by introduction of innovative financial products and fostering transparency and responsible finance.

The major initiatives taken by SIDBI in the field of Responsible Finance Practices are –

- Creation of a Lenders' Forum
- Facilitating Development of a common code of conduct for the MFIs and ensuring adherence thereof
- Laying down standards for the sector through measures like concept of risk rating, portfolio audits, system audits, etc.
- Carrying out Sectoral Studies/ Impact Studies
- Creating awareness about Clients' Protection Practices.

Lenders Forum

- As part of its responsible finance initiative, SFMC has facilitated Lenders' Forum comprising key MFI Funders with a view to promoting cooperation and responsible lending practices among MFI lenders for leveraging support to MFIs across all the stakeholders.

Code of Conduct Assessment

- Under the World Bank project, one of the initiatives undertaken towards responsible finance practices was development of Code of Conduct Assessment (COCA) of MFIs. COCA measures MFIs' adherence to ethical and sound practices that enable an MFI to maintain good relationship not only with the clients but also with all other stakeholders in the sector.
- SIDBI has helped to develop a Code of Conduct Assessment Tool, which applies to providing credit services, recovery of credit, collection of thrift, etc., for MFIs to assess their degree of adherence to the voluntary microfinance Code of Conduct.

Poorest States Inclusive Growth Program (PSIG)

- SIDBI has also implemented the Poorest States Inclusive Growth Program funded by UK Aid through the Department for International Development (DFID) in the states of Uttar Pradesh, Madhya Pradesh, Bihar and Odisha during 2012-19 period.

- The project encouraged provision of financial services in a responsible manner to the poor besides, facilitated promotion of institutions providing diverse financial services to the poor and improving the capacities of poor especially women in tackling financial and gender issues.

India Microfinance Equity Fund (IMEF)

- To ease the tight liquidity situation, in the FY 2012, GoI stepped in with creation of a Rs.100 crore Fund, operated through SIDBI, to strengthen capitalization of smaller, socially oriented MFIs, especially in underserved states/areas.
- The allocation under IMEF has been increased by Rs. 200 crore in FY 2013-14. The assistance under the Fund is expected to help the MFIs leverage more debt funds from the banks and financial institutions and help in increased flow of assistance to the poor in the unserved/underserved areas of the country.

Initiatives By RBI And GOI

- While the continuation of priority sector status for on-lending to MFI continues, new entities viz., Small Finance Banks (SFBs) have been inducted in the financial system, along with focus on furthering financial inclusion through Pradhan Mantri Jan Dhan Yojana (PMJDY).
- RBI had raised the annual household income limit of rural borrowers to be eligible to take loans from MFIs to Rs. 1.25 lakh; in the case of urban/semi-urban borrowers it has been increased to Rs. 2.00 lakh. MFIs, in the first cycle of loan, can disburse up to Rs. 75,000 and Rs. 125,000 in subsequent cycles.

RBI's Consultative document on regulation of MFIs

- RBI has released a consultative document on the regulation of microfinance in June, 2021 with an intent to revamp the regulatory policy for MFIs-essentially the non-banking financial companies (NBFC-MFIs).

Common definition of micro-finance loan:

- Microfinance loans shall mean collateral-free loans to households with annual household income of Rs. 1.25 lakh and Rs. 2.00 lakh for rural and urban/semi urban areas, respectively.

Other instructions applicable to microfinance loans of all REs:

- Each regulated entity shall have a Board approved policy for - household income assessment capping the payment of interest and repayment of principal for all outstanding loan obligations of the household as a percentage of the household income, subject to a limit of maximum 50%.
- No pre-payment penalty
- Disclosure of pricing related information in a standard simplified fact-sheet
- Display of minimum, maximum and average interest rates charged on microfinance loans.

Criteria for exemption of 'not for profit' microfinance companies

- Undertaking micro financing activities i.e., providing collateral-free loans to households with annual household income of Rs. 1.25 lakh and Rs. 2.00 lakh for rural and urban/semi urban areas respectively, provided the payment of interest and repayment of principal for all outstanding loans of the household at any point of time does not exceed 50 per cent of the household income
- Registered under Section 8 of the Companies Act, 2013
- Not accepting public deposits
- Having asset size of less than Rs. 100 crore.

The proposed changes seek to link the overall permissible indebtedness limit to the repayment capacity of the borrower at a household level i.e., the limit should not exceed 50% of the household income. This applies to a rural household with an income of not more than Rs. 1.25 Lakh as well as an urban or semi-urban household with an income of not more than Rs. 2 Lakh.

ALL THE VERY BEST FOR YOUR EXAMS

SHORT NOTES FOR

CAIIB – ELECTIVE PAPER

RURAL BANKING

Though we had taken enough care to go through the notes provided here, we shall not be responsible for any loss or damage, resulting from any action taken on the basis of the contents. Creation of these short notes is the efforts of so many persons. First of all we thank all of them for their valuable contribution. We request everyone to go through the Macmillan book and update yourself with the latest information through RBI website and other authenticated sources. In case you find any incorrect/doubtful information, kindly update us also (along with the source link/reference for the correct information).

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