



# CAIIB

## Module-A Unit-7

# Rural Banking



## CAIB 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.

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