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INDIA'S LARGEST TEST PREP PLATFORM

CAIIB

Rural Banking Capsule

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No. of Unit	Unit Name
Module A	Rural India
Module B	Financing Rural Development
Module C	Priority Sector Financing And Govt. Initiatives
Module D	Problems And Prospects In Rural Banking

CAIIB Rural Banking Module A- Rural India

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CAIIB Rural Banking Module A Unit 1-Demographic Features

Population

- The second most populous country on earth, **India, accounts for more than 17 per cent of world population with meagre 2.4 per cent of the world geographical area.**
- The state-wise population distribution, as per the last census 2011, indicates that **Uttar Pradesh continues to be the most populous state, with about 200 million people**. States of Maharashtra and Bihar have made the transition to more than 100 million population category.
- As per the **United Nations estimates, World population grew at annual rate of 1.23 per cent during 2000-2010, with developing countries like India, registering a higher growth rate of 1.30%. {2011}.**
- **Population Pyramids** represent complex changes in age structure of the population. In developed countries, the shape is almost cylindrical instead of a

pyramid because of the high life expectancy, low fertility and relatively low population in reproductive age group.

- Population of most of the developing countries, including India, consists of large proportions of children and persons in reproductive age group.
- **Sex ratio (number of females per thousand male), as per the 2011 census is 943. Much lower sex ratio of about 919 in case of 0-6 age** group as revealed by census, shows preferences of male child is still prevalent, in a large part of the society. Lowest sex ratio was noticed in Haryana (877). Among the UTs, the lowest sex ratio has been recorded in Daman & Diu (618). India currently in stage three of demographic transition.

Literacy

- Literacy is the ability to read, write and comprehend information, in order to communicate effectively. In India, while the adult literacy rate is measured for people aged above 15 years, the rate of youth literacy is measured for people aged between 15-24 years. Literacy rate is calculated by dividing the number of literates of a given age range by the corresponding age group population and multiply the result by 100.
- **India managed to achieve a literacy rate of 74.04 per cent in 2011** as compared to 64.80 per cent in 2001. While the **female literacy rate** in India as per Census 2001 was 53.7 per cent, the Census 2011 **recorded it at 65.5 per cent.**
- The Constitution of India recognizes the importance of education for all. Therefore, it lays down several provisions to ensure proper and effective implementation of educational rights in the country.

These provisions include:

- **Education of Minorities:** Article 30 of the Indian Constitution gives all minorities, the right to establish and administer institutions of their own choice.
- **Free and Compulsory Education:** The Constitution of India structs the state to ensure that all citizens receive free education.
- **Equality of Opportunity in Educational Institutions:** The fundamental right of equality clearly signifies that in the eyes of law, no one can be discriminated on the basis of status, caste, sex, class or creed. Article 21 (A) of the Constitution of India was amended to provide free and compulsory education as a fundamental right to all children aged between 6 and 14 years.

Education of Weaker Sections: Article 15, 17, and 46 of the Indian Constitution safeguard the educational interests of weaker sections of the society. These comprise socially, economically, and educationally backward families including those belonging to the scheduled castes (SCs), and the scheduled tribes (STs).

The following measures have been taken by the Government to improve literacy standards in India.

- The government conducts various scholarship examinations and provides school uniform, textbooks and stationery, in order to encourage students and adults to take up studying.
- **The Mid-Day Meal Scheme** was launched by the government in 1995, to provide students free food so as to improve enrolment, attendance, and retention in government schools.
- **Samagra Shiksha Program** was launched by the government with the broader goal of improving school effectiveness. This will be measured in terms of equal opportunities for schooling and equitable learning outcomes.
- Awareness campaigns were launched in rural areas to create perception among people about the importance of education. They were encouraged to attend and send their children to schools.

Sixth Economic Census

- **The Central Statistics Office, GOI,** since its inception, has been instrumental in creation of database for various sectors of the economy and its periodic updation.
- The Sixth Economic Census was conducted during the period January, 2013-April, 2014 in all the States and Union Territories of the country.
- As per the results of the Sixth Economic Census, there are 58.50 million establishments in the country, engaged in different economic activities. Out of which, 34.80 million establishments (59.48 per cent) are in the rural areas and 23.70 million establishments (40.52 per cent) in the urban areas. Five states viz. Uttar Pradesh (11.43 per cent), Maharashtra (10.49 per cent), West Bengal (10.10 per cent), Tamil Nadu (8.60 per cent) and Andhra Pradesh (7.25 per cent), together accounted for about 50 per cent of the total establishments in the country.

Employment

- **About 131.29 million persons – 67.89 million (51.71%) in rural areas and 63.40 million (48.29 per cent) in urban areas,** were reported to be employed in the establishments, as per the census**.** Among the agricultural activities, the maximum employment was found to be under the 'livestock' sector, with 19.42 million workers, constituting 84.86 per cent of the total employment in the agricultural sector.
- Agricultural Establishments including agriculture, livestock, forestry and fishery play a vital role in the Indian economy. As per estimates of the Central Statistics Office (CSO), its share was 16.3 per cent of the Gross Value Added (GVA), during 2020-21.
- It is revealed that Gujarat had the maximum number of agricultural establishments (1.75 million) constituting 13.36 per cent of all agricultural establishments in the country.

Agriculture Census

The highlights of the All India Report on Agriculture Census 2015-16:

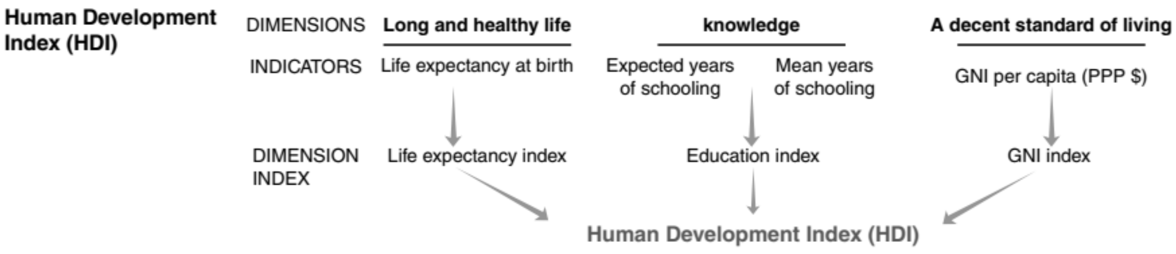
- The total number of operational holdings in the country has increased from 138.35 million in 2010- 11 to 146.45 million in 2015-16, showing an increase of 5.86 per cent.
- The total operated area in the country has decreased from 159.59 million ha. in 2010-11 to 157.82 million ha. in 2015-16, showing a decrease of 1.11 per cent.
- The average size of operational holdings has declined to 1.08 ha. in 2015-16, as compared to 1.15 in 2010-11.
- The percentage share of female operational holders has increased from 12.79 per cent in 2010-11 to 13.96 per cent in 2015-16.
- The percentage share of wholly owned and self- operated holdings in total operational holdings has remained static at about 98 per cent, in 2010-11 and 2015-16.
- The number of wholly leased-in holdings was estimated at 5.31 lakh (0.36 per cent) in 2015-16 and was highest in marginal category (4.54 lakh). Among the states, the highest share of wholly leased holdings in total operational holdings was observed in the state of Odisha (5.82 per cent)
- The Gross cropped area has decreased marginally from 193.76 million hectare in 2020-11 to 191.76 million hectares in 2015-16. Among major states, Uttar Pradesh had the highest share.
- The percentage share of net sown area in operated area has increased marginally from 88.5 per cent in 2010-11 to 88.7 per cent in 2015-16.
- The cropping intensity has remained static at 1.37 during 2015-16 and 2010-11. Among the states, Punjab recorded the highest cropping intensity of 1.97, while Mizoram recorded the lowest cropping intensity of 1.00.

Socio Economic Development Indicators

Human Development Index

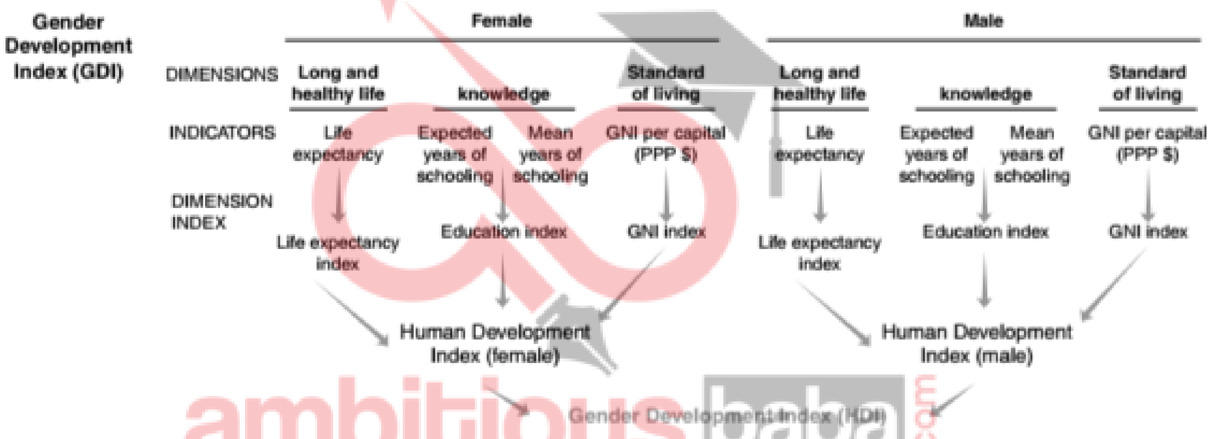
- The Human Development Index (HDI), is a summary measure of average achievement in key dimensions of human development- **a long and healthy life, being knowledgeable and have a decent standard of living**. The HDI is the geometric mean of normalized indices for each of the three dimensions.
- **HDI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

- HDI does not reflect on inequalities, poverty, human security, empowerment, etc. As per UNDP, India was ranked 131 out of 189 countries in the HDI Index Ranking 2020.



Gender Development Index

- The GDI measures gender gaps in human development achievements by accounting for disparities between women and men in three basic dimensions of human development—health, knowledge and living standards, using the same component indicators as in the HDI. The GDI is the ratio of the HDIs calculated separately for females and males using the same methodology as in the HDI.



Health

According to the **National Health Profile -2019**, released recently by GOI, **life expectancy in India** has increased from 49.7 years in 1970-75 to 68.7 years in 2012-16. For the same period, the **life expectancy for females** is 70.2 years and 67.4 years for males. The **infant mortality rate** has declined considerably (33 per 1,000 live births in 2016), however differentials of rural (37) & urban (23) are still high.

Under the National Health Mission, GOI has launched several schemes and implementing them in coordination with the State Governments, for improving the health services to the population:

- **Reproductive, Maternal, Newborn, Child and Adolescent Health (RMNCH+A) program** essentially looks to address the major causes of mortality among women and children as well as the delays in accessing and utilizing health care and services. It also introduces new initiatives like the use of Score Card to track health performance, National Iron + Initiative to address the issue of anemia, across all age groups and the Comprehensive Screening and Early interventions for defects at birth, diseases, and deficiencies among children and adolescents.

- **Rashtriya Bal Swasthya Karyakram (RBSK):** is an important initiative aiming at early identification and early intervention for children from birth to 18 years, to cover 4 'D's viz. Defects at birth, Deficiencies, Diseases, Development delays including disability.
- **Rashtriya Kishor Swasthya Karyakram:** The key principle of this program is adolescent participation and leadership, Equity and inclusion, Gender Equity and strategic partnerships with other sectors and stakeholders.
- GOI has launched **Janani Shishu Suraksha Karyakaram**, to motivate those who still choose to deliver at their homes to opt for institutional deliveries. It is an initiative with a hope that states would come forward and ensure that benefits under JSSK would reach every needy pregnant woman coming to government institutional facility.
- **National AIDS Control Organization** was set up so that every person living with HIV has access to quality care and is treated with dignity.
- **National TB Control Program** is a state-run tuberculosis control initiative of Government of India with a vision of achieving a TB free India. The program provides, free of cost/quality tuberculosis diagnosis and treatment services across the country through the government health system.
- **National Leprosy Eradication Program** was initiated by the government, for early detection of the disease, through active surveillance by the trained health workers and to provide appropriate medical rehabilitation and leprosy ulcer care services.
- The Government of India has launched **Mission Indra Dhanush**, with the aim of improving coverage of immunization in the country. It aimed to achieve at least 90 percent immunization coverage by December 2018, which was proposed to cover unvaccinated and partially vaccinated children in rural and urban areas of India.
- **Pulse Polio** is an immunization campaign established by the government of India to eliminate polio in India, by vaccinating all children, under the age of five years, against the polio virus.
- **The Pradhan Mantri Swasthya Suraksha Yojana (PMSSY)** was announced with objectives of correcting regional imbalances in the availability of affordable/ reliable tertiary healthcare services and also to augment facilities for quality medical education in the country.
- **Rashtriya Arogya Nidhi,** which provides financial assistance to the patients that are below poverty line and are suffering from life-threatening diseases, to receive medical treatment at any government run super specialty hospital/ institution.
- **National Tobacco Control Program** was launched with the objective to bring about greater awareness about the harmful effects of tobacco use and about the Tobacco Control Laws and to facilitate the effective implementation of the Tobacco Control Laws.
- **Integrated Child Development Service** launched to improve the nutrition and health status of children in the age group of 0-6 years, laid the foundation for

proper psychological, physical and social development of the child, and to enhance the capability of the mother to look after the normal health and nutrition needs, through proper nutrition and health education.

- **Rashtriya Swasthya Bima Yojana** is a government-run health insurance program for the Indian poor. It aims to provide health insurance coverage to the unrecognized sector workers belonging to the below poverty line and their family members shall be beneficiaries under this scheme.

Education

- **The 86th constitutional amendment** made elementary education a fundamental right for the children between the age group of 6 to 14. In order to develop the higher education system, the government had established the University Grants Commission in 1953. The primary role of UGC was to regulate the standard and spread of higher education in India**.**
- Under **Central Educational Institutions (Reservation in admission) Act** 2006, 7.5 per cent seats in the higher educational institutes are reserved for the scheduled tribes, 15 per cent for scheduled castes and 27 per cent for the non-creamy layers of the Other Backward Classes (OBCs). Some state Governments have tweaked the percentages to factor in local demographics, which constitution allows, e.g., in Tamil Nadu 18% is reserved for SC and 1% for ST. In Tribal dominated north east 60% seats are reserved for ST students.
- **Universalization of good quality basic education:** According to data put out by the Ministry of Human Resource Development (MHRD), the national drop-out rate at the primary level has reduced to 1.28 per cent in 2016, the drop out at the secondary level hovers around 17 per cent. 47 million young men and women dropped out of school by the 10th standard, according to the 2016 report published by UNESCO Institute for Statistics and Global Education Monitoring.

The following issues need to be examined

- ✓ Less than 40 per cent of Indian adolescents attend secondary schools
- ✓ Curriculum and teaching practices need upgradation in order to impart more relevant skills, such as critical and independent thinking
- ✓ Public-private partnerships need to be explored
- ✓ More vocational education is required to adequately prepare youth for current jobs.

Rural-urban Migration

According to a survey by UN State of the World Population report in 2007, by 2030, 40.76 per cent of country's population is expected to reside in urban areas. Increase in population in urban areas to some extent can be attributed to rural–urban migration.

Causes for Migration

Marriage, Employment, Education, Lack of Security, Push and Pull Factors

CAIIB Rural Banking Module A Unit 2- Characteristics Of Rural Society

Social Stratification

Rural Structure

- The rural structure is constituted by family, kinship, caste, power and religion. Divisions of labour and organic unity of the village, make it possible for everyone to perform the role assigned to them.
- This is expected to result in mutual help and co-operation. It has its own traditional mechanisms of conflict resolution and social mobilization.

Unit of Development

- The village is now recognized as a unit of development. The village is not a corporate group, but it has an identity, fixed limits (revenue and forest), village commons (Nistar land) and shared resources like, wells and tanks. It may also have temples, mosques, churches, and gurudwaras, open to all believers.

Caste Structure

- Each village has several Jati segments, which have separate ties, in some spheres. In respect of several traditional occupations, there is a system of attachment to village families, the payment for services being made in kind, or cash, or both. This system is called **Jajmani system.**

Traditional Panchayats

- Earlier, the village used to have two kinds of panchayats – **a Jati panchayat and a village panchayat**. In the village panchayats, elders from nearly all Jatis were represented. The sarpanch (i.e., headman) held office either on a hereditary basis or was elected by consensus. The Jati panchayats used to hear property and family disputes and the village panchayats disputes between two or more Jatis.
- Some states also had statutory judicial panchayats – **Nyaya Panchayats** – to administer cheap and speedy justice, in minor cases.

Factionalism

- Each faction is built, around one or more dominant individual and generally, enjoys the support of the family and kinship group. It is possible, however, for a kin group to be divided in its loyalty to different factions.
- A village may have two or three major factions, which have durability and which continue through several generations. There are also short – lived alliances, springing from a particular conflict or from some inter-related conflicts.

Dominance

- A pattern emerged in different regions by which some Jatis came to be dominant land owners – for example, the **Jats in the Punjab and Haryana; the Jats and**

the Rajputs in western Uttar Pradesh; the Bhumihars and Rajputs in Bihar; the Patidars in Gujarat, the Reddys, Velams and Kammas in Andhra Pradesh and the Vokkaligas and Lingayats in Karnataka.

Local Institutions

Set up of Panchayat Raj Institutions

- A three-tier structure of the Indian administration for rural development is called Panchayati Raj. The aim of the Panchayati Raj is to develop local self-governments in districts, zones, and villages.
- Rural development is one of the main objectives of Panchayati Raj and this has been established in all states of India (except Nagaland, Meghalaya and Mizoram), in all Union Territories (except Delhi and certain other areas).

These areas include:

- ✓ The scheduled areas and the tribal areas in the states
- ✓ The hill area of Manipur for which a district council exists and
- ✓ Darjeeling district of West Bengal for which, Darjeeling Gorkha Hill Council exists.

Evolution of Panchayati Raj system

- In the pre-independence period, the panchayats were instruments for the dominance of the upper castes over the rest of the village, which furthered the divide, based on either the socio-economic status or the caste hierarchy.
- The evolution of the Panchayati Raj System, however, got a fillip, after the attainment of independence and after the enactment of the Constitution. The Constitution of India in Article 40 enjoined: “The state shall take steps to organize village panchayats and empower them with such powers and authority as may be necessary to enable them to function as units of self-government”.

Committees on Panchayati Raj

Balwant Rai Mehta Committee (1957)	Three-tier Panchayati Raj system: Gram Panchayat, Panchayat Samiti and Zila Parishad. Directly elected representatives to constitute the gram panchayat and indirectly elected representatives to constitute the Panchayat Samiti and Zila Parishad. Planning and development are the primary objectives of the Panchayati Raj system. Panchayat Samiti should be the executive body and Zila Parishad will act as the advisory and supervisory body. District Collector to be made the chairman of the Zila Parishad. It also requested for provisioning resources so as to help them discharge their duties and responsibilities. The Balwant Rai Mehta Committee further revitalized the development of panchayats in the country, the report recommended that the Panchayati raj institutions can play a substantial role in community development programs throughout the country. The objective of the Panchayats thus was the democratic decentralization through the effective participation of locals with the help of well-planned programs. Even the then Prime Minister of India, Pandit Jawaharlal Nehru, defended the panchayat system by saying, "... authority and power must be given to the people in the villages .... Let us give power to the panchayats."
Ashok Mehta Committee (1977)	The three-tier system should be replaced with a two-tier system: Zila Parishad (district level) and the Mandal Panchayat (a group of villages). District level as the first level of supervision after the state level. Zila Parishad should be the executive body and responsible for planning at the district level. The institutions (Zila Parishad and the Mandal Panchayat) to have compulsory taxation powers to mobilize their own financial resources.
GVK Rao Committee (1985)	Zila Parishad to be the most important body in the scheme of democratic decentralization. Zila Parishad to be the principal body to manage the developmental programs at the district level. The district and the lower levels of the Panchayati Raj system to be assigned with specific planning, implementation and monitoring of the rural developmental programs. Post of District Development Commissioner to be created. He will be the chief executive officer of the Zila Parishad. Elections to the levels of Panchayati Raj systems should be held regularly.
L M Singhvi Committee (1986)	The committee recommended that the Panchayati Raj systems should be constitutionally recognized. It also recommended constitutional provisions to recognize free and fair elections for the Panchayati Raj systems. The committee recommended reorganization of villages to make the gram panchayat more viable. It recommended that village panchayats should have more finances for their activities. Judicial tribunals to be set up in each state to adjudicate matters relating to the elections to the Panchayati Raj institutions and other matters relating to their functioning.

Constitutional Amendment Act of 1992

- The Act added Part IX to the Constitution, "The Panchayats" and also added the Eleventh Schedule, which consists of the 29 functional items of the panchayats.
- Amendment Act provides shape to Article 40 of the Constitution, (directive principles of state policy), which directs the state to organize the village panchayats and provide them powers and authority so that they can function as self-government.
- With the Act, Panchayati Raj systems come under the purview of the justiciable part of the Constitution and mandates states to adopt the system. Further, the election process in the Panchayati Raj institutions will be held independent of the state government's will.

Salient Features of Act

- **Gram Sabha:** Gram Sabha is the primary body of the Panchayati Raj system. It is a village assembly, consisting of all the registered voters, within the area of the panchayat. It will exercise powers and perform such functions as may be determined by the state legislature.
- **Three-tier system:** The Act provides for the establishment of the three-tier system of Panchayati Raj in the states **(village, intermediate and district level)**. States with a population of less than 20 lakhs, may not constitute the intermediate level.
- **Election of members and chairperson:** The members to all the levels of the Panchayati Raj are elected directly and the chairpersons to the intermediate and the district level are elected indirectly from the elected members and at the village level, the Chairperson is elected, as determined by the state government.

Reservation of seats:

- ✓ **For SC and ST:** Reservation to be provided at all the three tiers, in accordance with their population percentage.
- ✓ **For women:** Not less than one-third of the total number of seats to be reserved for women; further, not less than one-third of the total number of offices for chairperson at all levels of the panchayat to be reserved for women.
- ✓ The state legislatures are also given the provision to decide on the reservation of seats in any level of panchayat or office of chairperson in favour of backward classes.

Duration of Panchayat:

- ✓ The Act provides for a five-year term of office to all the levels of the panchayat. But, fresh elections to constitute the new panchayat shall be completed, before the expiry of its five-year duration, in case of dissolution, before the expiry of a period of six months, from the date of its dissolution.

Disqualification:

A person shall be disqualified for being chosen as or for being a member of panchayat, if he is so disqualified –

- ✓ Under any law for the time being in force, for the purpose of elections to the legislature of the state concerned
- ✓ Under any law made by the state legislature.
- ✓ No person shall be disqualified on the ground that he is less than 25 years of age, if he has attained the age of 21 years

State election commission:

- ✓ The commission is responsible for superintendence, direction and control of the preparation of electoral rolls and conducting elections for the panchayat.

Powers and Functions:

Scheme may contain provisions related to Gram Panchayat work with respect to:

- ✓ The preparation of plans for economic development and social justice.
- ✓ The implementation of schemes for economic development and social justice as may be entrusted to them, including those in relation to the 29 matters listed in the Eleventh Schedule.

Finances: The state legislature may –

- ✓ Authorize a panchayat to levy, collect and appropriate taxes, duties, tolls and fees.
- ✓ Assign to a panchayat taxes, duties, tolls and fees levied and collected by the state government.
- ✓ Provide for making grants-in-aid to the panchayats from the consolidated fund of the state.
- ✓ Provide for the constitution of funds for crediting all money of the panchayats.

Bar to interference by courts:

The Act bars the courts from interfering in the electoral matters of panchayats.

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

The objectives of the PESA Act are as under:

- To extend the provisions of Part IX to the scheduled areas.
- To provide self-rule for the tribal population.
- To have village governance with participatory democracy.
- To evolve participatory governance consistent with the traditional practices.
- To preserve and safeguard traditions and customs of tribal population.
- To empower panchayats with powers conducive to tribal requirements.
- To prevent panchayats at a higher level from assuming powers and authority of panchayats at a lower level.

Zila Parishad – District Level Body

Functions and Powers of Zila Parishad

- It coordinates all the developmental activities of the Panchayats, such as minor irrigation works, vocational and industrial schools, village industries, sanitation, public health etc.
- It is responsible for giving proper advice to Gram Panchayats and Block Samitis and assist in their functioning
- It acts as a connecting link between state government and bodies at the lower level
- It overlooks the implementation of the Five-year plans
- It has power to do all acts necessary for or incidental to the carrying out of the functions entrusted or delegated to it
- It may, by resolution, delegate to Chief Executive Officer or any officer any of the powers conferred under the Act

- It has powers to impose penalty on any person who has disobeyed a general order passed by it
- It has powers to acquire, hold and dispose of property and to enter into contracts as required towards the development projects assigned to it by the Govt.

Finances: Panchayat Raj bodies receive funds from state Government in the form of grants. They can also earn by imposing taxes, tolls and fees on the commodities failing within their purview. Every five years the state Finance Commission reviews the financial position of panchayats and recommends principles governing distribution of taxes and grants-in-aid to Panchayat Raj bodies.

Rashtriya Gram Swaraj Abhiyan (RGSA)

- The Union Finance Minister in his budget speech for 2016-17, announced the launch of the new restructured scheme called Rashtriya Gram Swaraj Abhiyan (RGSA), for developing and strengthening the capacities of Panchayati Raj Institutions (PRIs) for rural local governance to become more responsive towards local development needs.
- **Enhance capacities and effectiveness of Panchayats and the Gram Sabhas**
- **Enable democratic decision-making and accountability in Panchayats and promote people's participation**
- **Strengthen the institutional structure for knowledge creation and capacity building of Panchayats**
- **Promote devolution of powers and responsibilities to Panchayats according to the spirit of the Constitution and PESA Act**
- **Strengthen Gram Sabhas to function effectively as the basic forum of people's participation, transparency and accountability within the Panchayat system**
- **Create and strengthen democratic local self-government in areas where Panchayats do not exist**
- **Strengthen the constitutionally mandated framework on which Panchayats are founded.**
- In the subsequent year i.e., 2017-18, GOI had announced to undertake a Mission Antyodaya to bring one crore households out of poverty, in order to make 50,000 Gram Panchayats poverty-free.

National Institute of Rural Development and Panchayati Raj core functions

- ✓ Organize training programs, conferences, seminars and workshops for senior level development managers, elected representatives, bankers, NGOs and other stakeholders.
- ✓ Undertake, aid, promote and coordinate research.
- ✓ Study the functioning of the Panchayati Raj Institutions and rural development programs across the States.

- ✓ Analyze and propose solutions to problems in planning and implementation of the programs for rural development.
- ✓ Develop content and disseminate information through periodicals, reports, e-modules and other publications.

CAIIB Rural Banking Module A Unit 3-Economic Features

Agriculture

- **Gross Value Added (GVA)** – the economic productivity Matrix that measures the contribution by the sector – by agriculture and allied activities registered a growth of 3.0 per cent in 2020-21, with record production of food grains.
- Agriculture and allied activities remain the major source of livelihood, for nearly half of the Indian population and as per Economic Survey 2020-21, the share of agriculture and allied sectors in GVA, at current prices, was at 17.8 per cent for 2019-20. The total food-grain production in 2020-21, as per the second advance estimates is 3033.4 lakh tons – 2.0 per cent higher than that in 2019-20.
- The production of horticulture crops during 2020-21 was a record at 3266 lakh tons – 1.8 per cent higher than the final estimate of 2019-20, surpassing the food grain production for the ninth consecutive year.

Non-Farm Activities

- Other activities which provide employment in rural areas could be broadly summarized under **Rural non-farm sector (RNFS),** which includes all non-agricultural activities like mining & quarrying, household manufacturing, processing, repairs, construction, trade, transport and other services in villages and rural towns of up to 50,000 population.
- It is estimated that income from non-farm activities contributes between 25 and 35 per cent of the total income of the rural households.
- Services create 60 per cent of RNFS jobs, followed by manufacturing, construction and mining.
- The growth in agriculture sector provides more raw materials for processing and trading in the rural non-farm sector and also creates greater demand for inputs and services produced in RNFS.

Gross Domestic Product And Gross Value Added

- Major reforms undertaken during the past few years—inter alia, the introduction of the Goods and Services Tax (GST), the Insolvency and Bankruptcy Code (IBC), the monetary policy framework targeting inflation and the liberalization of the regime of Foreign Direct Investment (FDI)—have all aided the Indian economy, to achieve its current growth trajectory.
- With the announcement of multiple packages under the **Atma Nirbhar Bharat Mission**, economic activity started to gain traction in the second half of FY 2021. With the size of the economy at USD 2.9 trillion in 2019, India aims to become a

US$5 trillion economy, by 2024-25. Increased exports, industrial and agricultural production are in focus to attain this milestone.

Rural Money Markets – Formal And Informal

As per the 2011 Census, around 60 per cent of the population in India depends on agriculture for a living and the agriculture sector provides employment to 55 per cent of the work force. Farmers' credit needs are met by institutional (formal agencies) or non-institutional sources (informal agencies).

Formal Credit Institutions

- In India, the banking structure for the institutional credit in rural areas consists mainly of Commercial Banks, Regional Rural Banks and Cooperatives. The Commercial Banks have become highly rural-oriented since their nationalization in 1969.
- Small Finance Banks have started functioning in the recent period. These banks (numbering 12) have opened more than 4300 branches across the states.
- Even after substantial increase in the banking outlets, a significant population of the rural households borrow from moneylenders, as per the Indian Human Development Survey.
- According to the **All-India Debt and Investment Survey 2019, released recently, by the Ministry of Statistics and Program Implementation**, the enhanced institutional credit in the recent period has led to decrease in usury, in which, poor households are charged exorbitant interest rates on loans they get from the traditional moneylenders.

Non-Institutional or Informal Sources of Funding

- **Moneylenders:** Their mode of operations such as maintaining interpersonal relationship with the borrowers, informal approach, round the clock availability of finance, etc. made them important lenders in the villages. These informal credit providers extent loans against security of gold jewels, land documents, cultivation rights, promissory note and even against utensils.
- **Landlords**: Small farmers and tenant farmers depend upon landlords for their financial requirements. The interest rates are very high, many a time, leading to the farmer losing his land, unable to repay the debts.
- **Traders and Commission Agents:** Traders and commission agents provide credit during the growing season; the condition stipulated by them for lending is that the farmer should sell the produce to them at a specified price which is much lower than the market price. They also deduct commission and other charges, resulting in further reduction in price realization by the farmer. They are more active in case of commercial crops.
- **Relatives:** Farmers generally borrow from their relatives to tide over temporary requirements

The main problem with the non-institutional credit is the high cost of credit, uncertainty of securing the loan when the farmers are in need of them, availability of such resources for a shorter period of time, etc.

Rural Indebtness

Rural indebtedness is drawing the attention of the policy makers for the last several years. **The expert group constituted by RBI headed by Prof Radhakrishna analyzed the rising agricultural indebtedness in the country in two dimensions –**

- ✓ **An agricultural crisis because of low growth and declining productivity; and**
- ✓ **An agrarian crisis characterized by the rural population's high dependence on farm income.**

For revamping the rural financial architecture, the group has recommended an expansion of the rural banking network, credit counselling, mobile banking, integrating microfinance with banking, and reforming the lead bank scheme.

RBI had set up a **committee on Medium-term Path on Financial Inclusion (CMPFI)** to devise a measurable and monitorable action plan for financial inclusion that encompasses both households and small businesses. The committee had observed that farmers with small land holdings depend heavily on middlemen for selling their agricultural produce, thereby reducing their income, as a result of which the agrarian distress continues.

Rural Poverty

- The various estimates show that more than 200 million people are still poor. With such large number of people still remaining poor, eradication of poverty assumes tremendous importance and urgency.
- The incidence of poverty is measured by the **poverty ratio**, which is the **ratio of number of poor to the total population expressed as percentage**. It is also known as head-count ratio.
- There are **three components in the poverty line**: the food component, the normative level of expenditure for essential non-food items such as education, clothing, conveyance and house rent, and behaviourally determined expenditure for other non-food items.
- High population growth rate is one of the major reasons of poverty in India. This further leads to a high level of illiteracy, poor health care facilities and lack of access to financial resources.

Different Methods of Measuring Poverty Line

- **M Dandekar and N Rath (1971),** made the first systematic assessment of poverty in India, based on National Sample Survey (NSS) data. This expert group was of the view that **poverty line must be derived from the expenditure that was adequate to provide 2250 calories, per day, in both rural and urban areas.**

- The task force headed by **Dr YK Alagh (1979)** constructed a **poverty line for rural and urban areas, on the basis of nutritional requirements and related consumption expenditure**. Poverty line was defined as the per capita consumption expenditure level to meet average per capita daily calorie requirement of 2400 kcal per capita per day in rural areas and 2100 kcal per capita per day in urban areas
- The findings of the **Lakdawala committee** were based on the idea that the baskets used to construct the Consumer Price Index-Industrial Workers (CPI-IW) and Consumer Price Index-Agricultural Laborers (CPI-AL) reflected the poor's consumption patterns.

The Expert group constituted by the Planning Commission and, chaired by **Suresh Tendulkar,** was constituted in 2009, to review methodology for poverty estimation. The Tendulkar group made the following recommendations

- ✓ **Shift from Calorie Consumption based Poverty Estimation:** It is based its calculations on the consumption of the items like cereal, pulses, milk, edible oil, non-vegetarian items, vegetables, fresh fruits, dry fruits, sugar, salt & spices, other food, intoxicants, fuel, clothing, footwear, education, medical (non-institutional and institutional), entertainment, personal & toilet goods
- ✓ Uniform Poverty line Basket: Tendulkar Committee computed new poverty lines for rural and urban areas of each state based on the uniform poverty line basket and found that all India poverty line (2004-05) was:

Rs. 446.68 per capita per month in rural areas

Rs. 578.80 per capita per month in urban areas

- ✓ **Private Expenditure:** Incorporation of private expenditure on health and education while estimating poverty.
- ✓ **Price Adjustment Procedure:** The Committee also recommended a new method of updating poverty lines, adjusting for changes in prices and patterns of consumption, using the consumption basket of people close to the poverty line.
- ✓ **Mixed Reference Period:** The Committee recommended using Mixed Reference Period based estimates, as opposed to the Uniform Reference Period based estimates that were used in earlier methods for estimating poverty.

Tendulkar committee computed poverty lines for 2004-05 at a level that was equivalent, in Purchasing Power Parity (PPP) terms to Rs. 33 per day.

- **Dr. Rangarajan Committee** was set up in 2012. The Rangarajan committee estimation is based on an independent large survey of households by **Center for Monitoring Indian Economy** (CMIE).
- Poverty line should be based on:
  Normative level of adequate nutrition: Ideal and desirable level of nutrition.
  Behavioral determination of non-food expenses: What people use or consume as per general behavior.

Nutritional Requirement:

- ✓ **Calories:** 2090 kcal in urban areas and 2155 Kcal in rural areas.
- ✓ **Protein:** For rural areas 48 gm and for urban areas 50 gm.
- ✓ **Fat:** For urban areas 28 gm and for rural areas 26 gm.

- **Poverty Threshold:** Persons spending **below ₹47** a day in cities and **₹32 in villages** be considered poor.
- Rangarajan committee estimated that the number of poor were **19% higher in rural areas** and **41% more in urban area**s than what was estimated using Tendulkar committee formula.
- **Modified Mixed reference period:** Instead of Mixed reference Period (MRP) it recommended Modified Mixed Reference Period (MMRP) in which reference periods for different items were taken as:
    - 365-days for clothing, footwear, education, institutional medical care, and durable goods.
    - 7-days for edible oil, egg, fish and meat, vegetables, fruits, spices, beverages, refreshments, processed food, pan, tobacco and intoxicants
    - 30-days for the remaining food items, fuel and light, miscellaneous goods and services including non-institutional medical; rents and taxes.

Sustainable Development Goals

- The world has witnessed the adoption of the Sustainable Development Goals (SDGs), in September 2015, which replace the Millennium Development Goals (MDGs) and set the development agenda, for the next 15 years, with the aim of guiding the international community and national governments, on a path of sustainable development.
- The United Nations General Assembly (UNGA) in its 17th session in September 2015, announced a set of 17 SDGs and 169 MDGs targets.
- The agenda highlights poverty eradication, combating inequalities, promoting gender equality and the empowerment of women and girls as the ambient goal and has at its core the integration of the economic, social and environmental dimensions of sustainable development.
- The SDGs are effective from January 2016 and will end in 2030.

CAIIB Rural Banking Module A Unit 4- Infrastructure

Infrastructure

- Within the scope of infrastructure, roads, railways, air transportation, seaports, electric power, telecommunications and information technology (IT), which are often used as services are essential for the productive processes of the manufacturing, agriculture, and services sectors. Physical infrastructure has a direct bearing on sustainability of growth and overall development.

- Physical infrastructure, not only contributes for enhancement of productivity, but also assists in realization of the potential ability of human capital It also directly and indirectly contributes to improving the quality of life of the population.
- Government of India, the Central Water Commission (CWC), government representatives from 10 participating states and the World Bank signed a US$ 250 million project, to support the Indian government's long-term dam safety program and improve safety and performance of existing dams across various states.
- Ministry of Road Transport Highways, announced to launch 1,080-km (road construction) projects, worth Rs. 25,370 crore (US$ 3.4 billion), under the **Bharatmala Pariyojana—the ambitious road and highways project** that aims to build highways from Maharashtra, Gujarat, Rajasthan, Punjab, Haryana and then, cover the entire string of Himalayan territories.
- The Parliament has passed a bill to set up the **National Bank for Financing Infrastructure and Development (NaBFID**) to fund infrastructure projects.
- The government has announced several interventions under the **Pradhan Mantri Aatmanirbhar Swasth Bharat Yojana.**

Transport

- The availability of transport facilities helps in the expansion of market, for goods, movement of raw material and finished goods, and development of remote and backward areas, apart from boosting industrial production.
- These rural roads are constructed under various schemes like the **Minimum Needs Program (MNP), the Rural Landless Employment Guarantee Program (RLEGP), the National Rural Employment Program (NREP) and the Command Area Development (CAD) Program.** The main objective of funding road construction in these projects is to create employment and to link villages with one another and also with the urban centres.
- The implementation of programs under the **Mahatma Gandhi National Rural Employment Guarantee Act (MGNREA)** facilitated all- weather rural road connectivity to unconnected villages and to connect identified rural production centres to the existing 'pucca' road network and construction of 'pucca' internal roads.

Pradhan Mantri Gram Sadak Yojana

- The scheme provides for all-weather road connectivity to every rural habitation, with a minimum population of 500 in the plains and 250-plus in hill states, tribal districts and desert areas. PMGSY-II was launched in May, 2013 with the purpose to consolidate the existing rural road network.
- The plan covers upgradation of existing selected rural roads, based on a criterion to make the rural road-network vibrant and improve its overall efficiency.
- The centrally sponsored scheme fully funded by the Central Government, covered a total of 1.78 lakh habitations, as per the criteria laid down.
- Due to laying of these roads, it is now possible for the producers of perishable produce such as milk, fish and vegetables to sell their produce to a wider base of

consumers, in nearby towns. It has also enabled companies to distribute their products through rural retail stores.

Rural Road Connectivity Works under the MGNREGS

The Mahatma Gandhi National Rural Employment Guarantee Scheme, being implemented, since February 2006, as a demand-driven and self-selecting program, marks a paradigm shift in India's efforts to create employment opportunities in rural areas. Its basic aim is to enhance livelihood security, by guaranteeing rural households not less than 100 days of paid employment per financial year, provided the adult members volunteer to do unskilled manual work.

Emphasis is laid on:

- Public Works relating to National Resources Management
- Tree plantation and horticulture in road margins
- Providing all-weather rural road connectivity to unconnected villages and to connect identified rural production centres to the existing pucca road network
- Construction of pucca internal roads or streets including side drains and culverts within a village.

Markets

Agriculture sector needs competitive and well-functioning markets for farmers to sell their produce.

Government has evolved programs for developing Agriculture Marketing system in the country. The Marketing Division of Department of Agriculture, Cooperation & Farmers Welfare (DAC&FW) is concerned with policy and program implementation for Agricultural Marketing Reforms and Schemes of **Integrated Scheme for Agricultural Marketing (ISAM), and National Agricultural Market (NAM) through Agri-Tech Infrastructure Fund (ATIF).**

Agricultural Marketing Infrastructure

Under the Agricultural Marketing Infrastructure sub-scheme, there are two components

- **Storage Infrastructure and**
- **Marketing Infrastructure other than Storage.**

The main objectives of the AMI schemes are to develop agricultural marketing infrastructure for effectively managing marketable surplus of agriculture, promoting innovative and latest technologies and competitive alternative agricultural marketing infrastructure by encouraging private and cooperative sector investments, direct marketing, creation of scientific storage capacity, Integrated value chains and to provide Infrastructure facilities for grading, standardization and quality certification of agricultural produce.

Marketing Research and Information Network Scheme

- This scheme was launched as a Central Sector Scheme, in March, 2000, with the objective of collecting and disseminating information on price, arrival and other market related data, for the benefit of farmers and other market users.
- Under the scheme, the information on wholesale prices and arrivals in respect of more than 300 commodities and 2000 varieties are being disseminated, through the portal, on daily basis.
- Mandi price information is disseminated through DD Kisan channel and Kisan Call Centres. New innovations have been introduced for dissemination of market data through https//agmarknet gov in
- The **'Agmarknet'** portal and **National Agricultural Market Atlas portals** have been revamped and hosted with user friendly format. **Kisan Suvidha**, an omnibus mobile app developed by Ministry of Agriculture and Farmers Welfare has been helping farmers by providing relevant information to them quickly provides information on five critical parameters—**weather, input dealers, market price, plant protection and expert advisories.**

AGMARK (Agriculture Mark) Grading Facilities Scheme

- The Agricultural Produce (Grading and Marking) Act, 1937 (amended in the year 1986) provides for the grading and marking of agricultural produce. It involves framing of grades, standards and certification of agricultural commodities included in the schedule appended to the Act. This program requires analysis of check samples and research samples in AGMARK Laboratories.
- The scheme aims to meet the expenditure for the purchase of equipment, chemicals, glassware and apparatus, AMC of the equipment as well as renovation and repair works in the AGMARK Laboratories/Regional and Sub offices.
- **Central AGMARK Laboratory, Nagpur** are carrying out analysis of check samples and research samples for developing and promoting grading and standardization of agricultural commodities under AGMARK.

Agri-business Development (ABD) through Venture Capital Assistance (VCA)

Financial support in the form of an interest free loan is provided by Small Farmers' Agri Business Consortium (SFAC). ***The scheme implemented by the SFAC has the following objectives:***

- To facilitate setting up of agribusiness ventures, in close association with institutions notified by RBI, where the ownership of the Central/State Government is more than 50 per cent.
- To catalyze private investment in setting up of agribusiness projects and thereby providing assured market to producers for increasing rural income & employment.
- To strengthen backward linkages of agribusiness projects, with producers.
- To assist farmers, producer groups, and agriculture graduates to enhance their participation in value chain, through Project Development Facility.

- To arrange training and visits, etc. of agri-preneurs, in setting up identified agribusiness projects.
- To augment and strengthen existing set-up of State and Central SFAC.

National Institute of Agricultural Marketing Management

The Chaudhary Charan Singh National Institute of Agricultural Marketing (NIAM), is a premier National level Institute, set up to offer specialized Training, Research, Consultancy and Education in Agricultural Marketing. ***The objectives of the Institute are as under:***

- To conduct research on long term projects, policy formulation, prepare status papers, conduct case studies in specific to marketing problems.
- To impart training to various levels of personnel of organizations involved in agricultural marketing activities
- To offer consultancy services to state and Central Departments, public-sector undertaking, cooperative, etc., in preparation of Master plans for States.
- To develop promising human resources by providing long term structured courses in agricultural marketing.
- To cover a wide information network in the country in agricultural marketing to evolve efficient, innovative and competitive marketing process.

National Agriculture Market

e-NAM is a pan India electronic trading portal. Currently, 1000 markets are linked to e-NAM network from 18 states and three union territories. **Small Farmers Agribusiness Consortium (SFAC) is the lead agency for implementing eNAM.** ***Benefits accruing to APMCs from e-NAM can be classified as under:***

- Free Software for System integration/ Automation of recording transactions
- Complete information on trade
- Real time arrival recording
- Analyze price trends, arrival and trading activities
- Automated record of financial information
- Reduction in man-power requirement.

Model APMC Act, 2017

- The Agriculture Ministry has come up with a new model Agricultural Produce Market Committee (APMC) Act, proposing single-point levy of market fee across a State and a united single trading licence for cost- effectiveness of transactions.
- The Centre has already asked States to modify their APMC Acts, in order to have a single licence and single point of levy of market fee at the State level and then gradually move towards a single licence and single point of levy of market fee, at the national level.
- As per NITI Aayog's index, Maharashtra ranks highest in implementation of various agricultural reforms. The State has implemented most of the marketing reforms and offers the best environment for undertaking agri-business among all

the States and UTs. Gujarat ranks second with a score of 71.50 out of 100, closely followed by Rajasthan and Madhya Pradesh.

Rural Electrification

Under the Electricity Act, 2003, the central and state governments have the joint responsibility of providing electricity to rural areas. The 2003 Act, also mandates that the central government should, in consultation with the state governments, provide for a national policy on

- Stand-alone power systems, for rural areas
- Electrification and local distribution in rural areas

The Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY), launched in 2005, was the first scheme on rural electrification. In December 2014, the Ministry of Power launched the **Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY), which subsumed the RGGVY.**

Components of DDUGJY include:

- Separation of agricultural and non-agricultural electricity feeders to improve supply for consumers in rural areas,
- Improving sub-transmission and distribution infrastructure in rural areas, and
- Rural electrification by carrying forward targets specified under the RGGVY.
- The central government provides 60% of the project cost as grant, the state power distribution companies raise 10% of the funds, and 30% is borrowed from financial institutions and banks.
- **Web enabled platform to capture near real-time progress-. 'GARV App'**
- Leisang of the Manipur state was the last village electrified.

Other Services

Digital India Program

- The digital India program can help in bridging the rural-urban digital divide, through rural focused initiatives. Strengthening digital infrastructure in rural areas is a major focus area under the digital India program.
- **Bharat Net Program** is aimed at establishing a high-speed digital highway to connect all 2,50,000-gram panchayats, which will clearly be a major step forward in strengthening the digital infrastructure of the country, especially in the rural areas.
- **'Digital India'** program of India envisages that 2,50,000 Indian villages will have broadband connectivity, and universal phone connectivity. **The National Digital Literacy mission proposes to provide Information Communication and Technology (ICT) training to 10 lakh persons initially, one in every eligible household in selected blocks** in each state/UT of the country. **The government target is to make 60 million rural people digitally literate in a period of three years.**

Pradhan Mantri Krishi Sinchayee Yojana (PMKSY)

- The major objective of the Pradhan Mantri Krishi Sinchayee Yojana (PMKSY) launched in July, 2015 is to achieve convergence of investments in irrigation at the field level, expand cultivable area under assured irrigation, improve on-farm water use efficiency to reduce wastage of water, enhance the adoption of precision-irrigation and other water saving technologies (more crop per drop), enhance recharge of aquifers and introduce sustainable water conservation practices by exploring the feasibility of reusing treated municipal waste water for pri-urban agriculture and attract greater private investment in precision irrigation system.
- The program will be supervised and monitored by an Inter-Ministerial National Steering Committee (NSC) which will be constituted under the Chairmanship of Prime Minister with Union Ministers from concerned Ministries. A National Executive Committee (NEC) will be constituted under the Chairmanship of Vice Chairman, NITI Aayog to oversee program implementation, allocation of resources, inter-ministerial coordination, monitoring & performance assessment, addressing administrative issues.

Infrastructure Facilities for Education in Rural Areas

Central Board of Secondary Education prescribes the minimum infrastructure required in school.

- The school must have about 2 acres land and a building constructed on a part of land and proper playground on the remaining land.
- It should provide minimum floor space of 1 sq. mtr. per student in the class.
- The school should have a well-equipped and spacious library with minimum of 1500 books and at least 15 magazines.
- The school should have at least 1 computer lab with minimum 10 computers or computer student's ratio of 1:20 and internet connection.
- Adequate facilities should be provided for recreational activities and physical education as well as for conduct of various activities and programs for the social, cultural, physical and moral development of students and for safeguarding their health.
- Science labs composite for secondary or/separate physics, chemistry, biology labs for senior secondary should be available. minimum size should be 9m × 6m each, approximately 600 sq. ft/ students.
- Separate toilet block for boys and for girls to be installed as per norms.
- Safe drinking water source inside school premises is mandatory. There should be minimum 500 ltrs. water tank for every 100 children.

India's New Education Policy (NEP) 2020 states that adequate and safe infrastructure, including working toilets, clean drinking water, clean and attractive spaces, electricity, computing devices, internet access, libraries, and sports and recreational resources will be provided to all schools to ensure that teachers and students, including children of all genders and children with disabilities receive a safe, inclusive, and effective learning environment and are comfortable and inspired to teach and learn in their schools.

CAIIB Rural Banking Module A Unit 5- Agriculture Economy

Introduction

- Agriculture and allied activities clocked a growth of 3.0% at constant pace during 2020-21, with record production of food grains. According to the estimates, the share of agriculture and allied sector in overall Gross value added (GVA) increased by 1.5% to 16.3%.
- In northern India, there are two main seasons – **Kharif (July to October) and Rabi (October to March). The season between March and June is known as Zaid** and is a minor season. Agriculture year is from July to June. Indian agriculture is largely monsoon dependent. About 90 per cent of annual rainfall is received during monsoon season, i.e., months of June to September. These rains are brought about by southwest monsoon. The annual average rainfall in India is about 120 cm whereas global average is about 100 cm.
- Livestock raising or animal husbandry is an important component of agriculture in India. Livestock sector plays a significant role in the welfare of India's rural population, as it employs a major section of the countries labour force.

Structure And Characteristics Of Indian Agriculture

Small Holder Agriculture

- As per the Sixth Agriculture Census, there has been a decline in the average size of operational land holdings in India, reflecting the immense population pressure on the limited land resource available for cultivation. The average size of operational land holdings dropped to 1.08 ha in 2015-16.
- Landholdings in the marginal category (less than 1 ha) constitute 68% of the operational holdings in the country (2015-16). In terms of area operated, the share of operational holdings by marginal farmers constituted 24% of the total operational holding during 2015-16.

Land Use

- With a view to conserving top soil and to prevent soil erosion and land degradation, GOI has been implementing various programs across the country. For developing degraded lands, GOI has been implementing the **National Watershed Development Project for Rainfed Areas (NWDPRA), Soil Conservation in the Catchments of River Valley Project & Flood Prone River (RVP&FPR), Reclamation and Development of Alkali & Acid Soils (RADAS), Watershed Development Project in Shifting Cultivation Areas (WDPSCA) and the Integrated Watershed Management Program (IWMP).**
- The gross irrigated area over gross cropped area hovers around 50 per cent. There is a need to bring more cropped area under assured irrigation in order to increase production and productivity. The ultimate irrigation potential of the country is estimated at about 140 million ha.

Cropping Pattern

- The cropping pattern indicates the proportion of area under different crops, at a given point of time.
- **Multiple cropping** offers potential not only to increase food production but also helps in decreasing land degradation.
- A cropping system refers to a set of crop systems, making up the cropping activities of a farm system. The cropping system comprises all components required for the production of a particular crop. A cropping system usually refers to a combination of crops in time and space.
- The combination in time occurs when crops occupy different growing period and combinations in space occur when crops are inter- planted. The crops are grown solo or mixed (mixed-cropping) or in a definite sequence (rotational cropping). The land may be occupied by one crop during one season (mono-cropping) or by two crops during one season (double- cropping) which may be grown in a year in a sequence.

Allied Activities of Agriculture

- **Milk Production:** India continues to be the largest producer of milk in the world. The increased production in milk contributed to increase in per capita availability of milk over the years and as per the available data (March, 2019), the per capita availability of milk was 394 grams.
- **Meat Production:** India has world's largest population of livestock and it produces around 5.3 million MT of meat annually. India is the largest producer of buffalo meat and 2nd largest producer of goat meat. The largest producer of meat in the country is Uttar Pradesh producing 23% of the total meat followed by West Bengal
- **Poultry Sector:** Poultry is one of the fastest growing sub-sectors of animal husbandry. The per capita availability of eggs has also increased from 63 eggs/annum (2014-15) to 81 eggs per annum, in 2020.
- **Fisheries:** India is the second largest producer of fish in the world. It contributes 5.68% of the global fish production. India is also a major producer of fish through aquaculture, and ranks second in the world, after China.

Role Of Agriculture In Economic Development

The developmental role of agriculture can be summarized as provider of food, employment to a large number of people, market for non-agricultural goods and a source of foreign exchange earnings. These are termed as product contribution, factor contribution, market contribution and foreign exchange contribution respectively.

Product Contribution:

Agriculture contributes to the Gross Domestic Product, which is a measure of total output produced in an economy during a year. In a developing economy, where per capita income is rising, non-agricultural sectors are expected to grow faster than agricultural sector, the reasons being

- Demand for food and other agricultural products is less income-elastic than for non-agricultural products (Engel's law);
- Increasing use of inputs from non-agricultural sector in agriculture due to technological advancement (technological effect);
- Improved role of marketing services in distribution, storage and processing reduces farmer's share in consumer rupee (urbanization effect).

Factor Contribution:

The factor contribution of agriculture to economic development is resource transfers – labour and capital – to other sectors. Agricultural labour is transferred to non-agriculture sector, without causing any noticeable reduction in agricultural production process, as most of the transferred labour were either unemployed or partially employed. Transfer of capital from agriculture has two preconditions viz.

- **Generation of market surplus of agricultural products, and**
- **Net-savings from farming to exceed investment need in agriculture.**

Market Contribution:

- The agricultural sector, because of its large size, is the major market for domestic industrial products. Agriculture sector's market contribution also includes the sale of food and other agricultural products to non-agriculture sectors.

Foreign Exchange Contribution:

- Agriculture contributes to foreign exchange earnings by exporting its surplus. Diverse agro-climatic conditions in India are conducive to grow various crops almost round the year.

Agriculture-industry Linkage

Two kinds of linkage are identified – backward and forward.

- **Backward linkage** is measured in terms of the ratio of intermediate inputs purchased from other industries and total output of a particular industry.
- **Forward linkage** is measured in terms of the ratio of intermediate output sales to other industries and total sales including final consumer sales of a particular industry.

Total linkage is defined as the sum of forward and backward linkage.

- However, due to modernization of agriculture, the use of fertilizers, pesticides and mechanical aids have increased backward linkages. As regards forward linkages, it is observed that industries based on processing of agricultural products such as grain milling, textile manufacturing and fruit and vegetable canning are often pioneering industries in the process of industrialization.

Issues In Economic Development

- **Agriculture Versus Industry:** incomes from non-agricultural sector are much higher than incomes from agricultural sector. In economically developed economies, industry and services sectors dominate the economy. Yet, The role of agriculture remains important as it is less capital-intensive and employs large number of people.
- **State Versus Market:** In the process of economic development, the roles of state and market are complementary. Markets work best in a stable macroeconomic environment in which, taxes are predictable, prices are stable and government budget is balanced. Therefore, conducive policy environment is necessary for efficient functioning of markets.
- **International Trade:** The issue relating to international trade is concerned with import substitution versus export promotion. Experience has shown that subsidized import substitution generally limits competition, dampens innovation and productivity growth.

Resources In Agriculture

Resources are scarce and classified as land, labour, capital and management.

- **Land:** Land includes all natural resources, which have an exchange value, covering land, water, air, sunshine and forests, which are useful now as well as in future. Land is immobile and Fixed in quantity but provides wide variation in fertility. Quality of land depends on soil quality, nutrient level and water holding capacity.
- **Labour:** The main characteristics of labour are that its supply cannot be rapidly increased or reduced and division of labour is associated with efficiency in production. Work force in agriculture in India includes cultivators, agricultural labourers and those engaged in livestock, forestry, fishing, plantation, orchards and allied activities.
- **Capital:** Agricultural capital broadly includes money invested in livestock, machinery and buildings. It has two components – working capital and fixed capital. A possible source of capital is credit, which is defined as the capacity or ability to borrow money.
- **Entrepreneurship:** The role of entrepreneurship or management is to co-ordinate and put to use various factors of production with a view to achieving specific goals.
- **Resource Productivity and Efficiency:** The concept of productivity and efficiency are related to resource use and are useful for comparison and improvement in resource use efficiency. Productivity is important, as resources like land are limited, and so production can increase through increase in productivity. Allocating resources to maximize net economic benefits is termed as efficiency.

Technical Change In Agriculture

It is broadly referred to as changes in techniques of production, resulting from scientific research and experience.

Embodied technical change refers to the introduction of new technology in the form of physical inputs like use of tractor or other machines. Disembodied technical change is improved managerial ability due to better information on weather and prices.

Seeds:

- Seed is the basic and most critical input for sustainable agriculture. It is estimated that the direct contribution of quality seed alone to the total production is about 15-20 per cent, depending upon the crop and it can be further raised up to 45 per cent, with efficient management of other inputs.
- **The Indian Seed Program** includes the participation of Central and State Governments, the Indian Council of Agricultural Research (ICAR), state agricultural universities, the cooperatives and private players. There are 15 state seed corporations besides the National Seeds Corporation and the State Farms Corporation of India, at the national level.
- The Ministry of Agriculture is implementing a central sector scheme **"Development and Strengthening of Infrastructure facilities for production and distribution of quality seeds"** on all India basis, since 2005-6, in order make available quality seeds of various crops to the farmers, at affordable price and in time, so as to enhance seed replacement rate, boost seed production in private sector and help the public sector seed companies to enhance their production.

Fertilizer:

The Government has taken a number of measures to improve fertilizer application in the country. A new scheme, the **National Project on Management of Soil Health & Fertility (NPMSF),** has been introduced in 2008–09, with a view to setting up of 500 new Soil Testing Laboratories (STLs) and 250 Mobile Soil Testing Laboratories (MSTLs) and strengthening of the existing State STLs for micronutrient analysis.

- **Soil Health Management (SHM):** Soil Health Management (SHM) component under the National Mission for Sustainable Agriculture is to promote soil test-based-balanced use of fertilizers, through setting up/strengthening of soil testing laboratories, trainings and demonstrations on balanced use of fertilizers.
- **Soil Health Card (SHC) scheme:** In 2014–15, Soil Health Card Scheme was introduced to assist State Governments to issue soil health cards to all farmers in the country. It will provide information to farmers on nutrient status of their soil along with recommendation on appropriate dosage of nutrients to be applied for improving soil health and its fertility. Soil status will be assessed regularly every 3 years, so that, nutrient deficiencies are identified for taking corrective measures.
- **Concept of customized fertilizers:** In order to encourage balanced use of fertilizers, a new concept of customized fertilizers has been introduced. These fertilizers are soil- specific and crop-specific. Organic fertilizers, namely city-based compost and vermin compost, and bio-fertilizers, namely rhizobium,

azotobacter, Azospirillum and phosphate solubilizing bacteria, have been recognized and incorporated in Fertiliser Control Order FCO 1985.

Constraints In Agricultural Development

Land Ownership And Operation:

Land reforms include abolition of intermediaries, tenancy reform, fixation of land ceiling, consolidation of land holding and co-operative management of land.

The NITI Ayog has set up an expert committee under the Chairmanship of Dr T Haque, to prepare a model agricultural land leasing act, in consultation with the states. The key features of the **Model Land Leasing Act 2016** proposed by the expert committee are as follows:

- Legalize land leasing to promote agricultural efficiency, equity and poverty reduction.
- Legalize land leasing in all areas to ensure complete security of land ownership right for landowners and security of tenure for tenants for the agreed lease period.
- Remove the clause of adverse possession of land in the land laws of various states, as it interferes with free functioning of land lease market
- Allow automatic resumption of land after the agreed lease period, without requiring any minimum area of land to be left with the tenant, even after termination of tenancy,
- Allow the terms and conditions of lease to be determined mutually by the land owner and the tenant without any fear on the part of the landowner of losing land right or undue expectation on the part of the tenant of acquiring occupancy right for continuous possession of leased land for any fixed period.
- Facilitate all tenants including sharecroppers to access insurance bank credit and bank credit against pledging of expected output.
- Incentivize tenants to make investment in land improvement and also entitle them to get back the unused value of investment at the time of termination of tenancy

Land Fragmentation:

- It refers to a small or incomplete part or piece of land broken off or separated from the whole land to which, it originally belongs. Increasing human and animal population has reduced the availability of land, over the decades.
- Per capita availability of land has declined from 0.91 hectares in 1951 to 0.27 hectares in 2011, and is projected to slide further to 0.20 hectares in 2035.

Capital Formation:

- Capital formation is essential for capacity building and is a key to growth, development and sustainability. Therefore, a decline in capital formation warrants a serious study and may act as a constraint to agricultural development, if corrective measures are not taken in time. it is important to increase the capital formation in agriculture sector by both public as well as private sector investments.

Marketing Aspects:

- Agriculture being a seasonal activity, the arrival of commodities in the market, in bulk, leads to fall in prices. This necessitates building up of adequate on-farm storage and extended storage facilities in market yards, to avoid slump in prices that can happen due to heavy arrivals. Similarly, absence of adequate and efficient transportation facilities would tend to depress the prices of agricultural commodities in surplus areas, despite high ruling prices in deficit areas.
- Agricultural Produce and Livestock Marketing (Promotion and Facilitating) Act (APLM), 2017, provides wider options for farmers to sell produce and get better prices. Seeking to create a barrier-free market for agricultural produce and livestock across the country, the Centre has unveiled a model law and urged states to adopt it.

Emerging Issues In Agriculture

Agriculture and Environment

- Agriculture contributes to a number larger of environmental issues that cause environmental degradation including climate change, deforestation, biodiversity loss, dead zones, genetic engineering, irrigation problems, pollutants, soil degradation, and waste.
- Among some of these problems is the depletion of underground aquifers through over drafting. Soil can be over-irrigated because of poor distribution uniformity or management waste water, chemicals, and may lead to water pollution.

Climate Change and Agriculture

- Global warming is projected to have significant impacts on conditions affecting agriculture, including temperature, precipitation and glacial run-off.
- Agriculture has been shown to produce significant effects on climate change, primarily through the production and release of greenhouse gases such as carbon dioxide, methane, and nitrous oxide. In addition, agriculture that practices tillage, fertilization, and pesticide application also release ammonia, nitrate, phosphorus, and many other pesticides that affect air, water, and soil quality, as well as biodiversity.

Export Competitiveness of Agriculture

- India's aspirations regarding increasing agriculture exports from USD 40 bn to USD 100 billion are well-suited to capture the opportunity offered by global food and agriculture trends.
- The High- Level Expert Group (HLEG) on agricultural export (set up by the 15th Finance Commission) estimates that this will naturally influence the domestic agriculture market and result in meaningful job creation.

Agricultural Diversification and Food Security

Crop diversification: With the advent of modern agricultural technology, especially during the period of the Green Revolution, there is a continuous surge for diversified agriculture in terms of crops, primarily on economic considerations.

The crop pattern changes, are the outcome of the interactive effect of many factors which can be broadly categorized into the following five groups:

- Resource related factors, covering irrigation, rainfall and soil fertility.
- Technology related factors, covering not only seed, fertilizer, and water technologies, but also those related to marketing, storage and processing.
- Household related factors, covering food and fodder self-sufficiency requirement as well as investment capacity.
- Price related factors, covering output and input prices as well as trade policies and other economic policies that affect these prices either directly or indirectly.
- Institutional and infrastructure related factors, covering farm size and tenancy arrangements, government regulatory policies.

National Food Security Mission

- **National Development Council (NDC),** adopted a resolution to launch a Food Security Mission comprising rice, wheat and pulses, to increase the annual production of rice by 10 million tons, wheat by 8 million tons and pulses by 2 million tons by the end of the Eleventh Plan (2011-12).
- Accordingly, a Centrally Sponsored Scheme, **'National Food Security Mission' (NFSM),** was launched in October 2007. The Mission continued during 12th Five Year Plan, with new targets of additional production of food grains of 25 million tons comprising of 10 million tons rice, 8 million tons of wheat, 4 million tons of pulses and 3 million tons of coarse cereals, by the end of 12th Five Year Plan.

Value Chain in Indian Agriculture

- Agriculture value chains provide considerable scope to improve small farmers' access to markets and financial resources, reduce transaction costs, mitigate supply and market risks and build human and social capital, there are constraints in organizing and stabilizing AVCs in developing countries like India, with a larger number of small farm holdings.
- Strengthening the AVC and linking and integrating them into the Global Agriculture Value Chains (GAVC) is suggested to increase the competitiveness of agriculture exports and benefit from the global demand for agriculture and horticulture products.
- Some of the successful models where financing of value chains provided a crucial role in developing the value chains including a small holder value chain are VAPCOL in Gujarat, MAHAGRAPES in Maharashtra and SAFAL in Delhi.

National Mission For Sustainable Agriculture (NMSA)

NMSA, one of the eight missions under the **National Action Plan on Climate Change (NAPCC),** seeks to address issues associated with climate change. Adaptation and mitigation strategies were devised for ensuring food security, equitable access to food resources, enhancing livelihood opportunities and contributing to economic stability of the people at the end.

The major components of mission are:

- **Rain fed Area Development (RAD)** components of the Mission focuses on Integrated Farming System, Value Addition & Farm Development Activities, with emphasis not only on maximizing the farm returns but also to mitigate the impacts of climatic aberrations.
- **On-Farm Water Management (OFWM)** focuses on enhancement of water use efficiency (WUE) by promoting micro irrigation, efficient water application & distribution system, secondary storage & drainage development and reduction of conveyance loss of water, However, this component has now been subsumed with the recently launched Centrally Sponsored Scheme **"Pradhan Mantri Krishi Sinchayee Yojana (PMKSY)"**
- **Soil Health Management:** aims at promotion of location as well as crop specific sustainable soil health management including residue management, organic farming;
- **Climate Change & Sustainable Agriculture Modelling & Networking (CCSAMN)** provides creation and bidirectional dissemination of climate change related information and knowledge by way of piloting climate change adaptation/mitigation research/model projects in the domain of climate smart sustainable management practices and integrated farming system suitable to local agro - climatic conditions.

CAIIB Rural Banking Module A Unit 6- Rural Development Policies

National Rural Livelihoods Mission (NRLM)

The originally launched **Integrated Rural Development Program** (IRDP), subsequently modified as **Swarnjayanti Gram Swarozgar Yojana (SGSY) in the year 1999**, was a flagship program of the Ministry of Rural Development.

The program aimed at providing sustainable income to rural BPL households, through income generating assets/economic activities, in order to bring them out of poverty.

The Committee recommended adoption of a 'Livelihoods Approach' to rural poverty elimination. The approach encompassed the following four inter-related tasks:

- Mobilizing poor households into functionally effective SHGs and their federations
- Enhancing access to bank credit and financial, technical and marketing services
- Building capacities and skills for gainful and sustainable livelihoods development
- Converging various schemes, for efficient delivery of social and economic support services to poor households

The guiding principles of NRLM are:

- Poor have a strong desire to come out of poverty, and they have innate capabilities
- Social mobilization and building strong institutions of the poor is critical for unleashing the innate capabilities of the poor.
- An external dedicated and sensitive support structure is required to induce the social mobilization, institution building and empowerment process
- Facilitating knowledge dissemination, skill building, access to credit, access to marketing and access to other livelihood services underpins this upward mobility

Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)

The core objectives of MGNREGA are as under:

- Providing not less than one hundred days of unskilled manual work, as a guaranteed employment in a financial year to every household in rural areas as per demand, resulting in creation of productive assets of prescribed quality and durability
- Strengthening the livelihood resource base of the poor
- Proactively ensuring social inclusion
- Strengthening Panchayati Raj Institutions.

It provides a legal guarantee for wage employment by providing allowances and compensation both in cases of failure to provide work on demand and delays in payment of wages for work undertaken.

Social audit is a new feature under the program, which creates accountability of performance, especially towards immediate stakeholders.

Skill Development And Entrepreneurship Initiatives

Skills and knowledge are driving forces of economic growth and social development for any country. Countries with higher levels and better standards of skills adjust more effectively to the challenges and opportunities in domestic and international job markets. Our country, however, has a big challenge ahead, as it is estimated that only 14.69 per cent of the total workforce has undergone formal skill training.

National Institute for Entrepreneurship and Small Business Development (NIESBUD)

NIESBUD, registered under the Societies Registration Act, 1860, has been functioning since 6 July 1983. The administrative affairs of the Institute were transferred to the Ministry of Skill Development and Entrepreneurship, in May, 2015.

The broad functions/activities of the Institute are as under:

- Accelerating introduction of Entrepreneurship in formal education (general, technical, skill and management) streams.

- Developing promotional material, designing motivational campaigns and undertaking related activities, for creating conducive environment, for entrepreneurial efforts
- Facilitating provision of Business Development Services, for prospective start-ups/self-employment ventures.
- Putting in place an e-mechanism, for providing mentoring support, monitoring and follow up.
- Co-ordinating/Facilitating activities under the “Pradhan Mantri Yuva Yojana” including Assessment and Certification of the beneficiaries.
- Organizing research and other interventions for ascertaining effectiveness of the initiatives aimed at ‘Ease of Doing Business’ by ‘Start-ups’ and ‘Self-employed’ in the country.
- Creating and hosting a Knowledge Repository of information, support materials, government policies, etc., for use by potential Start-ups, New Entrepreneurs and MSMEs.

Indian Institute of Entrepreneurship (IIE)

The Indian Institute of Entrepreneurship (IIE) was established in the year 1993, in Guwahati, by the Ministry of Industry, Department of SSI & ARI, and Government of India, as an autonomous national institute. **The broad functions/activities of the Institute are as under:**

- To promote and develop entrepreneurship.
- To conduct research and provide consultancy services, for entrepreneurship development.
- To coordinate and collaborate with other organizations in providing training, and undertake research and other activities to increase the outreach
- To provide consultancy services to potential entrepreneurs and enhancing employability of the participants.
- To promote greater use of information technology, in the activities/functions of the IIE, schemes and initiatives through the National Skill Development Corporation.

Pradhan Mantri Kaushal Vikas Yojana (PMKVY)

PMKVY is the flagship outcome-based skill training scheme of the Ministry of Skill Development & Entrepreneurship (MSDE). The objective of this skill certification and reward scheme is to mobilize a large number of Indian youths to take up outcome-based skill training, to become employable and earn their livelihood.

The scheme has two components viz.,

- **Centrally Sponsored Centrally Managed (CSCM) scheme -**75% of the PMKVY (2016-2020) funds shall be available to MSDE for skilling through National Skill Development Corporation (NSDC)
- **Centrally Sponsored State Managed (CSSM) scheme -** (25% of the funds of PMKVY 2.0 shall be allocated to the States).

Ministry of Skill Development and Entrepreneurship through NSDC, implements the Pradhan Mantri Kaushal Kendra (PMKK) Scheme, for setting up of model skill centre, in every district of the country

Udaan Scheme

- The Special Industry Initiative (SII) for J&K is funded by the Ministry of Home Affairs and implemented by the **National Skill Development Corporation**
- Udaan program is a special initiative to **address the needs of the educated unemployed in J&K.** It is focused on youth who are graduates, post graduates and three-years diploma engineers. The aim is to provide skills and job opportunities to the youth.
- The target was to reach out to 40,000 youth in J&K over a period of 5 years. The objectives of the Scheme are: (a) to provide exposure to the graduates and post graduates of Jammu and Kashmir to the best of corporate India and (b) to make available the rich talent pool available in the state.
- Udaan Mega Drives act as a platform where multiple corporates help mobilize youth of J&K for Udaan training program that are organized across the state in different districts.

Pradhan Mantri Yuva Yojana

The **Pradhan Mantri Yuva Udyamita Vikas Abhiyan (YUVA),** launched in November, 2016, aims at creating an enabling eco-system, for entrepreneurship promotion among youth, through entrepreneurship education and training, advocacy, easy access to entrepreneurship support network and promotion of social entrepreneurship.

The specific objectives of the scheme are to

- Educate and equip potential and early-stage entrepreneurs
- Connect entrepreneurs through networks of peers, mentors, incubators, funding and business services
- Support entrepreneurs through Entrepreneurship Hubs (E-Hubs)
- Catalyze a culture shift to support aspiring entrepreneurs.

The Scheme is being implemented in partnership with both public and private stakeholders.

Shyama Prasad Mukherji Rurban Mission (SPMRM)

Government has launched the Shyama Prasad Mukherji Rurban Mission (SPMRM), in September 2015, aimed at strengthening rural areas by provisioning of economic, social and physical infrastructure facilities.

The Mission aims at development of 300 Rurban clusters, in the next 5 years. The Objectives are:

- Bridge the rural urban divide- economic, technological and those related to facilities and services.
- Spreading development in the region.

- Attracting investments in the rural areas.
- Stimulating local economic development with emphasis on reduction of poverty and unemployment in rural areas.

A **'Rurban cluster',** would be a cluster of geographically contiguous villages with a population of about 25,000 to 50,000 in plain and coastal areas and a population of 5,000 to 15,000 in desert, hilly or tribal areas.

Programs For Development Of Backward Areas

Drought Prone Areas Program (DPAP):

The DPAP was launched by the Government, as an integrated area development program in the year 1973, in arid and semi-arid areas having poor natural resources. Drought prone areas had degraded environment and suffered from soil erosion, water and moisture stress.

The main thrust of this program was directed towards restoration of ecological balance by focusing on:

- Development and management of water resources,
- Soil and moisture conservation measure,
- Afforestation,
- **D**evelopment of pasture lands,
- livestock development, and
- **D**evelopment of subsidiary occupations.

Hill Areas Development Program (HADP):

The basic objective of this program was to bring about socio-economic development of the hills and the people living there.

Desert Development Program (DDP):

It was launched with an aim to with the aim of:

- Controlling further desertification of the desert areas
- Mitigating the adverse effects of drought in the areas
- Restoring the ecological balance
- Raising productivity of land and water resources in these areas.

Power Supply To Rural India Program

- Government of India has launched the scheme **"Deendayal Upadhyaya Gram Jyoti Yojana"** for rural electrification to provide continuous power supply to rural India in 2015. The erstwhile Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) scheme for village electrification and providing electricity distribution infrastructure in the rural areas has been subsumed in the DDUGJY.
- **Rural Electrification Corporation is the Nodal Agency for implementation of the DDUGJY.**

- Under the scheme, 60% of the project cost (85% in the case of special states) is provided as grant by GOI and additional grant up to 15% (5% in the case of special category states) is provided on achievement of prescribed milestones.
- **The International Energy Agency (IEA),** 2018 has acknowledged that India's move to energize every village in the country with electricity is one of the greatest success stories in the world in 2018.

Development Of Dryland Farming

A centrally sponsored scheme of **Integrated Dry Land Agricultural Development** was launched in 1970-71, in 24 pilot projects. The objective of the scheme was to test and demonstrate the technology developed by the All -India Co-ordinated Research Project for Dryland Agriculture, under the Indian Council for Agricultural Research (ICAR).

The major components of watershed development were:

- Land development,
- Construction of water harvesting storage,
- Coverage of area with improved/drought resistant seeds and fertilizers.

The **National Watershed Development Project for Rainfed Areas (NWDPRA)** initiated in the Sixth Plan envisaged that a micro watershed would be taken up for development in every block having assured irrigation of less than 30%.

Soil And Water Conservation

- Soil conservation is a measure undertaken in order to prevent soil loss from erosion or reduced fertility, caused by over usage, acidification, salinization or other chemical soil contamination.
- Techniques adopted for improved soil conservation include practices like crop rotation, cover cropping, conservation tillage and planted windbreaks (linear planting of trees and shrubs in a designed way), etc.
- **The National Water Policy (NWP), 2012** serves as a policy guideline, for development and management of water resources, in the country.
- It has emphasized on their implementation through the National Water Board, by preparing a plan of action. The Ministry of Water Resources, River Development and Ganga Rejuvenation, is responsible for conservation, management and development of water, research and development, training and matters relating to irrigation and multi-purpose projects

Pradhan Mantri Krishi Sinchayee Yojana (PMKSY)

- It is being implemented with the objective of developing a long- term solution for mitigating the effect of drought and increasing area under irrigation with motto of **'Har Khet Ko Pani'.**
- The scheme has been conceived amalgamating the Accelerated Irrigation Benefit Program (AIBP) of the Ministry of Water Resources, River Development & Ganga Rejuvenation (MoWR, RD&GR), Integrated Watershed Management Program (IWMP) of Department of Land Resources (DoLR) and the On Farm Water

Management (OFWM) of Department of Agriculture, Cooperation and Farmers Welfare.

- The major objective of PMKSY is to achieve convergence of investments in irrigation at the field level, expand cultivable area under assured irrigation, improve on farm water use efficiency to reduce wastage of water, enhance the adoption of precision irrigation and other water saving technologies.

Rural Infrastructure Development Fund

The Fund was instituted with an initial corpus of Rs. 2,000 crore, by way of deposits to be placed with NABARD by commercial banks to the extent of their respective shortfalls in agriculture lending, under priority sector.

At present, there are 37 eligible activities under RIDF as approved by GOI. The eligible activities are classified under three broad categories i.e.,

- Agriculture and related sector
- Social sector and
- Rural connectivity.

The project for rural connectivity, social and agri-related sector, are eligible for loans to the extent of 80% to 95% of project cost.

Loans availed under RIDF are to be repaid in equal annual instalments within seven years from the date of withdrawal, including a grace period of two years. The interest shall be paid at the end of each quarter. The implementation phase for projects sanctioned under the Fund is spread over two to five years, varying with the type of the project and also location of the state.

Economic Reforms

Macroeconomic Stabilization

The key policy reforms introduced in this area were fiscal-monetary policy reforms. These were aimed at:

- Providing a better balance between aggregate demand and supply
- Minimizing the distortion effects of the tax system
- Forcing public enterprises to minimize cost and maximize efficiency.

Government's expenditure was concentrated in two areas:

- ✓ Consumption expenditure, and
- ✓ Subsidy payments.

In order to generate additional revenue, government planned to broaden tax base, rationalize tax rates and improve collection through non-tax sources.

Structural Reforms

Comprehensive structural reforms have been undertaken to improve the supply-side of economy. Among them the important ones were: **(i) Trade and capital flows reforms, (ii) Industrial deregulation, and (iii) Public sector reforms.**

Trade and Capital flow Reforms:

- ✓ Government initiated a number of trade policy changes, with a view to integrating the Indian economy better, with the rest of the world. The value of rupee was adjusted downward by about 20 per cent in July 1991.
- ✓ The other measures included the convertibility of the rupee first on trade account and then on entire current account transaction, liberalization of import regime, substantial lowering in customs tariff rates, measures to promote exports.

Industrial Deregulation:

- ✓ Historically, domestic economic activities in India were subjected to a wide-ranging government control measure. In the industrial sector, such controls took various forms like industrial licensing, which acted as a barrier to entry, reservation of a large number of industries, for the public sector and for the small-scale sector, time consuming procedures required for the exit of firms from an industry and price and distribution control on various industrial products. The thrust of new industrial policy announced in July, 1991 was on removing these controls

Public Sector Reforms

- ✓ Since the public sector was not generating enough internal resources and becoming a constraint on economic growth, the government adopted a new approach viz. provision of greater managerial autonomy to public enterprises to enable them to work efficiently; encourage private sector competition in areas where social considerations are not paramount; and provide market orientation to the public sector through the disinvestment process.

Financial Sector Reforms

A committee under the chairmanship of **Shri M. Narasimham** was set up to examine the country's Financial System and the committee submitted its report in December 1991. The Committee, recommended

- Gradual reduction of the reserve requirements to be maintained by banks (both SLR and CRR)
- Redefining the priority sector and phasing out the directed lending programs
- Interest rate determination on the grounds of market forces such as demand for and the supply of fund
- Structural reorganization of the banking sector
- Establishment of ARF tribunal, to ease the problems of NPAs in banks
- Provision of autonomy to the public sector banks

- Adoption of uniform accounting practices, particularly, in regard to income recognition and provisioning against doubtful assets and making full disclosures in the balance sheets
- Rationalization of operations of foreign banks.

Following acceptance of the report by GOI, the following actions were initiated:

- SLR and CRR were reduced from 38.5 per cent to 25 per cent and from 15 per cent to 10 per cent respectively.
- The RBI introduced prudential norms for income recognition, classification of assets and provisioning for bad debts for the first time.
- The banks were required to maintain capital equivalent to 8 per cent of their risk weighted assets.
- Commercial banks which had met certain stipulated conditions were allowed to open new branches without the approval of the RBI. They were also permitted to close down non-viable branches other than those in rural and semi-urban areas.
- Interest rates of commercial banks on loans above Rs. 2 lakhs were fully deregulated.
- Interest rates on advances of all Co-operative banks and Regional Rural Banks were deregulated.

Impact of Reform In Rural Economy

The impact of reforms on rural economy is discussed in the following five important areas

- Flow of credit for agriculture and rural development
- Investment in agriculture
- Input subsidies
- Agricultural exports
- Poverty alleviation and employment generation programs

Doubling the Farmers' Incomes by 2022

- Pradhan Mantri Kisan Samman Nidhi (PM-KISAN). The scheme aims to provide a payment of Rs. 6,000 per year, in three 4-monthly installments of Rs. 2,000 to the farmers families
- Pradhan Mantri Kisan Maan Dhan Yojana (PM-KMY) for providing old age pension to these farmers. Under this Scheme, a minimum fixed pension of Rs. 3,000 will be provided to the eligible small and marginal farmers, on attaining the age of 60 years.
- Government has approved the increase in the Minimum Support Price (MSPs) for all Kharif & Rabi crops for 2018-19 season, at a level of at least 150 percent of the cost of production.
- "Per drop more crop" initiative under which drip/sprinkler irrigation is being encouraged for optimal utilization of water, reducing cost of inputs and increasing productivity

- "Paramparagat Krishi Vikas Yojana (PKVY)" launched for promoting organic farming.
- Launch of e-NAM initiative to provide farmers an electronic transparent and competitive online trading platform.
- Under "Har Medh Par Ped", agro-forestry is being promoted for additional income. With the amendment of Indian Forest Act, 1927, Bamboo has been removed from the definition of trees. A restructured National Bamboo Mission has been launched in the year 2018 to promote bamboo plantation on non-forest government
- Government has approved a new Umbrella Scheme 'Pradhan Mantri Annadata Aay Sanrakshan Abhiyan (PM-AASHA)'. The Scheme is aimed at ensuring remunerative prices to the farmers for their produce.
- Bee keeping has been promoted under Mission for Integrated Development of Horticulture (MIDH) to increase the productivity of crops through pollination and increase the honey production as an additional source of income of farmers.
- Government provides interest subvention of 2 per cent on short-term crop loans up to Rs. 3.00 lakh besides incentive for prompt repayment at 3 per cent. Presently, loan is available to farmers at an interest rate of 4 per cent per annum on prompt repayment.
- There are Micro Irrigation Fund (Rs. 5,000 crores); Agri-marketing Fund to strengthen eNAM and GrAMs (Rs. 2,000 crores); Agricultural Infrastructure Fund (AIF) to build agri-logistics (backward & forward linkages) (Rs. 1 lakh crore).
- **Market intervention scheme**: The Department of Agriculture, Cooperation and Farmers' Welfare implements the MIS for procurement of agricultural and horticultural commodities which are perishable in nature and are not covered under the PSS. The objective of intervention is to protect the growers of these commodities from making distress sale in the event of a bumper crop during the peak arrival period when the prices tend to fall below economic levels and cost of production.

CAIIB Rural Banking Module A Unit 7- Issues Concerning Rural Areas

Components Of Rural Development

Rural development has several components such as increase in production of agriculture, allied activities and non-farm sector, increase in the income of the poor, generation of employment opportunities particularly for the poor, and provision of basic amenities and infrastructural facilities such as health, education, drinking water, good roads, electricity and market centers.

Approaches To Rural Development Since Independence

Community Average:

- Rural Development program in India, started with Community Development Program (CDP) which was launched in the year 1952. It was a broad- based program covering agriculture, animal husbandry, irrigation, co-operation, village and small- scale industries, health, education, communication and housing.
- The aim was to secure total development of material and human resources, thus, promoting social welfare and social justice and also building up of the democratic organization of the people.

Growth-oriented Approach:

- Food shortage during the Second Plan period shifted the focus on augmenting food grains production.
- Program like the Intensive Agriculture District Program (IADP), the Intensive Cattle Development Program (ICDP), the High Yielding Varieties Program (HYVP) were launched in the 60s. The focus of these programs was on increased production. This approach, however, helped only the rich farmers in rural areas, but failed to make any dent in the basic problem of poverty and unemployment.

Target Group Approach:

- **The Small Farmers Development Agency (SFDA) and Marginal Farmers and Agricultural Labourers (MFAL) Agency** were introduced with the hope of increasing the income of small farmers, marginal farmers and agricultural labourers.
- Several employment generation programs such as **Food for Work Program, National Rural Employment Program (NREP), Rural Landless Employment Guarantee Program (RLEGP) and Jawahar Rozgar Yojana (JRY)** were initiated, in a phased manner. The target group approach proved more effective in delivering the benefits of development programs to the poor.

Area Development Approach:

- Several area-specific programs were introduced for the development of backward areas in the 70s. They were **Drought Prone Area Program (DPAP), Desert Areas Development Program (DDP), Hill Area Development Program (HADP) and Tribal Area Development Program (TADP).** It proved successful in reducing inter-regional disparities by promoting the development of backward areas.

Welfare Approach:

- Under this segment, welfare programs like Minimum Needs Program and Applied Nutrition Program were introduced by the Government in order to provide basic public services to the rural people.

Integrated Rural Development Approach:

- This was designed to achieve balance among growth, removal of poverty and employment generation with focus on target groups to help small and marginal farmers, agricultural labourers and rural artisans.
- This strategy took an integrated view of rural poverty and unemployment and addressed economic, commercial, organization, technological and political bases of these problems.
- The successful implementation of this strategy required integration of economic activities of rural families by developing all the three sectors – primary, secondary and tertiary.

Sustainable Rural Development

The sustainable rural development would mean the development for the present generation, without compromising the ability of the future generation to meet its own needs. Causes **of ecological imbalance in rural areas are as follows:**

- **Land and Water Mismanagement:** Land and water are two important natural resources. The quality of environment lies in efficient use of land and water. Proper management of land has not been paid proper attention in most part of the country. This is posing a major threat to progress in rural areas. Water logging and consequent salinity in irrigated areas due to lack of proper drainage facilities has affected about 6 million hectares of land in the country.
- **Destruction of Other Natural Living Resources:** India's other natural living resources including animals, plants and other marine ecosystems are immense. Due to the pressure of population and other developments, the habitats of species are undergoing change which has resulted into disappearance of certain species and ecosystems.

National Mission for Sustainable Agriculture (NMSA):

NMSA has been made operational by GOI from the year 2014-15 which aims at making agriculture more productive, sustainable, remunerating and climate resilient

Soil Health Management (SHM):

- It aims at promoting **Integrated Nutrient Management (INM),** through judicious use of chemical fertilizers including secondary and micro nutrients in conjunction with organic manures and bio-fertilizers, for improving soil health and its productivity; strengthening of soil and fertilizer testing facilities.

Pradhan Mantri Krishi Sinchayee Yojana (PMKSY):

- It is implemented by GOI to achieve convergence of investments in irrigation at the field level, expand cultivable area under assured irrigation, improve on-farm water use efficiency to reduce wastage of water, enhance the adoption of precision-irrigation and other water saving technologies (more crop per drop).

The Paramparagat Krishi Vikas Yojana

- It is implemented with the aim to promote organic cultivation in India, to improve soil health as well as organic matter content and to boost the net income of the farmer so as to realize premium prices.

National Agriculture Market

- It gives an e-marketing platform at the national level and support creation of infrastructure to enable e-marketing. This new market process is revolutionizing agriculture markets by guaranteeing better price discovery. It has also facilitated bringing in transparency and competition to enable cultivators to get improved remuneration for their produce moving towards **'One Nation One market'.**

Pradhan Mantri Fasal Bima Yojana (PMFBY)

- Providing financial support to farmers suffering crop loss/damage arising out of unforeseen events
- Stabilizing the income of farmers to ensure their continuance in farming
- Encouraging farmers to adopt innovative and modern agricultural practices and
- Ensuring credit worthiness of the farmers, crop diversification and enhancing growth and competitiveness.

Necessity For Rural Development

The issues concerning rural development in our country are briefly indicated below:

Backwardness

- Agricultural growth rate was not high in India and it could not increase income of agriculturists significantly. Moreover, the growth was not the same for all the crops and all the regions. Fluctuation in rainfalls affects agricultural production and leads to fluctuation in the income of farmers.

Massive Poverty

- The large number of rural poor is mostly landless labourers, small and marginal farmers and rural artisans, as they either have no assets or the assets owned by them, have low productivity. The major reasons of poverty are to be found in the social and economic structure, prevailing in the rural areas.

Large Scale Unemployment

- The level of unemployment in agricultural sector is very high as most of the people engaged in agriculture are in disguised unemployment, as the number of workers is larger than the need for them.

Poor Basic Infrastructure Obtaining in Rural Areas

- Basic infrastructural facilities such as roads, electricity, drinking water, schools, hospitals, transport and communication in rural areas are inadequate and poorly maintained. As a result, the poor villagers do not get proper education and remain in the vicious cycle of poverty.

Small and Unorganized Rural Entrepreneurs

- Since most rural entrepreneurs are small and unorganized, they have a low bargaining power, in terms of processing raw material and marketing of produce. This results in exploitation of rural producers.

Traditional Farming Techniques

- Government intervention is required to bring more and more area under modern methods of production so that the agriculture production can increase and there is improvement in income level of farmers.

Inadequate Support for Agriculture

- Supporting services for agriculture such as transport, storage, processing and marketing facilities are inadequate. The marketing infrastructure need to be further augmented, if diversification of agriculture and export of agriculture products need to be intensively promoted.

Rural Indebtedness

- Rural people were mainly depending upon money lenders, for meeting their credit requirement. Moneylenders exploited the farmers in a number of ways.

Urban-Oriented Development

- Most of the heavy industries both in public and private sector have come up in urban areas because of the availability of infrastructural facilities and backward and forward linkages in these centres and so the benefits from this growth have also accrued mainly to the urban population.

Migration of Rural Population to Urban Centres

- A large part of rural population migrates to urban areas every year, mainly in search of jobs. Very high percentage of urban migrants are poor and landless for whom, work opportunities in rural areas are limited/ negligible.

Rural-Urban Linkages

- Rural and urban areas play complimentary role in the overall economic development. Improvement of rural areas is important for its role as suppliers of raw materials and labour to industry and as consumer of industrial products.

Rural Development And Rural Management

Development is defined as the process by which, the members of a society increase their personal and institutional capacities to mobilize and manage resources, to produce sustainable and justly distributed improvements in quality of life consistent with their own aspirations.

Rural development means overall development of rural areas, with a view to improving the quality of life of the rural people. It includes development of agriculture and allied activities, village and cottage industries, socio-economic infrastructure, community services and above all, human resources in rural areas.

Development issue	Possible management intervention
Low per capita income of people	Plan and organize for rural non-farm sector activities
Fast depletion of green cover	Joint forest management
Soil and water erosion	Community watershed management
Lack of access to credit by the poor	Promote Self Help Groups

Key Issues Concerning Rural Management

Sustainable Development

- The World Commission on Environment and Development (The Brundtland Commission) defined sustainable development as the development that meets the needs of the present, without compromising the ability of future generation to meet their own needs.

Organizing for Rural Development

- The major question here is as to how to design and maintain effective organizations for rural development. Indian experience showed that the government organizations became bureaucratic, lacked responsiveness and entailed considerable leakages. Participation of people was lacking, resulting in dismal performance of the programs.

Facilitating Rural Development

- Facilitating rural development would involve leading, motivating, monitoring and controlling aspects of rural development management. Facilitation component of rural management would involve three major areas viz. **human resources development, infrastructure development and policy support.**

Components	Key areas requiring facilitation
Human Resource Development	Empowerment of people
	Leadership development
	Skill training
Infrastructure	Power, roads, transport
	Agriculture markets
	Banking network
	Social infrastructure like drinking water and educational facilities
Policy	Policy support and control

Marketing Management

The agricultural marketing involves three essential components – assembling, processing and distribution.

- **Objectives of Rural Marketing:** The objectives of rural marketing can be summarized as: **(a)** to give the best possible benefit for primary producers, such as, farmers and household industries; **(b)** to make available all rural products in the desired form and quality at reasonable prices and in adequate measure; **(c)** to reduce price spread between primary producers and ultimate consumers.

- **Characteristics of Agricultural Produce:** Perishability, Seasonality of Production, Bulkiness of Products, Variation in Quality of Production, Small Size and Scattered Production, Processing, Consumption Characteristics, Price Inelasticity

Deficiencies in the Agricultural Marketing System

- Exploitation by middle men
- Wide Price Spread
- Distress Sale
- Inadequate Storage
- Transportation Cost
- Absence of Grading and Standardization
- Lack of Market Intelligence
- Malpractices
- Capacity Building in Agricultural Marketing

Agricultural Produce Market Committee (APMC) Act

- Agricultural markets in the country are regulated by state **Agricultural Produce Marketing Committee (APMC)** laws.
- Under these state Acts, farmers are required to sell their produce at state-owned mandis. APMC mandis currently levy a market fee on farmers who wish to sell their produce in the mandis. This makes it expensive for farmers to sell at APMC mandis. In addition, farmers have to arrange for their produce to be transported from their farms to the nearest mandi, which brings in costs such as transport and fuel. In transporting the produce from the farm to the store, several intermediaries are involved.
- The central government had released a **Model APMC Act** in the year 2003, suggesting its enactment by the states.

The Model Act provides for

- The direct selling of produce through contract farming,
- Permitting private persons, farmers and consumers to establish agricultural markets,
- Levying a single market fee on the sale of the commodity, and
- Replacing licenses with registration of market agencies, so that they can operate in more than one market, among other things.

Launching of eNAM: During the year 2016, GOI has launched the National Agricultural Market (NAM)- the electronic market, for providing opportunities to farmers for selling their produce for better price. The electronic portal, under the auspices of **NAM project (eNAM), is managed by Small Farmers' Agribusiness Consortium (SFAC).** In the eNAM platform, farmers can opt to trade directly on their own through the mobile app or through registered commission agents.

Developments in the recent years:

- **Amendments to the APMC Act by State Governments:** With the amendment of the APMC Act by the states, establishment of Electronic Spot Markets that allow online trading through electronic commodity exchanges have become possible.
- **Pledge Loan linked to Warehouse receipts:** Availability of finance against stored produce and improved knowledge on price risk management allows farmers and farmers' organizations to obtain better price realization for their produce.
- **E-Trading:** The following categories of virtual market **(a)** Futures Exchange **(b)** Spot Exchange **(c)** Warehouse Receipt System **(d)** ICT based Market Information and **(e)** Web Marketing provide the needed width and depth to the market.
- **Grading and Standardization:** The government has passed an act 'Agricultural Produce (Grading and marketing) Act', which empowers the Central Government to prescribe grade standards for agricultural commodities and livestock products.
- The **Directorate of Marketing and Inspection (DMI)** have prepared grade standards, for a number of agriculture commodities. Graded agriculture products bear the **AGMARK** label. The **Central Quality Control Laboratory at Nagpur** and its regional subsidiaries in various places collect samples of products from market, analyze them for chemical and physical properties, for the purpose of grading.
- **Use of Standard Weight:** The passing of standard Weight Act and adoption of metric system, facilitated uniformity and enforcement of standard weight, all over the country.
- **Storage facilities:** After agricultural produce is harvested, it requires a robust storage infrastructure in order to minimize any losses due to adverse weather conditions or in the process of transportation.
- **Initiatives for integration of production, processing and marketing:** Integration of production, processing, marketing is required for agricultural produce marketing, to facilitate prosperity of the rural producers.
- **Introduction of Negotiable Warehouse Receipt System:** The Negotiable Warehouse Receipts (NWRs), issued by the warehouses, registered under this Act, would help the farmers to avail loan from banks against NWRs and the NWRs will become a prime tool of trade. This will avoid distress sale of agricultural

produce by the farmers in the peak marketing season when there is glut in the market.

GATT and Agricultural Marketing

- Government of India has taken a number of steps to promote international trade such as decentralization, liberalization of credit facilities and substantial reduction of tariffs. Probably, the most significant milestone is the signing of General Agreement on Trade and Tariff (GATT) by India along with 121 other countries, in December 1992, after the Uruguay round of talks.
- **TRIPS** is the most comprehensive international agreement on IP and it has a major role in enabling trade in creativity and knowledge, in resolving trade disputes over intellectual property, and in assuring WTO members the latitude to achieve their domestic policy objective.

Importance Of Agricultural Prices

Agriculture Price Policy

- Based on the recommendations of the Committee on Food grains Price, **the Agricultural Prices Commission** was set up in the year 1965, which was renamed as **Commission for Agricultural Costs and Prices (CACP)** in the year 1985. The Commission is expected to evolve a balanced and integrated price structure with due regard to the interests of both producers and consumers, and advise the Government of India on price policy of agricultural commodities.

Minimum Support Price

- Based on the recommendations of the CACP, the Department of Agriculture and Co-operation, Government of India, declares Minimum Support Price (MSP) for 24 crops before the sowing season. The idea behind MSP is to give guaranteed prices and assured market to the farmers and save them from the price fluctuations.
- It insulates farmers from the unwarranted fluctuation in prices, caused by the variation in supply lack of market integration, information asymmetry and other elements of market imperfection plaguing the agricultural markets. The guaranteed price and assured market are expected to encourage higher investment and in adoption of modern technologies in agricultural activities.

Other Pricing Mechanisms

- **Statutory Minimum Prices:** They are like minimum support prices. It is legally binding on the buyer to purchase the commodity at the announced price or higher. Statutory minimum prices are applicable to crops such as sugarcane.
- **Procurement Prices:** The price at which the government procures food grains or industrial raw material for maintenance of buffer stocks, feeding the public distribution system, is called the procurement price.
- **Issue Prices:** These are the prices at which, government provides certain specified commodities in the minimum needed quantity to the consumers

through public distribution agencies like ration shops and fair price shops. They are generally lower than market prices.

Procurement option

- **Price Support Operations:** The Government agencies remain in readiness in the market and in the event of prices tending to fall below the support price, the farmers voluntarily offer their produce to the Government agencies. No target for procurement is fixed. The objective of procurement is to provide price support to the farmers.
- **Open Market Purchase:** The Government agency enters the market like any other trader and purchases the required quantities in competition with the traders.
- **Pre-emptive Purchase:** The Government reserves the first right of purchase at the price settled in the open market. The Government agency does not participate in the competitive bidding. When the price for a lot is settled, the Government agency has the right to step in and buy the given quantity at the price settled.
- **Monopoly Procurement:** In this method of procurement, the Government reserves the right of purchase from the farmers. The traders are not allowed to enter the market for purchase and sale. This method of procurement is adopted only when other methods fail.
- **Buffer Stocks:** A buffer stock of food grains refers to the stocks maintained by the Government, to cushion the shocks of fluctuations in supply and prices. The main advantages of maintaining buffer stocks of food grains are to impart stability to the food economy; reduce fluctuations in the income of food grains producers; stabilize the prices of food grains for consumers; and use it to save people from hunger, at the time of scarcity.

CAIIB Rural Banking Module B -Financing Rural Development

Index

No. of Unit	Unit Name
Unit 1	Regulation of Rural Financial Services
Unit 2	Rural Credit Institutions
Unit 3	Financing Agriculture & Allied Activities
Unit 4	Financing Rural Non-Farm Sector
Unit 5	SME Finance
Unit 6	Concepts of Project, Aspects of Project Formulation & Appraisal & Model Bankable Projects

CAIIB Rural Banking Module B Unit 1- Regulation of Rural Financial Services

Overall Set Up Of Rural Financial Institutions (RFIS)

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

Function And Policies of RBI In Rural Banking

Role of RBI in Rural Credit

A special feature of the RBI Act was provision for granting financial accommodation to the cooperative banking sector and scheduled banks. Section 17 of the Act envisage provision of agricultural credit by the Bank for seasonal agricultural operations and marketing of crops.

The broad functions of the Agricultural Credit Department were:

- To maintain an expert staff to study all questions of agricultural credit and be available for consultation by the Central Government, State Government, State Co-operative Banks and other banking organizations,
- To co-ordinate the operations of the Bank in connection with agricultural credit and its relations with the State Cooperative Banks and any other banks or organizations, engaged in the business of agricultural credit.

Integrated Scheme of Rural Credit

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

The RBI decided to provide:

- Finance to the state Governments for contribution to the share capital of cooperative credit institutions at various levels, and
- Finance to the Cooperative Credit Structure to meet the credit requirements of short-term, medium-term and long-term finance.

RBI established two National Funds, viz**., National Agricultural Credit (Long Term Operations) Fund and the National Agricultural Credit (Stabilization) Fund in 1956**.

The NAC (LTO) Funds had an initial contribution of Rs. 10 crore. The Fund was to be utilized:

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

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

Agricultural Refinance and Development Corporation

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

Setting up REC /SFDA/MFAL

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

RBI and Cooperatives

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

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

RBI and Commercial Banks

The major efforts of RBI were:

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

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

RBI and Regional Rural Banks

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

Role and Functions of NABARD

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

NABARD is entrusted with the following major functions:

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

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

Promotional and Development Programs

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

- **Watershed Development Programs**
- **Natural Resource Management in collaboration with corporate entities**
- **Integrated Water management Scheme in water campaign villages**

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

Institutional Development Functions of NABARD

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

Subsidiaries of NABARD:

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

Lead Bank Scheme

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

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

Yearly Calendar of Meetings

Activity	To be completed by (Date)
Preparation of calendar of SLBC/UTLBC meetings and intimation to all the concerned of the cut-off dates for submission of data and dates of meetings as per the dateline given below.	15th January every year
Reminder regarding the exact date of meeting and submission of data by banks to SLBC	15 days before end of the quarter
Dead line for receipt of information/data by SLBC Convenor Bank	15 days from the end of the quarter
Distribution of agenda cum background papers	20 days from the end of the quarter
Holding of the meeting	Within 45 days from the end of the quarter
Forwarding the minutes of the meeting to all stakeholders	Within 10 days from holding the meeting
Follow-up of the action points emerged from the meeting	To be completed within 30 days of forwarding the minutes (for review in the next meeting)

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

- Data on **Annual Credit Plan (ACP)** is an important element to review the flow of credit in the state. ACP formats are aligned with the extant reporting guidelines on **priority sector lending.**
- ACP is to be prepared considering the categories of priority sector that would include **Agriculture, Micro, Small and Medium Enterprises, Export Credit, Education, Housing, Social Infrastructure, Renewable Energy and Others**.

- As per RBI guidelines, the bank loans to Micro/Small and Medium Enterprises (Services), engaged in providing or rendering of services as defined in terms of investment in equipment under MSMED Act, 2006, shall qualify under priority sector, without any credit cap. Accordingly, the applicable **loan limits per borrower to Micro/Small Enterprises (Rs. 5 crore) and Medium Enterprises (Rs. 10 crore) under the MSMEs Sector (Services), for classification under priority sector have been removed.**

Assignment of Lead Bank Responsibility

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

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

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

Credit Deposit Ratio (CD Ratio)

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

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

Direct Benefit Transfer

- Direct Benefit Transfer **(DBT)** was rolled out by the Government of India in selected districts in January 2013. It was expanded to other districts subsequently. As a prerequisite to the implementation of the DBT, every eligible individual should have a bank account. Further, to make disbursements at the doorstep through the ICT-based BC model, banking outlets either through brick &

mortar branches or the branchless mode is needed in all villages across the country.

Banks have been advised to:

- Take steps to complete the opening of bank accounts and seeding of Aadhaar numbers, in all bank accounts.
- Closely monitor the progress in seeding of Aadhaar number with the bank accounts of beneficiaries.
- Put in place a system to provide the beneficiary of the seeding request an acknowledgement and also send a confirmation of the seeding of Aadhaar number.
- Form a DBT Implementation Co-ordination Committee, along with the State Government department concerned, at district level and review the seeding of Aadhaar numbers in bank accounts.
- Ensure that district and village wise names and other details of business correspondents (BCs) engaged/ other arrangements made by the bank are displayed on the SLBC website.
- Set up a Complaint Grievance Redressal mechanism in each bank and nominate a Complaint Redressal Officer in each district, to redress the grievances related to 'seeding' of Aadhaar number in bank accounts.

Service Area Approach

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

Doubling of Farmers' Income by Year 2022

The strategy to achieve this goal, includes:

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

- Promotion of ancillary activities like poultry, bee-keeping and fish**eries**

Expanding and Deepening of Digital Payments Ecosystem

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

CAIIB Rural Banking Module B Unit 2- Rural Credit Institutions

Co-operative Credit System

State Cooperative Banks

State Cooperative Banks are the highest-level cooperative banks in each of the states. They raise funds and assist in their proper distribution among various sectors. Individual borrowers receive funds from state cooperative banks via **central cooperative banks** and **primary credit societies**.

The functions of the State Cooperative Banks can be broadly classified as under:

- Act as a balancing center, for the resources of the DCCBs as they channelize the funds to the DCCBs which are in need of funds, for meeting the credit demand, out of the funds deployed by the DCCBs having surplus funds.
- Act as an intermediary between the DCCBs and RBI and the money market i.e., to borrow money from market and lend to the DCCBs
- Play a pivotal role in the formulation and extension of credit policies for the cooperative movement of the state, as a whole.
- Act as an agency for investment of surplus funds of the DCCBs
- To supervise, regulate and inspect the functioning of the DCCBs and extend timely guidance to them, for their development
- To act as a nodal agency for channelizing the funds borrowed from RBI/NABARD to DCCBs and farmers through the PACS system
- To accept deposits from member societies, non- members, individuals, companies, local bodies, municipal bodies, etc.
- To provide financial support to state level cooperative federations and organizations such as co-operative sugar factories, State Cooperative Handloom Societies, Marketing Federations, etc.

District Central Cooperative Banks

- A District Co-operative Central Bank (DCCB) is a rural cooperative bank operating at the district level in various parts of India. It was established to provide banking to the rural hinterland for the agricultural sector with the branches primarily established in rural and semi-urban areas.
- The DCCBs can open branches within their area of operation, based on their administrative convenience and there is no need for them to make application for license with RBI. However, the banks need to take into account the operational and administrative aspects as also the profitability of such business units, while taking decisions to open branches.
- Many DCCBs, in large number of states, are facing several organization and managerial deficiencies. These are due to the defects in business policies, inadequate appraisal of the loans, mounting overdues at the PACS system and the direct loans provided to cooperative processing factories like cooperative sugar/ spinning mills, high level of politicization in the management of DCCBs

Primary Agricultural Credit Societies (PACS)

- PACS are village level cooperative credit societies that serve as the last link in a three-tier cooperative credit structure headed by the **State Cooperative Banks (SCB) at the state level.**
- Credit from the SCBs is **transferred to the District Central Cooperative Banks (DCCBs)**, that operate at the district level. The DCCBs work with PACS, which deal directly with farmers.

The main functions of the PACS are

- To promote economic interests of the members in accordance with the co-operative principles
- To provide short- and medium-term loans
- To promote savings habit among members
- To supply agricultural inputs like fertilizers, seeds, insecticides and implements
- To provide marketing facilities for the sale of agricultural produces; and
- To supply domestic products requirements such as sugar, kerosene

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

- LAMPS have been set up on the recommendations of the study team (Committee on Cooperative Structure in Tribal Areas) under the **Chairmanship of Shri Bawa**, appointed by GOI, in 1971.
- These societies operate mainly in hill and tribal areas. The objectives of LAMPS are to provide all types of credit, including those for meeting social obligations and consumer requisites under single roof; to provide technical guidance in the intensification and modernization of agriculture; to supply of inputs and essential commodities; and to arrange for the marketing of agricultural and minor forest products besides the products of the subsidiary occupations of the tribals.

The features of LAMPS are given below:

- **Members:** LAMPS is formed in a compact area of having population of 10,000 approx. and the majority of whom should be tribals. Membership restriction is there, i.e., 70% of the members should be tribals and 30% of the members may be non-tribals.
- **Sources of Finance:** Borrowings from cooperative banks/ commercial banks, share capital, and government contributions are sources of finance to LAMPS.
- **Board of Management:** The management is vested with managing committee which is composed of three government nominated directors, nine tribal and non -tribal elected directors.
- **Performance:** LAMPS in tribal areas provide concessional finance to tribals, which include short term, medium term and consumption loan to carry on their agricultural operations, allied activities and to meet other social purposes respectively at a concessional rate of interest

Long Term Cooperative Credit Structure

- The Long-Term Cooperative Credit Structure (LTCCS) had its beginning in the early 1920s, with the establishment of the **Land Mortgage Banks**, to provide long term loans to farmers, to redeem debts on land. The first Land Mortgage Bank was established in the year 1920, in Punjab. The first Central Land Mortgage Bank started functioning in Madras (present Chennai), to centralize the issue of debentures and to coordinate the working of the Primary Land Mortgage Banks.
- The contributions of **Agriculture & Rural Development Banks (ARDBs)** to the development of Indian agriculture have been quite significant in the post-Independence era. The ARDBs played a very important role in improving the productivity of land especially through development of minor irrigation and facilitating farm mechanization in the 60s and 70s.

Regional Rural Banks

The Regional Rural Banks have been established in the country during 1975-76, with a view to providing credit and other facilities particularly to the small and marginal farmers, agricultural labourers, artisans and to open branches in unbanked rural areas, particularly, in economically backward areas, including tribal areas.

The RRBs have been established with the following objectives:

- To make credit available to rural households for agriculture and allied activities
- To reduce the dependence of weaker sections, consisting of small and marginal farmers, agricultural labourers, artisans, small entrepreneurs, on the private money lenders
- To open branches in unbanked rural areas, particularly, in economically backward areas, including tribal areas.
- To mobilize rural savings and channelize them, for supporting productive activities, in rural areas.

- Supplement the other institutional agencies in credit delivery to rural areas.

Commercial Banks And Rural Financing

In 1969, 14 major commercial banks and another six banks in 1980 were nationalized, with the objective of accelerating development and making a significant impact on the problems of poverty and unemployment and bringing about progressive reduction in disparities between rich and poor sections.

The goals were to be achieved through:

- Reorientation of credit flows so as to benefit the neglected sectors of agriculture, small scale industries and small borrowers
- Widening branch network of banks, particularly in rural and semi- urban areas
- Mobilizing savings through bank deposits
- Deployment of funds, in all productive endeavours big or small, to make the production effort, broad based.

All these measures contributed to the growth of credit from the commercial banking system to the development of rural areas.

Revised Policy on Expansion of Banking Outlets

- A **'Banking Outlet'** for a Domestic Scheduled Commercial Bank (DSCB), a Small Finance Bank (SFB) and a Payment Bank (PB) is a fixed-point service delivery unit, manned by either bank's staff or its Business Correspondent, where services of acceptance of deposits, encashment of cheques/ cash withdrawal or lending of money are provided for a **minimum of 4 hours per day, for at least 5 days a week.**
- A banking outlet, which does not provide delivery of service for a minimum of 4 hours per day and for at least 5 days a week, will be **considered a 'Part-time Banking Outlet'.**
- An **'Unbanked Rural Centre'(URC)** is a rural (Tier 5 and 6) centre that does not have a CBS enabled 'Banking Outlet' of a Scheduled Commercial Bank, a Small Finance Bank, a Payment Bank or a Regional Rural Bank nor a branch of Local Area Bank or licensed Co-operative Bank for carrying out customer- based banking transactions.
- Domestic scheduled commercial banks (other than RRBs) are permitted to open (unless otherwise specifically restricted), Banking Outlets in Tier 1 to Tier 6 centres, without having the need to take permission from Reserve Bank of India in each case.

The opening of 'Banking Outlets' during a financial year, will be subject to the conditions given below:

At least 25 percent of the total number of 'Banking Outlets' opened during a financial year should be opened in unbanked rural centres,A 'Part-time Banking Outlet', opened in any Centre, will be counted and added on pro-rata basis, for computing the requirement as well as the compliance with the norm of opening 25 per cent Banking Outlets, in unbanked rural centres.

- If a bank proposes to undertake government business at any of the banking outlets/part-time banking outlets, it would require prior approval of the Government authority concerned as also of Department of Government and Bank Accounts, Reserve Bank of India, Central Office.
- Banks having general permission may shift, merge or close all 'Banking Outlets'(except rural outlets and sole semi-urban outlets), at their discretion.
- Merger, Closure and shifting of any rural 'Banking Outlet' as well as a sole semi urban 'Banking Outlet' would require approval of the DCC/DLRC.
- Details of tier-wise classification of centres based on population

Classification of centres (tier-wise)	Population (as per 2011 Census)
Tier 1	1, 00,000 and above
Tier 2	50,000 to 99,999
Tier 3	20,000 to 49,999
Tier 4	10,000 to 19,999
Tier 5	5,000 to 9,999
Tier 6	Less than 5000

- Population-group wise classification of centres

Rural Centre	Population up to 9,999
Semi-urban centre	from 10,000 to 99,999
Urban centre	from 1,00,000 to 9,99,999
Metropolitan centre	10,00,000 and above

Other Financial Institutions Catering To Rural Areas

Local Area Banks

- With a view to providing institutional mechanisms for promoting rural savings as well as for the provision of credit for viable economic activities in the local areas, Government of India and RBI have approved the establishment of new local banks in the private sector, in the year 1996.
- It is expected that their lending will be to agriculture and allied activities, SSI, agro-industrial activities, trading activities and the non-farm sector, with a view to ensuring provision of timely and adequate credit to the local clientele in their area of operation.
- The operations of a LAB will be governed by the provisions of the Reserve Bank of India Act, 1934, the Banking Regulation Act, 1949 and other relevant statutes.
- LABs are required to adhere to the prudential norms, accounting policies and other norms as are laid down by RBI and the IRAC norms prescribed by RBI in relation to the asset classification and provisioning are applicable to them.

Currently, three LABs are functioning in the country in the states of Andhra Pradesh and Punjab.

Small Finance Banks

The objective of granting license by RBI, in the year 2014, for setting up of small finance banks is to further financial inclusion by

- Provision of savings vehicles primarily to unserved and underserved sections of the population
- Supply of credit to small business units; small and marginal farmers; micro and small industries; and other unorganized sector entities, through high technology-low-cost operations.
- Presently, 12 SFBs are functioning in the country.
- SFBs need to maintain a Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR).
- They are required to extend 75% of its Adjusted Net Bank Credit (ANBC) to the sectors eligible for classification as priority sector lending by the Reserve Bank of India. At least 50% of its loan portfolio should constitute loans and advances of up to Rs. 25 lakh.

Payment Banks

- Based on the recommendations of the **Nachiket Mor Committee**, the decisions to grant license for setting up Payments Banks was considered by RBI, in 2015. The main objective of the Payment Bank is to advance financial inclusion, by offering banking and financial services to the unbanked and underbanked areas, helping the migrant labour force, low-income households, small entrepreneurs, etc.
- Currently, there are six Payment Banks namely, Airtel Payment Bank, India Post Payment Bank, Fino, Paytm Payment Bank, NSDL Payment Bank and Jio Payment Bank.
- They cannot issue loans and are not permitted to issue credit cards. The funds received by them as deposits are invested in government securities in the form of Statutory Liquidity Ratio (SLR) to the extent of 75 per cent of their demand deposits and the remaining is kept as demand deposits with other scheduled commercial banks.

Initiatives For Augmenting Credit Flow

Kisan Credit Card Scheme

- The Kisan Credit Card Scheme introduced during the year 1998 to enable the farmers to get their production credit requirement in a timely and hassle-free manner, has caused a positive impact in the growth of production credit for agriculture by various credit agencies.

- In order to boost the production credit at the ground level through the KCC system, GOI has formulated several schemes and implemented. Important among them are provision of interest subvention to the banks who are dispensing credit through KCC system, provision of incentives by way of interest rebate to KC card holders, who are prompt in repayment of the loans, extension of the benefits of the insurance programs implemented by the government to the holders of KCC, issue of RuPay credit cards to the KC card holders to enable them to carry out transactions for buying inputs, drawing cash from ATMs/PoS for their agricultural operations, etc.

Basic Savings Bank Deposit Accounts (BSSDA)

For furthering Financial Inclusion objectives, RBI had issued directives to commercial banks in November, 2005, to make available basic banking "no-frills" account with nil or low minimum balances and charges to offer a "Basic Savings Bank Deposit Account" (BSBDA) to all their customers.

- Total credits in such accounts should not exceed one lakh rupees in a year
- Maximum balance in the account should not exceed fifty thousand rupees at any point of time
- The total of debits by way of cash withdrawals and transfers will not exceed ten thousand rupees in a month
- Foreign remittances cannot be credited to small accounts, without completing normal KYC formalities
- Small accounts are valid for a period of 12 months, initially, which may be extended by another 12 months, if the person provides proof of having applied for an officially valid document .

Role of Information And Communication Technologies In Rural Banking

- **Electronic banking** refers to the use of technology which allows customer to access banking services electronically, whether it is to pay bills, transfer funds, view account or to obtain information and technology and advices.
- Other notable innovations taken place in the banking sector of India are introduction of **CBS, CTS, ECS, RTGS, EFT, NEFT, Debit & Credit Cards, Internet Banking, mobile banking**.
- Digital India program of GOI has given further push for taking technology to the rural India. Taking cue out of this, **ICICI bank, adopted village 'Akodara**,' a tiny village situated in the Sabarkantha district of Gujarat. The first digital village of the country. Bank has launched its own 'digital village' project, to provide services ranging from cashless banking to digitized school teaching.

Banks have introduced many innovative technology -driven products to meet the changing demands of their customers.

- **HDFC bank** has leveraged the popularity of wearable devices in the country and has launched **'watch banking'** with its Apple watch. The bank will provide all its banking services through all wearable devices across platforms like iOS and Android.

- **Axis bank** has launched a **multi-social payment app** across social platforms, such as Facebook, Twitter, WhatsApp, SMS or email. The app allows sending and receiving money without asking for bank details. The user just has to use the '#PingPayKaro', in order to make a transaction.
- **IndusInd Bank** has launched **facetime**, wherein a customer can speak to his manager directly through video conferencing.
- Use of **Block Chain solutions – Emirates NBD and ICICI Bank** partnership to launch a blockchain pilot network for international remittances and trade finance is a precursor for advances in this technology.

Initiatives of RBI

- RBI has played a very pivotal role in developing the payment market infrastructure and facilitating use of technology in the banking sector, by setting up institutions like the **IDRBT, NPCI, CCIL**, etc. Currently, these institutions provide the platform for running mission-critical and secured payment system applications like **RTGS, Secured Financial Messaging System, Negotiated Dealing Settlement System, etc.**
- GOI has taken several steps to tackle the menace of cyberattacks and important institutional arrangements have been made. **Indian Computer Emergence Response Team (CERT-In)** monitors Indian cyberspace and coordinates alerts and warning of imminent attacks and detection of malicious attacks among public and private cyber users and organizations in the country.

Prepaid Payment Instruments

Prepaid Payment Instruments (PPIs) are payment instruments that facilitate purchase of goods and services, including financial services, remittance facilities, etc., against the value stored on such instruments.

- **Closed System Prepaid Payment Instruments:** These are PPIs issued by an entity, including individuals, proprietorship firms, partnership firms, etc., for facilitating the purchase of goods and services from that entity only. These instruments do not permit cash withdrawal or redemption.
- **Semi-Closed System Prepaid Payment Instruments:** These are PPIs which can be used for purchase of goods and services, including financial services, remittance facilities, etc., at a group of clearly identified merchant locations/establishments which have a specific contract with the issuer to accept the PPIs as payment instrument. These instruments do not permit cash withdrawal, irrespective of whether they are issued by bank or non-bank PPI Issuers.
- **Open System Prepaid Payment Instruments:** These are PPIs which shall be only issued by banks, can be used for purchase of goods and services, including financial services, remittance facilities, etc. at any merchant locations. Banks issuing such PPIs shall also facilitate cash withdrawal at ATMs/BCs.

NABARD's Role in Financial Inclusion

NABARD is adopting a differentiated strategy for focused Financial Inclusion Fund (FIF) interventions, to address regional inadequacies and to bring about inclusive and equitable financial inclusion across the country.

The standard scheme operated by NABARD under the auspices of FIF are as under:

- **Financial Literacy Programs:** Financial and Digital Literacy Camps by branches of banks
- **Banking Technology Adoption:** (i) Deployment of micro- ATMs (ii) POS/mPOS Deployment in Tier 3 to 6 centres (iii) Dual Authentication facility at BC Point (iv) On–boarding to BHIM UPI (v) On-boarding to PFMS Platform
- **Regulatory Infrastructure Support:** (i) Membership of AUA/KUA (ii) onboarding to CKYCR
- **Support for Connectivity and Power Infrastructure**

Rural Insurance And Micro Insurance

Crop Insurance Scheme – Pradhan Mantri Fasal Bima Yojana:

The scheme was launched from Kharif 2016, after effecting modifications in the previously implemented crop insurance scheme. The objectives of the scheme are

- Providing financial support to farmers suffering crop loss/damage arising out of unforeseen events
- Stabilizing the income of farmers to ensure their continuance in farming
- Encouraging farmers to adopt innovative and modern agricultural practices
- Ensuring credit worthiness of the farmers
- crop diversification and enhancing growth and competitiveness of agriculture sector protecting the farmers from production risks.

Uniform premium of only 2% to be paid by farmers for all Kharif crops and 1.5% for all Rabi crops. In case of annual commercial and horticultural crops, the premium to be paid by farmers will be only 5%.

Micro Insurance

- Micro Insurance is defined as "the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved".
- Micro insurance can be an effective tool to help eliminate poverty from the country. It is an opportunity for the insurers and other market participants to expand by tapping into new market segments and support insurance growth of the market.

Challenges in micro insurance:

- Lack of awareness among the people to go in for micro insurance products.

- Wrong selection of products, and poor infrastructure facilities leading to high administrative costs
- Lack of availability of data related to potential claims from properly designing good quality products by the insurers
- Farm labourers keep moving from one area to another area so portability of micro insurance product has become an issue
- Discontinuation of payment of the premium leading to the policy holders losing the benefit of the policy
- Delay in settlement of claims due to delay in submission of requisite documents such such as death certificates, nominee holders not having bank account for effecting settlements, etc.

CAIIB Rural Banking Module B Unit 3- Financing Agriculture & Allied Activities

Crop Loans – Production Credit

- The **crop loan** or the term **Seasonal Agricultural Operations** (SAO), generally indicates such activities, as are undertaken in the process of raising various crops and are seasonally recurring in nature.
- The activities include ploughing and preparing land for sowing, transplantation, weeding, acquiring and applying inputs such as seeds, fertilizers, insecticides, etc. and labour for all operations in the fields for raising and harvesting the crops.
- Thus, the credit required to meet the current expenditure for raising the crops on land, till the crops are harvested, is construed as production credit, for seasonal agricultural operations.

Kisan Credit Card Scheme

The Kisan Credit Card (KCC) scheme provides for issue of credit cards (including electronic cards) to farmers (as per their land holding) for purchase of inputs, and investment for allied and non-farm activities.

Objectives: It aims at providing adequate and timely credit support from the banking system under a single window to the farmers for their cultivation and other needs such as - Post harvest expenses, Consumption requirements of farmer household, Maintenance of farm assets and activities allied to agriculture.

Eligibility:

- Farmers – Individuals/Joint borrowers who are owner cultivators;
- Tenant Farmers, Oral Lessees & Share Croppers;
- SHGs or Joint Liability Groups (JLGs) of Farmers including tenant farmers, share croppers,

Fixation Of Credit Limit

Short term limit for farmers raising single crop in a year: For uniformity, the **District Level Technical Committee (DLTC) assesses cultivation cost per hectare for different crops raised in the district**, and determines the scale of finance.

- **Short term limit for the first year:** Scale of finance for the crop (as per DLTC) x Extent of area cultivated +10% of limit towards post-harvest/ household/ consumption requirements + 20% of limit towards repairs and maintenance expenses of farm assets + crop insurance and/ or accident insurance.
- **Limits for second & subsequent year**: First year limit for crop cultivation purpose + 10% of the limit towards cost escalation/increase in scale of finance for every successive year (2nd, 3rd, 4th and 5th year).
- **The maximum permissible limit:** The short- term loan limit arrived for the fifth year plus the estimated long- term loan requirement will be the maximum permissible limit (MPL) and treated as the Kisan Credit Card limit
- During 2006-07, the **2% interest subvention scheme was introduced for short term crop loans up to Rs. 3.00 lakh, capping the interest rate to be charged from the farmers at 7% per annum.** This has benefitted most of the KCC holders.
- The incentive for **prompt repayment** at 1 per cent was increased to **3%** in respect of all the crop loans up to Rs. 3.00 lakh.
- The **flex KCC concept introduced for marginal farmers envisages provision of flexible limit of Rs. 10,000 to Rs. 50,000,** based on the land holding and crops grown, which will include post -harvest warehouse storage related credit needs and other farm expenses, consumption needs, etc. plus, term loan for purchase of farm equipment, establishing mini diary/backyard poultry, as per the assessment of the branch manager without relating it to the value of land.

Disbursements:

- The **short-term component of the KCC limit is in the nature of revolving cash credit facility**. There should be no restriction in the number of debits and credits. Each instalment of the drawable limit drawn in a particular year will have to be repaid within 12 months.
- This instruction has been revised and banks have been advised to fix repayment as per the anticipated harvesting and marketing period for the crops for which a loan has been granted.

Validity/Renewal:

- The Kisan Credit Card should be **valid for five years** subject to an annual review
- The review may result in continuation of the facility, enhancement of the limit or cancellation of the limit /withdrawal of the facility, depending upon increase in cropping area/pattern and performance of the borrower.

Rate of Interest:

- The rate of interest will be linked to base rate and is left to the discretion of the bank. However, if Government supported interest subvention is provided for any component of the limit, the rate of interest may be fixed accordingly.

Repayment Period:

- Each withdrawal under the short- term sub limit be allowed to be liquidated in 12 months, without the need to bring the debit balance in the account to zero at any point of time. No withdrawal in the account will remain outstanding for more than 12 months. The term loan component will be normally repayable within a period of five years.

Margin:

- For crop loans, no separate margin need be insisted as the margin is inbuilt while fixing the scales of finance. For term loan component, it will be in conformity with the guidelines issued by RBI from time to time.

Security:

Security requirement may be as under:

- **Hypothecation of crops:** For KCC limit upto ₹ 1.00 lakh banks are to waive margin/security requirements.
- **With tie-up for recovery:** Banks may consider sanctioning loans on hypothecation of crops up to card limit of ₹ 3.00 lakh without insisting on collateral security.
- **Collateral security**: Collateral security may be obtained at the discretion of Bank for loan limits above ₹ 1.00 lakh in case of non-tie-up and above ₹ 3.00 lakh in case of tie-up advances.

Procedures relating to classification of accounts as per IRAC norms

- The short- term loan (with major component of crop loan) sanctioned on the KCC can be given the same treatment as a "cash credit" account for the purpose of applying prudential norms and should not be treated as "out of order" if the balance outstanding is less than or equal to the drawing limit and each drawal is repaid within a period of 12 months. Term loans under KCC has fixed repayment schedule and is to be governed by extant prudential norms.
- Charging of interest is to be done uniformly as is applicable to agricultural advance.
- The classification of accounts under NPA category will be done by banks as per the IRAC norms advised by RBI from time to time.

Financing Marketing of crops

Post-harvest loans against Negotiable Warehouse Receipts

- With a view to discouraging distress sale of produce by farmers and to encourage them to store their produce in warehouses for a reasonable period to get better price for their produce, GOI had introduced a scheme, during the year 2011-12, for extending concessional post-harvest loans to small and marginal farmers (SF/MF) having Kisan Credit Cards, against Negotiable Warehouse Receipts (NWR), for a period up to six months, on the same rate of interest, as available for crop loans.

- The quantum of loan shall not exceed 75% of actual value of produce pledged. However, the benefit of interest subvention is available only up to Rs. 3.00 lakh.

Term-loans For Agriculture And Allied Activities

Loans provided for more than 18 months are called Term Loans, which are further classified into **medium term loans**, given for purposes like purchasing agricultural machinery, tractors and livestock and repayable within a period of 2 to 5 years or at the most up to 7 years, and the **long- term loan** granted for over 7 years period and up to 15 years for minor irrigation and for growing plantation and horticulture crops.

Investment Outlay:

Investment outlay or the cost of capital investment depends on type of activity, scale of operation and technology adopted. **The investment outlay generally includes:**

- **Preoperative expenses** like preparation of feasibility report and security deposit for electricity connection.
- **Land development** including fencing, leveling, construction of water source like tube well,
- **Civil construction** needed for the activity,
- **Equipment and machinery** needed for the activity

Bank Loan:

- The bank loan depends on total cost of investment minus margin money of the borrower.

Repayment period and Schedule of repayment:

- Repayment schedule represents the number of installments, amount of installment, the frequency and the period of repayment.

Grace period:

Some investments do not yield immediate returns and have long gestation periods. This necessitates provision of 'grace period' when no recovery is expected. Examples of such investments are horticulture or forestry, plantation and poultry. The grace period suggested by NABARD for certain important agricultural term loans are:

- **23 months for dug wells with or without pump-set,**
- **11 months for sprinkler/drip irrigation,**
- **12 months for poultry,**
- **Six to seven years for horticultural crops like mango, cashew, etc.**

Repayment Schedules:

- **Types:** Based on the income generation from the project and corporate loan policy, different banks adopt different types of loan repayment schedules.
- **Equal Installment:** Equal installment is worked out by dividing the principal amount, by the number of installments fixed by the bank and the interest dues are recovered separately.

$$\text{Installment} = \frac{\text{Amount of Principal}}{\text{Number of Installment}} + \text{Interest accrued}$$

- **Equated Installment:** Under equated installment, the same amount is repaid throughout the repayment schedule, as this includes principal and interest.

$$\text{Equated Installment} = \text{Loan Amount} \times \text{CRF}$$

$$\text{CRF} = \text{Capital Recovery Factor}$$

$$\text{CRF} = r\ \{(1 + r)^n\} / \{(1 + r)^n - 1\}$$

Features of Major Sectors For Which Opportunities Are Available For Provision of Term Credit By Banks

Minor Irrigation

- Minor irrigation structure is generally defined as a structure, with capacities to irrigate up to 2000 ha. In the context of bank finance, minor irrigation term includes basically financing of structures which are meant for irrigation of individual farmer's land.
- These structures include dug well with or without pump-set, bore well, tube well, deepening the existing wells, pipelines for carrying water, sprinkler and drip irrigation systems. These structures have become important sources of irrigation and forming essential item for provision of bank credit, under priority sector.

Lift Irrigation

- Lift irrigation is a method of irrigation in which, water is not transported by natural flow, (as in gravity-fed canal), but is lifted with pumps or surge pools, etc. Most of the lift irrigation schemes are implemented as cooperative lift irrigation schemes in our country.

Micro Irrigation

The drip and sprinkler systems are widely used for efficient use of water. The features of these systems are as under:

- **Drip irrigation** is sometimes called **trickle irrigation** and involves dripping water onto the soil, at very low rates (2-20 litres/hour), from a system of small diameter plastic pipes, fitted with outlets, called emitters or drippers.

- Water is applied close to plants, so that, only part of the soil in which the roots grow is wetted, unlike surface and sprinkler irrigation, which involves wetting the whole soil profile.
- Drip irrigation is most suitable for row crops (vegetables, soft fruit), tree and vine crops, where, one or more emitters can be provided for each plant. Generally, only high value crops are considered because of the high capital costs of installing a drip system.

Land Development

- Increase in agricultural production to feed the increasing population is possible only if there are sufficient fertile land and water available for farming.
- Soil and Water Conservation measures like land levelling, shaping and grading, provision of drainage network, stabilization of bunds and outlets with grass plantation, soil reclamation, on-farm development (OFD), farm ponds, etc., are some of the activities that can be financed by the banks.

Farm Mechanization

- An ambitious target of increasing the availability of farm power from 2.02 kW per ha (2016-17) to 4.0 kW per ha by the end of 2030 has been set by GOI.
- Agriculture Mechanization is crucial for modernization and commercialization of agriculture, as it improves productivity and timeliness of agriculture operations, aids in value addition, brings down the cost of cultivation and enables climate change adaptation.
- Farm mechanization helps to decrease in workload on women as a direct consequence of the improved efficiency of labour, improvement in the safety of farm practices, helps in encouraging the youth to join farming and attract more people to work and live, in rural areas.

Plantation And Horticulture

- Plantation and Horticulture sectors covers a rainbow of crops like fruits, vegetables, spices, flowers, medicinal and aromatic crops, mushrooms, bee keeping and plantation crops like tea, coffee, rubber, coconut, oil palm, etc.
- Horticulture sector is not only important from economic perspective to farmers but also assumes significance from the nutritional perspective of our population.
- Several development programs are under implementation which aims at integrated development of horticulture crops. These include Mission for Integrated Development of Horticulture, National Horticulture Board programs focusing on hi-tech horticulture and post-harvest management infrastructure, including cold storages and reefer vans, National Medicinal Plants Board's programs for growth of cultivation, conservation, trade and export of medicinal plants, Programs of National Mission on Oilseeds and Oil Palm for promotion of oil palm cultivation, National Bee Board program for promoting bee keeping as a means to improve crop productivity.

Rural Godowns

- There has been a felt need in the country, to provide the farming community, with the facilities for scientific storage so that, wastage and produce deterioration are avoided and also to enable them to meet their credit requirement, without being compelled to sell the produce, at a time when the prices are low.
- **Grameen Bhandaran Yojana** –A Capital Investment Subsidy Scheme for Construction/Renovation of Rural Godowns was introduced in 2001-2002 and subsidy is being provided for construction and renovation of godowns in rural areas.

Activities allied to Agriculture

Animal Husbandry Sector

- **The National Program for Bovine Breeding and Dairy Development, National Dairy Plan, National Mission on Bovine Productivity, Rashtriya Gokul Mission,** etc. are some of the programs launched and implemented by the Government, with a view to improving the production and productivity of bovine population, quality of milk and milk products, etc.
- **Th**e Central Government has launched **Animal Husbandry Infrastructure Development Fund involving outlay of Rs. 15,000 crores** for incentivization of investments in establishment of infrastructure for dairy and meat processing and value addition infrastructure. The scheme envisages provision of **interest subvention at 3 per cent by the government and extension of credit guarantee cover up to 25 per cent of loan.**

Poultry Sector

- The unorganized sector also referred to as backyard poultry plays a key role in supplementary income generation and family nutrition to the poorest of the poor.

Strengths	**Weaknesses**
(a) Low-cost Protein in the country (b) Good growth rate- CAGR is around 5% for eggs and 7% for poultry; CAGR of GVA for last 5 years for egg and poultry is nearly 13% and 15% respectively. Rising economy & growing emphasis on poultry products. (c) Livestock contributes nearly 12% to rural household monthly Income; Poultry alone can contribute nearly half of the same. Coping up with captive production of Soya bean & maize (d) Consolidation of integrated operations would strengthen poultry supply chain	(a) Lack of infrastructure facilities for Value addition such as poultry processing, warehousing, cold storage, refrigerated vehicles (b) High cost of Maize & Soya and price fluctuation leading to availability issues of poultry feed at reasonable prices (c) Small farms, losing out on economies of scale and biosecurity (d) Lack or undefined standards leading to impending cheaper imports
Opportunities	**Threats**
(a) 95% Raw/ Wet market – can transform Work on developing alternate breeds and LIT birds for upgraded family poultry (b) Untapped potential for the export & value- added chicken products	(a) Avian influenza and other emerging/re-emerging diseases (b) Recurrence of calamities

Fisheries Sector

- India is one of the larger fish producing countries in the world and shares 7.58 per cent of the global production.

Strengths	Weaknesses
(a) Long coast line and large number of water bodies/ water resources	(a) Inland Fisheries
(b) Established fishing industry with wide variety of species	(b) Seasonal nature of fishing operations
(c) Second largest aqua producer in the world and third largest fish producer in the world	(c) Depleted stocks of natural waters
(d) Higher growth rates in aquaculture sector	(d) Issues of tenure and lease rights
(e) Support from government both for production and post production including harvest	(e) Use of obsolete technology for harvesting Low capital infusion
(f) Acceptance of Indian produce in world markets	(f) Inadequate access to institutional credit
(g) Contributing about 19.2 per cent of national agriculture export	(g) Low scale operations and low yields
(h) Source of livelihood for 16 million households	(h) Lack of extension services
(i) Contribution of nearly 1.24 per cent of GVA	(i) Primary Stakeholders are poverty ridden
(j) Abundant potential	(j) Poor access to quality seed and feed
(k) Existing markets can be converted to meet the phytosanitary conditions of export markets, with traceability	Marine Fisheries
(l) Separate skill development programs for improving the value chain are being implemented in large scale	(a) Limited scope for expansion due to overcapacities in territorial waters
	(b) Weak regulation
	(c) Inefficient and traditional fishing practices·
	(d) Inadequate infrastructure like fishing harbours, landing centers, cold chains and hygienic markets
	(e) Poor processing facilities and lack of value addition, high wastage
	(f) Issues related to traceability and certification
	(g) Non-availability of skilled manpower.
	(h) Primary Stakeholders are poverty ridden

- Government in Union Budget, 2019-20 has announced a new scheme called the **Pradhan Mantri Matsya Sampada Yojana (PMMSY).**The scheme intends to address all the weaknesses and the critical gaps in fish production and productivity, quality, technology, post-harvest infrastructure and management, modernization and strengthening of value chain, traceability, establishing a robust fisheries management framework and fishers' welfare.

Sericulture

- Sericulture is an agro-based cottage industry, having huge employment and income generating potential, in rural and semi-urban areas.

- Some of the initiatives of the governments to uplift this sector include race improvement through development of improved host plant varieties and improved disease resistant silkworm breeds through collaborative research with reputed National Research organizations like IITs, CSIR, IISc and International research institutes on Sericulture.

Major Issues in financing term loans

- Capacity to formulate area development schemes and undertaking appraisal of large sized projects in relation to risk analysis are limited, in case of certain category of banks, who are purveying larger production credit for agriculture.
- The transaction cost of providing term loans to small farmers particularly under government sponsored programs is high.
- Most of the term loan activities are exposed to risk relating to natural calamities which can neither be predicted nor be fully covered

- Interest rates are not decided scientifically to take care of the transaction costs and risk costs for specific type of loans.
- The number of accounts is quite large in banks, which makes monitoring difficult.
- Longer repayment period makes it difficult to monitor the accounts.

Advance Against Gold Ornaments

- The biggest advantage of a gold loan is the flexibility to repay the loan principal and interest as a lump sum amount instead of the popular way to repay other forms of loans - equated monthly installments, or EMIs.
- In the case of a gold loan, banks and credit agencies can provide credit up to 90 per cent of the value of the gold/jewels pledged. The lenders need to evaluate the ornaments/jewels offered as security for loans in the form of pledge in relation to their purity and weight.
- In order to standardize the valuation and make it more transparent to the borrower, gold ornaments and jewellery accepted as security/collateral may be valued at the average of the closing price of 22 carat gold for the preceding 30 days, as quoted by the India Bullion and Jewellers' Association Ltd.

For provision of loans against the pledge of gold ornaments and jewellery for other than agricultural purposes, where *both interest and principal are due for payment at maturity of the loan shall be subjected to the following conditions:*

- Banks, as per their Board approved policy, may decide upon the ceiling with regard to the quantum of loans that may be granted against the pledge of gold jewellery and ornaments for non-agricultural end uses
- The tenor of the loans shall not exceed 12 months from the date of sanction
- Interest may be charged to the account at monthly rests and may be recognized on accrual basis, provided the account is classified as 'standard' account.
- Such loans shall be governed by extant norms pertaining to income recognition, asset classification and provisioning which shall be applicable once the principal and interest become overdue.

CAIIB Rural Banking Module B Unit 4-Financing Rural Non-Farm Sector

Rural Non-farm Sector

- According to NABARD, the RNFS covers off-farm and non-farm activities (outside agriculture and allied activities) in secondary and tertiary sectors of the economy, primarily benefiting the rural areas.
- Erstwhile Planning Commission used the term **'Village and Small Industries' (VSI)**, instead of RNFS. As per Seventh Plan, the **VSI sector is divided into eight subsectors**, Khadi & Village Industries, Handloom, Sericulture, Handicrafts, Coir,

Small scale industries and Power-looms. Small scale industries and power-looms use modern technologies and are mostly urban oriented.

The Government emphasized on promotion of Village and Small Industries with a view to achieving the objectives of:

- ✓ Growth and widespread dispersal of industries
- ✓ Increase the levels of earning of artisans
- ✓ Sustain and create avenues of self-employment
- ✓ Ensure regular supply of goods and services, through local skills and resources
- ✓ Develop entrepreneurship, in combination with improved methods of production through appropriate training and package of incentive
- ✓ Preserve craftsmanship and heritage of the country.

Facilitative Set-up

During the First Plan, the Cottage Industries Board (set up in 1947) was divided into three independent boards,

- ✓ All-India Handloom Board,
- ✓ All-India Handicraft Board,
- ✓ All-India Khadi and village Industries Commission.

In addition, three more boards,

- ✓ Small Scale Industries Board
- ✓ Coir Board and
- ✓ Central Silk Board, were set up.

Small Industries Development Organization (SIDO) was established in 1954, as an apex body, for the promotion and monitoring of the small -scale sector in the country. It provides comprehensive services including consultancy, training, common felicity services and marketing assistance to the SSI sector.

SIDO plays an important role in imparting entrepreneurial development training programs**. National Institute for Entrepreneurial and Small Business Development (NIESBUD) was set up by SIDO** in 1983, for conducting and co-coordinating entrepreneurial development programs organized by various institutions in the country.

Structure and Growth of Rural Non-farm Sector

The RNFS can be classified into three major sub-sectors:

- **The first sub-sector** consists of enterprises that are run on more or less stable basis with target on the surplus generation and growth, employing labour with certain degree of technical sophistication.

- **The second sub-sector** consists of products or activities, which are often seasonal, run solely with the help of unpaid family labour, using primitive technology and catering mostly to the local market.
- **The third sub-sector** consists of paid workers characterized by low earnings and a disintegrated market with respect to labour supply.

The Rural Non-Farm Sector (RNFS) refers to all non-agricultural activities like mining and quarrying, household and non-household manufacturing, processing, repair, construction, trade and commerce, transport and other services in villages and rural towns undertaken by enterprises.

Strength and Weaknesses of Non-farm Sector

Strengths

- **Institutional basis for rural non-farm sector:** These include a well- developed financial system with preferential access to credit for the sector, support institutions such as the Khadi and Village Industries Commission (KVIC), State Khadi Boards, National Handloom Development Corporation, Small Industries Development Bank of India, State Industrial Development Corporations, etc.,
- **Decentralization process:** With the opening up of the economy in the year 1991, **foreign direct investment (FDI)** has come to play an important role, in the overall policy environment. State governments are in competition with one another, to attract higher FDI levels, both in manufacturing and infrastructure.
- **Specific Initiatives:** As part of 'Ease of Doing Business' initiatives, the Ministry notified and launched **Udyog Aadhaar Memorandum (UAM**), in September, 2015, to enable the entrepreneurs to register themselves by filing an online simple one- page form on Self Certification basis, in order to get easier access to the government schemes.
- **A Scheme for Promotion of Innovation, Rural Industry and Entrepreneurship (ASPIRE)** was launched by the Ministry in March, 2015, for creating more employment opportunities through skill-upgradation, handholding, mentoring, incubation and credit support to rural youth and women.

Weaknesses

- **Lack of infrastructure:** The most significant bottleneck in generating higher levels of rural non-farm activity in India is the quantity, quality and reliability of infrastructure.
- **Absence of quality of manpower:** High levels of illiteracy in rural India, have hampered the growth of the rural non-farm sector. lack of technical skills, there is little incentive for rural firms to invest in technology, leading to low levels of labour productivity in the rural manufacturing sector.
- **Absence of forward and backward linkages:** Absence of appropriate forward and backward integration greatly affects performance of non-farm activities in

rural areas. Forward linkages of the RNF sector serve as inputs to other sectors. However, gaps in the integration of the production linkages brought about by poor infrastructure, low accessibility of market, support service weaknesses and intervention of middle men have constrained the development of non-farm enterprises in India.

Promotion Of Traditional Industries

Khadi and Village Industries Sector

- The **Khadi and Village Industries Commission (KVIC)** is the primary promotional institution for KVIs. The state governments subsequently established state level Khadi and Village Industries Boards (KVIBs), which receive grants and loans from KVIC.
- The KVIC undertakes activities like skill improvement, transfer of technology, research & development, marketing, etc. and helps in generating employment/self-employment opportunities in rural areas.
- The KVIC is enjoined with the responsibilities of planning, promotion, organization and implementation of programs for the development of Khadi and other village industries in the rural areas, in coordination with other agencies engaged in rural development.

Schemes implemented by KVIC

Prime Minister's Employment Generation Program (PMEGP):

- PMEGP is a credit-linked subsidy program monitored by the Ministry of Micro, Small and Medium Enterprises, Government of India and implemented through KVIC.
- Generation of sustainable and continuous self -employment opportunities in urban and rural areas and facilitating the financial institutions' participation for higher credit flow to the micro sector have been the objectives of the program.
- Subsidy ranging between 15% and 35% are considered under the program (at 15% and 25% for general category of borrowers in urban and rural areas and at 25% and 35% for special category of borrowers in urban and rural areas). The bank credit will be ranging between 60-75% of the cost after deducting margin money and subsidy.

Scheme of Fund for Regeneration of Traditional Industries (SFURTI):

- (SFURTI) aims at organizing the traditional artisans and industries into groups to make them competitive and provide them with long-term sustainability. The financial support provided under SFURTI for any specific project shall be subject to maximum of Rs. 8 crore.

Interest Subsidy Eligibility Certificate (ISEC):

- The Interest Subsidy Eligibility Certificate (ISEC) Scheme is the major funding source for the Khadi program. This scheme was introduced to mobilize funds from banking institutions to bridge the gap in the actual fund requirement and its availability from budgetary sources. Under this scheme, funding is provided at a concessional rate of interest of 4% per annum, for working capital purposes.

Market Promotion Development Assistance (MPDA):

- This scheme is launched to provide services like market promotion and development assistance for Khadi industries. The aim of this scheme is to ensure increased earnings for artisans.
- Under the former MDA scheme, financial assistance was distributed amongst artisans (25%), selling institutions (45%) and producing Institutions (30%).

Khadi Reform and Development Program (KRDP):

- Khadi Reform and Development Program (KRDP) is formed for employment generation, enhancing the earning of artisans and ensuring the positioning of Khadi considering the present needs of Khadi industry.
- Under the former MDA scheme, financial assistance was distributed amongst artisans (25%), selling institutions (45%) and producing Institutions (30%).

Beekeeping – The Honey Mission:

Honey Mission aims to improve the livelihoods of the rural communities. It works around five dynamics viz.

- **A**n income generating activity
- Medicinal and food value of honey
- Supports agricultural activities
- Contributes to forests conservation efforts and
- Facilitates healthy linkages between biodiversity towards sustainable livelihoods

Market Development Assistance (MDA):

- MDA scheme is promotion assistance for development of Khadi which is paid at 20% on production. Under MDA scheme, financial assistance of 25% is reserved for payment among weavers and spinners as an additional incentive through their post/bank office account.

Handloom Sector

National Handloom Development Program (NHDP):

National Handloom Development Program (NHDP) has been formulated as a central sector scheme for its implementation during 2017-18 to 2019-20. The scheme adopts need- based approach for integrated and holistic development of handlooms and welfare of handloom weavers. **The components of the scheme and the relevant details are under:**

- **Block Level Cluster**: Financial assistance up to Rs. 2.00 crore per BLC for various interventions such as skill upgradation, product development, construction of workshed, project management cost, design development, setting up of common facility centre (CFC), etc. are provided under this component of the program.

Besides, financial assistance up to Rs. 50.00 lakh is available for setting up of one dye house at district level, based on the recommendations of the State Government.

- **Handloom Marketing Assistance:** In order to provide marketing platform to the handloom agencies / weavers to sell their products directly to the consumers, financial assistance is provided to the States/eligible handloom agencies for organizing marketing events, in domestic as well as overseas markets.
- **Weaver MUDRA Scheme:** Under the Weaver MUDRA Scheme, credit at concessional interest rate of 6% is provided to the handloom weavers. Margin money assistance to a maximum of Rs. 10,000 per weaver and credit guarantee for a period of 3 years is also provided. MUDRA Portal has been developed in association with Punjab National Bank, to cut down delay in disbursement of funds for margin money and interest subvention.
- **Hathkargha Samvardhan Sahayata (HSS):** The component is focused to provide looms/accessories to the weavers, to enhance their earnings, through improved productivity and quality of the handloom products. Under the scheme, 90% of the cost of loom/accessory is borne by the Government of India, while the remaining 10% is borne by the beneficiary.
- **Education of Handloom Weaves and their children:** Ministry of Textiles has signed Memorandums of Understanding with Indira Gandhi National Open University (IGNOU) and the National Institute of Open Schooling (NIOS) to secure educational facilities for the weavers and their families. The program envisages reimbursement of 75% of the fee towards admission to NIOS/IGNOU courses in case of SC, ST, BPL, and women learners belonging to handloom weavers' families.
- **"India Handloom" Brand:** India Handloom Branch was launched in August, 2015 for branding of high- quality handloom products. The idea is to promote production of niche handloom products with high quality, authentic traditional designs with zero defect and zero effect on environment.
- **E-Commerce:** In order to promote e-marketing of handloom products, a policy frame work was designed and under which, any willing e-commerce platform with good track record can participate in online marketing of handloom products. Accordingly, 23 e-commerce entities have been engaged for on-line marketing of handloom products.
- **Urban Haats** are set up in the big towns/metropolitan cities to provide adequate direct marketing facilities to the craft persons/weavers and eliminate middle agencies.

Comprehensive Handloom Cluster Development Scheme:

The objectives of the scheme are as under:

- To empower handloom weavers and build their capacity to enhance competitiveness of their products in the domestic as well as global market in a sustainable and reliant manner.

- To facilitate collectivization of handloom weavers and service provides for procurement, production, marketing and other support activities to promote sustainable growth and diversification
- To give a proper thrust to design development through creation of design studio and involvement of professional designers
- To involve professional marketing chains and marketers to identify the items of production to meet the changing demands of the market.
- To provide requisite support / linkages in terms of adequate core & technical infrastructure, technology, product diversification, design development, raw material banks, marketing & promotion, and other components that are vital for sustainability of weavers engaged in the handloom sector.
- To provide for development of handloom clusters in an inclusive and holistic manner in an environment of empowered and participative decision making.
- To support services from various schemes and programs of various government and other agencies in the cluster to optimize resource utilization for betterment of the livelihood, quality of life of handloom wavers and increase income level of the weavers.
- Public Private Partnership (PPP) model in the form of collaboration between the Government, beneficiary weavers & their group, financially creditworthy & commercially linked marketing enterprises and the financial Institutions.

Revival Reform and Restructuring Package for handloom sector:

This program implemented through NABARD intervention was aimed to benefit 15000 Weavers' Cooperative Societies and 3 lakh Weavers, across the country. **The objectives of the package are:**

- loan waiver and recapitalization of handloom weavers' cooperative societies which are considered viable and potentially viable
- Waiver of loans to individual weavers
- Strengthening of weavers' cooperative societies
- Concessional credit of 6% rate for a period of three years, from the date of disbursal of the fresh loan to the eligible handloom cooperative societies and individual handloom weavers, covered under the package
- Credit guarantee for fresh loans (administered by SIDBI)
- Training for the functionaries and
- Loss assessment exercise.

Yarn Supply Scheme:

- Yarn Supply Scheme is being implemented throughout the country to make available all types of yarn at Mill Gate Price. The scheme is being implemented through National Handloom Development Corporation.
- Under the Scheme, freight is reimbursed and depot operating charges @2% is given to depot operating agencies. A component of 10% price subsidy also exists on hank yarn.

Handloom Weavers’ Comprehensive Welfare Scheme:

- Handloom Weavers Comprehensive Welfare Scheme (HWCWS) is providing life, accidental and disability insurance coverage to handloom weavers/workers, under the components Pradhan Mantri Jivan Jyoti Bima Yojana (PMJJBY), Pradhan Mantri Suraksha Bima Yojana (PMSBY) and Converged Mahatma Gandhi Bunkar Bima Yojana (MGBBY).

Sant Kabir Award:

- Indian Government has also instituted an award called Sant Kabir Award, which is conferred to outstanding weavers who have made valuable contribution in keeping alive the handloom heritage.
- It was established for dedication in building up linkages between the past, present and future through dissemination of knowledge.

Institutional Finance for handloom sector:

- Reserve Bank of India, as back as in 1956, formulated a Handloom Refinance Scheme and extended credit facilities to the State Cooperative Banks for financing the working capital requirements of the Primary Weavers Cooperative Societies engaged in production and marketing activities.
- NABARD has also laid down prudential guidelines for assessment of working capital under the handloom finance program so as to ensure healthy growth of the sector.

Handicraft Sector

GOI has been implementing the following programs and schemes For the development of handicrafts under the auspices of the **National Handicrafts Development Program (NHDP)**

- **Ambedkar Hastshilp Vikas Yojana:** The Scheme aims at undertaking base-line survey and developing artisans’ clusters into professionally managed and self-reliant community enterprise, on the principles of effective member participation and mutual cooperation. The design and technology upgradation (DTU) component under the scheme focuses on upgrading the skills of artisans through development of innovative designs and prototypes products for overseas market, revival of endangered crafts and preservation of heritage, etc.
- **Comprehensive Handicrafts Cluster Development Scheme:** Mega cluster approach is a drive to scale up the infrastructural and production chain at Handicrafts clusters. Efforts are made under the program to create a niche market for the products manufactured by the clusters.

The primary statutory agency governing the Handicrafts sector at the central level is the office of the **Development Commissioner Handicrafts under the Ministry of Textiles. The Council of Handicrafts Development Corporations (COHANDS) is an apex body of 29 state/central level Handicrafts Development Corporation**. The COHANDS was conceptualized to work as a facilitator, providing necessary impetus, thrust and direction to trade but not engaging in trade directly. It aims to be a catalytic agent for promotion of handicrafts in the domestic and global markets.

Financial Institutions contributing to the development of Handicrafts

- **Micro Units Development and Refinance Agency Ltd (MUDRA)** has been launched by the Central Government to institutionalize MUDRA bank loan scheme for development of micro units and refinancing of MFIs to encourage entrepreneurship in India and provide funding to the non-corporate small business sector.
- **The Small Industries Development Bank of India (SIDBI)** is the principal financial institutions for the promotion, financing and development of the MSME sector. The Scheme for Cane and Bamboo Craft, Credit linked capital subsidy scheme (CLCSS) and Technology Upgradation Fund Scheme (TUFS) are implemented by the Ministry of Textiles in collaboration with the SIDBI Foundation for Micro Credit.

- Many states have initiated measures for setting up cooperative societies in the handicrafts sector with a view to facilitating the artisans to engage in collective procurement of the raw materials and market the products manufactured by them.

Coir Sector

- Coir Industry is an agro-based rural industry providing employment to over 7 lakhs workers in the major coconut producing states of the country. This is an export-oriented industry, which earned more than Rs. 2200 crores of foreign exchange for the country during 2018-19.
- Most of the coir units in the country are located in rural areas and the workers belong to economically and socially weaker sections of the Society. It is estimated that 80% of the workforce in this sector are women and hence the industry contributes significantly to women empowerment.

The Coir Board is implementing certain sector focused schemes-

Coir Industry Technology Upgradation Scheme	The objectives of the scheme are to provide modern infrastructure facilities to the production units resulting in improvement of productivity and quality, to support the establishment of new 'State of the Art' Coir Processing Units, to spread the industry to potential areas, to promote the enhanced utilization of available raw material, to create more employment opportunities, especially for women in rural areas, to attract new generation entrepreneurs to the industry, to modernize the existing coir units, to promote the development and installation of information technology including enterprise resource planning (ERP), to support the production of high value customer-oriented products, to make the Coir Industry integrated and competitive with modern technologies, to facilitate the adoption of eco-friendly production techniques, to achieve the target of a pollution free coir industry with technological advancements.
Coir Udyami Yojana	This is a credit linked subsidy scheme. The Scheme provides assistance for setting up of any type of coir units. The maximum admissible cost of project under the Scheme is up to ₹ 10 lakhs plus working capital, which shall not exceed 25% of the project cost. The pattern of assistance under the scheme is 40% of the project cost as GoI subsidy, 55% as loan from Banks and 5% as beneficiary contribution. Assistance under scheme is considered for individuals, SHGs, JLGs, Non-Governmental organizations, institutions registered under the Societies Registration Act, production cooperative societies registered under the Cooperative Societies Act, the registered under Societies Registration Act 1860, Production Co-Operative Societies, and Charitable Trusts.
Skill upgradation and Mahila Coir Yojana	Under the scheme, the Coir Board is conducting various programs like Entrepreneurship Development Program, Awareness Program, Workshop, Seminar, Exposure Tour, etc. for attracting more entrepreneurs to start coir processing units. In order to create skilled man power required for the coir industry, the Board is implementing various training programs such as training on manufacturing of value- added coir products, spinning, weaving and other product diversification process. All these training programs are also available for women under the Mahila Coir Yojana. Coir workers / entrepreneurs will get awareness on modern technologies developed by Coir Board. Training programs will help the trainees/ artisans to upgrade their skill for producing coir yarn and other diversified coir products. Management skills can also be acquired by attending EDP programs to the entrepreneurs to run the Coir units more effectively and efficiently
Export Market Promotion	improve the export performance of Indian Coir Sector through various export market promotion activities such as sponsoring delegations, participation in seminars and conferences, organizing participation in international fairs, undertaking generic publicity abroad, extending financial assistance to Micro, Small and Medium Enterprises and Exporters, presenting Coir Industry Awards on an annual basis to recognize the outstanding performance in the areas of export, domestic trade, R&D, functioning of units & societies
Domestic Market Promotion Program	Under the Scheme, the Board is undertaking various measures for popularizing coir and coir products and expanding the domestic market. Establishment and Maintenance of Showrooms and Sales Depots, participation in domestic exhibitions, etc., are some of the activities envisaged under this program

Sericulture comprises of two important activities viz. cultivating food for silk worms and reeling the cocoons spun by the worms for unwinding the filament to process and weave. Domesticated silkworms such as Bombyx mori, are fed mulberry leaves to obtain Mulberry silk, the leading silk variety in India.

GOI have set up the **Central Silk Board** for the for the development of sericulture and silk industry in the country. ***The mandated activities of Central Silk Board are***

- ✓ Research & Development, and Research Extension,
- ✓ Maintenance of four tier silkworm seed production network,
- ✓ Providing leadership role in commercial silkworm seed production,
- ✓ Standardizing and instilling quality parameters in the various production processes, and
- ✓ Promotion of Indian Silk in domestic and international markets.

Institutional Finance

NABARD has evolved several credit and promotional schemes for the development of the sector. These are indicated briefly as under:

- NABARD has set up **Gramya Vikas Nidhi** to provide grant support to off-farm sector promotional activities.
- An **Off -Farm Sector Promotion Fund** has been created within NABARD for providing loan and grant for various off farm sector activities including innovation.
- **NABSKILL,** the digital platform developed by NABARD has enabled complete digitization of skill intervention right from submission of applications, settlement of claims to effective implementation, monitoring /tracking, placement and building candidate-wise data.

Technology Development And Training

With a view to promoting technology and innovation for the development of the small-scale enterprises, a number of institutions have been engaged by the Government.

- **Council of Scientific and Industrial Research (CSIR)**
- **National Research Development Corporation (NRDC)**
- **National Small Industries Corporation (NSIC) and**
- **Council for Advancement of People's Action and Rural Technology**

The assistance to training institutions in the form of capital grant for creation/strengthening of infrastructure and support for conducting entrepreneurship development and skill development training program is provided by the Ministry of MSME. Maximum assistance for creation or strengthening of infrastructure will be Rs. 150 lakh on matching basis, not exceeding 50% of project cost.

CAIIB Rural Banking Module B Unit 5- SME Finance

MSME

- **The Ministry of MSME came into being from 1999** to provide focused attention to the development and promotion of this sector.
- **In July 2006, the Micro, Small and Medium Enterprises Act was in place.**
- MSMEs need low capital investment, in terms of per unit of output. They make use of natural resources and domestic skills to cater to the domestic market. The growth of the sector therefore helps in socio economic upliftment as it generates employment opportunities for untapped masses, living in urban and rural regions.

Difference Between Micro, Small & Medium Enterprises

MICRO ENTERPRISES	SMALL ENTERPRISES	MEDIUM ENTERPRISES
The investment in plant and machinery or equipment does not exceed Rs. 1 crore	The investment in plant and machinery or equipment does not exceed Rs. 10 crores	The investment in plan and machinery or equipment does not exceed Rs. 50 crores
Turnover does not exceed Rs. 5 crores	Turnover does not exceed Rs. 50 crores	Turnover does not exceed Rs. 250 crores

Importance Of The Sector To The Indian Economy

Sixth Economic Census (2013)

- 58.5 million establishments were found to be in operation, of which, 34.8 million establishments (59.48 per cent) were found in rural areas and nearly 23.7 million establishments (40.52 per cent) were found to be located in urban areas.
- Out of 58.5 million establishments, about 77.6 per cent establishments (45.36 million) were engaged in non-agricultural activities (excluding public administration, defence and compulsory social security activities) while the remaining 22.4 per cent establishments (13.13 million) were found to be engaged in agricultural activities (excluding crop production and plantation).
- Out of the total establishments, 22.6 per cent belong to primary sector of which agriculture sector constitutes 22.45 per cent, mining and quarrying constitutes 0.15 per cent. Secondary sector accounted for 19.72 per cent (including construction which contributes 1.66 per cent) and tertiary sector accounted for 57.68 per cent.
- Out of 58.50 million establishments, around 96.4 per cent establishments were under private ownership and remaining 3.6 per cent establishments reported their ownership as Government or PSU.
- Livestock was the major economic activity (86.74 per cent) of agricultural sector. Retail Trade (35.41 per cent) followed by Manufacturing (22.77 per cent) were the dominant ones within the nonagricultural sector.
- Manufacturing sector was the largest employer providing employment to 30.3 million (23.1 per cent) persons. This was followed by retail trade employing 27.19 million persons (20.7 per cent) and livestock sector employing 19.4 million persons (14.8 per cent).

Arrangements For Provision Of Credit To The MSME Sector

- Major portion of the credit requirements of MSME sector are met by banks and credit agencies (Commercial Banks, Cooperative Banks, Regional Rural Banks, Small Finance Banks).
- Venture capital companies are also engaged in funding the formation of small and medium enterprises in their early stages of development. Development

Banks and Specialized financial institutions **(SIDBI and NABARD)** provide refinance to the credit institutions in augmenting the credit flow to the sector besides engaging themselves in various promotional role for the development of the sector.

Appraisal Of MSME Loan Proposals

- First and foremost, the bankers should know the type of industry/activity which the enterprise is pursuing/intending to pursue. Whether the industrial activity pursued/intended to be pursued belongs to the category of growing industrial activity or not.
- The banks should examine the vintage proof which includes year of establishment, registration, trade licence, sales tax certificates, cash flow statements etc.
- The banks should also verify the identify the identify/address proof of the founders/entrepreneurs/ proprietor/partners of the enterprise, apart from examining their bank statements, for the last 6 months.
- The class of enterprise to which the enterprise belongs to, need to be examined. Whether the enterprise is registered as an individual enterprise or registered as an enterprise with group of individuals, partnership, private limited company, etc. need to be ascertained.

- A detailed examination of the production related, sales/marketing related issues and the debt service capacity/ productivity shall give an insight of the strengths and weakness of the enterprises to the financed, which would help the bank not only to make financial decisions but also to stipulate appropriate terms for sanction and effect close monitoring of the relevant aspects during the currency of the loan.

Project Approach for Lending and Appraisal Techniques

- Project approach can be applied for financing small as well as large investments. It is a flexible approach to development, wherein, each 'project' is considered to be an independent unit, having its own costs and benefits. Careful project preparation and analysis are important for efficient use of financial resources.
- The essential features of the methods adopted in appraisal viz., discounted cash flow techniques for arriving at the viability parameters such as Net Present Value (NPV), Benefit Cost Ratio (BCR), and Internal Rate of Return (IRR).

Investment and Cash Flow Concept

- The project should be able to service the debt and ensure expected returns to the investor. The aspects which are examined while conducting financial appraisal are investment outlay, means of financing, projected financial statements, viability and profitability, breakeven point analysis, sensitivity analysis and risk analysis. Cash flow statement is the basis for financial analysis.

Discounted Cash Flow Technique

- Time value of money is estimated by 'discounting' the future cash flows to their present value.
- Where d is the discount factor for Re 1; r is the rate of interest and n is the period which could be number of years or months.

Thus, the discount factor at 10 per cent per annum after one year will be

$$d = \frac{1}{(1+0.10)} = \frac{1}{1,1} = 0.909$$

Measures of Financial Viability – NPV, BCR, IRR and DSCR

Net Present Value (NPV): representing wealth creation by the Project, is calculated by taking the discounted sum of the stream of cash flows during the project life.

where C = Cash flows for different periods; r = discount and n is the number of years.

Benefit Cost Ratio (BCR): BCR is the ratio of discounted value of benefit and discounted value of cost.

$$\text{BCR} = \frac{\text{Summation of discounted value of benefits}}{\text{Summation of discounted value of costs}}$$

The project is viable when BCR is one or more than one and is unviable when it is less than one.

Internal Rate of Return (IRR): IRR represents the returns internally generated by the project. This is also the rate which makes the net present value equal to 0.

$$\text{Exact IRR by interpolation method} = \frac{[\mathrm{L} + (\mathrm{H}-\mathrm{L}) * NPV\ at\ L]}{[(NPV\ at\ L) - (NPV\ at\ H)]}$$

Where, IRR = Internal Rate of Return; L = Lower discount rate where NPV was positive; H = Higher discount rate at which NPV was negative.

Debt Service Coverage Ratio: Debt Service Coverage Ratio (DSCR) is a crucial ratio to assess 'Bankability of Projects'. As the name indicates, this ratio gives an indication of the debt service capabilities of the project. It can be computed as under:

$$\text{DSCR} = \frac{\text{PAT} + \text{D} + \text{I}}{I + L}$$

Where PAT is profit after tax, D is the depreciation, I is the interest on long term loans and L is the principal instalment.

Sensitivity Analysis, Scenario Analysis and Risk Analysis

- **Sensitivity Analysis:** Projects are sensitive to fluctuation in values of critical variables like costs of inputs and prices of outputs. It is important to examine as to how sensitive is the project to fluctuations in the values of these variables. A project, which is highly sensitive to even small fluctuations in cost and price, is a risky project for financing.

- **Scenario Analysis:** Scenario analysis is the process of examining and evaluating possible events or scenarios that would take place in the future and predicting the various feasible results or possible outcomes. In financial modeling, the process is typically used to estimate changes in the value of a business or cash flow, especially when there are potentially favourable and unfavourable events that could impact the project.
- **Risk Analysis:** Under risk analysis, probabilistic analysis is done by identification of key risk variables, finding out values of each risk variable, assigning probabilities for each value to each of the risk variables, using these values for risk analysis and finding out the probability of negative outcome of the project.
- **Economic Appraisal:** The objective of economic appraisal is to examine the project from the entire economy's point of view to determine whether the project will improve the economic welfare of the country. Examples of the projects where economic analysis is conducted are big dams, forestry projects and big industrial projects.
- **Social/distributive Appraisal:** The social analysis consists of two parts: measurement of the distribution of the income due to the project and identification of the impact on the basic needs' objectives of the society. The steps involved in social appraisal are conducting financial analysis, economic analysis and appraisal of distributional effect of the net benefits (externalities) of the project. Here, the affected parties like farmers, dealers of the goods, existing operators and Government are to be identified.
- **Environmental Aspects:** Developing countries including India are now becoming increasingly aware of the urgency to integrate environmental concerns into their project formulations and appraisal. This has led to the increased importance being attached to the environmental aspects in the projects and now most of the banks and financial institutions insist on what is known as Environmental Impact Assessment (EIA). The essence of EIA is a prediction of the consequences to the natural environment from development projects. A separate ministry has been formed and Environment (Protection) Act, 1986 was enacted by GOI. Further, the Central Pollution Control Board (CPCB) has been formed for ensuring proper implementation of the provisions of the Act.

Sanction Procedure & Follow-up

- In respect of borrowers/borrowing units who are enjoying aggregate fund based working capital limit up to Rs. 5.00 crore from the ban, the turnover method is generally followed for sanction credit limits to them. In turn over method working capital requirement is computed based on the projected turnover taking into account the previous year turnover or the average of the previous three years turnover.

- For all other borrowers enjoying fund based working limit over Rs. 5.00 crore, the banks generally follow the MPBF (2nd method of lending) system of assessment of working capital requirement.
- Periodical visits/inspection shall be undertaken to ensure that the borrowing units maintain necessary stocks against which cash credit hypothecation limits are considered.

SIDBI'S Assistance To The MSME Sector And Its Development Role

Micro and Small Enterprises Refinance Scheme (MSERS)

- Under this scheme, SIDBI provides assistance by way of refinance to Scheduled Banks and select Financial Institutions, provided that they have been in operation for a period of three years, that they had earned profit during the previous two years, net worth of not less than Rs. 50 crores, capital to risk weighted assets (CRAR) of not less than 9 per cent and the level of net NPAs not exceeding 10 per cent.
- The entire loan is generally required to be drawn within three days from the date of sanction. The refinance is generally repayable within a period of six months to five years.

SIDBI Make in India Fund

- The objective of setting up the 'SIDBI make in India' fund is to make MSMEs, a world class manufacturing hub, with focus on 25 sectors of the economy. Under this fund, concessional finance is provided to identified sectors. SIDBI has created a Rs. 10,000 crores **'SIDBI Make in India Soft Loan Fund for Micro Small and Medium Enterprises (SMILE)'** to make available soft loan to MSMEs.
- Under the startup India program, to help MSME startups SIDBI has created Rs. 2000 crore **'India Aspiration Fund'** to be utilized as 'Fund of Funds' for making investments in venture capital funds (VCF) which would in turn make investments in MSMEs to the extent of twice the commitment of SIDBI or 50 per cent of the corpus of VCF whichever is higher.

Promotion of MUDRA as a fully owned subsidiary

- GOI launched a flagship scheme called **Prime Minister Mudra Yojana (PMMY)** on 8th April 2015 to extend affordable loans to the non-corporate, non-farm micro and small enterprises to cater to their funding needs.
- **Micro Units Development and Refinance Agency Limited (MUDRA)** has been created as a refinancing institution, providing loans up to Rs. 10 lakhs maximum to the eligible enterprises, through the banks, NBFCs and MFIs. MUDRA is a wholly owned subsidiary of SIDBI as a refinance company with an authorized capital of Rs. 1000 crores and a paid-up capital of Rs. 750 crores.

The key benefits of MUDRA loan:

- Micro and small enterprises engaged in income generation are the prime target for extension of loan facilities.

- The borrowers are not required to provide any collateral or security to avail of Mudra Loan.
- There are no processing charges for availing of the loan.
- There is a flexibility in the usage of funds
- The loans can be in the form of term loans, overdraft facility, letters of credit or bank guarantees, thus catering to a wide array of requirements.
- The Mudra loan scheme does not prescribe any minimum amount

SIDBI has established the following associate institutions for the growth and development of the SME sector

- **India SME Technology Services Ltd (ISTSL):** It provides a platform where Micro, Small and Medium Enterprises (MSMEs) can tap opportunities at the global level, for acquisition of new and emerging technology or establish business collaboration.
- **SME Rating Agency of India Ltd (SMERA):** SMERA is the country's first Rating agency that focuses primarily on the Indian Micro, Small and Medium Enterprise (MSME) segment. Its primary objective is to provide ratings that are comprehensive, transparent and reliable, which would facilitate greater and easier flow of credit from the banking sector to MSMEs.
- **India SME Asset Reconstruction Company Ltd (ISARC):** It is the country's first ARC supported by a large number of public sector banks and undertakings with the focus of speedier resolution of NPAs in the MSME sector.
- **Receivables Exchange of India Ltd (RXIL):** Receivables Exchange of India Ltd (RXIL) was set up on February 25, 2016 as a joint venture of Small Industries Development Bank of India (SIDBI) and National Stock Exchange of India Limited (NSE), with an objective to operate India's First **Trade Receivables Discounting System (TReDS) - an online platform for financing of receivables of MSMEs.**

Policy Prescriptions of RBI For The Growth Of MSME Sector

- As per the extant policy, banks are required to achieve a 20 per cent year-on-year growth in credit to micro and small enterprises, a 10 per cent annual growth in the number of micro enterprise accounts and 60 percent of total lending to MSE sector as on corresponding quarter of the previous year to Micro enterprises.
- Public sector banks have been advised to open at least one specialized branch in each district. The banks have been permitted to categorize their MSME general banking branches having 60 per cent or more of their advances to MSME sector, as specialized MSME branches for providing better service to this sector as a whole.
- As per Nayak Committee Report, working capital limits to SSI units is computed on the basis of **minimum 20 per cent of their estimated turnover up to credit limit of Rs. 5 crore.**
- Banks are mandated not to accept collateral security in the **case of loans up to Rs. 10 lakh extended to units in the MSE sector**. Further, the banks have been advised by RBI that on the basis of good track record and financial position of

MSE units, increase the limit of dispensation of collateral **requirement for loans up to Rs. 25 lakh** with the approval of the appropriate authority.

- As delay in getting payments is one of the perennial problems faced by MSMEs, RBI has introduced the **Trade Receivables Discounting System (TReDS)** in the year 2014. TReDS is an electronic platform where receivable of MSMEs drawn against buyers (large corporates, PSUs, Government Departments) are financed through multiple financiers at competitive rates.

Banks are advised to provide the following services and guidance to MSE entrepreneurs:

- **Rural Self Employment Training Institutes (RSETIs):** At the initiative of the Ministry of Rural Development (MoRD), RSETs have been set up by various banks all over the country. These RSETIs are managed by banks with active co-operation from the Government of India and State Governments. RSETIs conduct various short duration (ranging from 1 to 6 weeks) skill upgradation programs to help the existing entrepreneurs compete in this ever-changing global market.
- **Financial Literacy and consultancy support**: Banks have been advised to either separately set up special cells at their branches, or vertically integrate this function in the Financial Literacy Centres (FLCs) set up by them, as per their comparative advantage.

Initiatives Taken By GOI For The Development Of MSME Sector

- **Udyog Aadhaar Memorandum (UAM):** As part of 'Ease of Doing Business', the Ministry notified and launched Udyog Aadhar Memorandum (UAM) in September, 2015 to enable entrepreneurs to register themselves, by filing an online simple one- page form on Self-Certification basis. No fees and supporting documents are required for the online filing of the UAM.
- **A Scheme for Promoting Innovation and Rural Entrepreneurship (ASPIRE):** The main objectives of the ASPIRE scheme are to **(i)** to create new jobs and reduce unemployment; **(ii)** to promote entrepreneurship culture in India; **(iii)** to ensure grassroots economic development at the district level; **(iv)** facilitate innovative business solution for unmet social needs; and **(v)** promote innovation to further strengthen the competitiveness of the MSME sector. The scheme fund has an Rs. 200 crore corpus.
- **National Manufacturing Competitiveness Program – Lean Manufacturing Competitiveness Scheme for MSMEs:** Under the Scheme, MSMEs will be assisted in reducing their manufacturing costs, through proper personnel management, better space utilization, scientific inventory management, improved processed flows, reduced engineering time and so on. LMCS also brings improvement in the quality of products and lowers costs, which are essential for competing in national and international markets.
- **Certification Reimbursement Scheme:** In order to enhance the competitive strength of the MSEs, the Government introduced a scheme to provide technological upgradation, quality improvement and better environment

management by the MSMEs. The scheme reimburses 75% of the fees, subject to a maximum of Rs. 75,000 for acquiring Quality Management System.

- **Scheme of Fund for Regeneration of Traditional Industries (SFURTI):** With a view to making the traditional industries more productive and competitive and facilitating their sustainable development, GOI announced setting up of a fund for regeneration of traditional industries. The objective of SFURTI is to organize the traditional industries and artisans into clusters to make them competitive and provide support for their long- term sustainability and economy of scale, and provide sustained employment for traditional industry artisans.

Schemes for Coir Sector

- **Coir Vikas Yojana:** Coir Board is implementing the Export Market Promotion Scheme for adoption of strategic and aggressive products specific and markets specific promotional programs for popularizing coir and coir products in markets abroad. Assistance for publicity material up to 25% of the production cost with over all ceiling of Rs. 15,000 is also admissible.
- **Coir Udyami Yojana:** The objective of the scheme is to rejuvenate, modernize and technologically upgrade the most crucial link in the coir production chain, namely spinners and tiny Household sector. The scheme provides 40% as subsidy, 55% as Bank loan and 5% beneficiary contribution for setting up of coir units with project cost up to Rs. 10.00 lakh.

Scheme for Credit Linked capital subsidy for technology upgradation (CLCS-TU)

- The Credit Linked Capital Subsidy Scheme (CLCSS) was launched on 1st October, 2000. The Cabinet Committee on Economic Affairs (CCEA) has approved the changes in ceiling of credit **from Rs. 40.00 lakhs to Rs. 1.00 crore with the rate of subsidy enhanced from 12% to 15%.**
- The Scheme aims at facilitating technology up-gradation by providing 15% upfront capital subsidy up to a maximum cap of Rs. 15.00 lakhs. Online Application and Tracking System has been introduced by the Government and the SME units need to upload their subsidy claim application though their PLIs.

Credit Guarantee Fund Scheme for MSEs

- GOI launched the Credit Guarantee Fund Scheme for Micro and Small Enterprises in August, 2000, with the objective of making credit available to micro and small enterprises (MSEs), particularly micro enterprises, without collateral/third party guarantees.
- The Scheme is being operated through the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) set up jointly by the GOI and SIDBI.
- The objective of the scheme is to make available credit to SSI units, particularly tiny units, for loans up to Rs. 200 lakh without collateral / third party guarantees.

<table>
<tr><th rowspan="2">Category</th><th colspan="3">Maximum extent of guarantee where credit facility is</th></tr>
<tr><th>Up to ₹ 5 lakhs</th><th>Above ₹ 5 lakhs and up to ₹ 50 lakhs</th><th>Above ₹ 50 lakhs and up to ₹ 200 lakhs</th></tr>
<tr><td>Micro Enterprises</td><td>85 % of the amount in default subject to a maximum of ₹ 4.25 lakhs</td><td>75% of the amount in default subject to a maximum of ₹ 37.50 lakhs</td><td rowspan="3">75% of the amount in default subject to a maximum of ₹ 150 lakhs</td></tr>
<tr><td>Women entrepreneurs/ units located in NER (other than credit facilities up to ₹ 5 lakh to micro Entrepreneurs</td><td colspan="2">80% of the amount in default subject to a maximum of ₹ 40 lakhs</td></tr>
<tr><td>All other category of borrowers</td><td colspan="2">75% of the amount in default subject to a maximum of ₹ 37.50 lakhs</td></tr>
<tr><td>Activity</td><td colspan="3">From ₹ 10 lakhs up to ₹ 100 lakhs</td></tr>
<tr><td>MSE Retail Trade</td><td colspan="3">50% of the amount in default subject to a maximum of ₹ 50 lakhs</td></tr>
</table>

Performance And Credit Rating Scheme (PCRS)

- The scheme is being implemented through **National Small Industries Corporation (NSIC) Limited**. The main objective of the scheme is to provide a trusted third- party opinion on the capabilities and creditworthiness of the MSEs, so as to create awareness amongst them about the strengths and weakness of their existing operations.
- Rating under the scheme is being carried out through empaneled rating agencies i.e., CRISIL, CARE Ratings, ONICRA Credit Rating Agency of India Ltd, SMERA (SME Rating Agency of India), ICRA Ltd and Brickwork India Ratings.
- Under this Scheme, rating fee payable by the micro & small enterprises is subsidized for the first year only and that is subject to maximum of 75% of the fee or Rs. 40000/-, whichever is less.

Framework For Revival And Rehabilitation Of MSMES

- The Reserve Bank of India has advised revised guidelines for the revival and rehabilitation of MSMEs having loan limits up to Rs. 25 crores. As regards restructuring of loan accounts with exposure of above Rs. 25 crores, they will continue to be governed by the extant guidelines on Corporate Debt Restructuring (CDR)/Joint Lenders' Forum (JLF) mechanism.
- On the basis of the warning signals in respect of accounts in SMA-2, the branch should forward the details of stressed account with aggregate loan limits above Rs. 10 lakh to the Committee within five working days for a suitable corrective action plan (CAP).

CAIIB Rural Banking Module B Unit 6-Concepts of Project, Aspects of Project Formulation & Appraisal & Model Bankable Projects

Aspects Of Project Preparation

To design and analyze effective projects, those responsible must consider all the relevant aspects, which together determine how remunerative a proposed investment will be. ***The project preparation and analysis can be divided into six aspects viz***

- Technical
- Institutional- organizational – managerial
- Social
- Commercial
- Financial
- Economic.

Technical Aspects

- The technical analysis concerns the project's inputs (supplies) and outputs (production) of real goods and services. Assumptions of a project plan will most likely need to be revised as the other aspects are examined in detail. Good technical staff are essential for undertaking this task. They will be more effective, if they have a good understanding of the various aspects of project analysis.
- The technical analysis will examine the possible technical relations in a proposed agricultural project – the soils in the region and their potential for agricultural development, the availability of water, both natural (rainfall, and its distribution) and supplied (the possibilities for developing irrigation, with its associated drainage works), the crop varieties and livestock species, suited to the area.
- The technical analysis will also examine the marketing and storage facilities required for the successful operation of the project, and the processing systems that will be needed.

Institutional – Organizational-managerial Aspects

- A whole range of issues in project preparation revolves around the overlapping institutional, organization and managerial aspects of projects, which clearly have an important effect on project implementation.
- It should be ensured that the project design takes into account, the customs and culture of the farmers, who are going to participate in the project. When the projects are implemented by organizations, the analysts should examine to verify that they are manageable. The organizational design, ability of the project director and technical staff, etc., need to be examined while appraising the project.

Social Aspects

- The project analysts are also expected to examine carefully, the broader social implications of the proposed investments.
- Social considerations should also be carefully considered to determine if a proposed project is as responsive to national objectives, as it can be. There is a question about creating employment opportunities.

Commercial Aspects

- The commercial aspects of a project include the arrangements for marketing the output produced by the project and the arrangements for supply of inputs needed, in order to build and operate the project. On the output side, careful analysis of the proposed market for the project's production is essential to ensure that there will be an effective demand, at a remunerative price.

Financial Aspects

- The financial aspects of project preparation and analysis encompass the financial effects of a proposed project on each of its various participants. The analyst will need budget projections that estimate year by year, future gross receipts ad expenditures, including the costs associated with production and the credit repayments.

Economic Aspects

- The economic aspects of project preparation and analysis require a determination of the likelihood that a proposed project will contribute significantly to the development of the total economy and that its contribution will be great enough to justify using the scarce resources it will need.
- The point of view taken in the economic analysis is that of the society as a whole. The techniques of economic analysis help identify those projects that make the greatest contribution to the national income. Although the analysis will determine the amount of the income stream generated over and above the costs of labour and other inputs, it does not specify who actually receives it.

Project Life Cycle

There tends to be a natural sequence in the way projects are planned and carried out, and this sequence is often called the **"project cycle".** we will divide it into **identification, preparation and analysis, appraisal, implementation, and evaluation.**

Identification of projects

- The first stage in the cycle is to find potential projects. Suggestions for new projects usually arise because some agricultural products are in short supply-or will be in a few years if production is not expanded or imports increased. The analysis may be based on general knowledge or upon a more systematic examination of market trends and import statistics.

Preparation And Analysis of projects

- Once projects have been identified, there begins a process of progressively more detailed preparation and analysis of project plans. This process includes all the work necessary to bring the project to the point at which, a careful review or appraisal can be undertaken, and, if it is determined to be a good project, implementation can begin.

- Thorough preparation and analysis increase a project's efficiency and help to ensure its smooth implementation in the future, so that the additional time and money required will probably be returned many times over by the increased return from the investment.

Appraisal of Projects

- After a project has been prepared, it is generally appropriate, for a critical review and appraisal. This provides an opportunity to re-examine every aspect of the project plan to assess whether the proposal is appropriate and sound, before large sums are committed.

Implementation of projects

- The objective of any effort in project planning and analysis clearly is to have a project that can be implemented to the benefit of the society. Thus, implementation is perhaps the most important part of the project cycle.
- There are some aspects of implementation that are of particular relevance to project planning and analysis. The first, is that the better and more realistic a project plan is, the more likely it is that the plan can be carried out and the expected benefit realized. Second, project implementation must be flexible. Circumstances will change, and project managers must be able to respond intelligently to these changes.

Evaluation of Projects

- Evaluation may be undertaken when the project is in trouble, as the first step in a replanning effort. Careful evaluation should precede any effort to plan follow-up projects. And, finally, evaluation should be undertaken when a project is terminated or is well into routine operation.

Minor Irrigation Schemes

- The banks need to ensure that the type of MI structure (Dug Well, Bore Well, Shallow Tube well, etc.) are considered for finance depending upon the soil conditions / rock formation in the blocks / districts in which the finance is provided. The technical guidance of the State Department is essential with regard to the feasibility of the structure.
- Further, the ground water development programs are taken up for implementation in "safe" and "semi critical" blocks based on ground water assessment undertaken by the State Groundwater Board in the respective block. The banks therefore have to ensure that the clearance is obtained from the concerned department of the State Government for formulation of minor irrigation schemes.
- Before approving loan for electric pump sets, the bank shall satisfy itself that the village is electrified and that timely power supply would be available to the beneficiary for operation of the pump set.

- The banks shall ensure that adequate after sale services and repair facilities are provided by the manufacturers / dealers installing the pump set on beneficiary's well.
- Before advancing loans for underground pipelines system, the bank shall verify the invoice order in regard to the quantity of pipes required by the farmers and shall also ensure that entire length of pipelines for which loans advances are actually laid.

The following norms shall be adhered to by the banks for ensuring financial viability and bankability of the MI schemes:

- **Unit Costs:** The unit costs of for various MI investments are finalized by NABARD in consultation with all the stake holders like the state and district level government departments, bankers field officers & farmers. The unit costs also guide the bankers and the government departments in extending support to the beneficiaries.
- **Cash flow analysis based on farm models:** After satisfying themselves with regard to technical feasibility of the MI schemes proposed to be financed by them, the banks shall ensure financial viability and bankability of the proposals/schemes. For this purpose, they need to undertake farm model exercise/analysis, in which they need to see the crops which have been originally cultivated in the farm and the crops which would be cultivated in the post development.
- **Fixation of Repayment Period based on cash flow:** While fixing the repayment period, the bankers need to take into account the cash flow, incremental cash flow, etc. so that the loan can be repaid by the borrowers in convenient instalments. As the cash flow would not be adequate enough in the initial year of investment, gestation period is considered requiring the borrower only pay the interest due on the loan. Thereafter the principal and the interest are recovered in suitable annual instalments coinciding the harvesting season during which the farmers will be placed with funds.

Financing Micro Irrigation Structures

The banks shall ensure adherence to the following norms, while financing drip irrigation schemes:

- The system to be installed by farmers in their farms are designed by a technically-competent firms.
- Availability of adequate water of suitable quality (chemical and physical) on a long-term basis shall be ensured for smooth operation of the system.
- The installing agency shall prepare a plan and field layout of the system and suggest efficient design of the system along with the cost of each item.
- The installing agency shall furnish performance guarantee for the efficient operation for the system as also ensure timely and adequate after sales service for trouble- free working of the system.

- The banks shall carry out periodic monitoring of the implementation and assess the performance of the system at the field level.
- There shall be arrangement to safeguard the pipes (main and lateral), drippers/emitters and other accessories against theft, robbery, fire, etc.

While financing sprinkler irrigation schemes the following norms have to be adhered to:

- Adequate water of suitable quality to cover the area to be irrigated is available at the scheme area.
- Design of the system for a given cropping pattern shall be done by a technically competent person/ agency, taking into account the source of availability of water, wind velocity in different seasons, soil conditions, agro-climatic situations, etc.
- A plan of the area showing field layout and cost estimate of the system shall be prepared by the implementing agency and appraised by the financing bank.
- The implementing agency/s manufacturers shall offer performance guarantee of the system for a reasonable period of time against any defect either in manufacturing of the system or its installation.
- The banks shall also ensure that arrangements are in place to safeguard the sprinkler system, pipes, accessories and motor against fire, theft and burglary.
- The bank shall conduct periodic monitoring to assess the working performance of the stem and take correcting measures wherever warranted.

Farm Mechanization

Banks can encourage tractor/power tiller financing adhering to the following terms and conditions:

- Bank finance is provided generally against new tractor and implements. Only those tractors which are approved by the **Tractor Institute of Indian Council of Agricultural Research** are financed by the banks.
- The farmer availing tractor finance should have minimum 8 acres of perennial irrigated land or 12 acres of unirrigated land so that it would be a viable proposition.
- The tractor/power tiller financed should be registered with the local Regional Transport Authority duly recording the hypothecation charge of the bank in the RC.
- Comprehensive insurance policy with the bank clause should be taken i.e., in case of claims, the bank should be able to get its dues settled from the insurance company.

Financing of Custom Hiring Centres:

The small/marginal farmers, by virtue of their economic condition are unable to own farm machinery on their own or through institutional credit. Therefore, in order to bring farm machinery available within the reach of small/marginal holdings, collective ownership or Custom Hiring Centres needs to promoted in a big way and accordingly, NABARD has formulated a model scheme and circulated amongst banks for financing this activity. ***The objectives of the scheme are:***

- To make available various farm machinery/equipment to small and marginal farmers.
- To offset the adverse economies of scale due to high cost of individual ownership.
- To improve mechanization in places with low farm power availability
- To provide hiring services for various agricultural machinery/implements applied for different operations.
- To expand mechanized activities during cropping seasons in large areas especially in small and marginal holdings.
- To provide hiring services for various high value crop specific machinery applied for different operations.

Financing Combined Harvesters

- A combine harvester is an essential equipment for the modern farm combine harvester is useful machinery invented by scientists for effective harvesting of crops and grains.
- The banks need to take into account the fixed costs such as interest costs, insurance and taxes, depreciation and variable costs such as fuel, oil and lubricants, repairs and maintenance charges and manpower expenses, etc. for arriving at the total costs and outflow. Such loans are generally recovered over a period of 8 years with one year moratorium period.

Financing Plantation And Horticulture

While financing the plantation and horticulture crops, the bankers need to recognize the costs of planting material, farm yard manure required for the farms, fertilizers, irrigation costs, plant protection chemicals, fencing etc. depending upon the technical specification indicated by the State Agriculture /Horticulture Department.

The quantum of operational cost to be capitalized is suggested by the **State Level Unit Costs Committee** constituted under the auspices of NABARD. The banks need to adhere to these guidelines so as to ensure that the finance is provided adequately.

The banks shall ensure the following technical terms and conditions while financing these activities:

- Loans shall be given to those beneficiaries who have assured water supply facilities to irrigate plants, in areas where rainfed cultivation is not possible.
- Loans shall be issued in respect of investment for raising plants in first year and maintenance in subsequent years, till the plant comes to bearing stage.
- The bank shall satisfy itself that the planting materials of the required quantity and quality are procured by the beneficiaries from reliable sources such as nurseries or Universities located in the state or any other nurseries approved by the concerned department of the State Government.

- The banks staff may provide all necessary technical guidance and supervision or otherwise shall satisfy itself that the required technical guidance and supervision is made available by the concerned department of the State Government /Commodity Board.
- The suggested soil conservation measures such as contour bunding, etc. should be completed before the layout and the works for digging for planting are taken up.
- Necessary arrangements should be made for marketing of the produce so that the beneficiaries get fair prices.
- The banks shall grant loans to individual beneficiaries based on a case appraisal and assessment of repayment capacity of the borrowers as revealed by the cash flow.

Pomegranate Cultivation

- Pomegranate prefers dry climate. During fruit development, prolonged hot and dry climate is required. Optimum temperature congenial for fruit development is 38°C. In humid climate, the fruits are severely damaged by pomegranate butterfly and do not develop sweetness. It is winter hardy and very drought tolerant.
- Pomegranate grows under wide variety of soils and can tolerate even alkalinity and salinity to certain extent.
- Vegetative propagation is recommended in establishing pomegranate. Propagation by cuttings is common. Pomegranate flowers take five to six months to be ready as mature fruits.

Cashew Cultivation

- The land should be ploughed thoroughly and levelled in case of agricultural lands. In case of forest lands, the jungle should be cleared and the land terraced or bunds constructed on sloppy lands.
- Cashew trees are generally planted with a spacing of 7 to 9 meters adopting square system. A spacing of 7.5 m × 7.5 m (175 plants/ha) or 8 m × 8 m (156 plants/ha) is recommended.
- Cashew can be planted in pits of 60 cm × 60 cm × 60 cm size in soils with normal strata. In hard lateritic soils, pits of 1 m × 1 m × 1 m size are recommended. The top soil and sub-soil are kept separately and allowed to wither under sun.
- Cashew is generally planted on the wastelands in which availability of soil moisture is always low.

Coconut Cultivation

- Coconut palm can tolerate wide range of soil conditions. However, a variety of factors such as drainage, soil depth, soil fertility and layout of the land have great influence on the growth of the palm. Soil with a minimum depth of 1.2 m and fairly good water holding capacity is preferred for coconut cultivation.

- Size of the pit depends on the soil type and water table. In laterite soils large pits of size 1.2 m × 1.2 m × 1.2 m may be dug and filled up with loose soil, powdered cow dung and ash up to a depth of 60 cm before planting.
- Square system of planting with a spacing of 7.5 m × 7.5 m is recommended for coconut.
- Regular manuring from the first year of planting is essential to ensure good vegetative growth, early flowering and bearing and high yield. Organic manure at the rate of 30 kg per palm per year may be applied with the onset of monsoon when the moisture content is high in the soil.

Tea Plantation – Financing Small Tea Growers

- Well distributed rainfall ranging between 2000 mm to 5000 mm is considered suitable for tea plantation. Monthly average maximum temperature ranging between 280 C and 320 C during April – September period is conducive for the growth of the plantation.
- Sandy loan to silty loam type of soil with pH range of 4.5 – 5.5 is ideal for growing tea.
- Planting of tea is done either in sprint (June-July) after the first few showers of rain or in autumn (Oct-Nov) while the soil is still moist and the area has irrigation facilities.
- Single hedge row or double hedge row system/method of planning is recommended by the Tea Board for tea plantations. The advisable norms are 105 cm × 65 cm, 105 cm × 75 cm, 105 cm × 60 cm × 60 cm, 105 cm × 75 cm × 60 cm for valley plantation.

Dairy Development Schemes

- The items of finance would include capital asset items such as purchase of milch animals, construction of sheds, purchase of equipment, etc. The feeding cost during the initial period of one/two months is capitalized and given as term loan.
- Project can be prepared by a beneficiary after consulting local technical persons of State Animal Husbandry Department, DRDA, Dairy Co-operative Society/ Union/ Federation/ commercial dairy farmers.
- The bankers financing dairy units have to take into account, the capital cost viz. cost of animals, transportation cost, construction cost of sheds for animals and the cost of chaff cutter and equipment. Taking into account the income arrived at, through sale of milk and sale of gunny bags, the appraisal needs to indicate the net benefit and the year wise surplus so as to work out.
- The margin depends on the category of the borrower and it can range from 10 to 25 per cent. The banks are free to decide the rates of interest within the overall guidelines issued by RBI in this regard. They shall also insist on the security to be provided for the advance keeping in view the extant guidelines of RBI.

Model scheme for financing Automatic milk collection unit

- **Components**: AMC station is a specially designed integrated unit which is a combination of several units i.e., automatic milk weighing system, electronic milk testing, personal computer with printer and battery for data processing and providing the output.
- **Capacity**: The capacity of automatic milk collection stations is to analyze 120-150 samples per hour.
- The machinery used should comply with the BIS specifications and the broad parameters.

Poultry Farming

Layer Farming:

Loan from banks with refinance facility from NABARD is available for starting poultry farming. provide financial assistance for the following purposes:

- For construction of brooder/grower and layer sheds, feed store, quarters, etc.
- For purchase of poultry equipment such as feeders, waterers, brooders, etc.
- For creating infrastructure items for supply of electricity, feed, water, etc.
- For purchase of day-old chicks or ready to lay pullets.
- For meeting working capital requirement in respect of feed, medicines and veterinary aid, etc. for the first 5 to 6 months.

The following essential aspects need to be determined while financing:

- Outlay of the project depends on the local conditions, unit size and the investment components included in the project.
- Margin depends on the category of the borrowers and may range from 10% to 25%.
- Banks are free to decide the interest rates within overall RBI guidelines.
- Security for the advance shall be as per RBI/ NABARD guidelines issued from time to time.
- Repayment period shall depend upon the gross surplus from the project. The loan will be repaid in suitable monthly/quarterly installments usually within a period of seven to nine years with first year, as grace period.
- The birds and other assets (poultry sheds, equipment) shall be insured.

Broiler Farming:

The following technical aspects are required to be kept in view while financing broiler units:

- A small unit for rearing of improved indigenous birds for meat purpose can be established as backyard unit by landless families, SHG members. Area of 1 sq ft per bird is sufficient. Overcrowding of birds should be avoided.
- After purchase, brooding arrangements are required to be provided to the day-old chicks in first week. Brooding can be done by using any heating source – electric bulbs. The floor should be covered with 1-2 inches of paddy/ wheat straw to avoid injuries to birds.

- The birds are to be fed with good quality concentrate feed to attain the desired marketable weight. The feed can be prepared by the farmers by mixing the available feed ingredients. The feed should be stored in clean, dry, well-ventilated room and care should be taken that fungal infection is not occurred.
- Outlay of the project depends on the local conditions, unit size and the investment components included in the project. Prevailing market prices/ cost may be considered to arrive at the outlay.
- Margin depends on the category of the borrowers and may range from 10% to 25%.
- Banks are free to decide the interest rates within overall RBI guidelines. However, for working out financial viability and bankability of model project, the rate of interest is assumed at 12.00% p.a.
- Security will be as per RBI/ NABARD guidelines issued from time to time.
- The loan repayment is determined, on the basis of gross surplus generated in the project. Usually, the repayment period of loan for broiler farming is 5 years without moratorium.
- The repayment period shall be fixed taking into account the surplus during the life cycle of the proposed investment.

Sheep Breeding

The following technical, financial and managerial aspects are to be looked into in detail while taking a view on financing the sheep breeding schemes/projects:

Technical aspects	Nearness of the selected area to veterinary centres and wool collection centre and the financing bank's branch Availability of good quality animals, in nearby livestock markets Source of training facilities Availability of good grazing ground / lands in the scheme area Availability of green/dry fodder, concentrate feed, medicines, etc. Availability of veterinary aid and marketing facilities near the scheme area.
Financial Aspects	Unit Cost - The average cost of Sheep unit. Input cost for feed and fodder, veterinary aid, insurance, etc. Output costs i.e., sale price of animals, penning, etc. Income-expenditure statement and annual gross surplus Cash flow analysis. Repayment schedule i.e., repayment of principal loan amount and interest.
Managerial Aspects	Whether the borrower belongs to shepherd's community or a person possessing ability to keep the flock intact, protect it from predators and guide it to market areas in time for shearing

Goat Rearing

The following technical, financial and managerial aspects are to be looked into in detail while taking a view on financing the sheep breeding schemes.

- A scheme can be prepared by a beneficiary after consulting local technical persons of State Animal Husbandry Department, DRDA, Sheep-Goat Co-operative society and commercial farmers.
- Any area having sufficient irrigation or reasonable grazing facilities is suitable for goat rearing activity. Generally, one-acre irrigated land can accommodate 25 goats under intensive system.
- For hot-humid climate, slatted floor raised about one meter above the ground provide good ventilation, easy cleaning and collection of dung and urine. There should be a distance of little less than 1/2″ between the planks of platform.
- Fodder arrangement/ feeding under intensive/ semi-intensive system of goat rearing, arrangement of fodder is a must. Cost of cultivation of perennial and annual fodder crops (both leguminous and non-leguminous) is included.
- The project should include the following information on technical, financial and managerial aspects in detail based on type of unit and capacity.
- Outlay of the project depends on the local conditions, unit size and the investment components included in the project. Prevailing market prices/ cost may be considered to arrive at the outlay.
- Margin depends on the category of the borrowers and may range from 10% to 25%.
- Banks are free to decide the interest rates within overall RBI guidelines.
- Security will be as per RBI/ NABARD guidelines issued from time to time.
- The animals and other assets (shed, equipment) shall be insured.

Pisciculture

Intensive Fish Farming:

Composite Fish Culture is the most popular mode of fish culture in the country. This technology enables to get maximum fish production from a pond or a tank through utilization of available fish food organisms in all the natural niches, supplemented by artificial feeding. Any perennial fresh water pond/ tank retaining water depth of 1.5- 2.0 metres can be used for fish culture purpose.

The following norms shall be kept in view by the banks while financing the intensive fish culture farming:

- Depending on the compatibility and type of feeding habits of the fishes, catla and Rohu are recommended under the intensive fish culture program.
- Technical parameters of intensive fish culture include site selection, pond development, pre and post stocking operations, stocking, fertilization, feeding, etc.

- Pond Management plays a very important role in fish farming, before and after the stocking of fish seed.
- The margin money may be considered @ 5, 10 & 15% for small, medium and large farmer respectively and 25% for companies and partnership firms.
- Subsidy is available for various items like Pond Development, construction of New Ponds, first year inputs, etc. under a centrally sponsored subsidy scheme implemented by majority of the State Governments through FFDA's for different categories of farmers.
- Repayment of the term loan availed for the purpose can be recovered in 8-10 years in equated annual instalments with moratorium on repayment of principal for the first year, as per the cash flow.
- Security from the ultimate beneficiaries may be obtained as per the guidelines of RBI issued from time to time.

Bee Keeping

Beekeeping with very low investment and skills has the potential to offer direct employment opportunity to people specially to hill dwellers, tribals and farmers. Economic model of bee keeping considers the following parameters vis

- Generation of additional employment opportunities
- Additional income to the farmers with least working capital requirement and
- Enhance the yield of flowering crops by 15% to 20%.

The features of the scheme are as under:

- The selected site should be dry without dampness. High relative humidity will affect bee fight and ripening of nectar.
- Equipment used for honey bee farming comprises of small tools. Thin & thick beekeeping brushes, stainless steel knives, Food graded plastic made queen cage, bee venom collector are some of the equipment used.
- Crops suitable for bee keeping: Vegetable crops such as Coriander, cucumber, cauliflower, carrot, melon, onion, pumpkin, radish and turnip; These crops ensure supply of nectar to the bees for production of honey in adequate quantities.
- Yield Increase due to bee pollination in honey bee farming has been noteworthy. Increase in yield have been reported due to maintenance of beehives in their fields.
- It is recommended to place hives very near the flied to save bee's energy and migrate colonies near the field at 10% flowering.
- Wax moths, ants, wasps, wax beetles, birds, tracheal mites, parasitic mite, bee mites and brood mite are the common pests to honey bees.

- Honey, bees wax, royal jelly, bee venom, propolis and pollen are the main bee products. Honey should be harvested at the end of a flowering season.

Financing Rural Godowns

The creation of small storage facilities, through construction of grain godowns, having a capacity ranging from 50 MT to 250 MT in villages may help the farmers to store their own produce as also provide storage space for rentals. The object of an ideal grain storage structure is to control and reduce the storage loses.

Capacity and dimensions: The godowns financed can be of the following sizes

- **Small sized**: Capacity of 50, 100, 200 and 250 MT
- **Medium sized**: Capacity of 500, 1000 MT and 2000 MT.
- **Large sized**: Capacity above 2000 MT.

Financing Sericulture

The general norms to be followed for selection of beneficiaries for financing sericulture are as under:

- While selection of villages /areas for financing sericulture, the bank shall ensure compactness of areas to facilitate supervision. The bank may identify suitable areas in consultation with the concerned department of the state Government of Commodity boards, etc.
- Loans under the scheme shall be given to those beneficiaries who have assured water supply facilities to irrigate plants in areas, where rainfed cultivation is not possible.
- Loan shall be issued in respect of investment for raising plants in first year and maintenance in subsequent years till the plant comes to bearing stage.
- The bank shall satisfy itself that the planting materials of the required quantity and quality are procured by beneficiary from reliable sources such as nurseries of Universities of State Government or any other nurseries approved by the concerned department of the State Government, etc.
- The banks shall work out the cash flow for the model taking into account all the costs (cost of cultivation of mulberry, rearing shed, rearing appliances, other equipment, etc.) and the benefits (cocoon yield) in order to determine the viability and bankability of the project and fix the repayment schedule, basing on the net cash surplus generated in the venture.
- As per the model scheme circulated by NABARD, the loan provided for the composite activity viz. mulberry cultivation and rearing of cocoons can be recovered in a period of five years which includes a moratorium period of one year.

Financing Mushroom Cultivation

Button Mushroom is the most popular mushroom variety grown and consumed the world over. In India, its production earlier was limited to the winter season, but with technology development, these are produced almost throughout the year in small, medium and large farms, adopting different levels of technology.

The whole process of mushroom production can be divided into the following steps:

- Spawn production
- Compost preparation
- Spawning
- Spawn running
- Casing
- Fruiting.

Spawn Production: Spawn is produced from fruiting culture / stocks of selected strains of mushrooms, under sterile conditions. Stock culture may be produced in the lab or may be obtained from other reputed sources. Fruiting culture is mainly imported from various places including foreign sources, which give higher yield than Indian strains and the spawn is produced in the lab.

The spawn should be of good quality, in terms of flavour, texture and size, apart from having potential for high yield and longer shelf life.

Compost Preparation: The substrate on which button mushroom grows is mainly prepared, from a mixture of plant wastes (cereal straw/ sugarcane bagasse, etc.), salts (urea, superphosphate/ gypsum, etc.), supplements (rice bran/ wheat bran) and water. In order to produce 1 kg. of mushroom, 220 g. of dry substrate materials are required.

Spawning: The process of mixing spawn with compost is called spawning. The different methods followed for spawning are given below:

- **Spot Spawning:** Lumps of spawn are planted in 5 cm. deep holes made in the compost at a distance of 20-25 cm. The holes are later covered with compost.
- **Surface Spawning:** The spawn is evenly spread in the top layer of the compost and then mixed to a depth of 3-5 cm. The top portion is covered with a thin layer of compost.
- **Layer Spawning:** About 3-4 layers of spawn mixed with compost are prepared which is again covered with a thin layer of compost like in surface spawning. The spawn is mixed through the whole mass of compost at the rate of 7.5 ml./ kg. compost.

Spawn Running: After the spawning process is over, the compost is filled in polythene bags / trays/ shelves which are either covered with a newspaper sheet or polythene. The fungal bodies grow out from the spawn and take about two weeks (12-14 days) to colonize. The temperature maintained in cropping room is 23 ± 20 C. Higher temperature is detrimental for growth of the spawn and any temperature below than that specified for the purpose would result in slower spawn run. The relative humidity should be around 90% and a higher-than-normal CO2 concentration would be beneficial.

Casing: The compost beds after complete spawn run should be covered with a layer of soil (casing) about 3-4 cm. thick to induce fruiting. The casing material should be having high porosity, water holding capacity and the pH should range between 7-7.5. Peat moss which is considered to be the best casing material is not available in India, as such the mixtures like garden loam soil and sand (4:1); decomposed cow dung and loam soil (1:1) and spent compost (2-3 years old); sand and lime are commonly used. The casing soil before application should be either pasteurized (at 66-70° C for 7-8 hours), treated with formaldehyde (2%), formaldehyde (2%) and Bavistin (75 ppm.) or steam sterilized. The treatment needs to be done at least 15 days before the material is used for casing. After casing is done the temperature of the room is again maintained at 23-28° C and relative humidity of 85-90% for another 8-10 days. Low CO2 concentration is favourable for reproductive growth at this stage

Fruiting: Under favourable environmental conditions viz. temperature (initially 23 ± 2° C for about a week and then 16 ± 2° C), moisture (2-3 light sprays per day for moistening the casing layer), humidity (above 85%), proper ventilation and CO2 concentration (0.08-0.15%) the fruit body initials which appear in the form of pin heads start growing and gradually develop into button stage. The crop is suspectable to several diseases like Dry Bubble (brown spot), Wet Bubble (White Mould), Cobweb, Green Mould, False truffle (Truffle disease), Olive green mould, Brown plaster mould and Bacterial blotch. Professional help and extension advice will have to sought by the entrepreneur to adopt appropriate and timely control measures against pests & diseases.

Harvesting: is done at button stage and caps measuring 2.5 to 4 cm. across and closed are ideal for the purpose. The first crop appears about three weeks after casing. Mushrooms need to be harvested by light twisting without disturbing the casing soil.

CAIIB Rural Banking Module C -Priority Sector Financing And Govt. Initiatives

Index

No. of Unit	Unit Name
Unit 1	Priority Sector Lending
Unit 2	Poverty Alleviation Programs
Unit 3	Rural Housing and Education Loans
Unit 4	Initiatives of RBI under Financial Inclusion & Financial Education Programs and Implementation of Various Poverty Reduction Programs

CAIIB Rural Banking Module C Unit 1- Priority Sector Lending

Priority Sector Advances

- In 1980, all commercial banks were advised to achieve the target of priority sector lending at 40 per cent of the aggregate bank advances by 1985. Sub-targets were also specified for lending to agriculture and the weaker sections within the priority sector. **The guidelines have undergone changes over the**

period and the a revised Master Directions – Priority Sector Lending (PSL) – Targets and Classification was issued in September 2020.

- The targets and sub-targets as fixed for each category are applicable to every commercial bank [including Regional Rural Bank (RRB), Small Finance Bank (SFB), Local Area Bank] and Primary (Urban) Co- operative Bank (UCB) other than Salary Earners' Bank.

The categories under priority sector are as follows:

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

Targets and Sub-Targets for Priority Sector

Categories	Domestic commercial banks (excl. RRBs & SFBs) & foreign banks with 20 branches and above	Foreign banks with less than 20 branches	Regional Rural Banks	Small Finance Banks
Total Priority Sector	40 per cent of ANBC as computed in para 6 below or CEOBE whichever is higher	40 per cent of ANBC as computed in para 6 below or CEOBE whichever is higher; out of which up to 32% can be in the form of lending to Exports and not less than 8% can be to any other priority sector	75 per cent of ANBC as computed in para 6 below or CEOBE whichever is higher; However, lending to Medium Enterprises, Social Infrastructure and Renewable Energy shall be reckoned for priority sector achievement only up to 15 per cent of ANBC.	75 per cent of ANBC as computed in para 6 below or CEOBE whichever is higher.
Agriculture	18 per cent of ANBC or CEOBE, whichever is higher; out of which a target of 10 percent# is prescribed for Small and Marginal Farmers (SMFs)	Not applicable	18 per cent ANBC or CEOBE, whichever is higher; out of which a target of 10 percent# is prescribed for SMFs	18 per cent of ANBC or CEOBE, whichever is higher; out of which a target of 10 percent# is prescribed for SMFs

Categories	Domestic commercial banks (excl. RRBs & SFBs) & foreign banks with 20 branches and above	Foreign banks with less than 20 branches	Regional Rural Banks	Small Finance Banks
Micro Enterprises	7.5 per cent of ANBC or CEOBE, whichever is higher	Not applicable	7.5 per cent of ANBC or CEOBE, whichever is higher	7.5 per cent of ANBC or CEOBE, whichever is higher
Advances to Weaker Sections	12 percent# of ANBC or CEOBE, whichever is higher	Not applicable	15 per cent of ANBC or CEOBE, whichever is higher	12 percent# of ANBC or CEOBE, whichever is higher

<table>
<tr><th>Categories</th><th>Primary Urban Co-operative Bank</th></tr>
<tr><td>Total Priority Sector</td><td>40 per cent of ANBC or CEOBE, whichever is higher, which shall stand increased to 75 per cent of ANBC or CEOBE, whichever is higher, with effect from March 31, 2024. UCBs shall comply with the stipulated target as per the following milestones:
<table>
<tr><td>Existing target</td><td>March 31, 2021</td><td>March 31, 2022</td><td>March 31, 2023</td><td>March 31, 2024</td></tr>
<tr><td>40%</td><td>45%</td><td>50%</td><td>60%</td><td>75%</td></tr>
</table></td></tr>
<tr><td>Micro Enterprises</td><td>7.5 per cent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher</td></tr>
<tr><td>Advances to Weaker Sections</td><td>12 per cent# of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.</td></tr>
</table>

Targets and Sub-Targets for Priority Sector

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

The applicable target for lending to the non-corporate farmers for FY 2022-23 will be 13.78 per cent of ANBC or CEOBE whichever is higher.

Computation of Adjusted Net Bank Credit

Bank Credit in India (As prescribed in item No.VI of Form 'A' (Special Return as on March 31st) under Section 42 (2) of the RBI Act, 1934.	I
Bills Rediscounted with RBI and other approved Financial Institutions	II
Net Bank Credit (NBC)	III (I – II)
Investments in Non-SLR categories under HTM category + other investments eligible to be treated as priority sector.	IV
ANBC	III + IV

Description Of Eligible Categories Under Priority Sector

Agriculture:

- Crop loans including loans for traditional / non-traditional plantations, horticulture and allied activities.
- Medium and long-term loans for agriculture and allied activities (e.g., purchase of agricultural implements and machinery and developmental loans for allied activities).
- Loans for pre and post-harvest activities viz. spraying, harvesting, grading and transporting of their own farm produce.
- Loans to distressed farmers indebted to non-institutional lenders.
- Loans under the Kisan Credit Card Scheme.
- Loans to small and marginal farmers for purchase of land for agricultural purposes.
- Loans against pledge / hypothecation of agricultural produce (including warehouse receipt) for a period not exceeding 12 months subject to a limit up to Rs. 75 lakh against NWRs/ e-NWRs and up to Rs. 50 lakhs against warehouse receipts other than NWRs/e-NWRs.
- Loans to farmers for installation of stand-alone Solar Agriculture Pumps and for solarisation of grid connected Agriculture Pumps.
- Loans to farmers for installation of solar power plants on barren/fallow land.

Farm Credit – Corporate farmers, Farmer Producer Organisations (FPOs)/(FPC) Companies of Individual Farmers, Partnership firms and Co-operatives of farmers engaged in Agriculture and Allied Activities.

Loans for the following activities will be subject to an aggregate limit of Rs. 2 crore per borrowing entity:

- Crop loans to farmers which will include traditional/non-traditional plantations and horticulture and loans for allied activities.
- Medium and long-term loans for agriculture and allied activities (e.g., purchase of agricultural implements and machinery and developmental loans for allied activities).
- Loans for pre and post-harvest activities viz. spraying, harvesting, grading and transporting of their own farm produce.

Loans up to Rs. 75 lakh against pledge/hypothecation of agricultural produce for a period not exceeding 12 months against NWRs/eNWRs and up to **Rs. 50 lakh against warehouse receipts other than NWRs/eNWRs.**

Loans up to Rs 5 crore per borrowing entity to FPOs/FPCs undertaking farming with assured marketing of their produce at a pre-determined price.

UCBs are not permitted to lend to co-operatives of farmers.

Agriculture Infrastructure: Loans for agriculture infrastructure will be subject to an aggregate sanctioned limit of Rs. 100 crore per borrower from the bank.

Ancillary Services:

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

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

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

Micro, Small and Medium Enterprises (MSMEs):

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

Export Credit (not applicable to RRBs and LABs)

Domestic banks / WoS of Foreign banks/ SFBs/ UCBs	Foreign banks with 20 branches and above	Foreign banks with less than 20 branches
Incremental export credit over corresponding date of the preceding year, up to 2 per cent of ANBC or CEOBE whichever is higher, subject to a sanctioned limit of up to ₹ 40 crore per borrower.	Incremental export credit over corresponding date of the preceding year, up to 2 percent of ANBC or CEOBE whichever is higher.	Export credit up to 32 per cent of ANBC or CEOBE whichever is higher.

Education:

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

Housing:

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

Housing (other aspects):

- Loans up to Rs. 10 lakh in metropolitan centres and up to Rs. 6 lakh in other centres for repairs to damaged dwelling
- Bank loans to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers subject to dwelling units with carpet area of not more than 60 sq.m.
- Bank loans for affordable housing projects using at least 50% of FAR/FSI for dwelling units with carpet area of not more than 60 sq.m.
- Bank loans to HFCs (approved by NHB for their refinance) for on-lending, up to Rs. 20 lakh for individual borrowers, for purchase/construction/ reconstruction of individual dwelling units or for slum clearance and rehabilitation of slum dwellers.
- Outstanding deposits with NHB on account of priority sector shortfall.

Social Infrastructure

- Bank loans up to a limit of Rs. 5 crore per borrower for setting up schools, drinking water facilities and sanitation facilities including construction/ refurbishment of household toilets and water improvements at household level, etc.

- Loans up to a limit of Rs. 10 crore per borrower for building health care facilities including under 'Ayushman Bharat' in Tier II to Tier VI centres.
- In case of UCBs, the above limits are applicable only in centres having a population of less than one lakh.

Renewable Energy:

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

Others:

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

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

Weaker Section:

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

(i)	Small and Marginal Farmers
(ii)	Artisans, village and cottage industries where individual credit limits do not exceed ₹1 lakh
(iii)	Beneficiaries under Government Sponsored Schemes such as National Rural Livelihood Mission (NRLM), National Urban Livelihood Mission (NULM) and Self Employment Scheme for Rehabilitation of Manual Scavengers (SRMS)
(iv)	Scheduled Castes and Scheduled Tribes
(v)	Beneficiaries of Differential Rate of Interest (DRI) scheme
(vi)	Self Help Groups
(vii)	Distressed farmers indebted to non-institutional lenders
(viii)	Distressed persons other than farmers, with loan amount not exceeding ₹1 lakh per borrower to prepay their debt to non-institutional lenders
(ix)	Individual women beneficiaries up to ₹1 lakh per borrower (For UCBs, existing loans to women will continue to be classified under weaker sections till their maturity/repayment.)
(x)	Persons with disabilities
(xi)	Minority communities as may be notified by Government of India from time to time.

Inter-bank Participation Certificate

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

Priority Sector Lending Certificates (PSLCs)

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

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

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

Agriculture: On-lending by NBFCs for 'Term lending' component under Agriculture will be allowed up to Rs.10 lakh per borrower.

Micro & Small enterprises: On-lending by NBFC will be allowed up to Rs. 20 lakh per borrower.

- **Bank loans to HFCs for on-lending (not applicable to RRBs, SFBs and LABs):** Bank credit to Housing Finance Companies (HFCs), approved by NHB for their refinance, for on-lending for the purpose of purchase/construction/ reconstruction of individual dwelling units or for slum clearance and rehabilitation of slum dwellers, subject to an aggregate loan limit of Rs. 20 lakh per borrower.

Non- Achievement Of Priority Sector Targets

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

Common Guidelines For Priority Sector Loans

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

CAIIB Rural Banking Module C Unit 2-Poverty Alleviation Programs

Poverty Assessment And Way Forward

- Poverty estimates based on the **Tendulkar Committee methodology**, using household consumption expenditure survey data collected by the NSSO in its 68th round (2011–12), show that the incidence of poverty declined from 37.2 per cent in 2004–5 to 21.9 per cent in 2011–12, for the country as a whole, with a sharper decline in the number of rural poor.
- The high rural poverty can be attributed to lower farm incomes, due to subsistence agriculture, lack of sustainable livelihoods in rural areas, impact of

rise in prices of food products on rural incomes, lack of skills, under-employment and unemployment.

- The Economic Survey 2016–17 tabled in Parliament, advocated for the adoption of **Universal Basic Income (UBI) program**, as an alternative, to the various social welfare schemes, in an effort to reduce poverty.
- It suggests that a more efficient way to help the poor will be to provide them resources directly, a basic income in the form of social security, in which, all citizens of a country, regularly receive an unconditional sum of money, either from a government in addition to any income received from elsewhere.

The Path Followed for Poverty Alleviation

- Government had launched many schemes, aimed at creating wage employment and promoting self-employment, etc. **Food for Work Program of 1970s, and NREGA of 2005** were launched under the former category. The Government has launched **Swarna Jayanti Shahari Rozgar Yojana**, in order to provide gainful employment to the urban unemployed and underemployed poor, by encouraging them to set up self-employment ventures or provision of wage employment.
- Government has also launched the **Indira Awas Yojana (now known as Pradhan Mantri Awas Yojana-Grameen),** with a view to providing affordable housing to the rural poor.
- The centrally sponsored scheme called **Valmiki Ambedkar Awas Yojana** strives to uplift the living condition of slum dwellers.
- **Deendayal Antyodaya Yojana – National Rural Livelihood Mission (DAY-NRLM),** launched in November, 2015, is the initiative of the Government to move towards a demand-driven strategy enabling the states to formulate their own livelihoods-based poverty reduction action plans
- **The National Food Security Act, 2013 (also 'Right to Food Act')** aims at provision of subsidized food grains to approximately two thirds of the country's population.
- The Government also launched **Deendayal Upadhyaya Grameen Kaushalya Yojana (DDU-GKY).** It is a placement linked skill training program, which was launched in September, 2014. The scheme is expected to promote 'Make in India' campaign by preparing skilled workforce.
- According to FAO estimates in the State of Food Security in the World, 2020 report, 189.2 million people are undernourished in India. The Global Hunger Index 2020 ranks India at 101 out of 116 countries, on the basis of three leading indicators – prevalence of wasting and stunting in children, under five child mortality rates, and the proportion of undernourished in the population.
- A National Sample Survey Exercise pointed towards the fact that about 5 per cent of the total population in the country sleeps without two square meals, a day. In order to make the Targeted Public Distribution System (TPDS) more focused and targeted towards this category of population, the **"Antyodaya Anna Yojana" (AAY)** was launched in December, 2000, for one crore poorest of the poor families.

Initiatives Of The Government

Deendayal Antyodaya Yojana – National Rural Livelihoods Mission

- The Ministry of Rural Development, Government of India launched a program known as **National Rural Livelihoods Mission (NRLM)** by restructuring and replacing the Swarnjayanti Gram Swarozgar Yojana (SGSY) scheme, with effect from April 01, 2013.
- DAY-NRLM is the flagship program of GOI for promoting poverty reduction through building strong institutions of the poor, particularly women, and enabling these institutions to access a range of financial services and livelihood services.
- DAY- NRLM promotes livelihood institutions of rural poor. The mission provides a continuous hand-holding support to the institutions of poor for a period of 5 – 7 years till they come out of abject poverty.
- Women SHGs under DAY-NRLM consist of 10-20 persons. In case of special SHGs i.e., groups in the difficult areas, groups with disabled persons, and groups formed in remote tribal areas, this number may be a minimum of 5 persons.
- DAY-NRLM would provide **Revolving Fund (RF)** support to SHGs in existence for a minimum period of 3 to 6 months and which follow all the norms.
- Only such SHGs that have not received any RF earlier will be provided with RF, as corpus, with a minimum of Rs. 10,000 and up to a maximum of Rs. 15,000 per SHG. The purpose of RF is to strengthen their institutional and financial management capacity and build a good credit history within the group.
- **Community Investment Support Fund (CIF)** will be provided to the SHGs in the intensive blocks. The CIF will be used, by the Federations, to advance loans to the SHGs and/or to undertake the common/collective socio-economic activities.
- DAY-NRLM has a provision for extending interest subvention, to cover the difference between the Lending Rate of the banks and 7 per cent, on all credit from the banks/ financial institutions availed by women SHGs, for a maximum of Rs. 3,00,000 per SHG.

Mahatma Gandhi National Rural Employment Guarantee Scheme

The Mahatma Gandhi National Rural Employment Guarantee Scheme was launched on 02 Feb 2006. It **guarantees 100 days of employment in a financial year to any rural household**, whose adult members volunteer to do unskilled manual work.

The core objective of this scheme, as per the revised schedule-I of the MGNREG Act, are

- Providing not less than one hundred days of unskilled manual work as a guaranteed employment in a financial year to every household in rural areas as per demand,
- Strengthening the livelihood resource base of the poor;
- **P**roactively ensuring social inclusion;
- Strengthening of Panchayat Raj institutions.

Technological improvements have been brought about over a period of time in the implementation of the program for increased efficiency in its implementation. They include digitalization of job cards, seeding them with Aadhaar, linking payment through Aadhaar payment bridge, geo tagging of MNREGS assets, payment of wages directly to the accounts of the beneficiaries, etc.

Pradhan Mantri Gram Sadak Yojana (PMGSY)

- It was launched by GOI to provide connectivity to unconnected habitations, as part of a poverty reduction strategy.
- The scheme provides for connectivity by way of single all-weather road to eligible unconnected habitations, as per core network, with a population of 500 persons in plain areas and 250 persons and above in respect of special category states like North East, Sikkim, Himachal Pradesh, Jammu & Kashmir, Uttarakhand, desert areas, tribal and backward districts.

Pradhan Mantri Awas Yojana-Grameen (PMAY-G)

- Indira Awas Yojana has been restructured in to the Pradhan Mantri Awas Yojana-Grameen, with effect from April, 2016, to meet the challenges of ensuring 'Housing for all' by FY- 2022.
- Priority is accorded to female headed households and households with single girl child, during selection of the beneficiaries. The beneficiary of the scheme is entitled to 90/95 person-days of unskilled labour from MGNREGS. The assistance for the construction of the toilet shall be leveraged through convergence with Swachh Bharat Mission – Gramin program. Convergence for piped drinking water, electricity connection, LPG gas connection, etc. under different Government programs is also an inherent thematic component.

Welfare Schemes

Poverty Reduction through Use of Public Distribution System

- The Public Distribution System (PDS) is one of the largest safety- net programs in India, set up to provide subsidized grains to the poor.
- Keeping in view the consensus on increasing the allocation of food grains to BPL families, and to better target the food subsidy, Government of India increased the allocation to BPL families from 10 kg to 20 kg of food grains per family per month at 50% of the economic cost and allocation to APL families at economic cost with effect from 1 April, 2000.
- The Governments have introduced technology- based reforms under TPDS in the recent period, in order to improve efficiency in implementation of the program.

Digitization of ration cards, online entry and verification of beneficiaries' data, computerization of data relating to eligibility of beneficiaries and transactions, computerized allocation to fair price shops, introduction of web- based citizens' portal, etc., are some of the measures introduced.

Pradhan Mantri Garib Kalyan Yojana (PMGKY)

- It is a comprehensive relief package of Rs 1.70 Lakh crore Yojana for the poor to help them fight the battle against Corona Virus. This was announced in March 2020, to reach out to the poorest of the poor, with food and money in hands, so that they do not face difficulties in buying essential supplies and meeting essential needs.

Pradhan Mantri Jan Aushadhi Yojana (PMJAY)

- The program was launched in March 2016, with an objective to provide quality drugs/medicines at an affordable cost across the country. The scheme - a new version of the earlier Jan Aushadhi Yojana - aims at opening of 3000 Jan Aushadhi stores to sell drugs.
- Private hospitals, NGOs, and others social groups are eligible to open the Jan Aushadhi stores, with a one-time assistance of Rs. 2.5 Lakh from the central Government.

Pradhan Mantri Ujjwala Yojana

- In May, 2016, the Ministry of Petroleum and Natural Gas, has introduced the Pradhan Mantri Ujjwala Yojana, as a flagship scheme, with a view to making available clean cooking fuel such as LPG to the rural and deprived households.
- The scheme provides a financial support of Rs. 1600 for each LPG connection to the BPL households to facilitate them to cover the cost of security deposit, pressure regulator, LPG hose, etc. Additionally, all the PMUY beneficiaries will be provided with first LPG refill and Stove (hotplate) both free of cost, along with their deposit free connection by the Oil Marketing Companies (OMCs).

CAIIB Rural Banking Module C Unit 3 -Rural Housing And Education Loans

Pradhan Mantri Awas Yojana (Grameen)

- IAY was restructured w.e.f. 1st April 2016 and it was named as Pradhan Mantri Awas Yojana – Gramin (PMAY-G). PMAY-G aims to provide pucca houses by Y - 2022, to all houseless persons and those living in 'kutcha' and dilapidated houses.
- Under the scheme, minimum size has been increased to 25 Sq. mt. (from 20 Sq. mt.) with hygienic cooking place. The unit assistance has been increased from Rs. 70,000 to Rs. 1,20,000 in plains and from Rs. 75,000 to Rs. 1,30,000 in hilly states.

- The cost of the unit is to be shared between Central and State Governments in the ratio of 60:40 in plain areas and 90:10 for north Eastern and Hilly states.
- Houses sanctioned under PMAY-G are eligible to receive assistance of Rs. 12,000/- for construction of toilet from Swatch Bharat Mission, MGREGS or any other dedicated financing source of the Government.
- The identification and selection of the beneficiaries shall be done by the community through the Gram Sabha, from the SECC 2011 list, based on the housing deficiency and other social deprivation parameters.
- If the beneficiary so chooses, he/she will be facilitated to avail loan from financial institutions for an amount up to Rs. 70,000.
- All payments through DBT to beneficiary's Bank/Post office accounts registered in AwasSoft MIS.

Exclusions:

- The scheme provides for exclusion of those living in pucca houses, those having motorized two/three/four- wheeler/fishing boat, those having mechanized three/four- wheeler agricultural equipment.
- Kisan Credit Card holders with credit limit of Rs. 50,000 or above
- Household with any member as a government employee, households with any member of the family earning more than Rs. 10,000 p.m.
- Households with any member paying income tax/professional tax, those owning a refrigerator/ landline phone, those owning 2.5 acres or more of irrigated land with at least one irrigation equipment, those owning 5 acres or more of irrigated land for two or more crop seasons, and those owning 7.5 acres of land or more with at least one irrigation equipment.

Interest Subsidy to those not covered under the PMAY- Grameen

- A new scheme for promotion of Rural Housing in the country has been approved by the union cabinet in 2017, whereby the Government would provide interest subsidy of 3 per cent. It will enable people in rural areas to construct new houses or make addition to their existing pucca houses in order to improve the dwelling units. The scheme is being implemented by the National Housing Bank (NHB).
- Under the scheme, the beneficiary will be provided interest subsidy for the loan availed up to Rs. 2 lakhs. Government will provide interest subsidy of 3 per cent to NHB upfront which will, in turn, pass it to the Primary Lending Institutions (SCBs), NBFCs, etc.

Affordable Housing

- "Affordable housing" is defined as a housing project that uses, at least 50 per cent of the floor space index (FSI), for dwelling units, with a carpet area of not more than 60 sq m.
- Lending to affordable housing segment as also the housing loans to individuals up to Rs. 50 lakhs, for houses of values up to Rs. 65 lakhs located in the six metropolitan centres viz. Mumbai, New Delhi, Chennai, Kolkata, Bengaluru and Hyderabad and Rs. 40 lakhs for houses of values up to Rs. 50 lakhs, in other

centres, for purchase/ construction of dwelling unit per family, will be deemed as priority sector loans.

Classification of Housing Loan by Banks as Priority Sector

- Loans to individuals up to Rs. 35 lakh in metropolitan centres and up to Rs. 25 lakh in other centres for purchase/construction of a dwelling unit per family provided the overall cost of the dwelling unit in the metropolitan centre and at other centres does not exceed Rs. 45 lakh and Rs. 30 lakh respectively.
- Loans up to Rs. 10 lakh in metropolitan centres and up to Rs. 6 lakh in other centres for repairs to damaged dwelling units.
- Bank loans to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers subject to dwelling units with carpet area of not more than 60 sq.m.
- Bank loans for affordable housing projects using at least 50% of FAR/FSI for dwelling units \with carpet area of not more than 60 sq.m.
- Bank loans to HFCs (approved by NHB for their refinance) for on-lending, up to Rs. 20 lakh for individual borrowers, for purchase/construction/ reconstruction of individual dwelling units or for slum clearance and rehabilitation of slum dwellers.

Support to Rural Housing and Rural Sanitation by NABARD

- A comprehensive rural housing policy has been adopted by NABARD with the objective of meeting huge unmet needs of rural housing in the country. For various initiatives of Government for rural infrastructure development including PMAY-G, NABARD has been raising resources from the market for on lending to **National Rural Infrastructure Development Agency (NRIDA),** the nodal agency to meet the shortfall in the share of GOI in the project.
- Government of India (Ministry of Jal Shakthi) has launched Swachh Bharat Mission- Gramin (SBM -G), with a view to achieving universal sanitation coverage, in rural areas. Under the SBM-G, NABARD has been extending loans to the National Centre for Drinking Water, Sanitation and Quality, towards part funding of Central share, towards construction of 3 crore household toilets.

Education

The objective of educational Loan Scheme is providing financial support from the banking system to meritorious students for pursuing higher education in India and abroad.

Eligibility	The student should be an Indian national. To be eligible for loan, the student should have secured admission to a higher education course, in recognized institutions in India or abroad, through Entrance Test/Merit Based Selection process, after completion of HSC (10 plus 2 or equivalent). For admission to some of the post graduate courses or research programs, instead of totally relying on marks obtained in the qualifying examinations, the banks may consider other criteria such as employability and reputation of the institution concerned.
Courses eligible for assistance under the loan scheme	**Studies in India (indicative list)** Approved courses leading to graduate/post graduate degree and P G diplomas conducted by colleges / universities recognized by UGC/ Government/ AICTE/ AIBMS/ ICMR, etc. Courses like ICWA, CA, CFA, etc. Courses conducted by IIMs, IITs, IISC, XLRI. NIFT, NID, etc. Regular Degree/Diploma courses like Aeronautical, pilot training, shipping, degree/diploma in nursing or any other discipline approved by Director General of Civil Aviation/Shipping/Indian Nursing Council or any other regulatory body as the case may be, if the course is pursued in India. Approved courses offered in India by reputed foreign universities. **Studies abroad** Graduation: For job oriented professional/technical courses offered by reputed universities. Post-graduation: MCA, MBA, MS, etc. Courses conducted by CIMA- London, CPA in USA, etc. Degree/diploma courses like aeronautical, pilot training, shipping, etc., provided these are recognized by competent regulatory bodies in India/abroad for the purpose of employment in India/abroad.
Expenses considered for loan	Fee payable to college/school/hostel. Examination/Library/Laboratory fee. Travel expenses/passage money for studies abroad. Insurance premium for student borrower, if applicable. Caution deposit, building fund/refundable deposit supported by Institution bills/receipts. Purchase of books/equipment/instruments/uniforms. Purchase of computer at reasonable cost, if required for completion of the course Any other expense required to complete the course – like study tours, project work, thesis, etc. While computing loan required, scholarships, fee waiver, etc., if any available to the student borrower may be taken into account. If the scholarship component is included in the loan assessment, it may be ensured that the scholarship amount gets credited to the loan account as and when received from the Government.
Quantum of finance	Need based finance to meet the expenses worked out, as stated above will be considered, taking in to account margins, subject to the ceilings - Studies pursued in India – Maximum up to ₹10 lakhs and Studies pursued abroad – Maximum up to ₹ 20 lakhs. While these are the limits as per the model education loan scheme brought out by IBA, banks can fix higher limits for students taking up studies at IIMs, ISB or universities/ colleges abroad.
Margin Requirement	Up to ₹ 4 lakhs: Nil; Above ₹ 4 lakhs: Studies in India- 5%; Studies Abroad -15%. However, up to ₹ 7.5 lakhs, margin will be 'Nil', if loan is eligible for the Credit Guarantee coverage. The scholarship/ assistantship to be included in margin. Margin may be brought-in, on year-to-year basis, as and when disbursements are made on a pro-rata basis

Security	loan documents should be executed by the student and the parent/guardian, as joint-borrower. There is no specific restriction with regard to the age of the student to be eligible for education loan. However, if the student is a minor while availing the loan, the security documents are to be executed by the parent. Upon minor attaining the age of majority, banks shall obtain a letter of ratification. In case of a married person, joint borrower can be spouse or the parent(s)/parents-in-law. The security can be in the form of land/building/Government securities/Public Sector Bonds/Units of UTI, NSC, KVP, life policy, gold, and shares/mutual fund units/debentures, bank deposit in the name of student/parent/guardian/any other third party or any other tangible security acceptable to the bank, with suitable margin. Wherever the land/building is already mortgaged, the unencumbered portion can be taken as security on second charge basis, provided, it covers the required loan amounts.
Repayment	Repayment Holiday/Moratorium: Course period + 1 year. In special circumstances, banks may consider moratorium, taking into account, spells of under-employment/unemployment, say two or three times (maximum of 6 months at a time) during the life cycle of the loan. Banks may also encourage student borrowers who want to set up start-up units, by giving moratorium on repayment of principal and interest, during incubation period, which may be considered for a period up to two years. If the student is not able to complete the course within the scheduled time, extension of time for completion of course may be permitted for a maximum period of two years. Repayment of the loan will be in equated monthly installments, for a period of 15 years, for all categories. No prepayment penalty will be levied for prepayment of loan any time during the repayment period. While EMI based repayment is the generally accepted practice, many a times, the salary levels at the start of the career may not facilitate comfortable payment of EMI in certain cases (e.g., professionals like doctors). Telescoping of repayment with stepped up installments with passage of time may be considered by banks, in such cases.
Insurance	Banks shall advise the borrower to arrange for life insurance policy of the student availing education Loan

Skill Development and Entrepreneurship Loan Scheme (Skill Loan Scheme)

- Government of India has launched the National Skill Development Mission and unveiled the new National Policy for Skill Development and Entrepreneurship 2015.
- The objective of the scheme is to provide loan facility to individuals, who intend to take up the skill development courses.
- Any individual, who has secured admission in a course, run by Industrial Training Institutes (ITIs), or in a college affiliated to recognized university, training partners affiliated to National Skill Development Corporation (NSDC), leading to a certificate/ diploma / degree issued by such organization as per National Skill Qualification Framework (NSQF,) shall be eligible for a Skilling Loan.
- Maximum financial assistance shall be Rs. 1,50,000, to cover tuition fees, other reasonable expenditure found necessary for completion of the course,
- Margin for loan shall not exceed 10% of the total course expenditure.
- No collateral security shall be obtained. However, the banks have option to apply to the National Credit Guarantee Trust Company Ltd (NCGTC) for credit guarantee, against defaults and the NCGTC will provide such guarantee, at nominal guarantee fee, which shall not exceed 0.5% of the amount outstanding. Such credit guarantee cover will be for a maximum of 75% of the outstanding loan amount.

- Repayment shall start after a moratorium period up to six months from the date of completion of course, if the course duration is up to one year. If the course duration is more than one year, moratorium period may extend 12 months from the date of completion of the course.
- The loans shall have the tenure ranging between 3 to 7 years i.e., **(a)** for loans up to Rs. 50,000 – up to 3 years **(b)** Loans between Rs. 50,000 and Rs. 1 lakh: Up to 5 years and **(c)** Loans above Rs. 1 lakh: up to 7 years; No prepayment charges are to be recovered.

Other Initiatives of GOI

Pradhan Mantri Vidya Lakshmi Karyakram (PMVLK):

launched by GOI in the year 2015 aims at making the educational loan available to every student with ease, i.e., they should not face the barrier of lack of funds for pursuing education. To make this possible, online portal https://www. vidyalakshmi.co.in/ Students/ was launched.

The benefits of the scheme are as under:

- It is a single window platform for the students seeking educational loan or scholarship.
- Through this website, student can search for various educational loan and scholarship providers, make application and track the status online.
- Loan application can be made for studying within India and abroad.
- Student can apply for any type of course i.e., under-graduation, post-graduation, professional and vocational course.

Tax Benefits: As per Section 80E of the Income Tax Act, 1961, deductions are allowed on interest on Education Loan. Section 80 E covers education loan taken for Higher Studies (maximum period: 8 years).

Priority Sector: Loans to individuals for educational purposes including vocational courses up to Rs. 20 lakhs, irrespective of the sanctioned amount will be considered as eligible for priority sector.

CAIIB Rural Banking Module C Unit 4-Initiatives Of RBI Under Financial Inclusion & Financial Education Programs And Implementation Of Various Poverty Reduction Programs

National Strategy For Financial Inclusion

- The National Strategy for Financial Inclusion (NSFI) 2019-24, seeks to address the inherent barriers of access to a gamut of financial products and services.
- The National Strategy for Financial Inclusion for India 2019-2024 has been prepared by RBI, under the aegis of the Financial Inclusion Advisory Committee and is based on the inputs and suggestions from GOI, other financial sector

regulators viz. Securities Exchange Board of India (SEBI), Insurance Regulatory and Development Authority of India (IRDAI) and Pension Fund Regulatory and Development Authority of India (PFRDA).

Strategic Objectives:

- The NSFI visualizes to make the financial services available, accessible and affordable to all the citizens in a safe and transparent manner, to support inclusive and resilient multi-stakeholder led growth.
- Universal access to financial services, providing basic bouquet of financial services, access to livelihood and skill development, financial literacy and education, customer protection and grievance redressal and effective coordination have been identified as the strategic pillars for holding up the aforesaid vision.

Universal Access to Financial Services

Providing Universal Access to Financial Services by expanding the outreach is the key foundation for a successful financial inclusion strategy. **The NSFI has spelt out the following action plans and milestones for the accomplishing the task:-**

- Increasing outreach of banking outlets of Scheduled Commercial Banks/Payment Banks/Small Finance Banks, to provide banking access to every village, within a 5 km radius/hamlet of 500 households in hilly areas
- Strengthen the eco system for various modes of digital financial services in all the Tier II to Tier VI centres, to create the necessary infrastructure to move towards a less cash society.
- Leverage on the development in fin-tech space, to encourage financial service providers, to adopt innovative approaches for strengthening outreach through virtual modes, including mobile apps so that, every adult has access to a financial service provider, through a mobile device
- Move towards an increasingly digital and consent-based architecture, for customer on-boarding.

Providing Basic Bouquet of Financial Services:

- Every willing and eligible adult who has been enrolled under the PMJDY to be enrolled under an insurance scheme (Pradhan Mantri Jeevan Jyoti Bima Yojana-PMJJBY, Pradhan Mantri Suraksha Bima Yojana- PMSBY, etc.) Pension Scheme.
- Capacity building of all BCs either directly by the parent entity or through accredited institutions.
- Make the Public Credit Registry (PCR) fully operational so that authorized financial entities can leverage on the same for assessing credit proposals from all citizens.

Access to livelihood and skill development:

- While ensuring access to livelihood and skill development to the targeted group, it has been recommended convergence of objectives of various employment generation and skill development programs like National Rural Livelihoods Mission (NRLM), National Urban Livelihoods Mission (NULM), Pradhan Mantri Kaushal Vikas Yojana (PMKVY) and other state level programs, through an integrated approach.

Financial Literacy And Education

The following action plans have been identified for the purpose:-

- Develop financial literacy modules through National Centre for Financial Education (NCFE) that cover financial services in the form of Audio-video content/booklets, etc.
- Focus on process literacy along with concept literacy, which empowers the customers to understand not only what the product is about, but also helps them how to use the product by using technology led digital kiosk, mobile apps, etc.,
- Expand the reach of Centres for Financial Literacy, at every block in the country.

Customer Protection and Grievance Redressal:

The following strategies are proposed:-

- Strengthening the internal grievances redressal mechanism of financial service providers, for effectiveness and timely response.
- Develop a robust customer grievance portal/ mobile app, which acts as a common interface for lodging, tracking and redressal status of the grievances, pertaining to financial, collectively by all the stakeholders.
- Operationalize a Common Toll-free helpline, which offers response to the queries pertaining to customer grievances across banking, securities, insurance and pension sectors.
- Develop a portal to facilitate inter-regulatory coordination for redressal of customer grievance.

Effective Co-ordination

The following action plans are suggested to ensure effective and successful coordination:-

- Strengthen the various fora under Lead Bank Scheme, to ensure the achievement of the vision of the strategy at the ground level.
- Leverage on the emerging developments in technology to promote effective stakeholder coordination by having in place a digital dashboard/MIS monitoring.
- Encourage decentralized approach to planning and development, by creating a forum to actively involve Gram Panchayats/Civil Society/NGs to accelerate financial inclusion using various tools like social audit.

Direct Benefit Transfer

With the aim of reforming Government delivery system by re-engineering the existing process in welfare schemes for simpler and faster flow of information / funds and to ensure accurate targeting of the beneficiaries, de-duplication and reduction of fraud, Direct Benefit Transfer (DBT) was started on 1st January, 2013. With the rapid rollout of Aadhaar in the country, it was felt possible to move to a system of transferring cash benefits directly to the poor.

With a view to facilitating DBT for the delivery of social welfare benefits by direct credit to the bank accounts of beneficiaries, RBI has advised banks to:

- Open accounts for all eligible individuals in camp mode with the support of local government authorities
- Seed the existing accounts or the new accounts opened with Aadhaar numbers
- Put in place an effective mechanism to monitor and review the progress in the implementation of DBT.

SLBC Convenor Banks and the Lead Banks have been advised to institute a monitoring and review mechanism to periodically assess and evaluate the progress made in the implementation of DBT by banks.

Guidelines Issued By RBI Under DAY-NRLM

The guidelines issued by RBI to the banks for successful implementation of the scheme are as follows:-

Opening of Savings bank accounts	**Opening savings bank account in the name of SHGs:** The SHGs engaged in promoting of savings habits among their members would be eligible to open savings bank accounts. KYC verification of only the office bearers shall suffice for opening of savings bank account. Banks may not insist on Permanent Account Number (PAN) of SHGs, at the time of opening of account or transactions and may accept declaration in Form No 60, as may be required. As per the current instructions under Simplified norms for Self Help Groups (SHGs), while opening of accounts Customer Due Diligence (CDD) of all the members of SHG shall not be required and CDD of only the office bearers shall suffice. At the time of credit linking of SHGs, banks may undertake KYC verification of all the members in the SHG. However, opening of savings account of all members with the bank shall not be made a prerequisite for credit linkage of SHGs. Banks are advised to maintain separate Savings and loan account for SHGs. Business Correspondents deployed by banks may also be authorized to open Saving Bank Accounts of the SHGs after verification/approval of the base branch, subject to adherence to extant BC guidelines and in accordance with the bank's Board approved policy on Business Correspondents. However, ensuring compliance with KYC and AML norms, under the BC model continues to be the responsibility of the banks. **Opening of Savings account of Federation of SHGs:** Banks are advised to open savings account of Federations of SHGs at village, Gram Panchayat, Cluster or higher level. These accounts may be categorized as savings account for Association of persons. The KYC norms for the signatories of such accounts, as specified by RBI from time to time, would be applicable **Opening of Current Account of Producer Groups (PGs):** In order to facilitate collective production and marketing for their produce, banks are advised to open current account for Producer Groups promoted under DAY-NRLM at village, Gram Panchayat, Cluster or higher level. The KYC norms for the signatories of such accounts, as specified by RBI from time to time, would be applicable.

Lending norms-eligibility criteria	Eligibility criteria for the SHGs to avail loans shall be as under: (i) SHGs should be in active existence at least since the last 6 months as per the books of account of SHGs (and not from the date of opening of savings bank account). (ii) SHGs should be practicing 'Panchasutras' i.e., regular meetings; regular savings; regular inter-loaning; timely repayment; and up-to-date maintenance of books of accounts; (iii) SHGs should be Qualified as per grading norms fixed by NABARD. As and when the federations of the SHGs come to existence, the grading exercise may be done by the Federations, to support the banks. -The existing defunct SHGs are also eligible for credit, if they are revived and continue to be active for a minimum period of 3 months

Loan amount	Emphasis is laid on the multiple doses of assistance under DAY- NRLM. This would mean assisting an SHG over a period of time, through repeat doses of credit, to enable them to access higher amounts of credit for taking up sustainable livelihoods and improve on the quality of life. SHGs may avail either Term Loan (TL) or a Cash Credit Limit (CCL) loan or both based on the need. In case of need, additional loan may be sanctioned even though the previous loan is outstanding, based on the repayment behavior and performance of the SHG. The amount of credit under different facilities are as follows: **Cash Credit Limit (CCL)**: In case of CCL, banks are advised to sanction minimum loan of ₹6 lakh to each eligible SHGs for a period of 3 years, with a yearly drawing power (DP). The drawing power may be enhanced annually based on the repayment performance of the SHG. The drawing power may be calculated as follows: • DP for First Year: 6 times of the existing corpus or minimum of ₹1 lakh, whichever is higher • DP for Second Year: 8 times of the corpus at the time review/ enhancement or minimum of ₹2 lakh, whichever is higher • DP for Third Year: Minimum of ₹6 lakh based on the Micro credit plan prepared by SHG and appraised by the Federations /Support agency and the previous credit history. • DP for Fourth Year onwards: Above ₹6 lakh, based on the Micro credit plan prepared by SHG and appraised by the Federations /Support agency and the previous credit History. **Term Loan:** In case of Term Loan, banks are advised to sanction loan amount in doses as mentioned below: • First Dose: 6 times of the existing corpus or minimum of ₹1 lakh, whichever is higher • Second Dose: 8 times of the existing corpus or minimum of ₹2 lakh, whichever is higher • Third Dose: Minimum of ₹6 lakh, based on the Micro credit plan prepared by the SHGs and appraised by the Federations /Support agency and the previous credit history. • Fourth Dose onwards: Above ₹6 lakh, based on the Micro credit plan prepared by the SHGs and appraised by the Federations /Support agency and the previous credit History. Banks are advised to take necessary measures to ensure that eligible SHGs are provided with repeat loans. Banks are advised to coordinate with DAY-NRLM to institutionalize a mechanism for online submission of loan application from SHGs for tracking and timely disposal of application. Corpus is inclusive of revolving funds, if any, received by that SHG, its own savings, interest earning by SHG from on-lending to its members, income from other sources, and funds from other sources in case of promotion by other institutes/NGOs.
Purpose of loan	The loan amount would be distributed among members, based on the Micro Credit Plan (MCP) prepared by the SHGs. The loans may be used by members for meeting social needs, high-cost debt swapping, construction or repair of house, construction of toilets and taking up sustainable livelihoods by the individual members within the SHGs or to finance any viable common activity started by the SHGs. In order to facilitate use of loans for augmenting livelihoods of SHG members, it is advised that at least 50% of loans above ₹2 lakh, 75% of loans above ₹4 lakh and at least 85% of loans above ₹ 6 lakh be used primarily for income generating productive purposes. As already indicated, Micro Credit Plan (MCP) prepared by SHGs would form the basis for determining the purpose and usage of loans
Repayment schedule for term loans	The First dose of loan may be repaid in 24-36 months in monthly/Quarterly Instalments. The Second dose of loan may be repaid in 36-48 months in monthly/Quarterly instalments. The Third dose of loan may be repaid in 48-60 months based on the cash flow in monthly/Quarterly instalments. The loan from Fourth dose onwards may be repaid between 60-84 months, based on the cash flow in monthly/ quarterly installments.
Security and margin	No collateral and no margin would be charged up to ₹10.00 lakh limit to the SHGs. No lien should be marked against savings bank account of SHGs and no deposits should be insisted upon while sanctioning loans

Guidelines Issued By RBI Under NULM

Target Group for assistance	The SEP component ensures provision of financial assistance to individuals/groups including street venders/hawkers of urban poor for setting up gainful self-employment ventures/ micro-enterprises, suited to their skills, training, aptitude and local conditions. The program also supports Self Help Groups (SHGs) of urban poor, to access easy credit from bank and avail interest subsidy on SHG loans. The SEP will also focus on technology, marketing and other support services to the above beneficiaries engaged in micro enterprises for their livelihoods and will also facilitate issuance of credit cards for working capital requirement of the entrepreneurs. The underemployed and unemployed urban poor will be encouraged to set up small enterprises relating to manufacturing, service and small business for which there is considerable local demand. Local skills and local crafts should be particularly encouraged. Each Urban Local Body (ULB) should develop a compendium of such activities/projects keeping in view skills available, marketability of products, costs, economic viability, etc.
	The percentage of women beneficiaries under SEP shall not be less than 30 percent. SCs and STs must be benefited at least to the extent of the proportion of their strength in the city/ town population of poor. A special provision of 5 percent reservation should be made for the differently-abled under this program with priority to women. In view of the Prime Minister's 15-Point Program for the Welfare of Minorities, at least 15 percent of the physical and financial targets under this component shall be earmarked for the minority communities.

Pattern of financial assistance	The financial assistance available to urban poor in setting up individual and group enterprises will be in the form of Interest subsidy on the bank loans. Interest subsidy, over and above 7% rate of interest will be available on a bank loan for setting up of individual or group enterprises. The difference between 7% p.a. and the rate of interest charged by the bank will be provided to banks under DAY-NULM. Interest subsidy will be given only in case of timely repayment of loan. Suitable certification from banks will be obtained in this regard. An additional 3 percent interest subvention will be provided to all Women Self Help Groups (WSHGs) who repay their loan in time. The Interest subsidy will be subject to timely repayment of the loan (as per the loan repayment schedule) and suitable certification obtained from banks by the ULB. The additional 3% interest subvention amount will be reimbursed to the eligible WSHGs. The banks should credit the amount of 3% interest subvention to the eligible WHSGs accounts and thereafter seek the reimbursement.
Individual Enterprises (SEP-I)-Loan & Subsidy	An urban poor individual beneficiary desirous of setting up an individual micro-enterprise for self-employment can avail benefit of subsidized loan under this component from any bank. The norms/ specifications for individual micro-enterprise loans are as follows: The prospective beneficiary should have attained the age of 18 Years at the time of applying for loan. The Maximum unit Project Cost for an individual micro-enterprise is ₹ 2,00,000 (₹ Two Lakhs). No collateral required; only the assets created would be hypothecated/ mortgaged/ pledged to banks for advancing loans. The banks may approach Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) setup by SIDBI or any other appropriate guarantee fund for the purpose of availing guarantee cover for SEP loans as per the eligibility of the activity for guarantee cover. Repayment schedule would range between 5 to 7 Years after initial moratorium of 6-18 months as per norms of the banks. No margin money should be taken for a loan up to ₹ 50,000 and for higher amount loans, preferably 5% should be taken as margin money and it should in no case be more than 10% of the project cost.

Group Enterprises (SEP-G) -Loan & Subsidy	A Self-Help Group (SHG) or members of an SHG constituted under DAY-NULM or a group of urban poor for self-employment can avail benefit of subsidized loans under this component from any bank. The norms/ specifications for group based micro-enterprise loans are as follows: The group enterprises should have minimum of Three (3) members with a minimum of 70% of the members from urban poor families. More than one person from the same family should not be included in the same group. All members of the group enterprise should have attained an age of 18 years at the time of applying for bank loan. The group will be eligible for a maximum loan of ₹ 2 Lakh per member or ₹ 10 Lakh, whichever is lower. Loan can be extended either as a single loan to the group functioning as one borrowing unit or each member of the group can be provided individual loans up to ₹ 2 lakhs and an overall cap of 10 lakhs based on the principal of joint liability of the group. The principles laid down in the RBI circular on "Budget (2014-15) Announcement Financing of Joint Farming Groups of 'Bhoomi Heen Kisan' dated 13th November, 2014" and subsequent revisions should be followed in case of loans to a group. Banks may extend finance to groups for capital expenditure in the form of Term Loan and for Working Capital, through Cash Credit Facility. Banks may also extend Composite Loans for Capital Expenditure and Working Capital, depending upon Group's requirement. The Project Cost minus the beneficiary contribution (Margin Money) would be made available as loan amount to the group enterprise by the bank. No margin money should be taken for loan up to ₹ 50,000 and for higher amount loans, preferably 5% should be taken as margin money and it should in no case be more than 10% of the project cost. No collateral guarantee is required. Only the assets created would be hypothecated/ mortgaged/ pledged to banks for advancing loans. The banks may approach Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) or any other appropriate guarantee fund Repayment schedule would range between 5 to 7 Years after initial moratorium of 6-18 months as per the norms of the banks.

Relief Measures By Banks In Areas Affected By Natural Calamity- RBI Guidelines To Banks

- **Meetings of State Level Bankers' Committee/District Consultative Committee:** In the event of the calamity covering entire State/ larger part of a State, the convener of the State Level Bankers' Committee (SLBC), will convene a meeting immediately after the occurrence of natural calamity, to evolve a coordinated action plan for implementation of the relief program, in collaboration with the State Government authorities. However, in case the calamity has affected only a small part of the State/few districts, the conveners of the District Consultative Committees (DCC) of the affected districts should convene a meeting immediately.
- **Declaration of Natural Calamity:** It is recognized that the declaration of natural calamities is in the domain of the Sovereign (Central/State Governments). Common thread to extend relief measures is that the crop loss assessed should be 33% or more.
- **Restructuring/Rescheduling of Existing Loans**
- **Short-term Production Credit (Crop Loans):** All short-term loans, except those which are overdue at the time of occurrence of natural calamity, should be eligible for restructuring. The principal amount of the short-term loan as well as interest due for repayment in the year of occurrence of natural calamity may be converted into term loan. Banks may allow a maximum period of repayment of up to 2 years (including the moratorium period of 1 year) if the loss is between 33% and 50%. If the crop loss is 50% or more, the restructured period for repayment may be extended to a maximum of 5 years (including the moratorium period of one year). In all cases of restructuring, moratorium period of at least one year should be considered. Further, the banks should not insist for additional collateral security for such restructured loans.
- **Agriculture Loans – Long term (Investment) Credit:** The existing term loan installments will have to be rescheduled, keeping in view the repaying capacity of the borrowers and the nature of natural calamity viz., While the total repayment period for the restructured/ fresh term loan will differ on case-to-case basis, generally it should not exceed a period of 5 years.

Asset Classification:

The asset classification status of these loans will be as under:

- The restructured portion of the short term as well as long-term loans may be treated as current dues and need not be classified as NPA. The asset classification of these fresh term loans would thereafter be governed by the revised terms and conditions. Nevertheless, banks are required to make higher provisions for such restructured standard advances as prescribed by Reserve Bank of India from time to time.

- With the objective to ensure that banks are sufficiently proactive in extending the relief to the affected persons, the benefit of asset classification of the restructured accounts as on the date of natural calamity will be available only if the restructuring is completed within a period of three months from the date of natural calamity.
- The accounts that are restructured for the second time or more on account of natural calamities would retain the same asset classification category on restructuring. Accordingly, for once restructured standard asset, the subsequent restructuring necessitated on account of natural calamity would not be treated as second restructuring, i.e., the standard asset classification will be allowed to be maintained.

Utilization of Insurance Proceeds:

- Under the Prime Minister Fasal Bima Yojana (PMFBY), all Seasonal Agricultural Operations (SAO) loans for notified crops in notified areas are to be compulsorily provided insurance cover for all stages of the crop cycle including post-harvest risks in specified instances.
- Farmers' details are required to be entered by banks in the unified portal for crop insurance which is available at **www.agri-insurance.gov.in** in order to facilitate assessment of coverage of crops insured, premiums deducted, etc.

Sanctioning of Fresh Loans:

- The fresh loan may be granted even if the value of security (existing as well as the asset to be acquired from the new loan) is less than the loan amount. For fresh loans, a sympathetic view will have to be taken, to provide relief to farmers availing short term crop loans and affected by a natural calamity**, an interest subvention of 2 percent per annum shall be made available to banks for the first year on the restructured loan amount**. Such restructured loans shall attract normal rate of interest from the second year onwards.

Know Your Customer Norms: Relaxations:

- They can open a small account based on the photograph and signature or thumb impression in front of the bank official. The above instructions will be applicable to cases where the balance in the account does not exceed Rs. 50,000/- or the amount of relief granted (if higher) and the total credit in the account does not exceed Rs. 1,00,000/- or the amount of relief granted, (if higher) in a year.

Providing access to Bank Accounts:

- In areas where the bank branches are affected by natural calamity and are unable to function normally, banks may operate from temporary premises, under advice to RBI. For continuing the temporary premises beyond 30 days, specific approval may be obtained from the concerned regional office (RO) of RBI.

Natural Calamities Portal: Monthly Reporting:

- The Reserve Bank of India has developed a dedicated portal (https://dbie.rbi.org.in/DCP/) for collection and compilation of data on natural calamities on a real time basis through a centralized system.
- The portal provides facility for uploading data files relating to relief measures extended by banks and notification issued by State Government with regard to natural calamities. Banks shall upload the actual data on relief measures every month by the 10th of the following month.

Credit Facilities to SCs / STs

- RBI has been periodically advising the banks to step up their advances to SCs/STs, which are reckoned as advances to weaker section, under the priority sector.
- Banks shall not insist on deposits while considering loan applications under Government sponsored poverty alleviation schemes/self-employment programs from borrowers belonging to SCs/ STs. It shall also be ensured that applicable subsidy is not held back, while releasing the loan component, till the full repayment of bank dues.
- The National Scheduled Tribes Finance & Development Corporation and National Scheduled Castes Finance & Development Corporation have been set up under the administrative control of Ministry of Tribal Affairs and Ministry of Social Justice & Empowerment, respectively. The banks shall advise their branches/ controlling offices to render all the necessary institutional support to enable the institution to achieve the desired objectives.
  - **Deendayal Antyodaya Yojana – National Rural Livelihoods Mission:** The Ministry of Rural Development, Government of India has launched Deendayal Antyodaya Yojana-National Rural Livelihoods Mission (DAY-NRLM), DAY-NRLM would ensure adequate coverage of vulnerable sections of the society such that 50% of these beneficiaries are SC/STs.
  - **Deendayal Antyodaya Yojana – National Urban Livelihoods Mission:** The Ministry of Housing and Urban Affairs (MoHUA), Government of India, has launched the Deendayal Antyodaya Yojana - National Urban Livelihoods Mission (DAY-NULM). Under DAY-NULM, advances should be extended to SCs/STs to the extent of their strength in the local population.
  - **Differential Rate of Interest Scheme:** Under the DRI Scheme, banks provide finance up to Rs. 15,000/- at a concessional rate of interest of 4 percent per annum, to the weaker sections of the community, for engaging in productive and gainful activities.
  - The eligibility criteria under DRI that size of land holding should not exceed 1 acre of irrigated land and 2.5 acres of unirrigated land are not applicable to SCs/STs. Members of SCs/STs satisfying the income criteria of the scheme can also avail of housing loan up to Rs. 20,000/- per beneficiary over and above the individual loan of Rs. 15,000/- available under the scheme.
  - **Credit Enhancement Guarantee Scheme for Scheduled Castes (CEGSSC):** The CEGSSC was launched by Ministry of Social Justice & Empowerment on 6th May, 2015, with the objective to promote entrepreneurship amongst the

Scheduled Castes (SCs), by providing Credit Enhancement Guarantee to Member Lending Institutions (MLIs), who shall be providing financial assistance to these entrepreneurs.

- IFCI Ltd. has been designated as the Nodal Agency under the scheme, to issue the guarantee cover in favour of MLIs, who shall be encouraged to finance SCs entrepreneurs. Amount of Guarantee cover under CEGSSC (Minimum Rs. 0.15 crore and maximum Rs. 5.00 crore; Tenure of Guarantee – Maximum 7 years or repayment period whichever is earlier).

Credit Facilities To Minority Communities

- As notified by the Ministry of Minority Affairs, GOI, the persons bellowing to the following communities shall be deemed to be belonging to the minority communities (a) Sikhs (b) Muslims (c) Christians (d) Zoroastrians (e) Buddhists and (f) Jains.
- The banks shall set up a special cell, to ensure smooth flow of credit to minority communities and it shall be headed by an officer holding the rank of Deputy General Manager/Assistant General Manager or any other similar rank, who shall function as a 'Nodal Officer'.
- The Lead Bank in each of the minority concentration districts shall have an officer who shall exclusively look after the problems regarding the credit flow to minority communities.
- Names, designation and office addresses of (i) the officer-in-charge of the Special Cell at Head Office and (ii) officer appointed by Lead Banks in the identified districts to look after exclusively the problems of minority communities, shall be furnished by banks to the National Commission for Minorities located at New Delhi.
- **National Minorities Development and Finance Corporation (NMDFC)** was established in September 1994, to promote economic and developmental activities for the backward sections, amongst the minorities. NMDFC works as an apex body and channelizes its funds to the beneficiaries, through the State Minority Finance Corporation of the respective State/Union Territory Governments.
- The NMDFC is operating, the Margin Money Scheme. Bank finance under the scheme will be up to 60 percent of the project cost. The remaining amount of the project cost is shared by NMDFC, the State channelizing agency and the beneficiary in the proportion of 25%, 10%, and 5%, respectively. Banks may implement the Margin Money scheme evolved by the NMDFC.

Prime Minister's 15 Point Program for the Welfare of Minorities:

- GOI has revised the **"Prime Minister's New 15-Point Program for the Welfare of Minorities".** An important objective of the Program is to ensure that an appropriate percentage of the priority sector lending is targeted for the minority communities and that the benefits of various government sponsored schemes reach the under-privileged, which includes the disadvantaged sections of the minority communities.

- All scheduled commercial banks are required to ensure that within the overall target for priority sector lending and the sub-target of 12 percent for the weaker sections, sufficient care is taken to ensure that minority communities also receive an equitable portion of the credit. Lead Banks have been advised to keep this requirement in view while preparing district credit plans.

CAIIB Rural Banking Module D -Problems And Prospects In Rural Banking

No. of Unit	Unit Name
Unit 1	Role of Banking – Emerging Trends in Rural Banking Characteristics of Rural Society
Unit 2	Role of Technology in Financial Inclusion and Rural Development

Unit 3	Financing Poor as Bankable Opportunities: Micro Credit and Self Help Groups

CAIIB Rural Banking Module D Unit 1-Role of Banking – Emerging Trends in Rural Banking Characteristics of Rural Society

Improvement in availability of banking outlets

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

Areas Of Concern And Actions Pursued

Population Served

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

High Transaction Cost

- Commercial banks face high transaction cost in their rural branches. The real issues in rural banking of commercial banks are lack of infrastructure, reluctance of staff to serve in remote rural areas, large number of accounts dealing in small amounts, difficulty in getting financial information on rural borrowers, leading to some amount of uncertainty in the minds of the bankers and lack of security, for carrying cash in remote areas, etc.

- The ICT can play an important role by increasing effective access and improving delivery and governance in banking services. Bharat Interface for Money (BHIM) developed by National Payment Corporation of India (NPCI) enables fast, secure, reliable cashless payment, through the Mobile Phone. It is interoperable with other Unified Payment Interface applications. BHIM application is currently available on Android. The BHIM-Aadhaar digital payment platform, is specially designed to suit the rural customers.

Cost of Credit:

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

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

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

Present Focus On Banking In Rural Areas

Present policies regarding rural banking are based on the Report of the **Committee on Financial Inclusion in India (Chairman Dr. C. Rangarajan),** 2008. The Report viewed financial inclusion as a comprehensive and holistic process of ensuring access to financial services and timely and adequate credit, particularly by vulnerable groups, such as weaker sections and low-income groups, at an affordable cost.

According to the Report, the overall strategy for building an inclusive financial sector should be based on:

- Effecting improvements within the existing formal credit delivery mechanism;

- Suggesting measures for improving credit absorption capacity, especially, amongst marginal and sub-marginal farmers and poor non-cultivator households;
- **E**volving new models for effective outreach; and
- **L**everaging on technology-based solutions.

- Keeping in view the enormity of the task involved, the Committee recommended the setting up of a mission mode **National Rural Financial Inclusion Plan (NRFIP),** with a target of providing access to comprehensive financial services to at least 50 per cent (55.77 million) of the excluded rural households by 2012, and the remaining by 2015.

- The Committee has also recommended that the Government should constitute a **National Mission on Financial Inclusion (NaMFI)** comprising representatives of all stakeholders, for suggesting the overall policy changes required, and supporting stakeholders in the domain of public, private and NGO sectors in undertaking promotional initiatives.

Inclusive Banking Activities

Strengthening of Institutional Mechanism

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

Revamping of Lead Bank Scheme

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

Assignment of Lead Bank Responsibility

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

Financial Inclusion Plans (FIPs)

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

Penetration of Banking Services

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

Pradhan Mantri Jan Dhan Yojana (PMJDY)

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

Aadhaar-Enabled Unified Payment Infrastructure

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

New Banking Entities Permitted in the Financial Inclusion Space

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

Role of Payment System in Promoting Financial Inclusion

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

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

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

Direct Benefit Transfer and Aadhaar Seeding of accounts:

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

National Strategy for financial inclusion – Plan for 2019-2024

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

Financial Inclusion Index developed by RBI

- RBI has constructed a composite Financial Inclusion Index (FI-Index) to capture the extent of financial inclusion across the country. The FI-Index has been conceptualized as a comprehensive index incorporating details of banking, investments, insurance, postal as well as the pension sector in consultation with Government and respective sectoral regulators.
- The index captures information on various aspects of financial inclusion in a single value ranging between 0 and 100, where 0 represents complete financial exclusion and 100 indicates full financial inclusion. The FI-Index comprises of three broad parameters (weights indicated in brackets) viz., Access (35%), Usage

(45%), and Quality (20%) with each of these consisting of various dimensions. A unique feature of the Index is the Quality parameter which captures the quality aspect of financial inclusion as reflected by financial literacy, consumer protection, and inequalities and deficiencies in services.

CAIIB Rural Banking Module D Unit 2-Role of Technology in Financial Inclusion and Rural Development

Modern Management Of Agriculture – Possible Technological Components

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

Remote Sensing

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

Geographical Information System

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

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

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

Internet of Things in Agriculture

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

Artificial Intelligence:

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

Machine Learning Technique

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

Blockchain technology for agricultural value system

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

Benefits Of Usage Of Technology In Agriculture

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

Progress of IOT In Indian Agriculture

- Satellite derived seasonal cropping pattern, experiments on yield estimation, estimation of net-sown crop area and agricultural drought assessment studies are conducted by **National Remove Sensing Centre of the Indian Space Research Organization.**
- **The Information Technology Research Academy (ITRA), Hyderabad** set up by the Ministry of Electronics and Information Technology, in consultation with the Indian Council of Agricultural Research (ICAR), had identified various areas for research purpose in respect of robotics, sensors, interpretation and use of sensor data.
- **The Indian Agriculture Research Institute (IARI) has formulated a collaborative research project entitled "SENSAGRI – SENsor based Smart Agriculture"** - to develop indigenous prototype for Drone based crop and soil health monitoring system using Hyperspectral Remote Sensing (HRS) sensors, so as to be integrated with satellite-based technologies for large scale applications.
- Government is contemplating to position two of the important Public Extension Service Centres, viz Krishi Vigyan Kendras (KVKs) and Agricultural Technology Management Agencies (ATMA) in a big way for AI applications and for knowledge diffusion among India's vast farming community.
- The Department of Agriculture, Cooperation and Farmers' Welfare (DAC&FW) has already conceived proposal which envisaged that the information generated from Sensors could be provided on the phone of farmers as SMS or via mobile apps pre-loaded on their phone, and the collected data may be used for Big Data Analysis so as to create suitable Policies and Decision Support System (DSS).

- Farmers are provided all the relevant information relating to soil, crop and weather through web sites / portals as also through phones/app/mobiles through **Kisan Call Centre** – 18001801551.

- **National e-Governance Plan – Agriculture (NeGP-A):** It aimed at bridging gap in communication by using technology. It provides an integrated approach to the delivery of services to the farming community, using ICT. Under NeGP-A, around 60 online services have been developed over the last few years and launched to provide ease of access and timely information to farmers.

- GOI launched the **Digital India Land Record Modernization Program** with a view to minimizing the scope of land or property disputes and to enhance transparency in land records.

- Infosys, Tata Consultancy Services, SkyMet and Indian Space Research Organization are in a partner ecosystem with Azure FarmBeats of Microsoft, enabling a rich ecosystem of agriculture technology, sensors, and data providers.

- The **SmartFarming4AP** was developed by the Government of Andhra Pradesh in partnership with Bill & Melinda Gates Foundation and Dalberg Advisors to solve some of the most pressing challenges faced by small and marginal farmers in the state.

- SatSure, a data analytics company has integrated satellite imagery, weather and big data/ IoT analytics with the agriculture sector to help farmers with financial security and crop insurance. Radio Monsoon (started by five researchers) aims to ensure safety among fishermen in south India.

Other Initiatives For Development Of Rural Areas

- GOI launched the **Digital India Land Record Modernization Program** with a view to minimizing the scope of land or property disputes and to enhance transparency in land records. With the digitization of land records and providing the facility to the banks for creating online charge can address many issues relating to agricultural credit. It can also help in reducing the instances of multiple or double financing on the same piece of land. This will also facilitate easy access to land records for extending hassle-free loans to farmers and in time.
- In April, 2020, a central sector scheme called **Survey of Villages and Mapping with Improvised Technology in Village Areas (SVAMITVA)** was launched to promote a socio-economically empowered and self-reliant rural India by the Ministry of Panchayati Raj.
- In terms of the guidelines of the scheme, the Revenue Department/ Land Records Department will be the nodal department at the state level for carrying out the scheme with the support of State Panchayati Raj Department. The Survey of India shall work as the technology partner.
- The Scheme aims to provide an integrated property validation solution for rural India. The demarcation of rural abadi areas will be done using drone surveying technology. This will provide 'record of rights' to village household owners possessing houses in inhabited rural areas in villages which, in turn, will enable them to use their property as a financial asset for taking loans and other financial benefits from banks.

Financial Technology In Financial Inclusion Space

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

- **Migration to CBS:** The CBS platform is essential for providing digital banking services to remote rural areas. While commercial banks have adopted CBS on their own, NABARD has supported the weak RRBs and Rural Cooperative Banks (RCBs) to implement CBS.
- **Facilitating DBT:** The NABARD-initiated CBS project in RCBs, apart from improving productivity within their organizations, has also helped them to credit DBT seamlessly into the accounts of their customers.
- **Enabling technologies and initiatives:** NABARD supported the integration of CBS with CBS plus services, such as ATM, micro-ATM and Atal Pension Yojana.

- **The Bank Sakhi model**, which coopts the SHG members as BCAs of the banks was pioneered by NABARD in order to provide time-flexible, acceptable, trustworthy and dependable BC services.
- **Payment Acceptance Infrastructure:** To cover all the farmers with RuPay Kisan Credit (RKCs) on mission mode for full coverage of KCC accounts, RRBs and RCBs were supported for Europay, Master Card, Visa (EMV) chip based RKCs. Besides support to BCs/Bank Sakhis and branches for banking transactions, merchant channel transactions are also supported through the deployment of Pos/mPoS terminals in one lakh villages in Tier 3 to Tier 6 centres.
- **Onboarding for regulatory requirements:** Support extended to rural banks for meeting regulatory requirements such as C-KYC and Aadhaar User Agency or KYC User Agency. Further StCBs and RRBs have been supported for the opening of Aadhaar Enrollment and Update Centres so that they can provide Aadhaar related services to the people.
- **Connectivity for banking transactions:** To solve the issues of poor telecom connectivity and non-availability of continuous power in remote areas, support for solar power VSATs, etc. was provided for fixed customer service points in Sub Service Areas.
- **Digitizing Self- Help Groups:** With a view to creating a digital ecosystem to provide an end to-end solution to the Self-Help Groups-Bank Linkage Program to help standardize books of accounts and bring transparency and regularity in operation NABARD has launched e-Shakti project. Under this initiative 12.3 lakh SHGs were onboarded covering 140.9 lakh members spread over 1.7 lakh villages.

CAIIB Rural Banking Module D Unit 3-Financing Poor as Bankable Opportunities: Micro Credit and Self Help Groups

Microcredit Delivery Models

Grameen Bank

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

Village banks

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

Group Model

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

Intermediary model of credit lending

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

NGO Model

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

Rotating Savings and Credit Associations Model

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

Small Business Model

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

Bank guarantees Model

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

SHG- Bank Linkage Program Approach

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

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

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

Micro Finance Institutions (MFIS)

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

MFIs could be –

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

Role of NABARD As Microfinance Facilitator

- NABARD has continued with its role as the main facilitator and mentor of microfinance initiatives in the country, particularly the SHG Bank Linkage initiative.

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

Promotion of Women SHGs in backward districts

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

Promotion of JLGs

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

SHG Based Livelihood Interventions of NABARD

- Self-employment generation and creating employment opportunities through businesses are the two important aspects from entrepreneurship development perspective. NABARD recognizes that livelihood promotion activities are essential for holistic financial inclusion.
- **MEDP and LEDP** are the two skill development programs supported by NABARD for providing necessary impetus to enterprise promotion activities amongst SHG members.
- NABARD has updated the guidelines under MEDP and LEDP. The new features are - the programs now include JLG members as participants, provision of daily stipend to participants, additional training on market linkages, e-marketing, branding and packaging, demonstration unit and issuance of Training Certificates for enabling participants to obtain Bank loan to set up enterprises.

- The grant assistance has been enhanced for MEDPs from Rs. 0.50 lakh to Rs. 1.00 lakh and in case of LEDPs from Rs. 6.43 lakh to Rs. 8.80 lakh for Farm Sector and from ` 4.98 lakh to ` 7.15 lakh for Non-Farm Sector.

Micro Enterprise Development Program (MEDP)

- It was launched in 2006, the main objective of the program is to enhance the capacities of participants, through appropriate skill up-gradation in existing or new livelihood activities in farm or non-farm activities and enrich knowledge of participants on enterprise management, business dynamics and rural markets.

- Training activities under MEDP, being short duration in nature, are organized for 15 days and with 30 participants. A maximum grant assistance of Rs. 1 lakh is available under NABARD's support towards conduct of farm or non-farm based MEDPs.
- Digitization brings in speed and efficiency and to ease application processing NABARD operationalized MEDPs on "NABSKILL" portal, in July 2019. It is very encouraging to note that during 2020-21, 273 MEDP applications were processed on NABSKILL.

Livelihood and Entrepreneurship Development Program (LEDP)

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

Project E – Shakti

- In line with Government of India's "**Digital India" mission, E-Shakti**, a pilot project for digitization of SHGs was launched by NABARD in the year 2015 in two districts Ramgarh (Jharkhand) and Dhule (Maharashtra) and later expanded to 100 districts across the country during 2016 and 2017.
- It aims at digitization of data of all SHGs for enhancing the ease of doing business with SHGs. USP of the E-Shakti project is 'one-click' availability of the social and financial information of the Self-Help Groups maintaining Saving Bank accounts with the banks.
- The project which operates through the portal viz. https://eshakti.nabard. org, and mobile Apps (E-Shakti App and E-Shakti Tracker App), makes the SHGs and their members accessible to bank credit and also empowers them by giving access to their own bank accounts and other details through their mobile.

SIDBI & Micro Credit

SIDBI Foundation for Micro Credit (SFMC)

- SIDBI, with an intention to fill the institutional void in inclusion space, started experimenting in 1994, by dispensing Micro Credit through the NGOs, wherein such institutions were used as financial intermediaries for delivering credit to the poor and unreached, mainly women.

- A department within SIDBI viz. **SIDBI Foundation for Micro Credit (SFMC)** was created in 1999, to serve as an apex wholesale unit for microfinance providing a complete range of financial and non-financial services to the MFIs, so as to facilitate their development into financially sustainable entities.
- SFMC is providing services such as loan funds, grant support, equity and institution building support to the retailing Micro Finance Institutions (MFIs) so as to facilitate their development into financially sustainable entities.

National Microfinance Support Program

"National Microfinance Support Program (NMFSP)" was launched by SIDBI in April 2000. Under the NMFSP, SIDBI entered into a collaboration with Department for International Development (DFID), UK in April 2000. Subsequently, another collaboration with International Fund for Agricultural Development (IFAD), Rome in April 2002 was made with a view to providing on-lending fund support to partner MFIs.

The purpose of the program was:

- To contribute to the development of a more formal, extensive and effective microfinance sector on a national scale that serves poor women and men; and
- To assist in the evolution of an appropriate enabling environment for the development of sustainable finance institutions.

Rating of MFIs

- Most micro finance programs were initially operated by NGOs and were not subjected to regulation and supervision as they were registered as Societies or Trusts. Non-regulation of these institutions worked to their detriment and these institutions were not able to have smooth access to funds from the financial sector which was wary of lending to such entities.
- SIDBI pioneered the concept of **Capacity Assessment Rating (CAR).** The MFI rating tool on various parameters, that has become an industry- standard, put the much-needed checks in place to assess risk perception of MFIs and is used as proxy for Bank Loan Ratings. Rating of MFIs has gained sector-wide acceptance and has become a pre requisite for getting assistance from the banks/ financial institutions.

Responsible Financial Initiatives

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

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

- Creation of a Lenders' Forum

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

Lenders Forum

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

Code of Conduct Assessment

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

Poorest States Inclusive Growth Program (PSIG)

- SIDBI has also implemented the Poorest States Inclusive Growth Program funded by **UK Aid** through the **Department for International Development (DFID)** in the states of Uttar Pradesh, Madhya Pradesh, Bihar and Odisha during 2012-19 period.
- The project encouraged provision of financial services in a responsible manner to the poor besides, facilitated promotion of institutions providing diverse financial services to the poor and improving the capacities of poor especially women in tackling financial and gender issues.

India Microfinance Equity Fund (IMEF)

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

Initiatives By RBI And GOI

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

RBI's Consultative document on regulation of MFIs

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

Common definition of micro-finance loan:

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

Other instructions applicable to microfinance loans of all REs:

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

Criteria for exemption of 'not for profit' microfinance companies

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

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