



CAIIB

Module-B Unit-4

Rural Banking



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.

- An 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 providers 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 weavers 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.

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