1. Details of Module and its structure

Module Detail	
Subject Name	Economics
Course Name	Indian Economic Development 01 (Class XI, Semester - 1)
Module Name/Title	Rural Development – Part 1
Module Id	keec_10601
Pre-requisites	Knowledge about basic economics terms
Objectives	After going through this lesson, the learners will be able to understand the following: • Key Issues and challenges in Rural development • Importance of Rural development • Causes of Rural Indebtedness, Rural Credit and its sources • Functions and weaknesses of Co-operative Sector • Functions of RRBs and NABARD • Suggestions to improve the problem of Agricultural Credit in India
Keywords	Rural Development, Rural Indebtness, Rural Credit, Co-operative sector, Regional Rural Banks

2. Development team

Role	Name	Affiliation
National MOOC Coordinator (NMC)	Prof. Amarendra P. Behera	CIET, NCERT, New Delhi
Program Coordinator	Dr. Mohd. Mamur Ali	CIET, NCERT, New Delhi
Course Coordinator (CC) / PI	Prof. Neeraja Rashmi	DESS, NCERT, New Delhi
Subject Matter Expert (SME)	Mr. Amit Mehrotra	Arwachin International School, Delhi
Review Team	Dr. Meera Malhan Dr M U Farooque	DCAC. University of Delhi Satyawati College (Evening), University of Delhi

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Introduction

Rural development is a term which essentially focuses on action for the development of areas that are predominantly agrarian. Some of the areas which are in need of fresh initiatives for rural development are:

i. Development of resources like health, with emphasis on sanitation and public health.
ii. Implementation of land reforms.
iii. Improvement in levels of literacy, more specifically, female literacy, adult literacy and skill development.
iv. Development of productive resources in each locality.
v. Special measures for alleviation of poverty and bringing about significant improvement in the living conditions of the weaker sections of the population.
vi. Infrastructure development like electricity, irrigation, credit, marketing, transport facilities including construction of village roads and feeder roads to nearby highways, facilities for agriculture research and extension, and information dissemination.

Importance of Rural Development

Agriculture plays an important role in the development of the industrial sector. It provides raw materials like cotton, wood, sugarcane, jute, oilseeds, etc. to the manufacturing industries. Agriculture is the backbone of Indian economy because of its high share in employment and livelihood creation. This sector provides employment to more than 50 percent of the workforce. Agriculture and allied sector provide cereals and food grains, dairy products, poultry, fisheries, mining and animal husbandry.

Rural Indebtedness and its Causes

Indebtedness is the basic problem of Indian Agriculture. Farmers need loans for both productive as well as unproductive purposes. Unproductive loans form more than half of the total loans of the rural sector. These loans do not contribute to an increase in production or productivity. These are mostly taken from informal sector at exorbitantly high rates of interest. These loans are mainly the cause of rural indebtedness, which is not only increasing in size but also have a vicious cycle.

Poverty is the main cause of rural indebtedness. Because of heavy pressure on land, income of the average Indian farmer is very low. A marginal farmer has to borrow funds to meet his living expenses. Ancestral debt is another important cause of rural indebtedness in India. Farmers consider repayment of their ancestral debts as their moral duty. Small holdings due to sub-division and fragmentation of land, farm-productivity remains low, which result in low farm incomes. This further adds to farmers' indebtedness. In India, 66 percent of cultivable area is rain-fed and majority of farmers have to depend on rain. Uncertainty in rain is reflected in uncertainty of income too which leads to frequent and regular requirement of loans.

A large portion of Indian farmers are illiterate. They are misled by money-lenders and middleman to borrow for non-productive purposes, repayment of which becomes extremely difficult. Farmers spend a lot of money on rituals at the time of birth, marriage and death, which they borrow at high rates of interest from the informal sector. Owing to lack of formal market or mandis, small and marginal farmers in India are often forced to sell their produce at a price lower than the market to money lenders which results in further borrowings. Thus, they are trapped in vicious circle of indebtedness.

Rural Credit, Types and Sources of Rural Credit

As we have seen, the farmers require credit for various purposes, i.e., to buy additional land, implements and tools, fertilizers and seeds. They also need to pay off old debt, personal expenses like marriage, death, religious ceremonies, etc. Besides these, as the gestation period between crop sowing and realisation of income after sale of agricultural produce is long, they need to take loans for the intervening period. Most farming families in India are small and marginal land holders, producing just enough for subsistence and they do not have any savings which they could have used for investment.

On the basis of time period, credit needs of the farmers are classified into three categories. Long-term credit is required for permanently acquiring assets or capital goods like land, equipment, tractors, tube wells, etc. These loans are for a period of 5 to 20 years. Medium-term credit is meant for the duration of one to five years, mainly for digging wells, buying machinery, construction of fences etc. The short-term credit is required for buying seeds, tools, manure and fertilizers. This credit is given to the needy borrowers by cooperatives, money lenders and banks for a period of 6 to 12 months. The farmers may require credit for various purposes, which can be classified into two main categories which are:

a) Productive Credit is the credit, which the farmers need for economic activities such as purchase of fertilizers, seeds, tractor, land etc. There is no fixed duration of this type of credit. A farmer can take short term loan for purchase of seeds; fertilizers etc. and can take long term loan for the purpose of purchase of land, heavy machines and equipment.
b) Unproductive Credit is the credit, which the farmers require to meet their social, religious and other non-economic needs. It is also known as unproductive and consumption credit. Usually unproductive credit is granted for a short term or medium term.

Sources of rural credit are broadly classified into two categories, (i) Non-institutional Sources or Informal Sector and (ii) Institutional Sources or Formal Sector. Non-institutional Sources or Informal sector include moneylenders, traders and commission agents, landlords, relations and friends. The credit provided by them constituted about 93.6 percent of total financial requirement in 1951-52, which has come down to 30 percent at present. Moneylenders have an unhealthy effect on agricultural sector, because they charge high rate of interest and are known to manipulate the accounts. In the event of non-payment of interest and/or loan, they acquire the lands of the farmers. Besides, they tend to exploit labor by making them work without paying wages. Moneylenders were the principal source of rural credit at time of independence. With the development of banking and other financial institutions which provide credit at competitive rates and are easily available, the money lenders are no longer an important source of credit in the rural economy.

Institutional Sources or Formal Sector

The institutional structure of rural banking today consists of a set of multiple agencies, namely, commercial banks, regional rural banks (RRBs), cooperatives and land development banks. They are expected to dispense adequate credit at cheaper rates. Recently, Self-Help Groups (SHGs) have emerged to fill the gap in the formal- credit system.

Co-operative Credit Societies are an important source of agricultural credit, catering to nearly 40 percent of the total credit requirements of farmers. There are two wings of the co-operative credit structure for providing (i) short-term credit and (ii) long term credit. The Primary Agricultural Credit Society offers short-term loans to the farmers. They operate at the village level and maintain direct contact with the farmers to fulfill their short-term needs. For its own requirements of finance, it is linked to a Central Co-operative Bank which operates at the state and district level. At present, there are more than 350 such banks. To meet the long-term requirements, Land Mortgage Banks and Agricultural Development Banks have been promoted. The loans are primarily meant for the purchase of tractors and tube wells.

Functions of Co-operative sector are to provide timely and regular flow of credit to the farmers; they also reduce and gradually eliminate the moneylenders from the rural areas. Besides as they provide credit facilities to all the regions of the country, they help in reducing regional disparities. Funding of special programmes meant for the upliftment of rural areas is provided by the co-operative sector.

Weaknesses of Co-operative Sector

The co-operative sector has remained financially and administratively weak and consequently unable to provide the required credit to farmers. In case of Primary Agricultural Credit

Societies (PACS) they have small area of operation and thus less membership. Due to less business, their income is very low and hence they cannot run properly. Serious regional imbalances were observed in their growth. Out of the total loan, 70 percent is accounted by only eight states. Major drawback lies in the recovery of loans and advances as a result of which loan overdue have been continuously increasing. Besides, they suffer from organisational and managerial inefficiency.

Commercial Banks

Commercial Banks provide loans for all agricultural and allied operations. These may broadly be classified into direct and indirect advances. Direct advances may be for short, medium or long-term. Short-term may take the form of crop loans or production loans. These loans have to be repaid within a period of one month or two months, after the harvest of crops. Medium and long-term loans are granted for development programmes which are capital intensive. Maximum repayment period is 15 years. Indirect advances include credit granted to dealers of fertilizers to meet their working capital requirements. They also include advances made to co-operative milk societies, sheep breeders, co-operative societies, etc., which in turn extend credit assistance to their members for purchase of milk, cattle, sheep, etc.

Cost of operating agricultural advances by is very high and huge losses are incurred in opening and operating rural branches. The regional managers are reluctant to provide agricultural advances and lack initiatives and interest in agricultural sector. Central offices of banks are cut-off from the remote rural branches because of lack of communication and transport system. As a result, inter branch bank adjustments are not possible due to lack of reliable data.

Regional Rural Banks (RRBs) have been set up under the Regional Rural Banks Act of 1976. The Central Government through NABARD has been able to achieve the main objective to provide credit and related facilities to the small and marginal farmers, agricultural labourers and artisans in the rural areas. Nearly 90 percent of the loans of RRBs are provided to the weaker section. They provide loans at lower rate of interest and give higher rate of interest on deposits.

Functions of RRBs

(i) RRBs provide loans and advances to small and marginal farmers, and agricultural labourers at a cheap rate. This enables small and marginal farmers to purchase land and necessary input for farms. The objective is to bail the farmers out of the clutch of money-lenders and landlords. This empowers them to take farming with an objective to enhance their earning capacity. RRBs also ensure that loans must be used for productive purposes only.

(ii) RRBs provide banking services at the doorstep of rural people, where commercial banks and other institutions do not serve. The RRBs encourage savings among farmers and channelise them in more productive activities. They also discourage rural people to take unproductive loans.

(iii) RRBs also perform functions related to non-farming activities. Rural India has many artisans who have skill of making handicrafts in a distinguished way. They have entrepreneurial talent, but are unable to take initiative due to lack of resources. As they live in abject poverty, they are often forced to sell their products at very low prices. The RRBs provide them cheap and easy loans so that they can buy raw material and other required material for the production of their goods and hence improve quality of their goods. The sale of better quality goods will provide them income and thereby raising their standard of living.

(iv) There are a large number of small entrepreneurs in the villages, sub-urban areas and small towns who are engaged in retail trade, commerce and other productive activities. They don’t have sufficient funds to meet the business requirements. The RRBs offer loans to them at a very low rate of interest so that they can buy raw material and other capital good required to run their business. The RRBs also grant loans to self-employed persons enabling them to expand their business.

National Bank for Agriculture and Rural Development (NABARD)

NABARD was established in July, 1982. It has an authorised share capital of Rs. 500 crore. The RBI had contributed half of the share capital while the other half was contributed by the Government of India. Deputy Governor of the RBI is the Chairman of NABARD. It plays an important role in providing short, medium and long-term credits to State Co-operative Banks, RRBs, Land Development Banks and other financial institutions, approved by the RBI.

NABARD also coordinates the activities of the Central and State Governments in development of small-scale industries, village industries and rural crafts. It is also involved in the promoting research in agriculture and rural development and helping the tenant farmers and small farmers to consolidate their landholdings.

SHGs and Micro Credit Programmes

Self Help Groups (SHGs) and Micro Credit Programmes are an emerging phenomenon in the context of rural credit. SHGs promote thrift among rural households. Small savings are mobilized by the SHGs and offered as credit to its different members, depending on their need. Credit is offered without any security and at a low rate of interest. Presently, more than seven lakh SHGs are operative in rural areas. A credit provision by the SHGs is known as Micro Credit Programmes. These programmes are becoming popular among the small borrowers as these work as ‘informal credit delivery mechanism’ involving no formalities.

Rural Banking - A Critical Evaluation

Since 1969, when the nationalisation of commercial banks took place, rural banking has expanded a great deal. Significant expansion of rural banking system played a positive role in raising farm and non-farm output by providing services and credit facilities to farmers. They are providing long-term loans with better repayment options, thus helping in eliminating moneylenders. They also provide credit for facilitating self-employment schemes in rural areas.

Limitations of Rural Banking

Co-operative sector, RRBs, and commercial banks are all making serious efforts to cope up with the rural credit requirements of the farmers. However, there are some serious limitations because of which rural credit is still a matter of concern. Following are some important points in this regard.

(i) Banking credit or institutional credit has invariably been linked with collateral, and marginal farmers have low capacity to offer collateral, because of which small and marginal holders have not been the major beneficiary of it.

(ii) The government has often been very lenient on the recovery of loans from the farmers, because of which there has been large number of overdue installments. Nearly 40-42 percent loan have remained uncovered/unpaid.

(iii) Availability of credit is inadequate as compared to its requirement. Though the value of flow of credit has substantially increased over time, yet it continues to be less in relation to demand. Moreover, due to advancement of technology farmers need for heavy machinery has also increased.

(iv) Apart from commercial banks, most financial institutions have failed to develop a culture of thrift among the farming families. Marginal farmers have low income levels and spend a large portion of their income on basic necessities. This ultimately lead to low savings.

(v) High expenditure on religious customs and family function is a serious issue in a rural area. This significantly defeats the very purpose of various agencies engaged in rural credit.

Suggestions to improve the Problem of Agricultural Credit in India

An effective mechanism for the recovery of agricultural loans needs to be evolved. Credit facilities should be extended to farmers by commercial banks on easy terms and conditions. More Regional Rural Banks should be set up to meet the credit needs of the rural and backward areas. Cooperative credit societies in rural areas should be strengthened and their working should be transparent and efficient. They should be able to build up relationship with the borrowers. Moreover, they should be converted into multi-purpose societies. RBI should be able to release more funds for long-term loans. Commercial banks, co-operative societies and post offices should introduce new schemes in order to promote more savings among farmers. Warehousing facility should be enhanced, so that farmers can store their produce and pledge it as a collateral for loans. Credit agencies must keep a watch on the usage of loan granted. This requires technically trained personal. Farmers should be offered AADHAR linked Passbook showing all details of existing loans. This will keep a check on multiplicity of loans taken on the basis of same security. The Passbook should also contain details of their land and fixed assets. This will help in speeding up the procedure of granting of loans.

Summary

Rapid expansion of the banking system has a positive effect on rural farm and non-farm output, income and employment. After the green revolution, it helped farmers to avail services and credit facilities and a variety of loans for meeting their production needs. Famines became events of the past; we have now achieved food security which is reflected in the abundant buffer stock of grains. However, all is not well with our banking system.

With the possible exception of the commercial banks, other formal institutions have failed to develop a culture of deposit mobilization and lending to worthwhile borrowers and effective loan recovery. Agriculture loan default rates have been chronically high.

Thus, the expansion and promotion of the rural banking sector has taken a backseat after reforms. To improve the situation, it is suggested that banks need to change their approach from just being lenders to building up relationship with the borrowers. Inculcating the habit of thrift and efficient utilization of financial resources needs to be enhanced among farmers too.