



CAIIB

Module-A Unit-3

Rural Banking



CAIB 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 areas** 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.

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