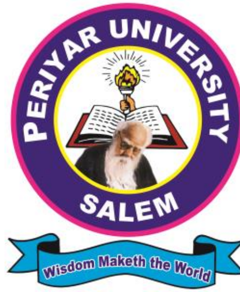

PERIYAR INSTITUTE OF DISTANCE EDUCATION (PRIDE)

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B.B.A. BANKING

FIRST YEAR

PAPER – III : RURAL BANKING

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UNIT – I

INDIAN RURAL ECONOMY

UNIT STRUCTURE

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1:0 INTRODUCTION

Indian economy is developing economy. Development of rural areas is the key word which alone can ensure raise in the standard of living of the majority living in villages. The human resources involved in rural upliftment need to be developed by creating proper awareness in them and by developing requisite skill and attitude in them. Rural banking has to rightly serve as a tool of economic development in rural areas.

Need has been increasingly felt to realize the national objective of economic growth with justice and to this effect growing emphasis has been laid on rural banking especially in the post nationalization period in our country. Apart from cooperative banks which earlier have been sole facility of rural credit, commercial banks have been called upon to reach 'un-banked and under-banked rural hinder land owing to rural orientation of banking policy of the country'.

With this in view, the students who are studying will understand the concept of rural banking.

1:1 OBJECTIVES

After reading this unit, the students will be able to:

- Understand the features of Indian Rural Economy
- Explain about the composition of Indian Rural Economy
- Familiarize with the sources of rural finance and their features
- Give detailed explanation on the requirements of sound rural finance system and the concerns over rural finance system

1:2 INDIAN RURAL ECONOMY

It is important that India's growth and development depend on the development and growth of its rural economy. India's main sector of employment is agricultural sector and 70% - 75% of the people engaged in Agricultural and allied industries. Hence the growth of Indian economy depends on growth of Rural economy.

The Rural Economy in India is wholly agriculture based and it is of tremendous importance because it has vital supply and demand links with the other Indian industries. Agriculture is the main stay of the Indian economy, as it constitutes the backbone of rural India which inhabitants more than 70% of total Indian population. The fertility of the soil has augmented the success of agriculture in India. Further, Rural Economy in India has been playing an important role towards the overall economic growth and social growth of India. India has been predominantly an agriculture-based country and it was the only source of livelihood in ancient time.

During prehistoric time when there was no currency system the India economy system followed barter system for trading i.e. the excess of agricultural produce were exchanged against other items. The agriculture produce and system in India are varied and thus offers a wide agricultural product portfolio.

1:2:1 COMPOSITION OF RURAL ECONOMY

Today, the rural economy in India and its subsequent productivity growth is predicated to a large extent upon the development of its 700-million strong rural population. The agricultural economy of India is drafted according to the needs of rural India since majority of the population lives in about 600,000 small villages. In India, agriculture accounts for almost 19% of Indian gross domestic products (GDP). The rural section of Indian population is primarily engaged with agriculture, directly or indirectly.

The Ministry of Agriculture, the Ministry of Rural Infrastructure, and the Planning Commission of India are the main governing bodies that formulate and implements the policy related to rural economy in India and its subsequent development for the overall growth of the Indian economy. The main agricultural products that controls the fate of the Rural Economy in India are as follows –

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

1:2:2 FEATURES OF INDIAN RURAL ECONOMY

1. Though agriculture is the prime activity in Indian rural economy , agricultural lands are divided into small parts
2. Traditional methods of cultivation and usage of farm equipments.
3. Unawareness
4. Inadequate education
5. No training of technical aspects
6. Lesser capital availability for land farming and development
7. Above all the reasons for the same is the poverty
8. Increase of population day by day
9. Underutilization of available farm equipments
10. Under and unemployment
11. Rely on agricultural sector for employment
12. Indirect Unemployment

13. Over populated rural people work in same acreage which induces indirect unemployment.
14. Excess labourers may not increase the total production or productivity.
15. The average productivity is not increasing though they work in the land. So it creates indirect unemployment.
16. Due to non availability of suitable jobs in rural India the unemployment grows day by day
17. All the farmers are not the same type of labourers. 50% of them may have their own land and others are working as farm coolies and other type of workers
18. Inequitable distribution of wealth/land . 10% - 15% of the rural population takes the majority of land and wealth.

1:3 SOURCES OF RURAL FINANCE

The sources of rural finance are classified into two groups:

A. **Private Agencies**
B. **Institutional Agencies**

1:3:1 PRIVATE AGENCIES

In rural areas the indigenous money lender continued to be the banker in need. Since these money lenders had virtual monopoly in supplying the credit in rural areas, the poor were often subjected to exploitation. The list of private agencies for rural finance is given below:

- Relatives
- Landlords
- Agricultural money lenders
- Professional money lenders
- Traders and commission agents

1:3:1:1 PROBLEMS OF PRIVATE AGENCIES

With the overriding monopoly the money lender often resorted to usurious practices – levying the exorbitant rate of interest, demanding contribution to various funds, demanding advance interest etc. Besides often the money lenders resorted to other unethical practices also taking thumb impression on a blank paper for inserting some arbitrary amount, manipulation of the account to inflate the balance due, taking of conditional sale deed, exacting free domestic services or services on nominal payment, inflicting coercive social control leading to even loss of face and esteem of poor debtor etc. The poor villagers could not escape the clutches of these indigenous bankers as they had to keep on borrowing from under distress were the only source of credit for all types of requirements.

1:3:2 INSTITUTIONAL AGENCIES

Efforts were made to provide institutional credit to the rural sector through the cooperative credit societies. Various agencies have been established to provide finance to rural banks. Some of them are listed below:

1. **Government Agencies (Central and State governments)**
2. **Co-operatives**
3. **Commercial Banks**

1:3:2:1 GOVERNMENT AGENCIES

Government provides an essential and significant contribution to rural financial system. Governments (both central and state governments) have provided directive policies to the priority sector through various five year plans. The governments have also established several agencies for rural funding. Some of the government policies and agencies are listed below:

1. **Integrated Rural Development Programme (IRDP)**
2. **District Rural Development Agencies (DRDA)**
3. **National Bank for Agriculture and Rural Development (NABARD)**
4. **Subsidy Schemes**
5. **The National Rural Employment Programme (NREP)**

Rural development has been accepted as a national policy and credit is one of the important inputs for achieving the rural development. The government is providing a multi agency approach through various agencies.

1:3:2:2 CO-OPERATIVES

The cooperative societies Act of 1904 provided for the formulation of primary agricultural cooperative credit societies. Later, in 1912 cooperative movement was extended to formation of non-agricultural cooperative credit societies also. The primary societies at village level federated themselves and organized into district level banks kept on widening under the control of government through the Registrar of Cooperative societies.

In February 1951, The Reserve bank of India convened an informal conference of certain economists and others to suggest policy changes, procedural reforms and other steps necessary for enlarging from the Bank to the cultivators through cooperative credit system. Based on the investigation RBI has formed the All India Rural Credit Survey Committee. It made several recommendations, collectively known as the Integrated Scheme of Rural Credit. The main features of the Scheme were:

1. State partnership through contribution to the share capital of cooperative credit institutions
2. Full coordination between credit and other economic activities, especially marketing and processing and
3. Administration through adequately trained and efficient personnel, responsive to the needs of the rural population

According to the cooperative structure the system consists of the following agencies:

1. **State Co-operative banks at the state level**
2. **Central Co-operative Banks at the District level**
3. **Primary Co-operative Credit societies at the village level**

1:3:2:3 COMMERCIAL BANKS

These banks came into existence primarily to help the business houses and hence started operating only in metropolitan areas. As such the banks were equipped with only those schemes and propositions which suited this class. This strategy did not yield the desired result in India because of the following reasons:

1. India is a developing country
2. Indian economy is a rural economy
3. Majority of the population of India live in villages

For the development of the country, therefore the Government initiate a series of five year plans. Under this the government wanted the involvement of banks to the optimum extent in the plan programmes. Commercial banks are providing rural finance for the following purposes:

1. Agriculture
2. Small Scale industries
3. Retail trade
4. Small business
5. State Sponsored organizations for scheduled castes/tribes
6. Education
7. Housing loans to weaker sections and consumption loans

1:4 REQUISITES OF SOUND RURAL FINANCE

1:4:1 ISSUES AND CONCERNS

1. **Financial exclusion**

   The Situation Assessment Survey[i] (NSSO, 2003) indicated that out of the total 89.3 million farmer households in the country, 84 percent (750 million) households were small and marginal farmers and more than half (51.4 percent) of the total households were non-indebted. Further, out of the total 43.4 million indebted households, 20.3 million (46.8 percent) households had availed financial services from informal sources. The inference of these findings is that in spite of a large network of the institutional credit system, it has not been able to adequately penetrate the informal rural financial markets and the non-institutional sources continue to play a dominant role in purveying the credit needs of the people residing in rural areas.

2. **Slow down of credit flow to rural areas**

   The ratio of rural lending to total lending has been steadily declining during the 1990s. In 1991, the total credit of the scheduled commercial banks, in nominal terms, had increased from Rs.1,21,865 crore, to Rs.15,13,842 crore in 2006. However, the share of rural areas in the total deposits and credit of the scheduled commercial banks, which were 15.5 percent and 15 percent respectively in 1991, decreased to 10.8

percent and 8.3 percent respectively in 2006, reflecting the inability of rural areas to absorb funds for developmental purposes.

3. **Declining flow of credit for agriculture sector**

   While studying the flow of institutional credit to agriculture sector during the period between 1991-92 and 2005-06, an impressive growth in both production and investment credit has been observed. However, the pace of growth had definitely been accelerated during the operation of the scheme of doubling of credit. Production credit, which was 60.7 percent of the total credit flow of Rs.13,915 (real terms) in 1991-92, had declined to 58.5 percent of the total credit flow of Rs.92,125 crore (real term) in 2005-06. It is also a concern that although the cooperative banks are in close proximity with the rural people, the share of cooperative banks in the total credit flow for agriculture sector had declined from 53.7 percent in 1991-92 to 21.9 percent in 2005-06. Further, the share of the regional rural banks in the total credit flow had increased from 5.1 percent in 1991-92 to only 8.5 percent in 2005-06, when with the existing branch network of over 14,494 branches, they could meet the credit needs of 25 percent of the rural areas.

4. **Neglect of small and marginal farmers**

   During the period between 1991-92 and 2003-04, while the number of accounts for marginal, small and other farmers had increased at annual rates of 0.03 percent, 0.65 percent and 1.48 percent respectively, the credit flow to the respective categories of farmers had increased at 6.71 percent, 6.73 percent and 5.7 percent. Overall, during 1991-92 and 2003-04, while the annual increase in the number of accounts was 0.62 percent, the increase in the amount of credit outstanding of farmers was 6.2 percent. Thus, during the last 10 years, although there is no meaningful increase in the number of accounts in favour of farmers, there has been a meaningful increase in the volume of credit outstanding of the farmers. Further, during the period between 1991-92 and 2003-04, the percentage of the number of accounts with marginal farmers had been declining and that of other farmers had been increasing.

5. **Falling advances to priority sector**

   Over years, priority sector lending as a proportion of net bank credit has been falling. For the public sector banks, priority sector lending as a percentage to net bank credit had decreased from 41.8 percent in 1991 to 40.3 percent in 2006. In the priority sector itself, the shares of agriculture and small-scale industries had decreased from 40.7 percent and 39.1 percent in 1991 to 37.7 percent and 20.1 percent respectively in 2006.

6. **Reduction in rural bank branches**

   In spite of the process of financial reforms in the country, the total number of bank branches of the scheduled commercial banks had

increased from 60,220 branches in 1991 to 69,471 branches in 2006, at an annual rate of 0.96 percent. While the number of bank offices in urban areas had increased from 25,014 branches in 1991 to 38,892 branches in 2006 at an annual rate of 2.99 percent, the number of branches in rural areas had declined from 35,206 branches in 1991 to 30,579 branches in 2006 at annual rate of 0.93 percent. The influence of the declining trend of the bank branches in rural areas had been felt in marginalization of the disadvantaged sections from accessing institutional credit, especially in the underdeveloped regions of the country. This has to some extent been offset by the SHG-Bank linkage programme, which provided credit to very poor people, especially poor rural women.

7. **Credit flow vs. Productivity**

Although credit for the agriculture sector has shown an impressive growth over a period of time between 1991-92 and 2005-06, no significant change in the value of output has been observed during this period. The relationship between the value of input and the value of output over the last decade has remained more or less the same with the output being less than five times the value of input. It is relevant to note that even at the highest level of production, credit forms around 11 percent (in real term in 1993-94 prices) of the total output value. Thus, expecting credit with so little a share in the output value to have any significant impact on the output or productivity values may not be in order.

1:4:2 EMERGING CHALLENGES AND REQUISITES

1. **Wider Coverage**

There has been a long history of concern regarding rural credit. The increase in share of institutional credit has been rather slow. The dependence of small and marginal farmers is still very high on non-institutional sources. Besides, the developed regions have greater access to credit as compared with less developed regions. Therefore, the key issue now is how to ensure that rural credit from institutional sources achieves wider coverage and expands financial inclusion.

2. **Location and Infrastructure**

While distance from the bank branch, branch timings, cumbersome documentation and procedures, unsuitable products, communication and staff attitudes are some important supply side constraints, lack of awareness, low income/assets and small-sized loan demands are some of the demand side constraints. Further, large number of villages (more than 6 lakh villages), lack of infrastructure, vast geographical spread, high transaction costs and poor loan recovery are some other problems faced by banks. In the absence of any alternative, the poor and other weaker sections of rural society depend on the unorganized financial

system, which utilizes local knowledge, offers credit for a wide variety of purposes and operates quite flexibly, though at high costs and as an exploitative relationship.

3. **Micro Finance**

One strategy that has achieved great popularity and wide acceptance is that of micro finance. The banks need to involve micro-finance agencies and other financial intermediaries, as business opportunities. They must understand, recognize and streamline different activities like retail activities, service sector initiatives, and construction and rural housing that take place in the rural economy, in addition to financing agriculture. However, this needs innovations in risk assessment, reduction in transaction costs, search for new credit channels and the use of cheaper information technology.

4. **Technology and Transaction**

Technology is another option. It can be a vital component in integrating strategies for achieving inclusive growth. Its use can be critical in building up a reliable credit information system and database on customers, reducing transaction costs and facilitating better pricing of risk, improving the efficiency of the financial system, and thereby increasing the access of un-banked rural people in an efficient manner. It can reduce the transaction costs sharply and time taken by banks in processing applications, maintaining accounts and disbursing loans. It has the potential to address the issues of outreach and credit delivery in rural areas, in a cost effective manner. But how the IT platform will provide a variety of financial services to the rural clients at affordable costs and in time needs to be examined.

5. **Information**

Access to information is the key to ensure wider participation of all in the process of development. The challenge lies in ensuring easy flow of public information to rural citizens. The growing innovations in the use of information communication technologies have opened up a new era of information dissemination. Credit counseling, awareness creation and financial education regarding the benefits of financial inclusion are important for effective expansion of financial services in rural areas. To do this, banks may utilize the services of non-governmental organisations, village youth clubs, village Panchayats, farmer clubs and self-help groups into confidence.

6. **Products and Services**

Banks need to develop an array of financial products and services that are adapted to the needs of the majority of rural people at affordable prices. Interest rate is an important component of cost to agricultural producers and will become more important as backward and forward linkages are strengthened. To ensure competitiveness of Indian

agriculture produce in the world market, various Committees have suggested several measures of reducing cost of funds, transaction costs and the risk costs.

7. Risk Management

Risk management is another option. While the farmers suffer from wide variety of risks like the climate risk, price risk, technology risk, etc., the bankers suffer from the problem of increasing non-performing assets and losses. These risks emanate from a host of factors including failure of investments, willful defaults, weather aberrations, improper appraisal of loans, diversion of funds, inadequate monitoring and follow up and inability to realize the securities available, are some of the cost drivers, which play a decisive role in determining the rates of interest charged by banks to ultimate borrowers in rural areas. Therefore, if credit risk can be disaggregated into factors like failure of rainfall, price fluctuations, poor health and death of the borrower; these can be mitigated through non-credit financial products like insurance and derivatives. This could also facilitate the banks to provide credit at lower rates.

a) One possible risk management measure could be to enhance savings. Creation of a large fund administered centrally or at each State level would be necessary to help people affected by calamities and disasters.

b) The manner of contribution, mode of assistance, etc., could be designed to provide quick response to calamity-affected regions. Price hedging mechanisms to safeguard farmers from price risks would be needed.

c) The gradual introduction of forward markets and future trading in select crops/commodities should be extended to all major crops in a phased manner. An enforcement mechanism whereby the suppliers of technology are made accountable for failure of technology, etc., could mitigate technology risks faced by the farmers.

d) Further, the infrastructure support, policy framework and technology could play an effective role in mitigating risks in financing to the rural sector.

e) There is also a need for providing immediate relief at the time of disaster or natural calamity, smoothening the liquidity flow to ensure that consumption requirements are not unduly affected besides compensating people for loss of income, assets and livelihood.

The rural Micro Finance Institutions (MFIs), which has emerged as a powerful tool for fighting poverty, may be made a part of the financial system for effective delivery of rural financial services. The banks need

to gear up their rural branches for facilitating bank linkages of SHGs where the programme has not shown satisfactory progress. The Business Correspondence models (MFIs, NGOs, etc.), as recommended by the Internal Group on Micro finance (Khan Committee), may also be put in place, which will increase banking outreach.

1:5 SUMMARY

The overwhelming majority of the world's poor live in rural regions. The economic development of such regions is one of the keys to reducing global poverty. One of the main criteria in this regard are financial services that take account of the needs of farmers and small agricultural businesses as well as non-agricultural occupations such as traders and manufacturers. Credit is a critical factor in development of agriculture and rural sector as it enables investment in capital formation and technological up gradation. Hence strengthening of rural financial institutions, which deliver credit to the sector, has been identified as a thrust area. Various initiatives have been taken to strengthen the cooperative credit structure and the regional rural banks, so that adequate and timely credit is made available to the needy.

UNIT QUESTIONS

1. Explain the features of Indian Rural Economy.
2. What are the components of Indian Rural Economy? Discuss them in brief.
3. What are the sources of rural finance? Enumerate them briefly.
4. Illustrate the concerns and problems of rural finance.
5. Discuss about the challenges and requisites of rural finance.

RECOMMENDATION FOR FURTHER READINGS

1. Rural Banking and Development, S.C.Anand,UDH Publishing House, New Delhi
2. Agricultural Financing and Rural Banking in India – An Evaluation, Dr.S.Nakkiran, Rainbow Publications, Coimbatore.
3. Rural Credit and Co-operatives in India, S.K.Sinha, Suneja Publishers, New Delhi.
4. Rural Credit, Role of Informal Sector, Dinesh Chandra, Segment Books, New Delhi.
5. Annual Report, RBI, Various Issues

NOTES

UNIT - II

UNIT II INSTITUTIONAL INFRASTRUCTURE

UNIT STRUCTURE

2:1 Introduction
2:2 Rural Banking Infrastructure
2:3 Cooperative Banks
2:3:1 Evolution
2:3:2 Findings And Recommendations Of All India Rural Credit Survey Committee
1:3:3 Structure Of Cooperative Banks
2:3:3:1 State Co-Operatvie Banks
2:3:3:2 Central Cooperative Banks
2:3:3:3 Primary Agricultural Credit Societies
2:4 Commercial Banks For Rural Finance
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2:4:2 Role Of The Reserve Bank Of India
2:4:2:1 Directives Of Reserve Bank Of India To Rural Finance
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2:4:4 Functions And Role Of Commercial Banks In Rural Finance
2:4:5 Weaknesses
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2:5:3 Functions
2:6 Lead Bank Scheme
2:6:1 Functioning Of Lead Bank Scheme
2:6:2 Important Tasks Of Lead Banks
2:6:3 Credit Planning
2:7 Summary

2:1 INTRODUCTION

Before our country got independence, major chunk of rural credit was provided by money lenders and other non-institutional private agencies. Money lenders were, indeed, monopolistic on rural money market. After independence provision of institutional source of credit for development of rural people become the foremost task. To mitigate the suffering of the poor farmers the infrastructure of cooperative credit was brought into being in the matter of agriculture finance. Rural Banking infrastructure can be classified as 1. Co-operative Banks 2. Commercial Banks 3. Regional Rural Banks. In this unit we will discuss the institutional infrastructure and the role and functions of rural banking.

2:2 RURAL BANKING INFRASTRUCTURE

Rural Banking infrastructure can be discussed under the following classification;

1. **Co-Operative Banks**
2. **Commercial Banks**
3. **Regional Rural bnks**

We will discuss the structure and other aspects in detail.

2:3 COPERATIVE BANKS

2:3:1 EVOLUTION:

Before our country got independence, major chunk of rural credit was provided by money lenders and other non-institutional private agencies. Money lenders were, indeed, monopolistic on rural money market. To mitigate the suffering of the poor farmers the infrastructure of cooperative credit was brought into being in the matter of agriculture finance.

The co-operative societies Act 1904 provided for the forumulation of primary agricultural cooperative credit societies. Later in 1912 Cooperative movement was extended to formation of Non-agricultural co-operative credit societies also. The primary societies at village level later federated themselves and organized into district level cooperative banks. The scope of activities of these district level banks kept on widening under the control of Government through the Registrar of Co-operative societies.

After independence provision of institutional source of credit for development of rural people become the foremost task. Based on recommendations of some of the committees such as the Royal Commission on Agriculture (1928), the Central Banking Enquiry Committee (1947) and the Rural Banking Enquiry Committee (1947), a beginning had already been made to compete with the private money lenders. Though it was felt that the primary credit societies would be able to meet both the short term credit requirements for production and long term credit needs for development, experience later showed that these societies would be able to supply only short-term credit. For meeting the requirements of Long-term credit an institution separate from co-

operative banks under the name and style of Land Mortgage banks came into being.

In February 1951, the RBI convened an informal conference of certain economists and others to suggest policy changes, procedural reforms and other steps necessary for enlarging the volume of agricultural finance that passed form the Bank to the cultivators through cooperative credit system. One of the recommendations made by the conference was that the Reserve Bank should undertake a detailed investigation of the position relating to rural credit on a national basis. The Bank accordingly appointed a committee of Direction to conduct a comprehensive rural credit survey. This was known as the All India Rural Credit Survey Committee.

2:3:2 FINDINGS AND RECOMMENDATIONS OF ALL INDIA RURAL CREDIT SURVEY COMMITTEE

The findings of the committee confirmed the dominant position occupied by the money lender in the system of rural credit. The credit supplied by all the institutional agencies was insignificant. The basis of the future policy laid down by the survey committee was the positive and deliberate creation of conditions in which co-operative credit would have a reasonable chance of success.

The recommendations of the committee were collectively known as the Integrated Scheme of Rural Credit. The main features of the scheme were:

- Development of cooperative credit
- Expansion of cooperative economic activity (processing and marketing)
- Training of cooperative personnel

It was understood that in relation to the first, the Bank would occupy the most strategic positon; in regard to the other two, it would be among the principal participants; and for all the three, much would have to be expected of it by way of coordination.

2:3:3 STRUCTURE OF COOPERATIVE BANKS

The short and medium term cooperative credit structure is consisting of three tiers:

- State Co-operative Banks at the state level
- Central Co-operative Banks at the district level
- Primary Co-operative Credit Societies at the Village level

The structure and functions are discussed below:

2:3:3:1 STATE CO-OPERATVIE BANKS

The constitution of a cooperative banking institution at the apex level was considered essential as early as in 1915. The apex bank (State Co-operative banks) at the state level operates as a balancing center for the resources of the movement in the entire state.

Functions:

- ❖ The state cooperative bank provides the link between the RBI and the money market in one side and the entire cooperative credit structure on the other side.
- ❖ It acts as the custodian of the surplus resources and the reserves of the central cooperative banks and supplements them by attracting deposits and by obtaining loans from the RBI.
- ❖ The State cooperative bank has been considered such a vital link that it has been given a status comparable to that of a scheduled bank.
- ❖ The State Cooperative bank occupies a key position in the entire structure of short term and medium term cooperative credit.

2:3:3:2 CENTRAL COOPERATIVE BANKS

They normally cover area of one revenue district. The standing Advisory Committee on Agricultural Credit constituted by the RBI recommended that as a general proposition, there should be on central cooperative Bank for on district.

Functions and Role

The position of Central Cooperative bank is of crucial importance in the cooperative credit structure.

- ❖ The Central bank's primary function is to mobilize the resources in the district for financing its members to the maximum extent possible in addition to channeling the flow of funds from the State Cooperative Banks.
- ❖ Central banks are the intermediate agency between the primary credit societies at the village level run by the agriculturists and the state cooperative banks run mainly form the metropolitan cities.
- ❖ This agency is closer to the primary societies and affords opportunities to them for influencing its policies to suit their requirement and enables them to train themselves in sound banking principles and practices.

2:3:3:3 PRIMARY AGRICULTURAL CREDIT SOCIETIES

The Primary Credit Society forms the base for the Cooperative Credit Structure. The primary agricultural credit societies cover different types of credit societies, though the common feature of all these different societies is that most of their members are agriculturists. The group includes:

- Large size societies which include rural banks, agricultural banks and credit unions.
- Service Co-operatives
- Other small size societies

Functions and Role

- ❖ The village credit society is the best agency to inculcate the habit of thrift, self-help and mutual help among its members services of various kinds.

- ❖ The primary functions of service co-operatives are provision of short and medium term credit; supply of agricultural and other production requirements and collection of agricultural produce for sale through the marketing society.
- ❖ In addition to these functions, these cooperatives help in the formulation and implementation of village plans for increasing agricultural production.

2:4 COMMERCIAL BANKS FOR RURAL FINANCE

2:4:1 EVOLUTION

These banks came into existence to help the business houses and hence started operating only in metropolitan areas. As such the banks were equipped with only those schemes and propositions which suited this class. His strategy did not yield the desired result in India because of the following reasons:

- India is a developing country
- India is a rural economy
- Majority of the population of India in villages

For the development of the country, therefore the Government initiated a series of five year plans. The government wanted the involvement of banks to the optimum extent in the plan programmes. Hence in two stages major commercial banks were nationalized. (14 banks in 1969 and another six in 1980).

This was primarily to enable the funds available in these banks with the funds allocated for the implementation of plans for developmental purposes.

2:4:2 ROLE OF THE RESERVE BANK OF INDIA

The Reserve Bank has initiated several measures which have contributed greatly to the commercial banks participating in agricultural finance in a big way and also to improving the qualitative aspects of the lending process.

In the first instance, the Bank sponsored a seminar in 1968, covering a wide range of subjects of financing of agriculture by commercial banks. The seminar highlighted the need for commercial banks to play a positive role in extending finance to the maximum possible to extent to the agriculture sector.

The Reserve Bank appointed in 1969 an expert group to study the state enactments having a bearing on commercial banks lending to agriculture and recommendations. The expert group made a number of recommendations relating to land alienation right of agriculturists, creation of charge by declaration, priority of charges among different lending in – situations, simplicfied inexpensive and speedy methods of effecting recoveries, adaptation of certain administrative measures like updating of land records, issue of pass books, exemption from payment of stamp duty and increase in the number of centre where equitable mortgage could be created.

In 1970, Reserve Bank undertook a study of methods of operation, policy and procedures adopted by selected nationalized and other banks involved in agricultural financing and following there from the banks issued a set of guidelines in 1970 setting out the rationale, policies and procedures for making agricultural loans.

Further in the light of the recommendations made by the working group constituted by the Government of India in 1978, the Reserve Bank advised the banks to adopt simplifies forms and also liberalise the security and margin money requirements for ensuring quicker and larger flow of credit, particularly to the small and marginal farmers.

2:4:2:1 DIRECTIVES OF RESERVE BANK OF INDIA TO RURAL FINANCE

The RBI has fixed targets for commercial banks in respect of their rural lending which is major chunk of the priority sectors. The following targets were laid down:

1. They were directed to raise the ratio of their advances of priority sector to 40% of total credit.
2. Advances to weaker sections should reach a level of 10% of total bank credit.
3. 18% of the total advances should be given as direct agriculture finance to the agriculturists and other farmers.
4. The banks have been asked to maintain the credit-deposit ratio at their rural and semi urban branches on an all India basis at not less than 60%

2:4:3 STRUCTURES OF COMMERCIAL BANKS IN RURAL FINANCE

With a view of increasing rural banking, banks have considerably augmented the network of their branches in rural and semi urban areas under the guidance and direction of RBI. The branches network of banks registered more than six fold increase in the post nationalization period. The rural and semi urban branches account for a lion's share of 76% of total branch network. Rural branches constituted 56% of total number of branches.

2:4:4 FUNCTIONS AND ROLE OF COMMERCIAL BANKS IN RURAL FINANCE

Commercial banks are providing rural finance for the following purposes

- Agriculture
- Small sacle industries
- Retail trade
- Small business
- State sponsored organizations for scheduled castes/tribes
- Education
- Housing loans to weaker sections and consumption loans

Lending policies

In view of the changed emphasis in the lending policies, banks have evolved an intensive area approach in lending to agricultural sector. They have introduced considerable relaxations in their lending policies, such as charging of lower rates of interest, non-insistance on security by way of mortgage of land, non-insistance on secturity by way of mortgage of land, non-insistance on or lowering of margin money, extension of longer repayment periods, simplification of loan application forms and procedures etc.

2:4:5 WEAKNESSES

Despite a significant growth in the number of their rural branches and stepped up lending activities of the scheduled commercial banks to the rural areas, the commercial banks as an agency for rural finance also suffer from a number of weaknesses:

a. The credit deposit ratio for rural branches is substantially less than the national average.
b. Commercial banks apperar to be neglegting relatively weaker sections while dispensing rural credit
c. Commercial banks have yet to reach villages in the deep interior of the districts.
d. With their urban-oriented staff, commercial banks have not been able to develop a rapport with the rural culture

Lately the commercial banks have admirably responded to measures aimed at an impressive infrastructural development in rural areas. Approach to lending has been re-oriented from asset base to project base, systems and procedures have been simplified, adequate powers have been delegated to the lower strata of administration, rural branches have been equipped with technically qualified personnel, pre-sanction and post sanction stages have been strengthened.

2:5 REGIONAL RURAL BANKS

By the mid of seventies, with the development of institutions both the cooperative and commercial banks made substantial progress in providing credit to rural sector. However, despite the tremendous growth of the cooperatives and the commercial banks as purveyors of rural credit, the committee of Rural Banks constituted by the Government of India reported in 1975 that non-institutional credit in rural areas still amounted to two third of the total credit. There were still many unbanked areas. The demand for rural credit was on the increase owning to adoption of modern agriculture increasingly which required larger amount of capital both short term and long term.

In cooperative credit structure it was observed that a number of base level cooperative units in the villages were lying dormant and in others, financial assistance was being made available to only few influential members of the society year after year. Small and marginal farmers and agricultural

labourers continued to starve for want of credit from the primary cooperative societies.

On the other hand, commercial bank too had their weaknesses. Even with much increased network of rural branch offices, the commercial banks could not reach the interior rural.

In view of aforesaid reasons, the idea of setting up some kind of 'rural banks' was proposed by the banking commission set up in 1969 in its report submitted in 1972. It was proposed to establish a new class of rural banks which could be combining strong features of both the cooperative and the commercial banks for removing the credit gap especially for medium and small cultivators.

It was envisaged that this type of bank may not be in a position to cater to the needs of comparatively big cultivators and other constituents of the society requiring much larger volume of loans since these borrowers can approach branch offices of commercial banks.

According to the report of the commission such 'rural banks' could be established either by converting selected viable primarily agricultural cooperative credit societies into 'rural cooperative banks' offering full range of banking facilities as well as certain closely related . The report also indicted proposed capital structure, lending norms, organizational pattern, personnel policies, interest rate structure, etc.

With this background the government appointed a working group on Rural Banks in 1975 to examine in depth the setting up of new rural banks.

The recommendations of the group were:

- New institutions be set up as regional banks which should be state-sponsored, regionally based and rural oriented commercial banks.
- While lending, major chunk should be towards providing productive credit for small and marginal farmers, landless agricultural labourers, small traders etc.
- They should be scheduled commercial banks with authorized capital of Rs.1.00 crore.
- The sponsoring commercial bank should be the lead bank of the area.

The government of India accepted the recommendations and the first 5 rural banks were set up on 2nd October 1975.

Under the RRB Act 1976, Regional Rural Banks are to be set up mainly with a view to developing the rural economy by providing for the purposes of development of agriculture, trade, commerce, industry and other productive activities in the rural areas.

2:5:1 STRUCTURE

The general management of affairs and business of RRB is vested in Board of Directors consisting of:

1. Chairman appointed by Central government usually on recommendations of the sponsoring banks.
2. Three Directors (maximum) to be nominated by central Government.
3. Two Directors (maximum) to be nominated by concerned state Government.
4. Three Directors (maximum) to be nominated by sponsoring banks.

The sponsoring bank in general practice deputes one of their officers to function as Chairman of RRB. He attends to all aspects of policy making, organization, management etc.

2:5:2 CAPITAL STRUCTURE

RRB is established by the government for a specified local area. It is sponsored by established bank. The authorized capital of RRB is Rs.1 Crore divided into a lakh fully paid up shares of Rs100 each. The issued capital of each Regional Rural Bank shall be subscribed in the proportion of 50:15:35 between the government of India, state government and sponsoring bank. Each RRB has the status of a Scheduled bank.

2:5:3 FUNCTIONS

A Regional Rural Bank carries on the normal banking business in the business of Banking. A Regional Rural Bank undertakes the following types of business:

a) Granting of loans and advances particularly to small and marginal farmers and agricultural labourers etc.
b) Granting of loans and advances particularly to artisans, small entrepreneurs and persons of small means engaged in trade, commerce or industry or other productive activities within the notified area of a rural bank.

2:6 LEAD BANK SCHEME

A study group of the National Credit Council was appointed by government of India under Prof.D.R.Gadgil in 1968, for suggesting an appropriate organizational framework for the implementation of social objectives. The Gadgil study group recommended an ‘area approach’ for bridging the gap in the supply of credit for the economy. In envisaged adoption of a particular area for the development of the financial structure through intensive efforts.

In August 1969, Reserve Bank of India appointed Nariman Committeee endorsed the adoption of area approach and recommended that area comprising of one district should be the unit of activity as district was being treated to be an administrative unit in the set up of administration. It led to formulation of the Lead Bank Scheme, under which banks were entrusted with the ‘Lead Role’ for the designated district.

2:6:1 FUNCTIONING OF LEAD BANK SCHEME

- The allocation of districts was done amongst all of the public sector banks and some of the private sector banks.

- The allocation of districts amongst bankswas based on a variety of criteria such as resources base and size of bank in the area geographical coverage.
- Each lead bank was charged with the responsibility of taking a lead role in serving responsibility of taking a lead role in serving the credit needs, development of branch banking and extension of credit facilities and act as facilitator of an coordination amongst development agency, government department and financial institution in the districts allotted to it.

2:6:2 IMPORTANT TASKS OF LEAD BANKS:

- To survey the resources for banking development in the district and identify potential growth centers.
- To estimate the credit gap, work out the requirement of credit and prepare the credit plan.
- To examine backward and forward linkages; ie the facilities for marketing of agricultural produce and industrial production, shortage and warehousing linking of credit with marketing.
- To identify major bottlenecks in the development of district and induce appropriate agencies to take remedial actions.

The prime task for which the lead banks have to devote considerable time, efforts and attention in the formulation of District Credit Plans (DCPs) and Annual Action Plans (AAPs).

2:6:3 CREDIT PLANNING

First Round (1975 -78)

The lead banks made their first attempt for formulation of district credit plans between 1975 – 78. A district plan as then perceived, was a development plan for an area, consisting of technically feasible and economically viable schemes, formulated after taking into account the areas natural resources, principal economic activities and their potential for development, government development projects and the felt needs of local people.

Second Round (1980 – 82)

Uniformity in incorporating in the DCPs blockwise as also sector-wise and schem-wise credit requirement was introduced. Further Lead Banks were advised to prepare Annual Action Plans (AAPs) by December and each year from 1980 onwards indicating sectoral, schemewise and groupwise breakup of the total credit outlays. The guidelines emphasized for devoting the DCP with the overall district development plan.

Third Round (1983 – 87)

Banks were advised that through the DCPs they should establish meaningful linkages of subsidies available under Government sponsored programmes namely IRDP etc and the credit from banks and other financial institutions. Detailed guidelines for the formulation of these DCPs and AAPs

were provided by the RBI incorporating the role of the state government agencies, the participating banks and the cooperative banks. Further the RBI designated officers from their Regional offices as Lead District Officers to closely associate himself and monitor the implementation of the lead bank scheme.

Fourth Round (1988 – 1990)

The guideline laid emphasis on the following aspects which should be taken into consideration by the Lead Banks while preparing the DCPs/AAPs :

- Credit support in adequate measure will have to be ensured for special programmes for waste land development, dry land farming, development of alternative sources of energy etc.
- Sector wise (Agriculture, SSI and tertiary sector) task forces could be established to prepare schemes relating to the sector.

Later, the reorientation of Lead bank scheme was considered and service area approach has been introduced. The service area approach comprises of five major aspects namely allocation of villages for each bank branch, survey of villages to assess village wise credit protential preparation of credit plan by each branch for its service area, coordination of credit and non credit inputs in the implementation of service area plan and monitoring the progress of implementation of the plan.

2:7 SUMMARY

The above unit provides a clear idea about the institutional infrastucture for rural finance. There are various institutions available for lending facilities for rural finance. The Co-operative socieities play a major role in this regard. They are supported by commercial banks and Reserve Bank of India in rural finance activities. The lead bank scheme is very much useful in supporting the rural area institutional infrastructure.

UNIT QUESTIONS

1. Explain the institutional infrasturcture for rural finance in detail.
2. Why did co-operative banks emerge? Discuss the types and functions of different co-operative banks.
3. Discuss the role and functions of commercial banks in rural financing
4. What do you understand by Regional Rural Banks? Explian their evolution, strucutre and functioning of RRBs.
5. What is Lead Bank Scheme? Explain the provisions of Lead bank Scheme.

RECOMMENTATIONS FOR FURTHER READINGS

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2. Agricultural Financing and Rural Banking in India – An Evaluation, Dr.S.Nakkiran, Rainbow Publications, Coimbatore.
3. Rural Credit and Co-operatives in India, S.K.Sinha, Suneja Publishers, New Delhi.
4. Rural Credit, Role of Informal Sector, Dinesh Chandra, Segment Books, New Delhi.
5. Annual Report, RBI, Various Issues
6. Rural Banking in India, M.L.Verma. Rawat Publications, Jaipur.

NOTES

UNIT - III

PRIORITY SECTOR CREDIT AND RURAL DEVELOPMENT PROJECTS

UNIT STRUCTURE

3:1 Introduction

3:2 Objectives

3:3 Priority Sector Credit: Concept And Components

3:3:1 The Role Of Credit In Rural Development

3:4 Rural Development Programmes

3:4:1 Integrated Rural Development Programme (IRDP)

3:5 Prime Minister's Rozgar Yojana (PMRY)

3:6 Service Area Approach.

3:7 Empowering Rural India

3:8 Lending Procedures and Norms

3:9 Summary

3:1 INTRODUCTION

This unit focuses on the activities of banks in terms of priority sector credit and rural development projects. Priority sector means the agriculture and allied sector. Most of the agricultural activities are rural based. Hence the government has given importance to rual area in terms of priority sector. The role of credit is important in rural sector. The various factors influencing the rural sector credit are discussed in detail.

Some of the rural development projects like Integrated Rural Development Programme (IRDP), Prime Minister's Rozgar Yozana (PMRY) and other schemes are discussed in detail with their features. The recent development in empowering rural India is also discussed in the last chapter. Hence by going through this unit may provide an idea on rural sector credit schemes and development schemes are discussed.

3:2 OBJECTIVES

The primary objectives of this unit is to

- Understand the concept and compnents of priority sector credit
- Analyse the lending of financial institutions for priority sector
- Study the rural development schemes and their featurs
- Illustrate the Integrated Rural Devlopment Programme and its implementation
- Exhibit the PMRY scheme with detailed understanding on objectives, procedure and other norms
- Provide the latest initiatives of Government of India to empower rural India

3:3 PRIORITY SECTOR CREDIT: CONCEPT AND COMPONENTS

After nationalization of the 14 major commercial banks in 1969, banks in the public sector were enthused to give financial assistance to priority sectors of economy. The segments of priority sector credit were identified and schemes of lending were formulated. It was contemplated that 33.33 percent of total bank credit should go towards priority sectors. The government's determination for the fulfillment of the goals of alleviation of poverty led to announcement of twenty point economic programme on July 1, 1975.

A working group was appointed to study the role of the banks in implementing the 20 point programme after it was declared for the first time in 1975. The group submitted its recommendations in relation to the role to be played by the banks for implementation of 20 point programme. It also made certain changes in the definitions of priority sector and set targets to be achieved by the commercial banks. The recommendations were accepted by the RBI and the banks were given the following targets:

I. Banks should aim at raising the proportion of their advances to priority sector to 40% by 1985.
II. Certain other targets fixed for the banking system are as under:
    a. The credit deposit ratio of banks at their rural and semi urban branches separately should be not less than 60%
    b. The outstanding DRI advances as at the end of the previous year should be 1% of the total credit. Within this, not less than 40% of the advances should be given to Scheduled Castes/Scheduled Tribes and not less than two thirds of the advances should be routed through rural and semi urban branches.

After taking in view the progress made by commercial banks in achieving the targets, The Government made following changes in the priority sector targets to be achieved by the commercial banks, as modified by the **RBI:**

1. 40% of the total bank credit should go to the priority sector advances
2. Banks should ensure that direct finance extended to agriculture should reach a level of at least 15% of the total credit
3. The advances to the weaker sections should reach a level of 25% of priority sector advances or 10% of total bank credit.

The components of priority sectors comprise of:

a. Small and marginal farmers with land holdings of 5 acres and less, landless labourers, tenant farmers and sharecroppers.
b. Artisans and village and cottage industries.
c. IRDP beneficiaries
d. Scheduled castes and Scheduled Tribes
e. Beneficiaries financed under differential rate of interest scheme

The definition of weaker sections in priority sector now corresponded to the beneficiaries under 20 Point Programme. Later the beneficiaries of Self

Employment Programme for Urban poor and PMRY beneficiaries are included in priority sector

It was also been suggested that the co-operative banks should ensure that the share of the weaker sections is not less than half of the total credit advanced by co-operatives during the year. Regional Rural Banks are also required to draw up plans to ensure sizable participation by them in financing the 20 point programme.

3:3:1 THE ROLE OF CREDIT IN RURAL DEVELOPMENT

In this section, we provide some basic ideas about the importance of credit in the rural economy. It is of help to know what role credit and finance play for the rural populace, both for consumption and investment purposes. Who needs credit? Why do they need it? Who provides this credit? These are the questions we will look into. Before we describe the situation of rural credit in India, we must get some theoretical points out of our way.

For any strategy of rural development, the provisions of credit and the generation of savings are essential. Credit plays an important role not only in modernisation of agriculture, but also in the fight against rural poverty. But we must be careful not to equate credit flow with capital creation in rural areas. The mere increase in the flow of money to rural areas does not constitute credit. Similarly, if the savings of the rural people are used only for consumption purposes, capital accumulation will not take place.

What are the main characteristics of rural credit markets? To attempt to answer this question, we must try to understand the basic features of a ‘market’. A market in an abstract sense is an institutional arrangement for the exchange of commodities and services, or even the factors of production, for the mutual benefit of buyers and sellers. At ‘equilibrium’ or a ‘state of balance’, the prices prevailing are such that no buyer or seller has any incentive to change the quantity that they would like to buy or sell. Whenever conditions arise to create shortages or gluts, prices are supposed to adjust to bring back the situation to equilibrium. For these things to take place, a number of conditions are supposed to hold. All buyers and sellers are assumed to possess perfect information about all the aspects of the transactions concerned. No buyer or seller should ideally be in a position to influence or control the market and acquire a disproportionately large share of wealth. Also there should not be any spillover effects. Often, the credit market does not conform to what has been detailed above.

There are several features of the rural credit markets. First, they are characterized by imperfect and incomplete information. All the parties do not have the same level of information. Credit providers typically do not have all the required information about their clients, their habits, and their credit-worthiness. Secondly, credit markets are often segmented. Small farmers for small quantum of loans tend to go to the same moneylenders, bigger farmers to another set of moneylenders, and so on. Thirdly, there is credit rationing. Even

at the going interest rates, all those who desire to borrow do not get loans, while there is no upward pressure on interest rates.

3:3:2 Risk in Rural Economies

The nature of risks faced by rural people in their day-to-day lives is different from those faced by people outside the rural sector. The rural poor in developing nations do not face risks, like stock market crashes, business cycles, and product cycles, which those living in the developed nations face. The rural poor, however, face a much larger incidence of risks. First, the rural poor are more vulnerable to disease and ill health. They also face environmental hazards. Infectious and communicable diseases are much more prevalent in poor societies. Secondly, the rural people, particularly the poor, face risks in carrying out their work or profession. For many rural people, unlike those working in the urban organised sector, there is no fixed and assured wage. Rural people may be self-employed farmers or landless labourers. These groups are much more vulnerable to risk. This type of risk is exacerbated by the fact that the rural poor typically depend on the cultivation of a few basic primary products. Thirdly, the rural people are also faced with technology related risks, and these tend to spread through the entire society. On top of this, the rural poor are spatially less integrated, as they tend to be isolated. They are also less able to cope with risk. Let us now see what strategies are adopted by the poor to cope with risks.

3:3:3 Risk Coping Strategies

Broadly, two types of strategies to cope with risks may be identified. The first type comprises those strategies which are used before the occurrence of a shock, while the second type consists of those strategies which are used after the shock has taken place. The first type is also known as ‘risk reduction’ strategies, while the latter type is called ‘risk coping’ strategies. The first type thus comprises strategies that are devised to reduce exposure to risk, and the magnitude of the shock. The risk coping strategies are themselves of two types, those that try to build and accumulate assets, and those that help share risk with others.

3:3:4 Trends in Rural Credit

The financial sector reforms since 1991 and the emphasis on implementation of prudential norms, i.e., income recognition, asset classification, provisioning norms and Capital Risk Weighted Assets Ratio (CRAR), were instrumental in compelling the commercial banks to concentrate on financial efficiency and economic viability through rationalisation of their operating system, consolidation of their branch network, which resulted in relocation of many bank branches, concentrating on core strengths reducing surplus staff as also computerisation of operation.

3:3:5 Overall credit flow

Over time, the flow of credit to agriculture and rural sector has expanded impressively. The ground level credit flow had registered an increase

(in real term with 1993-94 prices) from Rs.13, 915 crore in 1991-92 to Rs.49, 401 crore in 2003-04 and further to Rs.92, 125 crore in 2005-06. The estimated annual compound growth in credit to the agriculture sector in real terms was 14.5 percent (with 14.1 percent growth in production credit and 14.9 percent growth for investment credit during the above period). While the annual growth rate in production and investment credit flow (in real term) during 1991-92 and 2003-04 were 11.5 percent and 10.5 percent respectively, their respective growth rates during 2003-04 and 2005-06 were 31.3 percent and 45.1 percent. However, the maximum growth in credit flow were registered during 2004-05 and 2005-06 when agricultural credit was doubled during two years instead of the targeted 3 years.

3:3:6 Agency-wise credit flow

The analysis of agency wise credit flow indicates that the cooperative banks were the major source of agriculture credit in 1991-92 constituting 53.7 percent of the total ground level credit flow of Rs.13,915 crore (in real terms with 1993-94 prices) followed by commercial banks at 41.2 percent (Rs.5,731 crore) and regional rural banks at 5.1 percent (Rs.712 crore). Though cooperative banks had dominated agriculture credit supply during the early reform period, commercial banks and RRBs recorded impressive growth rates. As a result, in 2005-06, the share of cooperative banks in the total institutional credit flow receded to 21.9 percent and that of commercial banks advanced to 69.7 percent.

Although the quantum of disbursement for cooperative banks increased, it could not keep pace with commercial banks in enhancing credit flow due to several reasons including its poor financial health, dual control, lack of internal controls and corporate governance norms and excessive dependence on other financial institutions.

The reasons for the massive increase in the credit flow for commercial banks and regional rural banks could be attributed to the linkage of self-help groups (SHG) with banks since 1992, introduction of the scheme of Kisan Credit Cards (KCC) in 1998, formulation of the Special Agricultural Credit Plans (SACP) by the public sector banks since 2004-05, and monitoring under the scheme of doubling of credit in 2004-05.

3:3:7 Size-wise credit flow

Despite impressive growth in direct credit to farmers from the scheduled commercial banks between 1991-92 and 2003-04, contrary to expectation, credit disbursement to small and marginal farmers has not been encouraging. However for small farmers and other farmers respectively, the number of accounts increased from 44.4 lakh and 36.7 lakh in 1991-92 to 48 lakh and 43.8 lakh in 2003-04. The percentage of marginal farmers to total farmers came down from 42.8 in 1991-92 to 39.8 in 2003-04, while the same for other farmers increased from 25.9 to 28.7. Further, the average annual growth rate in the number of accounts and the amount of credit outstanding during the period between 1991-92 and 2003-04 were 0.62 percent and 6.2

percent respectively. One important observation from the above findings is that the credit amount per account had increased without any increase in the number of accounts. Further, increase in credit flow favoured the richer farmers.

3:3:8 Region wise Credit Flow

While analysing the pattern of credit flow, it is observed that the proportions of bank deposits and credit shares have moved in favour of the South, West and North regions. While the share of loans in the total disbursement of credit for agriculture and allied activities were the maximum for the South region (47.9% in 1990-91 and 43.7% in 2001-02), it was the minimum for North-east region (0.4% in 1990-91 and 0.5% in 2001-02)[ii]. The population per rural branch, which was estimated at 16,335 and 16,402 in the North-east and East regions in 1991, increased to 22,158 and 21,208 respectively in 2005. Further, when the number of savings accounts for every 100 persons in rural areas of the North-east region had shown a marginal rise from 16.1 in 1991 to 16.4 in 2005, during the same period, the number of savings accounts in Eastern region had declined from 17.7 to 16.9. Similarly, in the case of number of credit account for every 100 persons in rural areas, the number reduced from 4.4 and 7.2 in North-east and East regions in 1991 to 3.2 and 4.2 respectively, in 2005.

3:3:9 Advances to priority sector

Although with the rise in net bank credit, the credit flow for priority sector by the scheduled commercial banks had increased, in percentage term, it remained stagnant at around 36 percent over the last 14 years. While the net bank credit of the scheduled commercial banks increased from Rs.1,45,250 crore (in real terms at 1993-94 prices) in 1991 to Rs.5,75,090 crore in 2005 at an annual compound growth rate of 10.3 percent, the advances to priority sector increased from Rs.53,125 crore to Rs.2,05,000 crore at an annual compound growth rate of 10.1 percent. As a result, the gap between these two has been widening. Further, the zig-zag trend, i.e., downward during 1991 and 1996 and upward during 1996 and 2005, of the priority sector lending as a percentage to the net bank credit of the banks during the period between 1991 and 2005 shows that no consistent effort has been made to step up advances in favour of the priority sectors. With the new norms for the priority sector announced by RBI in 2007, it is expected that commercial banks would be able to achieve the targets fixed.

3:3:10 Credit-Deposit Ratio

The credit-deposit ratio (CDR), which is an important indicator of deployment of the resources of bank, had been showing a downward zig-zag movement during the last 14 years. The deposits and credit of the scheduled commercial banks in rural areas, which were Rs.36,961 crore and Rs.22,168 crore (in real terms at 1993-94 prices) in 1991, increased to Rs.1,09,005 crore and Rs.56,254 crore respectively, in 2005. Thus, the credit-deposit ratios had declined from 60 percent in 1991 to 51.6 percent in 2005.

However, the credit-deposit ratios of the banks in urban areas had increased from 62.3 percent in 1991 to 68 percent in 2005. When the pattern of the credit-deposit ratios for rural and urban areas are observed, we find that the CDR of the banks operating in urban areas are positioned above the overall CDR and that of rural areas are positioned well below the overall CDR.

While the credit-deposit ratio of the rural branches of the scheduled commercial banks declined during the period between 1991 and 2004, that of urban offices had shown improvement with declining and increasing trend in some years during the same period. However, the credit-deposit ratio for rural and urban areas increased from 43.6 percent and 60.4 percent in 2004 to 51.6 percent and 68 percent respectively in 2005. During the period between 1991 and 2005, while the annual growth rates in the volume of deposits and credit for urban areas were 10.2 percent and 10.9 percent respectively, the same for rural areas were 8 percent and 6.9 percent respectively. Thus, while in urban areas, the growth rate of credit was higher than that of deposits, in rural areas, the growth rate in deposits was higher than that of credit.

3:4 RURAL DEVELOPMENT PROGRAMMES

3:4:1 INTEGRATED RURAL DEVELOPMENT PROGRAMME (IRDP)

The basic objective of **IRDP** is to enable identified rural poor families to augment their incomes and cross the poverty line through acquisition of credit based productive assets. Assistance is given in the form of subsidy by the government and term credit by the financial institutions for income generating activities. This is a centrally sponsored scheme funded on 50:50 basis by the Centre and the states. It is stipulated that at least 50 per cent of the assisted families should belong to Scheduled Caste and Scheduled Tribe categories.

It is also required that at least 40 per cent of those assisted should be women under this programme. About 535 lakh families have been covered up to November 1998 since 1980-81 under the programme out of which coverage of SC/ST families had been 45 per cent. The level of per family investment is currently more than Rs.17441 compared to Rs.1642 during 1980-81. A sum of Rs.800 crore (including Rs. 60 crore for Rural Artisans) has been provided in 1998-99 (BE), an increase of about 45 per cent over 1997-98 (RE).

The Training of Rural Youth for Self- Employment (TRYSEM)

The Training of Rural Youth for Self- Employment (TRYSEM) is to train rural youth from the target group of families in skills so as to enable them to take up self/wage employment. It has been laid down that the coverage of youth from SC and ST communities should be at least 50 per cent of the rural youth trained. Out of the total beneficiaries, at least 40 per cent should be women.

Development of Women and Children in rural Areas (DWCRA)

The Programme of Development of Women and Children in rural Areas (DWCRA) aims to improve the socio-economic status of the poor women in the rural areas through creation of group of women for income generating

activities on a self-sustaining basis. Up to November, 1998, 1.97 lakh women were benefited during 1998- 99. A sum of Rs.100 crore has been provided in 1998-99.

Jawahar Rozgar Yojana (JRY)

Jawahar Rozgar Yojana (JRY) is a wage employment programme with its main objective of generation of employment in the lean agriculture season to the unemployed and under- employed rural people both men and women living below the poverty line. The significant aspect of the scheme is that it is implemented by the Panchayats at the village, block and district levels in the ratio of 70:15:15 respectively. An amount of Rs.2095 crores has been allocated during 1998-99 for JRY. Against a target of 396.66 million man-days during 1998-99, a total of 190.28 million man-days were generated up to November 1998 with an expenditure of Rs.1244 crore.

The Employment Assurance Scheme (EAS)

The Employment Assurance Scheme (EAS) has been universalised so as to make it applicable to all the rural blocks of the country. It aims at providing 100 days of unskilled manual work up to two members of a family in the age group of 18 to 60 years normally residing in villages in the lean agriculture season, on demand, within the blocks covered under EAS. A sum of Rs.1990 crore has been provided during 1998-99 (. During 1998-99, a total of 237.61 million man-days have been generated under the scheme with an expenditure of Rs.1572 crore up to November 1998. The Million Wells Scheme (MWS) which was earlier a sub-scheme of JRY, is funded by the Centre and states in the ratio of 80:20. The objective of the MWS is to provide open irrigation wells free of cost to poor, small and marginal farmers belonging to SCs/STs and freed bonded labour. A sum of Rs.450 crore has been provided in 1998-99. Up to November 1998, a sum of Rs. 225.90 crore has been incurred during 1998-99 and 49821 wells were constructed.

The National Social Assistance Programme (NSAP)

The National Social Assistance Programme (NSAP) recognizes the responsibility of the Central and state governments for providing social assistance to poor house-holds in case of maternity, old age and death of bread earner. NSAP is a centrally sponsored programme with 100 per cent central funding to the States/UTs that provides benefits under its three components viz.,

(i) National Old Age Pension Scheme (NOAPS)
(ii) National Family Benefit Scheme (NFBS) and
(iii)National Maternity Benefit Scheme (NMBS).

On the basis of suggestions made by the Central Advisory Committee on NSAP, the Government has since approved changes relating to enhancement in the rate of benefits for NFBS and NMBS. A sum of Rs.700 crore has been provided for the above three components of NSAP in 1998-99.

Swarna Jayanti Shahari Rozgar Yojana (SJSRY)

The Swarna Jayanti Shahari Rozgar Yojana (SJSRY) which came into operation from 1.12.1997, sub-summing the earlier urban poverty alleviation programmes viz., Nehru Rozgar Yojana (NRY), Urban Basic Services Programme (UBSP) and Prime Minister's Integrated Urban Poverty Eradication Programme (PMIUPEP). The scheme aims to provide gainful employment to the urban unemployed or underemployed poor by encouraging the setting up of self employment ventures or provision of wage employment. It is being funded on a 75:25 basis between Centre and the states. It comprises two special schemes i.e.The Urban Self-Employment Programme (USEP) and the Urban Wage Employment Programme (UWEP).The scheme gives a special impetus to empowering and uplifting the poor women and launches a special programme, namely, Development of Women and Children in urban areas under which groups of urban poor women setting up self-employment ventures are eligible for subsidy up to 50% of the project cost. During the year 1997-98, a sum of Rs.98.63 crore was released to States and UTs under SJSRY. A sum of Rs.189 crore has been provided in 1998-99 out of which Rs.64.59 crore has been released to twelve states till 30.11.1998.

3:5 PRIME MINISTER'S ROZGAR YOJANA (PMRY)

1. Objective

The Prime Minister's Rozgar Yojana (**PMRY**) has been designed to provide employment to educated unemployed youth by setting up of micro enterprises by the educated unemployed poor. It relates to the setting up of the self-employment ventures for industries, services and business.

2. Coverage

The scheme covers whole of the country.

3. Target Group

The scheme covers all educated youth with the minimum qualification of VIII Standard (passed). Preference will be given to those who have been trained for any trade in Govt. recognised/approved institutions for a duration of atleast 6 months.

4. Reservation

Preference should be given to weaker sections including women. The scheme envisages 22.5 percent reservation for SC/ST and 27 percent for other backward classes (OBCs). In case, SC/ST/OBC candidates are not available, States/UTs' Government will be competent to consider other categories of candidates under **PMRY**

5. Eligibility Norms

(i) ***Age***

All educated unemployed youth between the age of 18 and 35 years on the date of receipt of application by the concerned DIC will be eligible for loan

under the scheme in general with a 10 years relaxation for SC/ST/Ex-servicemen/ physically handicapped and women i.e. upto the age of 45.

(ii) ***Education***

Educated/unemployed youth with a minimum qualification of VIII Standard (passed). Preference is to be given to persons who have received training in any trade in Government recognised/approved institutions (ITI, etc.) for a minimum duration of six months. Applicants with higher qualifications or who are still pursuing further course of studies after their matriculation are also eligible for assistance.

(iii) ***Annual family income***

(a) Income upto Rs. 40,000/- per annum of family and upto Rs.40,000/- per annum of parents of beneficiary on the date of application should be taken into account. Family for this purpose would mean the beneficiary and spouse. Family income would include income from all sources whether wages, salary, pension, agriculture, business, rent,etc.

(b) As per this definition, family income should be upto Rs. 40,000/- per annum of the beneficiary; the beneficiary and spouse together, if married and upto Rs. 40,000/- per annum of parents of the beneficiary separately. This criterion of income ceiling for determining the eligibility under **PMRY** is applicable whether the beneficiary is staying separately or with the parents.

(c) Further, the family would mean the applicant and the spouse, even if two or more brothers/sisters live together, they will constitute different families and hence will be eligible for assistance under if **PMRY** they satisfy other eligibility criteria laid down under the **PMRY**.

(d) For the married women candidates, the income of their parents-inlaw shall be considered.

(e) If the applicant was adopted 3 years prior to the date of his/her application for loan under **PMRY**, the annual income of the adopted parents would be taken into account to determine family income. If a period of adoption was less than 3 years, as on the date of his/her application for loan under **PMRY**, the annual income of his/her own parents will be taken into account to determine family income.

(f) Applicant's family income statement is to be supported by an affidavit. It is for the Task Force to be satisfied about the applicant meeting the family income criteria. In case of doubt, the Task Force can ask for additional documents or follow an appropriate procedure. Once a case is recommended by the Task Force, it should be presumed that the applicant meets the income criteria unless there is evidence to the contrary. Banks need not question the recommendations of the Task Force on grounds of family income, unless they have concrete and objective evidence. In such a case, the case shall be referred back to the Task Force with the evidence for appropriate action. Government of India have decided to allow applicants to submit a declaration on plain paper incorporating the contents of the affidavit along with the applications submitted

to the DIC/banks. The formal affidavit on the relevant non-judiciary paper shall be submitted to the bank only when the loan amount is sanctioned.

iv). Residency

a. Beneficiary should be a permanent resident of the area for three years. Here 'Area' means the district. If the applicant is desirous of setting up venture at any place in the district in which he is residing for the last 3 years, he is eligible for assistance. Newly married women beneficiaries are exempted from fulfilling the above criterion of residency and instead the residency criterion is applied to the in-laws/husband of the married beneficiaries.

b. Document like ration card will constitute enough proof for this purpose. In its absence, Residency Certificate issued by the Deputy Commissioner/ District Magistrate or any other appropriate authority designated by the State Government may be accepted. In the absence of ration card, any other document to the satisfaction of District Committees/Task Force may be accepted as a proof of residence.

c. The residency criteria for married men in Meghalaya is relaxed in line with the married women in the rest of the country. In Meghalaya, the residency criteria, i.e. the applicant should be resident of the area for the last three years, may be applicable to in- laws/wives of the married male applicants under **PMRY**.

2. Other conditions

a. A defaulter to a bank/financial institution will not be eligible for assistance under the scheme. Further, if a member of a family is a defaulter other members of the family will not be eligible for assistance.

b. More than one member of the same family may not be assisted under the scheme. However, another member of the same family having been assisted under any other Central/State/State-owned Corporation sponsored scheme (with/without subsidy) need not be a bar to assistance under **PMRY**.

c. A person who had been earlier assisted under a subsidy-linked programme will not be eligible for assistance under the **PMRY**.

6. Eligible Activities

Assistance will be provided for all economically viable activities including agricultural and allied activities but excluding direct agricultural operations like raising crop, purchase of manure, etc. However, it may be ensured that the beneficiary obtains statutory approvals that may be required under any law in force and disbursement by bank could be related to such clearances, if any. The implementing agencies will decide the eligibility and classification of the activity proposed to be financed under industry/service/business sectors. Earlier stipulation on ceilings on the activities to be covered under Industry, Service and Business sectors since stand withdrawn.

7. Relaxations of PMRY Norms for North-East Region, Himachal Pradesh, Uttaranchal and Jammu & Kashmir

Government of India has decided to provide certain relaxations on the various parameters in the implementation of **PMRY** in the States of North-Eastern Region viz. Assam, Mizoram, Manipur, Tripura, Nagaland, Arunachal Pradesh, Meghalaya and Sikkim as well as Himachal Pradesh, Uttaranchal and Jammu & Kashmir. These are:

a. The **PMRY** is expanded to cover areas of horticulture, piggery, poultry, fishing, small tea gardens, etc. so as to cover all economically viable activities.

b. Family income not exceeding Rs. 40,000/- per annum for each beneficiary along with his/her spouse and the parents of the beneficiary.

c. The upper age limit is relaxed to 40 years **in general**. For the SC/ST/Ex-servicemen, physically handicapped and women, the relaxation shall be upto the age of 45 years.

d. The subsidy will be @ 15 percent of the project cost with a ceiling of Rs. 15,000/- per borrower. Banks will be allowed to take margin money from the borrower varying from 5 percent to 12.5 percent of the project cost so as to make the total of subsidy and margin money equal to 20 percent of the project cost. (Applicable to cases sanctioned from 01.04.1999).

Prescribed conditions at (a) and (b) are now made applicable to the entire country under **PMRY**.

8. Project Funding

(i) Project preparation

The District Industries Centre (DIC)/Small Industries Service Institute (SISI) (for metropolitan cities) or NGOs, Industries Associations or other agencies will identify and forward the applications to the District Level Committee/Metropolitan City Committees to be set up by the Ministry of Industry, Government of India. After scrutiny by the committee, applications will be sponsored to banks. Banks may satisfy themselves about viability and bankability of the project.

(ii) Components of project cost

a). A borrower under the scheme will be eligible for sanction of a composite loan (working capital + term loan) **based on project cost** upto Rs. 2 lakh for other than business sector. The project cost for business sector will be restricted to Rs. 1 lakh.

b). The requirement of funds by the borrower for acquiring a suitable accommodation either by way of lease/rent or on ownership basis to set-up a shop, etc. may form part of the project cost, provided it is considered as essential by the financing bank. The total project cost, including such requirement should be within the stipulated limit indicated above.

c). In case of **PMRY** beneficiaries carrying on their activities in rented premises, the lease period as available may be taken, subject to renewal as in the case of non- **PMRY** loans. It is for the banks to ensure that lease agreements are renewed at the expiry of lease period during the currency of the loan.

(iii) ***Loan amount***

a) Banks may provide a composite loan (term loan/working capital) **not exceeding** Rs. 95,000/- or Rs. 1,90,000/- **per individual borrower** depending upon whether the project is in the business sector or other than the business sector respectively, after satisfying about the viability and bankability of the project. In view of lower margin money required to be given by the borrowers (varying from 5 percent to 12.5 percent of the project cost) in the North Eastern States (including Sikkim), Himachal Pradesh, Uttaranchal and Jammu & Kashmir, composite loan from banks per individual borrower may be worked out separately for these states.

b) The working capital component should be determined based on actual requirement to avoid under-financing of units, which may lead to sickness of the project. As per decision of the meeting held on 28.05.2004 under the chairmanship of Secretary (SSI&ARI), Government of India, banks have been advised to consider fixing area wise minimum unit cost of each activity under **PMRY** so that there is no under-financing of the project.

c) Banks should disburse the amount inclusive of margin money deposited by the borrowers.

d) The rate of interest charged for such loans are same as the rate applicable to priority sector loans upto Rs.2 lakh viz. not exceeding PLR of individual banks.

(iv) ***Margin***

a) Banks will be allowed to take margin money from the borrower varying from 5 percent to 16.25 percent of the project cost so as to make the total of subsidy and margin money equal to 20 percent of the project cost. In the North Eastern States (including Sikkim), Himachal Pradesh, Uttaranchal and Jammu & Kashmir, banks have been allowed to take margin money from the borrower varying from 5 percent to 12.5 percent of the project cost so as to make the total of subsidy and margin money equal to 20 percent of the project cost.

b)The margin money deposited by the borrower should not be retained as security for the advance.

(v) ***Subsidy amount***

a). Subsidy eligible is 15 percent of the project cost, subject to a ceiling of Rs. 7,500/- per borrower in States other than North Eastern States, Uttaranchal, Himachal and J&K.

In case the amount disbursed is less than the original project cost, the subsidy eligibility will be restricted to 15 percent of the revised project cost.

b). In the case of Dairy loans, where the disbursement will be made in two stages (second batch of animals after six months), the branches may be advised to claim the subsidy from the Head Office only at the time of the final (second) disbursement of the loan.

(vi) ***Joint ventures/partnerships***

a). Group activity stands a better chance of success because it is easier to provide back up support and marketing linkages. Group activities should, therefore, be encouraged.

b). If more than one applicant join together and form partnership concern, they will be eligible for a total loan and subsidy, subject to the condition that proportionate loan/subsidy to each borrower does not exceed the prescribed ceiling per individual borrower, as indicated in 7(iii)(a) and 7(v)(a) above and the **total project cost** should not exceed Rs. 10 lakhs. Also, the individual ceiling on share of the project cost for each one of the partners will be dependent on the nature of the activity undertaken by the firm.

c). It would be preferable if the shares of partners were equal. All the partners should be *prima facie* eligible for assistance under **PMRY** scheme.

d). Co-operative Societies, not being partnership, are not eligible for assistance under **PMRY**.

e). It has been decided that Self Help Groups (SHG) could be considered for financing under the **PMRY** provided:

i) Educated unemployed youth satisfy the eligibility criteria laid down under the scheme volunteer to form SHG to set up self-employed ventures (Common Economic Activity)

ii) Self Help Group may consists of 5 – 20 educated unemployed youth.

iii) No upper ceiling on loan.

iv) Loan may be provided as per individual eligibility taking into account the requirement of the project.

v) SHG may undertake common economic activity for which loan is sanctioned without resorting to onward lending to its members.

vi) Subsidy may be provided to the SHG as per the eligibility of individual members taking into account relaxation provided in North Eastern States, Uttaranchal, Himachal Pradesh and Jammu & Kashmir.

vii) Required margin money contribution (i.e. subsidy and margin to be equal to 20 percent of the project cost) should be brought in by the SHG collectively.

viii) The exemption limit for obtention of collateral security will be Rs. 5.00 lakh per borrowal account for projects under Industry Sector. Exemption from collateral will be limited to an amount of Rs.1.00 lakh per member of SHG for projects under Service & Business Sectors. Banks may consider enhancement in limit of exemption of collateral in deserving cases.

ix) Implementing agencies may decide necessity of pre-disbursal training for all the members /majority of the members in the group.

(vii) ***Security***

a). Apart from the margin and personal guarantee provided by the borrower as also the subsidy by the Government, the borrower will hypothecate/ mortgage/pledge to the bank assets created out of bank loan.

b). If no fixed assets are proposed to be created in the case of loans exceeding Rs. 50,000/-, banks should exercise special care while sanctioning such cases.

c). Borrowers will not be required to give collateral security under Industry Sector projects with the cost upto Rs.2.00 lakhs and upto Rs.1.00 lakh for business and service sectors. Banks overtly /covertly should not insist on collateral from the borrowers under **PMRY**, even though they are expected to exercise special care while scrutinising cases of loans exceeding Rs. 1 lakh where no fixed assets are created. In case of partnership, the exemption from collateral is limited to Rs. 1 lakh per person, participating in the project. The exemption limit in respect of partnership projects in Industry Sector for obtention of collateral security will be Rs.5.00 lakhs per borrowal account in the tiny sector. Even where offered, such collateral security or guarantee should not be accepted.

(viii) ***Sanction/disbursement of cases***

a). Disbursement is a continuous process and disbursement of loans may be effected even after the completion of that particular programme year. While processing the applications sponsored by Task Force Committees, the branches may please ensure that -

• As far as possible the disbursement should be effected in minimum number of installments, sanctions are evenly paced and not pushed to the last quarter of the year;

• The reasons for rejection of the applications are clearly spelt out and made available every month to the District Co-ordinators so that the Task Force Committees could review the matter; and

• Number of installments.

• As per decision of the meeting held on 28.05.2004 under the chairmanship of Secretary (SSI&ARI), Government of India, banks have been advised to consider endorsing a copy of the sanction letter to the concerned DIC so that they could assist the beneficiaries to fulfill pre-disbursement formalities.

b). The sanctions accorded by banks under the scheme should be final and clearly indicate all the conditionalities to be fulfilled by the beneficiaries for the disbursal of loan amounts. This would enable the beneficiaries to comply with the bank's requirements well in time so as to enable the banks to complete the disbursement of loan amount sanctioned before the expiry of the closure date.

(ix) ***Repayment schedule***

a). Repayment schedule may be fixed in the range of 3 to 7 years after an initial moratorium **as may be prescribed by the financing bank**, depending on the nature and profitability of the venture. Working capital limit should be reviewed periodically.

b). The repayment schedule is to be worked out only for the term loan component.

c). In cases where the borrowers are in a position to repay the loan earlier than the repayment schedule fixed by the bank, the repayment of **PMRY** loan may be rescheduled with a **minimum period of 3 years** at the discretion of the Branch Manager so that the borrower receives an early credit of subsidy and is able to avail of additional loan facilities, if desired.

d). Recovery of loans is the responsibility of the banks concerned. Banks have been advised to constitute recovery cells at Regional/ Controlling Office level to improve recovery rate. They may seek assistance of the implementing agencies in this regard. The State Government/Committees will monitor the recovery of the loans and help the banks in the matter. In case of bona fide default, rescheduling is preferred.

(x) ***Additional finance***

a). Additional finance towards working capital may be provided to the extent that the term loan component and working capital sanctioned should not exceed the prescribed ceiling amount fixed for the borrower (i.e. Rs. 1 lakh or Rs. 2 lakh depending upon whether the loan is for business sector or other than business sector) or for all the partners collectively and proposal for additional finance should also be approved by the Task Force Committee.

b). The additional assistance furnished by the banks would be considered against the original target allocated to that branch. In other words, this cannot be treated as a fresh case for that particular bank branch.

(xi) ***Penal interest/processing charges***

• No penal interest or processing charges should be levied on loans granted under the

PMRY scheme.

9. Subsidy Management

(i) ***Subsidy disbursal***

• The subsidy will be made available by Government of India in advance and passed on to the banks through Reserve Bank of India. The subsidy portion will be kept as fixed deposit with the banks in the name of the borrower for the duration of the term loan component but will not earn any interest. The subsidy deposit will be available to the borrower for adjustment against the last instalment(s) due under the term loan component. **In any case, the fixed**

deposit should run for a minimum period of 3 years and would be available for adjustment only thereafter.

(ii) ***Effective date of FDR***

a). As the subsidy amount is remitted in advance to the Head Office of the bank, the date of the fixed deposit created out of subsidy amount will be the date on which the last instalment of the loan is disbursed by the branch. From that date, no interest will be charged on the subsidy portion of the loan.

b). Even if the subsidy amount is received by the Head Office after the loan is disbursed, to avoid inconvenience to the borrowers, the FD shall run from the date on which the last of instalment of the loan was disbursed and no interest on the subsidy portion of the loan shall be charged from that date.

(iii) ***Non-payment of interest on FDR representing subsidy***

• On the subsidy amount retained by the banks as fixed deposit in the name of the beneficiary, no interest will be paid by the banks and on the portion of the loan- representing subsidy, no interest would be charged by banks. The rate of interest to be charged will be decided on the basis of the loan amount net of subsidy.

(iv) ***Eligibility of subsidy***

a). If the **PMRY** loan is closed prematurely, the borrower will not be eligible for subsidy. Similarly subsidy will not be available in the case of misutilisation of loan, abandonment of the project by the borrow, ineligibility of the borrower due to his not complying with the criteria laid down under the scheme etc. As in all such cases, loans would not have sub-served the central objective of the scheme; the borrower will not be eligible for subsidy.

b). However, in cases where the loans have become bad/doubtful of recovery and in respect of which banks file claim with DICGC, the amount of subsidy deposit may be adjusted towards the loan outstanding even before the expiry of 3 years, provided the misutilisation occurs beyond the control of the bank.

c). It will be necessary for banks to ensure that the appraisal, procedure for sanction and disbursement of loans and post-disbursement supervision, etc. are carried out in accordance with the instructions issued by the Bank's Head/Controlling Offices in order to be eligible for the above benefit and produce necessary records, if so required.

d). The provision regarding penalty for premature closure of term deposit will not apply in such cases. However, in cases where the beneficiaries are ineligible for assistance under the scheme, the subsidy will not be allowed to be adjusted towards the loan under any circumstances and will have to be refunded.

3:6 SERVICE AREA APPROACH.

Since some years after the nationalization of commercial banks in 1969, a disturbing view gained ground progressively—that although the number of branches had increased in rural areas and the quantum of credit disbursal had

gone up, yet the rise in the quantity of credit had not borne fruit in the sense of rise in agricultural productivity.

The government thus felt that the quality of credit needs should be looked into. To this end, the RBI introduced the Service Areas Approach on 1st April 1989. Under this approach, each branch of a commercial bank or an RRB was assigned a group of 20 to 25 villages. This group of villages was termed a 'service area'. The bank branch concerned would meet the credit needs of the actual and the potential borrowers in this service area.

Each bank was expected to prepare an economic profile of the villages concerned. On the basis of this economic profile, an annual credit plan would have to be prepared. Accordingly, the annual credit plan of each branch in a district was required to be prepared. The plans of the districts in a state would likewise be aggregated to from the State Credit Plan. A computerized Service Area Monitoring and Information System (SAMIS) was introduced in 1991. The main purpose of the Service Area has been to prepare credit plans at various levels, including the micro credit plans at the grassroots level.

Another important step has been the creation of village profiles and the preparation of databases. Occasionally, service area violations have taken place. Also, there have been several cases where the service area plans have not matched with the performance budgets of the banks. To facilitate the working of the Service Area Banks, the concept of Local Area Banks was introduced in many states in 1996-97.

3:7 EMPOWERING RURAL INDIA

The Empowering Rural India and its subsequent development is credited to a large extent upon the development of its 700-million strong rural population of India. The majority of Indian population lives in about 600,000 small villages and the main livelihood of this section of Indian population is primarily agriculture and its allied area. The post 1990 era witnessed paradigm shift of Indian economic policy from a highly insulated market to open market. Further, during the process of industrialization a substantial size of India's current agricultural labor force had to move to non-agriculture sectors for making a livelihood. The main challenge for Empowering Rural India during such transformation was managing transition of the 80% of the rural population from a village-centric agriculture-based economy to an industry based village economy. The main authority vested with the power of Empowering Rural India is the Ministry of Rural Development, Government of India and the Planning Commission of India.

The notable steps taken by the Government of India for Empowering Rural India are as follows

- The allocation for Rural Infrastructure Development Fund to be raised to Rs.12, 000 crore from Rs.10, 000 crore
- A separate window for rural roads will continue, with a corpus of Rs.4, 000 crore

- An additional irrigation potential of 2,400,000 hectares to be created, including 900,000 hectares under the Accelerated Irrigation Benefit Programme
- The National Agricultural Insurance Scheme of India to continue for the 2007-08, with an allocation of Rs 500 crore
- A weather-based crop insurance scheme will be introduced
- To connect 66,800 habitations with population over 1000, with all modern metal roads
- Total investment of Rs.1, 74,000 crore envisaged under "Bharat Nirman", investment on rural roads estimated to be at Rs.48, 000 crore
- Rs.1, 800 crore has been allocated for a water recharging scheme that will offer a 100% subsidy to small Indian farmers and 50% to other farmers to encourage them to recharge water
- A special plan is being implemented over a period of three years in 31 suicide-prone districts in four states, involving a total amount of Rs.16, 979 crore. Of this, around Rs.12, 400 crore will be spent on water-related schemes
- To address the problem of poor availability and quality of certified seeds, the integrated oilseeds, oil palm, pulses and maize development program will be expanded with more focus on scaling up the production of breeder, foundation and certified seeds Government will fund the expansion of the Indian Institute of Pulses Research, Kanpur
- Government to offer other producers to double production of certified seeds within a period of three years
- The Indian Agriculture Technology Management Agency, now in place in 262 districts, will be extended to another 300 districts
- The amount of fertilizer subsidy has been increased from Rs.17, 253 crore to Rs.22, 452 crore
- The budget has also allotted Rs.12, 000 to the National Rural Employment Guarantee Scheme
- Amount of Rs.2, 800 crore has been allocated for the Sampoorna Gramin Rozgar Yojana
- To facilitate a corpus of Rs.8000 crore to Rural Infrastructure Development Fund (RIDF)
- To construct additional 1,46,000 Km of new rural roads and repair and modernize 1,94,000 Km of existing rural roads
- Allocation for promoting self -employment among the rural poor, has been increased from Rs.1, 200 crore to Rs.1, 800 crore
- NABARD to issue government-guaranteed rural bonds to the extent of Rs.5, 000 crore with suitable tax exemptions

- A 31% hike in allocation towards the Bharat Nirman programme for upgrading rural infrastructure, from Rs.18, 696 crore to Rs.24, 603 crore, and a proposed Rs.225, 000 crore for farm credit
- In December 2006, 53,370,000 new farmers were brought under the institutionalized credit system. The target for 2007-08 is set at Rs.225, 000 crore with an addition of 50,000,000 new farmers accessing credit
- A Special Purpose Tea Fund to rejuvenate tea production. Financial mechanisms for re-plantation and rejuvenation will also be implemented for coffee, rubber, spice, cashew and coconut plantations
- To add to clean drinking water facility along adopt proper sewage mechanism
- To engage faster electrification and telecommunication process
- Increase number of rural health centers, with special focus on mother and child health care

3:8 LENDING PROCEDURES AND NORMS

The Reserve Bank so, far devoted its attention to provide necessary credit to rural sector for boosting agricultural growth directly and indirectly through many institutions. It might be indicated that the Reserve Bank of India provided short-term and medium-term loans to State co-operative banks, for agricultural production and marketing activities. medium-term loans were provided out of the National Agricultural Credit (LTO) Fund. Long-term finance was provided to the State Governments and Land Development Banks through LTO Fund for contribution to the share capital of cooperative societies and to rural debentures of Land Development Banks (LDBs). Reserve Bank also contributed to the ordinary debentures of LDBs by way of general funds. Besides, the Reserve Bank contributed to the resources of agriculture refinance corporations.

3:9 SUMMARY

After going through this we can better understand the priority sector credit and the related concepts and components. It was contemplated that 33.33 percent of total bank credit should go towards priority sectors. We have also provided some basic ideas about the importance of credit in the rural economy. It is of help to know what role credit and finance play for the rural populace, both for consumption and investment purposes. It was also discussed on the rural development projects like IRDP and PMRY. The various aspects of IRDP and PMRY were discussed such that how far these schemes enhanced the rural development. Some of the latest schemes of empowering rural India was also discussed.

UNIT QUESTIONS

1. What do you understand by priority sector? Explain the credit availability to rural sector with reference to rural credit.
2. Discuss the nature and importance of rural credit. Also explain the credit flow to rural sector
3. Explain the various schemes of rural development offered by the government
4. Explain the Integrated Rural Development Programme with project outlay and achievements
5. Illustrate the concept of PMRY and its features with norms and process

RECOMMENDATION FOR FURTHER READINGS

1. Rural Banking and Development, S.C.Anand,UDH Publishing House, New Delhi
2. Agricultural Financing and Rural Banking in India – An Evaluation, Dr.S.Nakkiran, Rainbow Publications, Coimbatore.
3. Rural Credit and Co-operatives in India, S.K.Sinha, Suneja Publishers, New Delhi.
4. Annual Report, RBI, Various Issues
5. Rural Money Markets in India, Ghatak, Subrata, (1976), MacMillan, New Delhi
6. Agricultural Indebtedness and Institutional Finance, Panda, R.K., (1985), Ashish Publishing House, New Delhi.

NOTES

UNIT - IV

MANAGEMENT OF RURAL DEVELOPMENT PROJECTS

UNIT STRUCTURE

4:1 Introduction

4:2 Objectives

4:3 Project Dimension

4:4 Project Identification

4:5 Project Formulation

4:6 Project Appraisal

4:6:1 Economic Feasibility

4:6:2 Role of Time In Economic Appraisal

4:6:3 Financial Feasibility

4:7 Planning and Implementation

4:7:1 Activity Planning

4:8 Implementations Of Rural Development Projects

4:9 Evaluation of Projects

4:9:1 Meaning and Objectives of Evaluation

4:9:2 Dimensions of Evaluation

4:9:3 Techniques and Criteria

4:1 INTRODUCTION

It is understood that the rural development is a project that should be implemented in a phased manner. The management of rural development projects is to be discussed while considering about the financial aspects of each project. This is because various government and non-governmental agencies are involved in implementation of rural projects. In each case the project dimension is to be understood. Based on the dimension the formulation of a project is discussed. The economic, financial and technical feasibility of a project is to appraised. After the appraisal the planning and implementation aspects are to be discussed. Finally the evaluation and impact of the project can be analysed.

4:2 OBJECTIVES

This unit has the primary aim of acquainting you with the dimensions of a project, steps involved in project identification, steps involved in project formulation and in preparing the format of a detailed project report. After completing this unit, you will be able to:

- indicate the dimensions of a project;
- describe the process of formulating a project;
- explain the types and process of project appraisal and feasibility study

- discuss the planning and implementation of a project and
- understand the evaluation of a project

4:3 PROJECT DIMENSION

It is generally known that a project would belong to a sector/sub-sector of development. In the process, it gets identified with a particular sector/subsector. In the real world situation, such identification has been misleading. A project has many more dimensions and it is essential to identify them at the outset. Let us take these up now.

i) **Activity group:** The first dimension of the project is the activity group or nature of the activity to which it belongs. This is the most fundamental dimension recognized by everyone. The project would belong to any of the following four activity groups classified according to the nature of the activities.

Such activity groups are:

a) Final commodity producing sectors,

b) Productive infrastructural sectors,

c) Marketing infrastructural sectors, and

d) Social service infrastructural sectors.

We will briefly describe their nature here.

The nature of this pattern of grouping is such that groups (b), (c) and (d) are complementary to group (a). Group (d) stands on its own, as it largely comprises sectors/sub-sectors that provide for minimum social needs. Hence, it leaves little choice of any shift of investment from one sector to another within the group or with (b) and (c). In terms of implications, consequent to a change or revision in groups, the direction of change needs to be assessed properly. In respect of groups (b) and (c), a revision effected within group (a) will indicate the direction in which the revision in these two groups should be done.

ii) **Independence and complementarity:** We have already discussed in detail about this dimension in preceding units. As discussed, the project may belong to a wider programme in which it may either be independent or complementary to other projects. The attempt should, however, be to avoid conflict of objectives between the projects. This will ensure maximization of benefits to the beneficiaries and, ultimately, the society.

iii) **Potential beneficiary group:** Since a project is a planned intervention for the development of a certain social segment within a specific time period, the potential segment's interest becomes another dimension of the project. The project would have one or other of the following potential beneficiary groupsas targets:

– The population of a Community Development Block in general or the inhabitants of a group of villages,

e.g., for roads/electrification;

– The village community as a whole, e.g., for school, primary health centre, drinking water, public tube well;

– members of a cooperative society, e.g., for collection/chilling centre for a milk cooperative, wool carding center for a weaver's cooperative;

– a specific target group, such as an association of target group persons or households for sharing an irrigation tube-well or a drinking water well. It may also consist of individual members of households belonging to the target group, e.g., housing, dairy unit, shoe making;

– Private individuals, private firms and companies or households in general, e.g., small scale unit, dairy unit, orchard plantation.

iv) **Share in investment (capital structure):** The capital structure is determined by the share in investment proposed by the private sector in the project. Therefore, the capital structure is a very important dimension of a project. Depending on the beneficiary group, and their interests as outlined above, the capital could be obtained from the public sector, individuals and institutions in the private sector, the village community or *panchayat*, a cooperative society or a combination of these. In some extreme cases, investments would be wholly public or private. Further, depending on the investors and in what proportions they share the project investment, the capital assets formed under the project may be shared and owned accordingly.

v) **Financial interests:** Consequent to the capital structure, financial interests in the project could be many. Depending on the contributor's share in the project, the interests would vary. Project finances may also come partly through fund transfers among the investors themselves by way of grants and loans or partly in the form of loans from financial institutions. This dimension of the project cannot be overlooked.

vi) **Allocation and area specificity:** The problem of allocation of time and resources, especially capital, has an important bearing on project identification. Therefore, it calls for proper coordination among different activities. The spatial distribution and locational structure of economic activities and facilities determine which type of projects could be formulated and what could be the allocation of different resources.

4:4 PROJECT IDENTIFICATION

The process of project identification, as mentioned in the preceding unit, starts with the conception of an idea. The ideas have to be tested for their practicality and worthiness, say in a community development block. The key factor in the guide is to subject the idea to the following questions:

– Will the project implied in the idea fall within block level planning activities in terms of scope and the order of investment it is likely to require?

– Are its technical features, including physical location, layout, alignment, etc. *prima facie* sound?

– Do the material conditions for its successful operation, in terms of actual and potential availability of required raw materials and energy, exist in the block?

– Will the required skilled manpower be available either because it already exists or there are conditions for its speedy development?

– Is there a local demand for the goods or services the potential project is intended to produce?

And if local demand is not adequate, can the excess output be sold to urban centres or to neighbouring blocks at competitive prices?

– Are the particular social minimum needs the potential project is intended to serve at present unfulfilled in the block?

If the answer to these questions is an emphatic 'yes', the project idea should be translated into a project blue-print. And if the answer turns out to be 'no', the project idea should be dropped or, at best, postponed until conditions favourable for reconsideration arise.

4:5 PROJECT FORMULATION

After the series of project ideas have, thus, been identified and tested, individual projects need to be explicitly formulated or prepared on the basis of a detailed analysis of specific techno-economic relationships. Project formulation generally leads to a Detailed Project Report (DPR). This is the stage at which detailed studies will commence, so that realistic estimates can be made of how the project might be implemented and of its likely income generating capacity. A detailed preparation of a blue-print takes time, often a year or two or even longer for complex projects. It is expensive, too, as it may well cost seven to ten per cent of the total project investment.

The process of formulation or preparation includes all the work necessary to bring the project to the point at which a careful review of appraisal can be undertaken and, if selected, implementation can be carried out. A feasibility study has to be undertaken as the first step in project preparation. This initial step makes it easier to decide if detailed advanced planning needs to be done. The feasibility study should also provide an opportunity to shape the project to fit its physical and social environment. This is expected to ensure that the project when implemented will be giving maximum returns. Details of feasibility analysis will be discussed in subsequent units.

4:6 PROJECT APPRAISAL

4:6:1 ECONOMIC FEASIBILITY

Economic feasibility analysis is a quantitative measurement of economic efficiency of feasible project variants. This analysis is carried out so that one of the variants could be chosen on the strength of its superiority over the others. Economic analysis serves to quantify differences between alternatives and reduce them to a basis, which enables project comparison. The importance of the use of these methods, however, varies with the alternatives under consideration. Thus, project economic analysis involves techniques for

comparing and deciding between alternatives on the basis of monetary or economic desirability. The use of these techniques is vitally important, for there is much to be gained or lost by virtue of the particular alternative chosen

Economic efficiency is derived from the primary categories of inputs and outputs of the project. A derivation becomes possible only when input and output quantities have been converted into their respective values by multiplying them with respective prices or unit values. A necessary and indispensable condition for derivation of economic efficiency, therefore, is that the price or unit value of inputs, and outputs must be given. Being a derived value concept, an economic efficiency measure represents or stands for a relation.

Fundamentally, this relation can be expressed in two possible ways:

a) as a difference of value sums of inputs and outputs, and

b) as a ratio of output to input value sums.

It clearly follows from this that for any project, there could be two fundamental measures of its economic efficiency, one given by the **difference** and the other by **ratio** of the relevant value sums. While the first gives the **absolute** measure, the second gives the **relative** measure of a project's efficiency. When there are more than one project variants to choose from, and indeed this is the general case, it is the relative measure of efficiency that ranks the project variants according to higher and lower efficiency and enables the project team to choose that variant, which ranks first in the list.

4:6:1:1 Differences in Efficiency Measures (Private and Social):

Different economic agents value the same things differently because their goals, objectives or motivations are usually different.

Take for instance a dairy project where one of the project is straw for feed. A peasant who participates in the project may have to buy a part of his straw requirement from other peasants at the prevailing market price of straw in or around his village. The value of this input for this individual peasant is the quantity of straw purchased multiplied by the price paid. Consider now the value of the straw input to the project from the angle of all the peasants, that is, from the angle of the society as a whole. Straw is a byproduct of agriculture and it has hardly any other use. Therefore, for society, the value of the straw input to the project is virtually nil. The difference in the value of straw input alone will be different in the two cases. While in the first case, the estimate will give a measure of the project's private economic efficiency, in the second case, it will give its social economic efficiency.

This type of difference occur irrespective of whether the proposed investment in the project is wholly private, public or any shade between the two. All these types of project investments occur in our country because of the mixed economy with various forms of property ownership.

4:6:1:2 **Public and Social Economic Efficiency Measure:**

There is also a difference between public and social economic efficiency. The public is identical with the state and with that of the agencies of the state. But the state is not identical with society; therefore, the public and social are not identical. To further clarify the difference, let us think of the proposed investment in the dairy project as wholly public and let the project be run and managed by a public agency. The goal of the public agency is to produce and supply milk at competitive prices to a city population, otherwise served by private suppliers. Straw is once again an input to the project.

The management, like the individual peasant, has to buy its straw input requirement from the nearby peasants at the prevailing market price in the area or buy it elsewhere and transport it to the animal shed in the project area. The value of this straw for the public management agency of the project, similar to that of the individual peasant, is the quantity purchased multiplied by the price paid. But, for society, for the reason given earlier, the value of the straw input to this wholly public project remains nil. Therefore, for this difference in the value of the straw input alone, other things being the same, the public economic efficiency measure of the project would be quite different from its social economic efficiency measure.

In conclusion, we can say that for any project, there are different measures of its economic efficiency. These relate to the economic agents or institutions involved in the project, be they private, public or any other.

The same conclusion applies if output values are considered, since different economic agents and institutions may value the same project output differently. There are some pure public investment projects belonging generally to social infrastructural sectors and to the field of science and technology, whose output and services are provided to consumers free and whose output are very difficult, if not impossible, to measure in value terms. The relevant measure in such cases is the social efficiency for choosing among the available variants. This is indicated by the comparative social costs of the variants under the supposition that the value for services from the variants is the same and equal to one, whatever meaning may be assigned to one. On this basis, the variant with minimum social cost is the most efficient.

4:6:1:3 Costs and Benefits

The focus of the foregoing discussion is clearly on the costs and benefits of a project. Costs and benefits of a project are derived from its input and output values. Differences in input and output values, according to the agents and institutions involved, naturally lead to differences in the private, public and social costs and benefits of a project. Therefore, a proper identification of the costs and benefits stream becomes the primary task for any project formulator. At first it might appear to you that no matter who incurs them, input values together constitute project costs. Similarly, no matter to whom these accrue, all output values together constitute project benefits. There are, however, two factors, which make a difference.

First, from the social angle, a negative output value, the value of socially undesirable or harmful product constitutes a social cost of the project. A negative input value, therefore, constitutes a social benefit.

Second, from the private and public angle, besides input costs, the project may involve incurring of non-input costs on the one hand and receiving of non-output benefits on the other. Input costs are traditionally described as real resource costs to the material transformation process within the scope of the project.

Let us examine the concept of non-input costs and non-output benefits for easy identification.

i) **Non-input Private or Public Costs:** The non-input private or public costs are of two types:

a) ***Taxes and Duties*****:** Payments for rights of the state, such as excise and customs duty, royalty, sales tax, development duty, tax on profit, land revenue and payment for private rights like rents, patent charges and brand names.

b) ***Sales Promotion Charges*****:** Payments for promoting sales of project outputs like advertising and commissioning of marketing agents. There is, however, much debate about the treatment of depreciation and interest charges on the installments of loans, all of which give the appearance of being non-input costs from the private or public angles. Therefore, a proper approach in dealing with these items must be clearly described.

Depreciation is a financial accounting mechanism employed by private and public industrial firms to show how much physical capital assets have been used during an accounting period. While management may record depreciation of an asset as a cost in its annual balance-sheet, it should never be forgotten that the cost of the asset (an input cost) was incurred at the time of acquiring it.

The inclusion of depreciation charges in the private or public cost would, therefore, mean double counting of the input cost of the asset in point. Hence, depreciation is irrelevant for assessing a project's economic cost, public or social. But depreciation is very relevant for assessing the financial viability of a project, as depreciation charges are available to management as a source of funds.

Similar is the case of repayment of loan installments. Since the cost of an asset has been incurred when acquiring it, showing repayment as costs would again mean double counting. Once again, however, repayment of installments is relevant for analyzing the financial viability of the project.

It should also be noted in this context that in the financial balance-sheet or in the cash flow statement of the project, while repayments of installments are shown as expenditure, the loan amount outstanding is shown as receipts, thus avoiding double counting. In economic accounting, the asset cost simply takes the place of the equivalent loan. Interest is truly a non-input cost, a payment for ownership rights of investible funds. Those who save and advance loans for investment in private or public projects must be compensated for the

sacrifice of consumption, while they advance funds. But one of the central concerns for making a project economic analysis from the private or public angle is primarily to check whether the project would generate sufficient returns to be able to pay interest on the capital borrowed. Precisely for this reason, interest has to be kept out of the private or public economic cost of the projects. Adopting this practice, the project evaluator should be able to show that the project's private or public rate of return is greater than the relevant rate of interest. This would simply mean that the project is worthy of being undertaken.

4:6:1:4 Non-output Private or Public Benefits:

some of the projects have non-output benefits from the private or public angles. These may be in the form of rebates and exemption from states taxes and duties of various kinds, subsidy on sales and procurement or purchase of output at a support price. Perhaps you can now visualize the group of non-output benefits accruing to a private or public agency. You must also be able to understand the effect of such concession on the project output.

4:6:2 ROLE OF TIME IN ECONOMIC APPRAISAL

Time is an essential feature of almost every aspect of a project. As we have seen in a preceding unit, every project has an economic life starting with the first year of construction and extending up to the year in which it is scrapped. At the time of preparing its blue-print and its appraisal, its life lies wholly in the future. This means that project inputs, outputs and also direct or indirect costs and benefits are all future dated. The project profile is accordingly a future time sequence of inputs and outputs, of costs and benefits running over its life. There are two immediate consequences of this feature of the project profile. These consequences, therefore, must be properly assessed.

4:6:2:1 Present and Future Economic Values

This consequence pertains to costs, benefits or their components, even of same amounts, but occurring at different dates because they do not have the same present value.

i) ***Present value*****:** The present value series are independent of time and, therefore, ordinary arithmetical operations can be performed with ease. This being the case, the sum of the present value series of costs and benefits gives us the total present value of the project's costs and benefits. The difference between the benefit and cost sum gives us the present value of net benefits or net present value of benefits.

ii) ***Future value*****:** Just as the saying goes that a bird in hand is better than two in the bush, a rupee's worth of benefit received five years hence (from now into future) has far less value than if received now. The farther away in the future a rupee of benefit lies, the lower is its present value. The position is the same with respect to cost, which is actually negative benefit. And it happens because all of us – individuals, institutions and even society as a whole – discount the future *vis a vis* the present.

The future time sequence of project costs, benefits and their components, whether private, public or social can, therefore, be converted into a corresponding present value series, provided we are given the relevant rate of discount. Now, the most important question in the process of project appraisal revolves around the discount rate. One has, therefore, to decide as to what rate of discount should the utilized.So far as private and public discount rates are concerned, the rates of interest at which the public project agency, private individuals, households or firms would borrow or lend investible funds, in part or whole, provide the appropriate substitutes for these rates of discount. For illustration, suppose a State government or a public sector agency borrows investment funds for a project from the National Bank for Agriculture and Rural Development (NABARD) and, in turn, relends a part of the borrowing to rural households, which show their keenness to participate in the project by agreeing to make thecomplementary private investment, partly financed by their own savings and partly by loans.

4:6:2:2 Uncertainties about Estimates

The second consequence is that an area of uncertainty would exist around the estimate of almost everything of relevance to the project, be it the construction period, the economic life of the project, estimates of inputs, outputs, prices, costs, benefits or their components. Given the knowledge, experience and information available, the project team, it is assumed, would try to prepare the best estimates of the quantities and values involved. It has been observed that the best estimates go wrong more often in respect of cost and benefit values, which, among other things, depend upon prices of inputs and outputs. The price of an input may shoot up in future due to unforeseen causes, pushing up the investment or the operating costs as the case may be. Similarly, the demand for the project output may fall and push down its price, reducing the output benefit in the process. It must be admitted that by the very nature of uncertainty problem, there is no readymade formula or completely satisfactory method to handle it. All that one can possibly do is to ask (i) how badly the present value of net benefit of the project will be affected because of the uncertainty surrounding the estimate of any one of the variable or a whole set of variables and (2) whether the project would still remain within the acceptable range.

4:6:3 FINANCIAL FEASIBILITY

Financial viability may be defined as the capacity of a project to meet or pay for its cash obligations or liabilities. The cash payment obligations arise when private or public economic agents involved in the project borrow funds for meeting the whole or part of their investment and operating costs.

4:6:3:1 MAIN CHARACTERISTICS

Commercial Angle

A project, which poses financial viability problems and demands an appraisal, necessarily has a purely commercial focus or angle. This is because a

public or private agency, which borrows funds to purchase project inputs must sell the project output and earn cash income to be able to pay back the borrowed funds along with the interest. A commercial success or profitability is, thus, an essential precondition of a project's financial viability.

Partial Commercial Angle

A project depending upon borrowing need not, however, be 100 per cent commercial in the sense that all its inputs are purchased and all of the outputs sold. In our earlier illustration of the cattle development project, a rural family may buy a cow or a she-buffalo out of the loan advances, but the labour of upkeep and part of the animal's feed may be the family's own. On the other hand, the family will seldom sell all the milk produced. A part is invariably retained for self consumption even if it is only for the infants and the sick. The larger the part retained in this manner, the smaller will be the cash income received and lower the financial viability. This does not mean that the part retained for self-consumption is not a benefit of the project. The economic worthiness of the project, inclusive of retained benefit, may be high from both the private family and social angles. However, it may, on the other hand, turn out to be a commercial failure and financially an unviable proposition. It becomes clear, therefore, that a loan-based project ought to be appraised for financial viability even when it has been judged worthwhile by the economic efficiency criteria from private, public and social angles.

Cash flow Statement

A cash flow statement tells you about the health of the project. It is a crucial characteristic.

The cash account of the project in question is the main instrument for appraisal of financial viability. There would be atleast two cash accounts of the project, mainly because of the commercial nature of the transaction involving loan funds. The first may be for the public sector authority and the second for the typical or representative private household. Each account will tell us about the financial viability of the project from the angle of the two agencies concerned. Therefore, a year-wise cash account running over the lifetime of the project is called a cash flow statement. By its very nature, this statement is a forecast of likely cash receipts and cash payments of the agency concerned for each year of the project's life.

4:6:3:2 INDICATORS

The three most commonly used key indicators are

- **payback period**
- **average return on investment** and
- **financial rate of return**.

The last one, namely, financial (internal) rate of return is worked out by using the discounted cash flow technique.

The objective in all these indicators is to compare the future benefits with the present investment costs. The basic methodology common to all the indicators is as follows:

i) The annual net cash inflows are, in different ways, aggregated for arriving at a single number that indicates the benefits accruing from the investment.
ii) The benefit that the investment must yield to justify the allocation of funds is predetermined as a ‘threshold’ number.
iii) The number obtained in (i) is compared with the number obtained in (ii) to decide the
acceptance or rejection of the project proposal.

These basic methodological steps remain unchanged for all the three indicators.

Pay Back Period (PBP)

This measure indicates the number of years the project will take to repay its investment cost. In other words, PBP is the length of time between the starting time of the project and the time when the initial investment is recovered in the form of yearly benefits. This period is also called the recovery or recoupment period. Hence, the shorter the pay back period, the more viable the project. the PBP provides information about the relationship of net revenues to investment cost, particularly in projects where the output prices are comparable to average or marginal costs and are not grossly subsidized, taxed or administered.

Average Return on Investment (ARI)

The average return on investment is a measure of aggregate benefits that the investment will produce. The desired ARI will reflect the bare minimum that will make investors commit funds for the project. The ARI is computed in four steps:

Step 1: Find the total cash inflows over the project life.

Step 2: Subtract the initial investment from the total cash inflows. This may be called the total net income over the project life.

Step 3: Find the average annual income by dividing total net income by the project life in years.

Step 4: ARI is the ratio of the average annual income to the initial investment. The project will be accepted if ARI is larger than the desired number; otherwise the project will be rejected.

The main advantages of using ARI over PBP as an indicator is that it takes into consideration all the cash flows generated from a project during the project life. Nonetheless, ARI does not distinguish between receipts or disbursement of funds at different points of time. Hence, it fails to discriminate between two projects, which have the same ARI, but differ in the timing of the cash flows.

Financial (Internal) Rate of Return (FRR)

The financial (internal) rate of return is similar to the IRR explained in the preceding unit on economic feasibility. It is obtained by discounting cash benefits and cost streams until the present value of the net cash income becomes zero. The FRR indicates the average annual percentage return on total investment and operating costs. It is also known as yield of an investment in a project, as it does not require the pre-specification of a discount rate. It is important to note that interest charges should be kept out of operating expenses in this exercise because the purpose of the exercise is basically to see how the financial rate of return would compare with the rate of interest on loan. If the FRR of a project turns out to be larger than the rate of interest on loan, it is a clear indication of a financially viable project. Conceptually, the yield of the NPV (net present value) as criteria for appraising investment decisions are superior to either the pay-back period or average return on investment indicators. Moreover, due to increase in cost of capital, it will become imperative to estimate the time value of money. This estimation is possible only by using the discounted cash flow indicators. Complex computations are involved in estimating any of the discounted cash flow indicators. This has encouraged common usage of indicators like the pay-back period and the average return on investment.

4:7 PLANNING AND IMPLEMENTATION

4:7:1 ACTIVITY PLANNING

The first management function is planning. Therefore, once a project has been accepted for implementation, it becomes imperative to plan for each activity of the project. The planning is carried out in a sequential manner. The steps are given below:

Step 1: Prepare a list of all activities that need to be executed under the project. Sometimes, a project may require the help of a number of departments/sectors/agencies for its execution. It is most desirable to list the activities according to agencies or departments or sectors. This list will provide the Work Breakdown Structure.

Step 2: Specify a logical sequence in which the activities need to be executed. This will indicate (1) the order in which activities will follow; and (2) activities, which can be undertaken simultaneously.

Step 3: Estimate the specific duration of time required for each activity in the project. If you have executed similar projects in the past under identical conditions, you can specify the duration based on past experience. Otherwise, estimate the duration, using your judgement and statistical measures.

Step 4: Assemble the activities in the form of a flow diagram. This is known as Network Plan.

Step 5: Analyse the flow diagram. This is called Network Analysis.

Let us take an example to illustrate the above steps for preparing a project implementation plan.

Suppose that we have to establish a milk chilling plant. The following are the assumptions underlying the plan:

– The feasibility and viability of having a milk chilling plant in the area has been examined and the results are favourable. The area has a number of dairy farmers and, on an average, 4,000 litres of milk can be procured per day.

– The plan for setting up a milk chilling plant has been drawn and it requires the approval of the district administration, finance department and the dairy development corporation.

– There is a building, which can be used for housing the milk chilling plant.

– Staff will be recruited for operating the milk chilling plant. They will be trained in another plant of similar type and capacity, while our plant is under construction.

– The electricity line for the milk chilling plant will have to be obtained from the Electricity Board, following which the electrical wiring will be carried out.

– The milk chilling plant will be purchased and installed. After the installation of machinery, training of the staff and installation of electrical wiring, the milk chilling plant will be operated on a trial run over a period of one month before it is handed over to the manager of the milk chilling plant.

4:8 IMPLEMENTATION OF RURAL DEVELOPMENT PROJECTS

One of the main functions of management is effective execution or implementation. Implementation may be regarded as a process by which a set of predetermined activities is carried out in a planned manner with a view to achieve certain established objectives. Implementation is, thus, a subset of a broader set of activities that constitute management. A programme is usually implemented through a series of well defined projects. The scope of a plan is still broader in the sense that it usually comprises a number of programmes. Thus, for its implementation, a plan has to be broken down into a number of programmes, each of which is, in turn, broken down into a number of projects. A project treats the questions, what, who, when, where and how more specifically than does a programme.

4:8:1 Phases of Implementation

Implementation consists of two sub-phases:

1) Pre-operation phase

2) Operation phase

The pre-operation phase of implementation begins when the feasibility report has been completed and financing has been arranged. The pre-operation phase may be considered to be complete when various components of the project are installed and put into operation.

The objectives of project management in the operation phase are as follows:

– Completion of the project on time;

– Completion of the project within the contemplated cost.

4:8:2 Factors Affecting Implementation

There are several factors which affect the implementation of a programme. A rural manager has to understand their role and function. Let us briefly list them.

i) ***Technical Factors*****:** Rural projects can be of diverse kinds – irrigation, livestock development, wasteland development, etc. All these involve the use of technology and recruitment of technical manpower, so that all the production functions are effectively tied up to maximize output. Rural development management requires understanding of the technical factors involved and how to manage them.

ii) ***Economic and Financial Factors*****:** These relate to factors affecting credit, subsidies, pricing, choice of resources, etc.

iii) ***Commercial Factors*****:** These relate to marketing of outputs, supply of inputs, etc.

iv) ***Socio-Cultural Factors*****:** Since rural society and economy are closely interlinked, the project manager has to understand the role of sociocultural values, tradition, social structure, castes and kinship pattern, social institutions, etc., and social stratification.

v) ***Political Factors*****:** The power structure, dominant groups, leadership patterns etc., too affect implementation.

vi) ***Institutional, Organisational and Managerial Factors*****:** The implementation of the project will be affected by the extent to which the organisational and managerial objectives and functions have been clearly laid down, responsibilities clearly demarcated, inter-linkages tied up, and monitoring and project control systems developed.

vii) ***People's Participation*****:** Involvement of people in the implementation of the project is of key importance. Therefore, the project manager should not only aim at people's participation, but also develop the strategies and the mechanisms.

viii) ***Integration and Coordination*****:** Since implementation involves several agencies, therefore integration and coordination both vertical and lateral, are absolutely essential.

4:8:3 Delays in Implementation

The most important problem faced in the implementation phase of a project is delay in execution. This is also referred to as slippage of projects, which results in escalation of costs and also the loss of revenue. The result is that the initial assumption in the feasibility report are thrown completely out of gear. The delays are generally caused by internal as well as external factors.

The ***internal factors*****,** which cause delay are:

– Inadequate planning based on wrong and inadequate information

– Inadequate financing

– Choice of wrong technology

– Lack of coordination among execution departments

– Absence of delegation of power

– Lack of reasonable norms of accountability

– Poor industrial relations

– Wrong selection of agents

– Non-involvement of people

The ***external factors*****,** which may cause delay, are:

– Input problems

– Transportation problems

– Frequent change in administration at the senior level, affecting the continuity of policy

– Lack of public cooperation.

Despite taking all the care, there are bound to be factors beyond the control of a manager, which are likely to cause delay in project implementation. Therefore, it is necessary to build a system, which can correct deviations from the initial expectations and ensure that the schedule of the project is not disturbed. To perform such tasks, there needs to be a scientific system of flow of management information to the executive at various levels in the organisation. We will read about these aspects in the units that follow.

The system of monitoring and control is more effective when, along with the time-frame, there is linkage between the physical work to be performed in each activity and the financial expenditure to be incurred. The operational plan should include the following aspects:

– The breakdown of the project's final objectives into various subsystems and these subsystems into activities and sub-activities.

– The time schedule for starting and completion of each activity and sub-activity and their sequencing.

– Linking of physical work involved in each activity with financial expenditure.

– The timetable indicating the requirements of financial resources during the pre-implementation phase.

– Monitoring and control system.

4:9 EVALUATION OF PROJECTS

4:9:1 MEANING AND OBJECTIVES OF EVALUATION

Since many developing nations seek to achieve growth with social justice through planning, the evaluation of development policies and programmes assumes importance in this context for the following reasons:

– The social and economic structures are so complex that the planning process must take these into consideration and formulate strategies and programmes on the basis of certain assumptions. Evaluation will enable the policy makers to know to what extent the planning process was responsive to development needs. It has been noticed, for instance, that some of the development programmes failed owing to wrong identification of the problems, incorrect assumptions, improper formulation or inefficient administering of programmes.

– The resources at the command are limited. Evaluation will enable allocation of funds to programmes. Selection of programmes will be guided by efficiency and cost effective considerations.

– Evaluation aids decision makers to assess the various programmes in terms of their relevance (to overall development goals), efficiency, effectiveness and impact. This helps in better formulation and effective implementation of programmes in the future.

The evaluation process is expected to make recommendations on the need for modification of an existing programme, charting of a different course of action, or formulation of new programmes. Thus, evaluation, in a way, helps to assess the long-term implications of the present decisions and programme choices.

More specifically, the objectives of evaluation are:

– Measurement of the progress in both quantitative and qualitative aspects in relation to the stated objectives, targets and course of action;

– Assessment of efficiency of the process of conversion of inputs into outputs and the efficiency of the management apparatus;

– Identification of factors responsible for speeding up or slowing down of the process; in other words, identification of reasons for a project’s success or failure; and

– Providing feedback to decision makers, which will enable modifications, where necessary, in the policy, strategy and objectives of the programme and the operational aspects.

4:9:2 DIMENSIONS OF EVALUATION

Evaluation is now considered to be an integral part of the overall planning system and a main ingredient of development administration. In simple terms, evaluation is a performance or achievement audit, which assesses the whole gamut of activities associated with programme formulation,

implementation and impact, and compares the observed results with those anticipated

Concerns of Evaluation

Let us now discuss some of the concerns of evaluation.

Assessment of Outcome

Evaluation is concerned with assessment of outcome. This is after the completion of the programme. Some of the issues considered in outcome evaluation are:

- Whether the beneficiaries have realized the expected benefits.
- Whether beneficiaries are better off compared to non-beneficiaries on the relevant indicators.
- To what extent the programme/project is responsible for the observed benefits (both intended and unintended) and what have been the costs?
- What are the changes noticed in the behavioural dimensions of the target population?
- Have there been any adverse, unintended effects of the project?
- Have any forces been set in motion, the dynamics of which may have far reaching consequences?

The discussion of causation is one of the major aspects of an evaluation. The isolation of the programme effects from those of other programmes is the real task involved in this exercise and demands a high level of expertise in the evaluation design.

Measurement of Project Efficiency

Sometimes, a major concern of evaluation is the measurement of project efficiency.

Two yardsticks used to measure project efficiency are:

– Cost efficiency expressed in terms of outcome per unit of cost; and

– Project effectiveness measured in terms of outcome per unit of effort.

For example, if two projects A and B are equally effective, but A is cost efficient, then the decision rule is to prefer A. But when A is more effective, but not cost efficient, then the criterion for project selection is whether the additional benefit is worth the additional cost. Another situation, which makes evaluation task rather difficult is when projects have several characteristics. Each one brings improvements in certain characteristics. The assignment of weight on an objective basis to the progress made becomes the main focus. Arriving at a composite measure for judging relative effectiveness and efficiency of the individual is a major problem.

Purpose Oriented Evaluation

Sometimes, evaluation is purpose oriented. In this type of evaluation, the focus is on the basic purpose for which the projects have been launched. For example, the thrust of rural development programmes is to improve the quality of life in rural areas. There may be several sub-purposes, such as provision of basic amenities to rural population. Two important types of evaluation in this category are:

i) Formative evaluation and

ii) Summative evaluation

Formative evaluation is basically concerned with the formulation of projects. It is service oriented and aids planners through identification of potential problem areas where project needs improvement, etc. In other words, the purpose is to improve the planning design with a view to enhance the flow of benefits from the project or to increase the efficiency of the delivery system.Summative evaluation aims at selection of projects from a set of projects for deciding on the continuance or termination of the project. In this sense, there is a finality to summative evaluation, since the evaluation report may recommend the withdrawal of the project. In brief, it provides a summary statement about the effectiveness of the programme – incorporating the project's achievement of pronounced goals, unanticipated outcomes and comparison with alternative projects.

4:9:3 TECHNIQUES AND CRITERIA

Criteria for Evaluation: The following five criteria are usually adopted in evaluation studies:

– Efforts

– Performance

– Adequacy

– Efficiency

– Process

Efforts: In a summarized view, efforts refer to the total inputs to the programme. For example, a criterion relating to the amount of effort put into the programme would include quantity and quality of programme inputs (range of services), the coverage of population, programme personnel, financial resources, etc.

Performance: This deals with the consequences of the programme inputs. The composite index of performance should consider the magnitude and quality of benefits and changes in behavioural dimensions. Thus, it refers to output generated from the system as a result of programme inputs.

Adequacy: This is a relative measure indicating the relationship of the effort and performance of the programme to the level of need for the programme. In other words, it is the extent of successful (or effective) coverage of beneficiary

population in the total population. It, thus, refers to the relationship between output and the total need.

Efficiency: This measure connects the above three criteria, viz. effort, performance and adequacy and is based on the minimax principle, i.e., minimization of effort and maximization of performance. In other words, it is simple input-output ratio. Naturally, the various inputs, such as money, time and staff are being considered in evaluating the various alternatives.

Process: It is the study of the means of the programme in producing outputs (results) with a view to establishing causality.

Concurrent and Terminal Evaluation

You may have come across the terms concurrent evaluation and terminal evaluation. Concurrent evaluation is an ongoing activity and is carried out when the programme is under implementation. It is usually undertaken at regular intervals or at the end of a phase, to give an objective feedback on the progress and direction of the programme. Concurrent evaluation does not provide a feedback on impact, unless it is at the end of a phase when some impact was visualized in the project design. The utility of concurrent evaluation is that it can assist decision makers in modifying the objectives (if necessary), and change the implementation strategy, so that overall objectives of the project can be achieved. Concurrent evaluation also permits examination of the relevance or validity of the assumptions sufficiently before the terminal stage.

Terminal evaluation is done at the end of programme implementation and focusses on the impact and other complex issues of programme performance.

4:10 SUMMARY

In this unit we discussed on the management of rural development projects. The project dimension in various aspects like finance, profitability etc were discussed. The project identification and formulation focused on the idea on identifying a suitable rural project and the formulation in all aspects. Project appraisal and feasibility focused on the feasibility analysis like economic feasibility, financial appraisal and social cost benefit analysis and other aspects of appraisal. The various criteria for project appraisal were also discussed. The planning and implementation discussed on the aspects of various planning and implementation phases and the factors affecting implementation. Finally the meaning and objectives of evaluation, dimensions of evaluation and criteria for evaluation were discussed

UNIT QUESTIONS

1. What do you understand on project dimension aspect of rural development projects? Explain.
2. Discuss on the project identification and formulation in rural development projects.
3. What is project appraisal? Explain the criteria for project appraisal.
4. Illustrate with suitable examples on project feasibility with reference to rural development projects
5. Describe the planning and implementation phases in rural development projects. Also discuss the difficulties in implemnentation.
6. What are the objectives of project evaluation? Explain the criteria of project evaluation.

RECOMMENDATIONS FOR FURTHER READINGS

6. Rural Banking and Development, S.C.Anand,UDH Publishing House, New Delhi
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10. Management, Stoner, James A.F. and Charles Wankel (1988), 3rd ed., Prentice Hall of India Private Limited, New Delhi.
11. Monitoring and Evaluation of Agriculture and Rural Development Projects, Casley, D.J. and D.A. Lury (1982), Johns Hopkins, Baltimore.

UNIT - V

INSTITUTIONS SUPPORTING RURAL DEVELOPMENT

UNIT STRUCTURE

5:0 Introduction
5:1 Objectives
5:2 Institutions Supporting Rural Development
5:3 Reserve Bank Of India (RBI) – Role And Functions
5:3:1 Targets of RBI for Rural Development
5:3:2 Recent Initiatives Of RBI
5:4 National Bank For Agriculture And Rural Development (NABARD)
5:4:1 Major Activities Of NABARD
5:4:2 Role and Functions Of NABARD
5:4:3 Development and Promotional Functions
5:4:4 Recent Initiatives of NABARD in Rural Development
5:5 Small Industries Development Bank of India (SIDBI)
5:5:1 Approach
5:6 District Industries Center (DIC)
5.7 Role of Non-Governmental Organizations (NGOs)
5:7:1 The Role In Improving The Quality Of Life Of Rural Communities
5:7:2 The Role In Development Of Replicable And Sustainable Models
5:7:3 The Role In Promotion Of Appropriate Technologies
5:7:4 The Role In Actualising Local Self Governance

5:0 INTRODUCTION

Development is the process of creating income through higher production for meeting higher aspirations of raising the standard of living. Rural development obviously refers to this phenomenon taking place in the countryside resulting in integrated upliftment of villages. Two fundamental determinants of development are:

- improved utilization of available productive resources and potential
- strengthening the existing productive resources and potential through further capital formation

With this view several institutions are being operated for the support of rural development. It is essential to impart the role of these special institutions and their functions in rural development. This unit is devoted to the discussions of the above factors.

5:1 OBJECTIVES

After studying this, the students should be able to

- understand about the different types of institutions supporting rural finance
- explain the role of RBI, NABARD, SIDBI, DIC AND NGOs in rural development
- familiarize the institutional activities in rural funding and development
- describe the different functions of these agencies

5:2 INSTITUTIONS SUPPORTING RURAL DEVELOPMENT

There are various institutions functioning in support of rural development. They are as follows:

1. Reserve Bank of India **(RBI)**
2. National Bank for Agriculture and Rural Development **(NABARD)**
3. Small Industries Development Bank of India **(SIDBI)**
4. District Industries Center **(DIC)**
5. Non-Governmental Organisations **(NGOs)**

We will discuss their role and functions in detail.

5:3 RESERVE BANK OF INDIA (RBI) – ROLE AND FUNCTIONS

The RBI has initiated several measures which have contributed greatly to the commercial banks participating in agricultural finance in a big way and also to improving the qualitative aspects of the lending process.

In the first instance, the Bank sponsored a Seminar in Bombay in December in 1968, covering a wide range of subjects on financing of agriculture by commercial banks, The seminar highlighted the need for commercial banks to play a positive role in extending finance to the maximum possible extent to the agricultural sector.

When the commercial banks entered the field of agricultural finance, there were a number of state enactments containing restrictive features, particularly those relating to the cultivators right of alienation in land or interest therein, which operated to their disadvantage. Therefore, the Reserve Bank appointed in September 1969 and Expert Group to study the state enactments having a bearing on commercial banks lending ot agriculture and make recommendations.

The expert group made a number of recommendations relating to land alienation right of agriculturists, creating of charge by declaration, priority of charges among different lending in-situations, simplified inexpensive and speedy methods of effecting recoveries, adoption of certain administrative measures like updating of land records, issue of pass books, exemption from payment of stamp duty and increase in the number of centre where equitable mortgage could be created. The report of the expert group was forwarded by the Bank to all the states and most of the states have enacted or are in the process of enacting the necessary legislation.

In 1970, Reserve Bank undertook a study of methods of operation, policy and procedures adopted by selected nationalized and other banks involved in agricultural financing and following wherefrom the banks issued a set of guidelines in December 1970 setting out the rationale, policies and procedures for making agricultural loans.

Further in the light of the recommendations made by the working group constituted by the Government of India in 1978, the Reserve Bank advised the banks to adopt simplifies forms and also liberalise the security and margin money requirements for ensuring quicker and larger flow of credit, particularly to the small and marginal farmers.

5:3:1 TARGETS OF RBI FOR RURAL DEVELOPMENT

The RBI has fixed targets for commercial banks in respect of their rural lending which is major chunk of the priority sectors. The following targets were laid down:

- They were directed to raise the ratio of their advances of priority sector to 40% of total credit.
- Advances to weaker sections should reach a level of 10% of total bank credit
- 18% of the total advances should be given as direct agriculture finance to the agriculturists and other farmers
- The banks have been asked to maintain the Credit – Deposit ratio at their rural and semi-urban branches on an all India basis at not less than 60%

5:3:2 RECENT INITIATIVES OF RBI

In order to increase credit flow to the agriculture sector, the policy of doubling of agricultural credit in three years was introduced in 2004-05. In 2004, the Central Government constituted a Task Force to revive the rural cooperative credit institutions under the Chairmanship of Prof. A. Vaidyanathan. In order to expand the outreach of the banking services, banks made available basic banking 'no-frills' account with low or nil minimum balances as well as low or no charges in 2005. The regional rural banks were also specifically advised to allow limited overdraft facilities in 'no-frills' accounts without any collateral or linkage to any purpose.

For opening account with banks, procedures have been simplified by introducing the concept of 'Know Your Customer (KYC)' drill. In January 2006, banks were permitted to utilise the services of Non-Governmental Organisations (NGOs), Self-Help Groups (SHGs) and other Civil Society Organisations (CVOs) as intermediaries in providing financial and banking services through the use of Business Facilitator (BF) and Business Correspondence (BC) models.

The BC model allows banks to do 'Cash in – Cash out' transactions at the location of the business correspondent and also permits branchless banking. With the objective of providing revolving credit to the rural people, banks in

rural and semi-urban areas have been advised to provide a General purpose Credit Card (GCC) facility.

For all borrowers having a principal amount of less than Rs.25,000 and whose accounts have become Non Performing Asset (NPA), banks have been requested to offer a One Time Settlement (OTS) Scheme. It is expected that such a provision will restore borrowing relationship of small borrowers with the formal system and thereby obviates the need to go back to the informal system.

In June 2007, a multi-lingual website in 13 Indian languages on all matters concerning banking was launched by RBI for credit counselling and financial education. In 2007-08, two Funds, i.e., Financial Inclusion Fund (FIF) for promotional interventions and Financial Inclusion Technology Fund (FITF) for meeting cost of technology adoption are proposed to be established with the National Bank for Agriculture and Rural Development (NABARD).

5:4 NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD)

NABARD is set up as an apex Development Bank with a mandate for facilitating credit flow for promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts. It also has the mandate to support all other allied economic activities in rural areas, promote integrated and sustainable rural development and secure prosperity of rural areas. In discharging its role as a facilitator for rural prosperity NABARD is entrusted with

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

Besides this pivotal role, NABARD also:

- Acts as a coordinator in the operations of rural credit institutions
- Extends assistance to the government, the **Reserve Bank of India** and other organizations in matters relating to rural development
- Offers training and research facilities for banks, cooperatives and organizations working in the field of rural development
- Helps the state governments in reaching their targets of providing assistance to eligible institutions in agriculture and rural development
- Acts as regulator for cooperative banks and RRBs

NOTES

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